

# Public Document Pack



## NOTICE OF MEETING

**Meeting** Hampshire Pension Fund Panel and Board

**Date and Time** Friday, 22nd June, 2018 at 10.00 am

**Place** Mitchell Room, EII Podium, Winchester

**Enquiries to** members.services@hants.gov.uk

John Coughlan CBE  
Chief Executive  
The Castle, Winchester SO23 8UJ

## FILMING AND BROADCAST NOTIFICATION

This meeting may be recorded and broadcast live on the County Council's website. The meeting may also be recorded and broadcast by the press and members of the public – please see the Filming Protocol available on the County Council's website.

## AGENDA

### 1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

### 2. DECLARATIONS OF INTEREST

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

### 3. CONFIRMATION OF MINUTES (NON-EXEMPT) (Pages 5 - 8)

To confirm the Minutes of the meeting held on 9 April 2018.

### 4. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

**5. REPORTING OF ACCESS JOINT COMMITTEE MINUTES (NON EXEMPT ITEMS) 12 MARCH 2018** (Pages 9 - 16)

To receive the ACCESS Joint Committee minutes from the meeting on 12 March 2018.

**6. GOVERNANCE - ADMINISTRATION UPDATE** (Pages 17 - 36)

To consider a report from the Director of Corporate Resources-Corporate Services providing the Panel and Board with an update on administration performance in the last six months of 2017/18, together with an analysis of employer performance for the same period.

**7. GOVERNANCE - RISK MANAGEMENT** (Pages 37 - 50)

To consider a report of the Director of Corporate Resources-Corporate Services providing a summary of the Pension Fund's approach to risk management and seeking a review of the Risk Register by the Pension Fund Panel and Board.

**8. INVESTMENTS: PENSION FUND CASH - ANNUAL REPORT 2017/18**  
(Pages 51 - 58)

To consider a report from the Director of Corporate Resources-Corporate Services providing an annual review of the policy for managing the Hampshire Pension Fund's cash balance.

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

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

**10. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING**  
(Pages 59 - 60)

To confirm the exempt minutes of the meeting held on 9 April 2018.

**11. REPORTING OF EXEMPT MINUTES OF THE ACCESS JOINT COMMITTEE MEETING - 12 MARCH 2018** (Pages 61 - 68)

To receive the exempt minutes of the Access Joint Committee for 12 March 2018.

**12. INVESTMENTS - CASH OUT-TURN - (EXEMPT APPENDIX) (Pages 69 - 70)**

To consider an exempt appendix from the Director of Corporate Resources-Corporate Services relating to the annual review of the policy for managing the Hampshire Pension Fund's cash balance.

**13. INVESTMENTS: ACCESS BUSINESS PLAN AND FIRST SUB-FUND (Pages 71 - 98)**

To consider a report from the Director of Corporate Resources-Corporate Services seeking the approval of the Panel and Board for the ACCESS business plan for 2018/19 and the share of the costs that the Hampshire Pension Fund will pay.

**14. INVESTMENT - INVESTMENT UPDATE (Pages 99 - 162)**

To consider the exempt report of the Director of Corporate Resources - Corporate Services updating the Panel and Board on the Pension Fund's investments since the last meeting of the Pension Fund Panel and Board on 9 April 2018.

**ABOUT THIS AGENDA:**

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

**ABOUT THIS MEETING:**

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

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

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# Agenda Item 3

AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Monday 9 April 2018.

Chairman:  
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

a C. Carter	p A. Joy
p A. Dowden	p P. Latham
p A. Gibson	a J. Glen
p B. Tennent	a T. Thacker
p D. Mellor	

Employer Representatives (Co-opted members):

a Councillor P. Giddings (Test Valley Borough Council)  
p Councillor M. Chaloner (Southampton City Council)  
a Mr D. Robbins (Churchers College)

Scheme Member Representatives (Co-opted members):

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

Independent Adviser:

a C. Dobson

## **BROADCASTING ANNOUNCEMENT**

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

## **67. APOLOGIES FOR ABSENCE**

Cllrs Carter, Glen, Giddings, Thacker, Mr Robbins, Dr Allen and Mrs Dobson sent their apologies.

## **68. DECLARATIONS OF INTEREST**

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

whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

69. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 15 December 2017 were confirmed.

70. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman informed the committee that he had received a letter from Unison covering a number of topics, including representation within ACCESS, to which he had replied.

The Chairman announced that it was agreed at County Council in February 2018 that a special responsibility allowance for the co-opted members representing scheme members would be paid from April 2018.

71. **ACCESS JOINT GOVERNANCE COMMITTEE MINUTES 13 December 2017 and 29 January 2018**

The Panel and Board received the minutes of the ACCESS Joint Governance Committee held on 13 December 2017 and 29 January 2018.

72. **GOVERNANCE: INTERNAL AUDIT PROGRESS REPORT – FEBRUARY 2018**

The Panel and Board received and noted a report of the Director of Corporate Resources (item 6 in the Minute Book) setting out an overview of internal audit work completed in accordance with the approved audit plan.

Internal Audit's work to date had concluded reviews of pensions payroll and benefit calculations and the payment of pensions refunds, and that a substantial assurance can be placed on both processes based on a sound framework of internal control being in place and is operating effectively.

73. **GOVERNANCE: INTERNAL AUDIT PLAN 2018/19**

The Panel and Board received and noted a report of the Director of Corporate Resources (item 7 in the Minute Book) setting out an overview of internal audit work planned for 2018/19. The plan includes reviews of the process for starters and leavers, the governance of the Pension Fund and pooling.

74. **GOVERNANCE: FUNDING STRATEGY STATEMENT AND EMPLOYER POLICY**

The Panel and Board received a report from the Director of Corporate Resources (Item 8 in the Minute Book) on changes to the Pension Fund's Funding Strategy Statement and Employer Policy in relation to the treatment of wholly owned companies and funding targets for new admission bodies.

Employers were consulted on the changes to the strategy and the policy in January and February 2018. Two comments were received from employers about the impact of the changes, but this did not result in any changes being made.

An additional change had been made to the Employer Policy following the receipt of legal advice, to clarify the way in which the Fund will seek to achieve a scheme employer guarantee.

RESOLVED:

- (a) That the changes to the Funding Strategy Statement and Employer Policy were approved.

75. **GOVERNANCE- TRAINING PLAN 2018/19**

The Panel and Board considered a report of the Director of Corporate Resources (item 9 in the Minute Book) setting out the proposed training arrangements for members of the Pension Fund Panel and Board in 2018/19. In particular members noted the importance of training for Panel and Board members in their role in the governance of the Pension Fund and how the training programme is underpinned by the Training Needs Analyses that the members complete.

Members commented about the increasing popularity of Smart Beta and Factor Driven investment strategies and asked this was considered for the training plan in 2018/19.

RESOLVED:

- (a) That the 2018/19 training programme was approved, noting that it may be adapted based on changing circumstances, and the remainder of the report was noted.

76. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be

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

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

The exempt minutes of the Pension Fund Panel and Board held on 15 December 2017 were confirmed.

78. **ACCESS JOINT GOVERNANCE COMMITTEE MINUTES 2 October 2017, 13 December 2017 and 29 January 2018**

The Panel and Board received the exempt minutes of the ACCESS Joint Governance Committee held on 2 October 2017, 13 December 2017 and 29 January 2018.

79. **INVESTMENTS: PENSION FUND'S CUSTODIAN PERFORMANCE REPORT**

The Panel and Board considered the exempt report from the Director of Corporate Resources (Item 13 in the Minute Book) detailing the performance of the Pension Fund's custodian. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

80. **INVESTMENTS – INVESTMENT PERFORMANCE UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 14 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

81. **INVESTMENTS: ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 15 in the Minute Book) updating the Panel and Board about the progress of the Pension Fund's alternative investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

# Agenda Item 5

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Hampshire Pension Fund Panel and Board
<b>Date:</b>	22 June 2018
<b>Title:</b>	Minutes of ACCESS Joint Committee meetings – 12 March 2018
<b>Report From:</b>	Director of Corporate Resources – Corporate Services

**Contact name:** Andrew Boutflower

**Tel:** 01962 847407

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

#### 1. Recommendations

- 1.1 That the Pension Fund Panel and Board receive and note the minutes of the ACCESS Joint Committee meeting on 12 March 2018 as attached.

**CORPORATE OR LEGAL INFORMATION:****Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	yes
<b>People in Hampshire enjoy a rich and diverse environment:</b>	yes
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	yes

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

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

DocumentLocation

None

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

- 1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:
- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
  - Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
  - Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

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

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

### **1.2. Equalities Impact Assessment:**

A high level Equalities Impact Assessment has been undertaken. The grants are intended to have a positive impact and advance equality.

### **2. Impact on Crime and Disorder:**

2.1 Not applicable.

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption?  
Not applicable.
- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?  
Not applicable.

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## ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Committee Room 1 - Camden Town Hall on Monday, 12th March, 2018.

PRESENT: Cllr A Reid (Chairman), Cllr R Stogdon (Vice-Chairman), Cllr S Barker, Mr N Chard (substituting for Mr C Simkins), Cllr V Churchman (substituting for Cllr A Axford), Cllr T Rogers, Mr J Hunt, Cllr M Kemp-Gee, Cllr G Lawman, Cllr D Williams.

ALSO PRESENT: John Wright (Hymans)

OFFICERS: Andrew Boutflower, Glenn Cossey, Paul Finbow, Nicola Mark, Kevin McDonald, John Shepherd, Jo Thistlewood, Patrick Towey, Nick Vickers, Mark Whitby, Rachael Wood, Denise Fitch and Anna Taylor

### UNRESTRICTED ITEMS

**60. Apologies.**  
*(Item. 1)*

Apologies were received from Cllr Jordan (Norfolk CC).

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

Rachael Wood made the Committee aware that her husband worked for the East Sussex Pension Fund.

**62. Minutes of the meeting held on 29 January 2018.**  
*(Item. 3)*

RESOLVED that the open minutes be approved as a correct record and signed by the Chairman.

**63. Motion to Exclude the Press and Public.**  
*(Item. 4)*

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

## **RESTRICTED ITEMS**

- 64. Exempt Minutes of the meeting held on 29 January 2018.**  
*(Item. 5)*

RESOLVED that the exempt minutes be approved as a correct record and signed by the Chairman.

- 65. ACCESS Communications update.**  
*(Item. 6)*

(1) Nicola Mark (Norfolk) updated the Joint Committee on interim ACCESS communications arrangements prior to the agreement and resourcing of a full communications policy and strategy.

RESOLVED that the update on ACCESS interim communications arrangements be noted.

- 66. Operator Establishment and Sub-Fund Implementation.**  
*(Item. 7)*

*(Peter Hugh-Smith, Karl Midl and Denise Jones from LiNK Fund Solutions all attended the meeting for this item)*

(1) Andrew Boutflower (Hants) updated the Joint Committee on the progress of finalising ACCESS' Operator Agreement with LiNK and the establishment of its ACS and sub-funds.

(2) Members discussed the timetable for engaging with LiNK and for submission to the Ministry of Housing, Communities and Local Government (MHCLG).

(3) The representatives from LiNK Fund Solutions presented to Members and answered questions and noted comments from Members. Members of the Committee would be invited to comment on the LiNK Prospectus whilst acknowledging that LiNK had ownership of this document.

(4) There would be an update on progress made by LiNK at the additional meeting.

RESOLVED that;

- (a) approval of the voting guidelines for the ACCESS sub-funds be delegated to Andrew Boutflower in consultation with the Chairman and Vice-Chairman of the ACCESS Joint Committee.
- (b) the remainder of the report, including the dating of the Operator Agreement with Link, the progress in the creation of ACCESS' ACS and sub-funds and the delay to the sub-fund application and launch be noted.

**67. Governance update**

(Item. 8)

(1) Nicola Mark (Norfolk) and Barry Mack (Muse Advisory) updated the Joint Committee on the work done by Muse and the Governance Working Group.

(2) Members discussed a meeting held with Section 151 Officers and suggested that the S151 Officers for ACCESS authorities be added to the distribution list for Joint Committee Papers.

(3) Members requested that an update on progress with the governance arrangements be submitted to the next meeting.

RESOLVED that;

- (a) the “Statement of Purpose” and the draft contents for the Governance Manual be approved
- (b) the update from Muse be noted
- (c) an additional meeting of the Joint Committee be held in 6 weeks’ time.

**68. Work Plan, Resourcing and Risks.**

(Item. 9)

(1) Mark Whitby (Northamptonshire) updated the Committee on the status of the Establishment Phase work plan along with the associated resourcing and project risk implications.

(2) At Members’ request the list of officers and their roles would be put on the restricted part of the ACCESS website for reference.

(3) Officers undertook to provide an update on progress with Phase 2 at the next meeting.

RESOLVED that;

- (a) the progress against the work plan and the resourcing and risk implications be noted
- (b) the 2017-18 updated budget be approved.

**69. Passive Management transition**

(Item. 10)

(1) Patrick Towey (Hertfordshire) updated Members on the UBS issues.

RESOLVED that the verbal update be noted.

**70. Items for information or advice from the Committee.**  
*(Item. 11)*

- (1) Kevin McDonald (Essex) updated Members on the MHCLG Spring Progress Report.

RESOLVED that the verbal update be noted.

**71. Date of next meeting.**  
*(Item. 12)*

- (1) Members considered calling, in addition to the programmed meeting which was scheduled for 11 June 2018, an interim meeting to be held during w/c 23 April to update the Joint Committee on;

- a. Governance
- b. LiNK
- c. Phase 2

RESOLVED that an interim meeting be held during the week commencing 23 April 2018.

*(Post meeting note – the interim meeting of the Joint Committee will be held on Thursday 26 April 2018)*

# Agenda Item 6

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	22 June 2018
<b>Title:</b>	Governance: Pension Administration update
<b>Report From:</b>	Director of Corporate Resources

**Contact name:** Lois Downer

**Tel:** 01962 847600

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

### 1. Recommendation(s)

1.1. It is recommended that the Panel and Board:

- a) approve the addition of three funds to the Hampshire AVC portfolio with Prudential
- b) note the good performance of Pensions Services in 2017/18.

### 2. Executive Summary

2.1. The purpose of this paper is to provide the Panel and Board with an update on administration performance in the last six months of 2017/18, together with an analysis of employer performance for the same period.

2.2. Pensions Services have performed well against the four key indicators of good pensions administration. Over the next six months, Pensions need to complete the end of year processing to produce annual benefit statements and pension savings statements, against the background of complexity and increasing reporting requirements.

2.3. LGPS amendment regulations were issued on 19 April and Pensions will inform employers and members of the changes and their impact.

2.4. Prudential have created five new funds as part of their additional voluntary contribution (AVC) offer to the LGPS. It is recommended that three of these are added to the Hampshire AVC portfolio.

2.5. Work is continuing on ensuring compliance with the new data protection requirements and the reconciliation of GMP information with the HMRC system which is due to be closed in December 2018.

### 2. Administration performance

2.1. As at 31 March 2018, there were 333 employers paying into the Hampshire Pension Fund, and a total of 167,176 members. The table below provides a detailed breakdown of the scheme membership by employer type.

<b>Employer Type</b>	<b>Employers</b>	<b>Member type</b>		
		<b>Actives</b>	<b>Deferreds</b>	<b>Pensioners</b>
Scheduled	179	56,160	67,400	37,360
Resolution	59	300	169	182
Admitted	58	1,218	897	943
Community admitted	17	88	352	324
Transferee admitted	20	111	277	212
<i>Councillors (no active members)</i>	<i>10</i>	<i>0</i>	<i>103</i>	<i>120</i>
<i>Ceased (no active members)</i>	<i>53</i>	<i>0</i>	<i>305</i>	<i>655</i>
<b>Total</b>	<b>396</b>	<b>57,877</b>	<b>69,503</b>	<b>39,796</b>

2.2. Pensions Services administer the Hampshire LGPS and have performed well against the four key measures of good administration in 2017/18:

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

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

### **3. Cost per member**

3.1. One of the key external measures of administration performance is cost per member. The 2017/18 administration cost per member was £11.96 (£12.01 in 2016/17).

3.2. Comparative costs for all LGPS Funds are reported annually in the Sf3 return, and Hampshire is always reasonable for the size of the Fund. The latest available Sf3 data is for 2016/17 on which Hampshire was the 5th largest Fund by membership and, at £15.92, had the lowest combined administration and governance cost per member out of the 89 English and Welsh Funds.

### **4. Audit reports**

4.1. The annual internal audit opinion for Pensions will be presented to the Panel and Board at the July meeting. Pensions have received good reports during the year with substantial assurance given for the 2 reviews covering LGPS administration (which were the annual pensions payroll and benefit calculations review and pension refunds). There were no formal action plans required for the administration of LGPS pensions.

### **5. Customer Service Excellence**

5.1. In April, Pensions had a full Customer Service Excellence assessment which happens every 3 years. This was conducted as a day's site visit by the assessor who also contacted employers for feedback on the service. Pensions

retained their accreditation and picked up two further compliance plus marks, bringing the total to five, for the following areas:

- the corporate commitment to putting the customer at the heart of service delivery
- empowering and encouraging all staff to promote and participate in the customer focused culture
- the commitment to customer focus in recruitment, training and development
- using staff insight and experiences to develop processes and policies
- telling customers about performance, and incorporating customer feedback into processes

5.2. Pensions will have a light touch CSE assessment in 2019 and 2020 before the next full review in 2021.

## **6. Performance against Service Standards (KPIs)**

6.1. The KPIs for Pensions evidence the strong performance in 2017/18. However, two cases relating to the payment of death benefits, and one letter to a member who had re-joined the scheme missed the target deadline in Quarter 4, due to an internal error. One further case relating to a transfer in also missed the deadline in April 2018. Controls have been put in place to prevent this happening again, and performance has been at 100% against service standards since this happened.

6.2. The tables below show the achievement against service standards for the last six months of the year.

Quarter 3

Type of case	Time to Complete						On target?
	0-5 days	6-10 days	11-15 day	16-20 day	20-40 day	40 days plus	
Retirement	213	22	1	0	0	0	236 100%
Deferred Retirement	312	18	0	0	0	0	330 100%
Estimate	383	122	29	1	0	0	535 100%
Deferred	1,181	762	178	76	668	0	2,865 100%
Transfer out	32	67	46	1	0	0	146 100%
Transfer In	54	25	16	0	0	0	95 100%
Divorce	22	42	34	2	0	0	100 100%
Refund	1,142	337	110	21	0	0	1,610 100%
Rejoiners	134	48	16	3	0	0	201 100%
Interfunds	93	63	22	3	0	0	181 100%
Death	136	23	13	0	0	0	172 100%
<b>Grand Total</b>							<b>6,471</b>

Quarter 4

Type of case	Time to Complete						On target?
	0-5 days	6-10 days	11-15 day	16-20 day	20-40 day	40 days plus	
Retirement	159	19	9	0	0	0	187 100%
Deferred Retirement	165	48	3	0	0	0	216 100%
Estimate	274	213	81	0	0	0	568 100%
Deferred	271	407	883	160	116	0	1,837 100%
Transfer out	12	29	134	0	0	0	175 100%
Transfer In	70	33	17	0	0	0	120 100%
Divorce	7	25	37	0	0	0	69 100%
Refund	687	517	283	26	0	0	1,513 100%
Rejoiners	81	58	29	58	1	0	227 99.56%
Interfunds	26	21	58	0	0	0	105 100%
Death	189	38	32	1	2	0	262 99.24%
<b>Grand Total</b>							<b>5,279</b>

6.3. Pensions have now started work on uploading annual returns from employers so that the CARE revaluation can be run on all active records. Annual benefit statements for all active and deferred members will be produced by the statutory deadline of 31 August, and following this, Pensions will write with details to any member who exceeded the HMRC annual allowance in 2017/18.

## 7. Employer performance

- 7.1. Pensions Services continues to monitor the timeliness of notifications from employers, for key activities. Appendix 1 shows the timeliness of all death notifications received in the period and lists the employers who did not meet the timescales for notifying retirements in the period. Employers who exceeded the timescales for notification were contacted and given the opportunity to provide an explanation. These comments are also included in Appendix 1.
- 7.2. Employers have to provide a return by 30 April each year containing details of all the people who have paid contributions in the year. This return is uploaded into the pension system and used to update records and produce annual benefit statements for members. It also provides a check that employers have kept Pensions up to date during the year with starter and leaver notifications.
- 7.3. Pensions contact employers who miss the deadline to ensure that the return is received as soon as possible, and to help any employers who are finding it difficult to provide the data. The table below shows the number of returns received by 31 May this year.

	31 May 2018	31 May 2017
Returns received	322	308
Returns outstanding	6	15

7.4. The timeliness of receipt of pension contributions is also measured monthly and employers who fail to pay over by the statutory date are written to and an explanation secured. A total of £1.298m was paid late (£2.636m in 2016/17) which was 0.47% of the total contributions received. The average delay on all late payments received during 2017/18 was 25 days (8 days in 2016/17). No late payment interest was charged for 2017/18.

## 8. Scheme changes

- 8.1. In April 2018, the Ministry of Housing, Communities and Local Government (MHCLG) introduced LGPS amendment regulations, following a consultation in 2016. The amendments did not include the widely anticipated update of the Fair Deal legislation, which governs the pension implications of TUPE transfers between public bodies. MHCLG is planning to issue a fresh consultation on this subject before the end of 2018.
- 8.2. Most of the new regulations took effect from 14 May 2018, although some were backdated to 1 April 2014. The key changes allow:
  - early access to deferred benefits from age 55 for people who left the LGPS before 1 April 2014, without requiring employer consent
  - any surplus on exit to be refunded to the exiting scheme employer
  - employers to use a higher Assumed Pensionable Pay figure where the regulations would give a materially lower pay to the individual than they would have actually received
- 8.3. The Fund Actuary is providing further detail as to the impact of returning surpluses on exit to the scheme employer and changes to the Employer Policy and Funding Strategy Statement will be required once clarification has been received.
- 8.4. Employers were written to about the changes in the Spring newsletter which was sent on 30 May. Members will be told about the scheme changes via their annual benefit statement, with detailed information available on the Pensions' website.
- 8.5. The regulations have inadvertently created a transitional issue for a specific cohort of deferred members who were already over age 55 on 14 May. This group of members does not have the option to apply for early payment of their deferred benefits, but must wait until their normal retirement age. MHCLG have confirmed that although this was unintentional it can only be corrected by means of a further set of amending regulations. Whilst this group of members is no worse off than before the amendment regulations, they may feel aggrieved that they are not covered by the changes. Pensions will contact this group directly to make them aware of their options.

## **9. General Data Protection Regulation (GDPR)**

- 9.1. The GDPR came into effect on 25 May 2018, requiring all organisations to review their data protection policies. The LGA issued a template privacy notice for the LGPS which Legal Services have reviewed and approved for use by Pensions Services. The full notice will be held on the Pensions' website, with a paragraph in letters providing the basic information and a link to the full notice.
- 9.2. A memorandum of understanding (MOU) was also provided by the LGA for use between Funds and scheme employers. As both parties are data controllers, there is no requirement for there to be a formal data sharing agreement in place but the MOU provides clarity over responsibilities.

## **10. GMP reconciliation**

- 10.1. Pensions are continuing to make progress with the GMP reconciliation, which is required prior to the shutdown of HMRC databases in December 2018. The work is being carried out by a third party Intellica, through the pensions software supplier, Civica. Intellica has extensive experience of this work and can provide the capacity to handle the data queries, of which there were initially 77,000.

## **11. AVC funds review**

- 11.1. LGPS members can choose to increase their pension contributions by paying into an in-house AVC scheme. The Hampshire Pension Fund has two providers, Zurich and Prudential, and aims to ensure that the range of funds available to members is sufficiently large to give members a choice of types of investment and levels of risk, whilst not being overwhelming for the vast majority of contributors who want a straightforward, low risk option.
- 11.2. At a recent review meeting with Prudential, officers were reassured that the current Hampshire AVC offer is comparable with that offered by other LGPS funds. In line with other Funds, Hampshire does not specify a default fund, instead requiring the member to make an active decision about their own investments. The current list of funds available through Prudential is shown in Appendix 2.
- 11.3. Prudential have recently introduced a new type of fund called dynamic growth funds. These are multi asset funds which offer diversification through active asset allocation in UK and global bond and equity markets.
- 11.4. Prudential offers five of these dynamic growth funds across the risk spectrum, with the lowest risk offering a 0-30% equity range and the highest risk with a 60-100% equity range. These funds allow members to diversify their investments through a single fund based on their risk tolerance and age profile.
- 11.5. To keep the overall number of available funds at a reasonable level, it is recommended that the Panel approve three of the dynamic growth funds (the low, medium and high risk options) to be added to the Hampshire AVC portfolio and made available to members.

## **12. Pensions administration service to West Sussex**

- 12.1. West Sussex County Council have taken a decision to move their pension administration service provision from Capita to Hampshire County Council with effect from March 2019.
- 12.2. The introduction to Hampshire's Pension Administration Service came through the ACCESS investment pooling partnership and this decision will build on the existing partnership arrangements in place with West Sussex, for whom Hampshire already provide an Internal Audit Service, and will also add an additional partner to Hampshire's existing partnership arrangements for pensions administration, which already includes Hampshire Constabulary and Hampshire Fire and Rescue Service.
- 12.3. The same processes and service standards will be delivered for West Sussex as for Hampshire, ensuring efficient and effective administration is achieved for all members and employers. Pensions Services will ensure the appropriate staffing levels are in place to meet the increased workload and to maintain the existing agreed service standards in line with the administration strategy.

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	no
<b>Maximising well-being:</b>	no
<b>Enhancing our quality of place:</b>	no
<b>OR</b>	
<p><b>This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision as an action is required by the Pension Fund Panel and Board as the Administering Authority for the Hampshire Pension Fund.</b></p>	

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

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

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

## **IMPACT ASSESSMENTS:**

### **13. Equality Duty**

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

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

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

### **13.2. Equalities Impact Assessment:**

13.3. Equality objectives are not considered to be adversely affected by the proposals in this report.

### **14. Impact on Crime and Disorder:**

14.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

### **15. Climate Change:**

15.1. How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

15.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

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## Employer performance 2017/18

The tables below show the performance of employers against the service standards for notification of deaths and retirements for the second half of 2017/18.

### Notification of deaths in service – Quarter 3 and Quarter 4

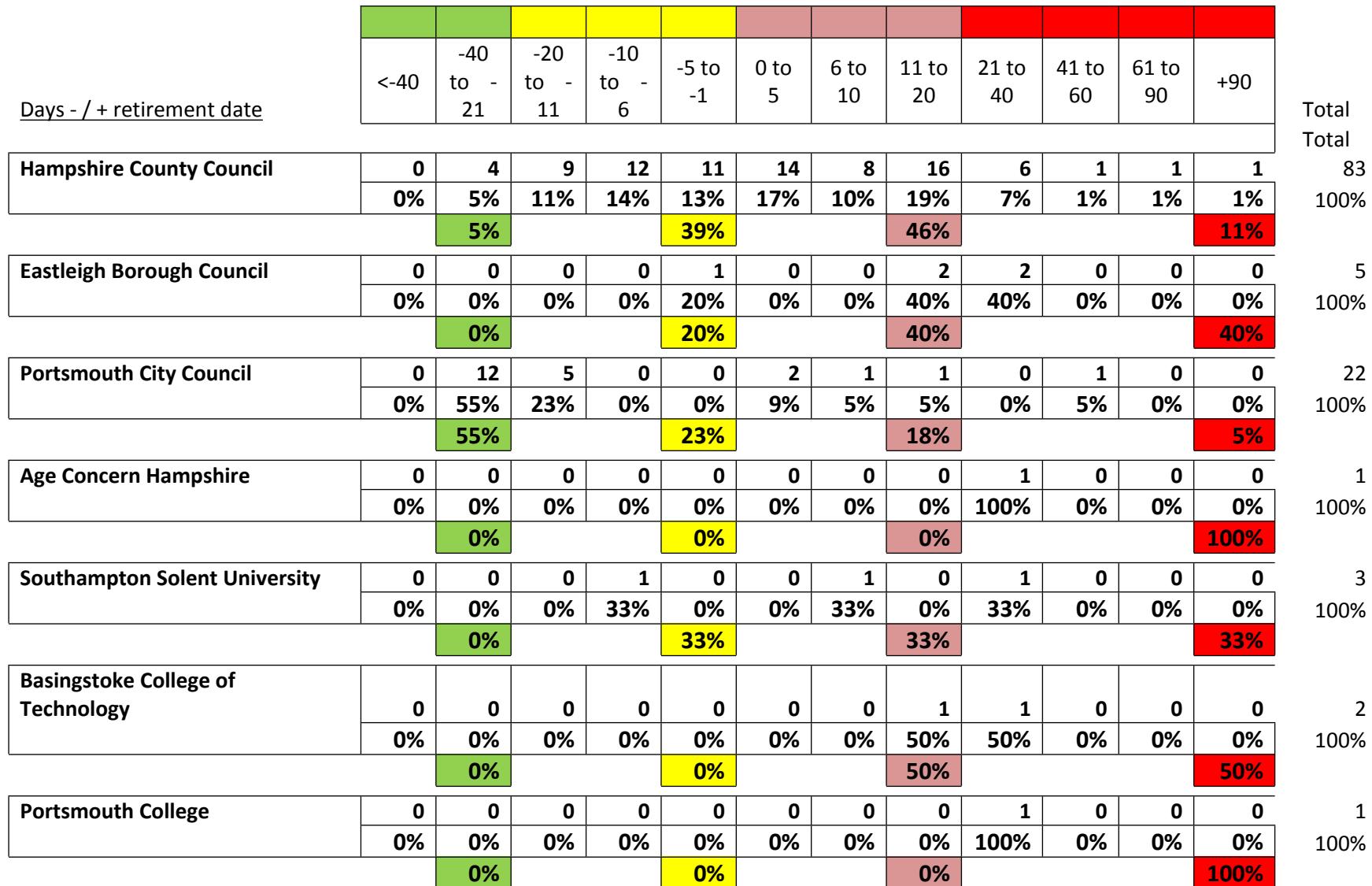
**Summary of death notifications processed for period 01 October 2017 to 31 December 2017**

<b>Employer</b>	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31-40 days	41-50 days	51-60 days	+60 days	<b>Total</b>
	0	0	1	0	0	0	0	0	0	
Hampshire County Council	0	0	1	0	0	0	0	0	0	1
Basingstoke and Deane Borough Council	0	1	0	0	0	0	0	0	0	1
New Forest District Council	0	1	0	0	0	0	0	0	0	1
Portsmouth City Council	0	1	0	0	0	0	0	0	0	1
Peter Symonds College	1	0	0	0	0	0	0	0	0	1
Hampshire Constabulary (LGPS)	1	0	0	0	0	0	0	0	0	1
	<b>2</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>

**Summary of death notifications processed for period 1 January to 31 March 2018**

<b>Employer</b>	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31-40 days	41-50 days	51-60 days	+60 days	<b>Total</b>
	2	0	0	0	0	0	0	0	0	
Hampshire County Council	2	0	0	0	0	0	0	0	0	2
Southampton Solent University	1	0	0	0	0	0	0	0	0	1
Southampton Schools (Capita)	0	0	0	0	1	0	0	0	0	1
	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>

### Quarter 3 Retirements



Applemore College	0	0	0	0	0	0	0	0	1	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%
		0%			0%			0%				100%
Hampshire Constabulary (LGPS)	0	3	3	3	1	1	1	1	0	0	1	0
	0%	21%	21%	21%	7%	7%	7%	7%	0%	0%	7%	0%
		21%			50%			21%				7%
Hounslow School	0	0	0	0	0	0	0	0	0	0	0	1
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
		0%			0%			0%				100%
Thornhill Primary School	0	0	0	0	0	0	0	0	0	1	0	0
	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
		0%			0%			0%				100%
Winton Academy	0	0	0	0	0	0	0	0	0	1	0	0
	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
		0%			0%			0%				100%
Fairisle Infant and Nursery School	0	0	0	0	0	0	0	0	0	1	0	0
	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%
		0%			0%			0%				100%
Sinclair Primary and Nursery School	0	0	0	0	0	0	0	0	1	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%
		0%			0%			0%				100%
St Monica Primary	0	0	0	0	0	0	0	0	1	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%
		0%			0%			0%				100%

## Quarter 4 Retirements

	<input checked="" type="checkbox"/>	<input type="checkbox"/>											
<u>Days - / + retirement date</u>	<-40	-40 to -21	-20 to 11	-10 to -6	-5 to -1	0 to 5	6 to 10	11 to 20	21 to 40	41 to 60	61 to 90	+90	
<b>Hampshire County Council</b>	3	16	16	3	6	3	7	4	7	1	0	1	
	4%	24%	24%	4%	9%	4%	10%	6%	10%	1%	0%	1%	
		28%			37%			21%			13%		
<b>Winchester City Council</b>	0	1	1	0	0	0	1	0	0	1	0	0	
	0%	25%	25%	0%	0%	0%	25%	0%	0%	25%	0%	0%	
		25%			25%			25%			25%		
<b>New Forest District Council</b>	0	0	2	0	3	0	0	1	2	1	0	0	
	0%	0%	22%	0%	33%	0%	0%	11%	22%	11%	0%	0%	
		0%			56%			11%			33%		
<b>Eastleigh Borough Council</b>	0	0	0	1	0	1	3	2	1	0	0	0	
	0%	0%	0%	13%	0%	13%	38%	25%	13%	0%	0%	0%	
		0%			13%			75%			13%		
<b>Portsmouth City Council</b>	0	14	2	0	0	0	3	2	0	1	0	0	
	0%	64%	9%	0%	0%	0%	14%	9%	0%	5%	0%	0%	
		64%			9%			23%			5%		
<b>Southampton Solent University</b>	0	0	1	0	0	0	1	0	0	1	0	0	
	0%	0%	33%	0%	0%	0%	33%	0%	0%	33%	0%	0%	
		0%			33%			33%			33%		
<b>Barton Peveril Sixth Form College</b>	0	0	0	0	0	0	0	0	0	0	0	1	
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	
		0%			0%			0%			100%		

Alton College	0	0	0	0	0	0	0	0	0	0	0	1	1
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	100%
		0%			0%			0%				100%	
Capita Hart (ex Hart DC)	0	0	0	0	0	0	1	1	1	1	0	0	4
	0%	0%	0%	0%	0%	25%	25%	25%	25%	0%	0%	50%	100%
		0%			0%			50%				50%	
The Cowplain School	0	0	0	0	0	0	0	0	1	0	0	0	1
	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%	100%
		0%			0%			0%				100%	
St Anne's Catholic School & Sixth Form College (Academy)	0	0	0	0	0	0	0	0	1	0	0	0	1
	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%	100%
		0%			0%			0%				100%	
Capita Southampton Ltd	0	0	1	1	0	0	0	0	3	0	0	0	5
	0%	0%	20%	20%	0%	0%	0%	0%	60%	0%	0%	0%	100%
		0%			40%			0%				60%	
SCC Schools (Capita)	0	0	1	0	0	0	0	0	0	0	0	0	1
	0%	0%	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%
		0%			100%			0%				0%	

## Employer comments

### Employer responses – October 2017 to March 2018

Portsmouth City Council	08/05/2018	I always prioritise the critical leavers i.e. retirements/redundancies/ill health/death in service. To help us with the normal deferrals we are offering overtime, and we are looking into customising and automating part of the leavers form process to speed it up.
St Anne's Catholic School	10/05/2018	Hampshire County Council run our payroll and the leaver form that we complete was sent to them in plenty of time. I followed up with an email to the pensions team on 19 December to say expect the pension leaver form from HCC payroll. The reason it was picked up was that the employee phoned me to say that she had not received her pension in January. I am not sure where the process fell down but from the schools point of view we did everything that we needed to do.
Hampshire County Council	16/05/2018	Hampshire County Council has improved its performance over recent years and is working effectively with Hampshire Pensions Services to identify and resolve issues before they become problems, which is evident in our performance results throughout most of the year. We have reviewed the performance for the last quarter against the retirement notifications and 7 of the 9 rated as Red were due to managers incorrectly stating the leaver notifications as 'resignation' rather than 'retirement' which delayed the onward process. We will be issuing further guidance to managers highlighting the importance of selecting the correct leaver reason, but ultimately it does rely on managers across the organisation getting it right first time. A further single retirement notification was delayed as a result of confusion around multiple employments and the final late notification was at the request of the member themselves.

The Cowplain School	22/05/2018	<p>We had one late submission of information, which was a support staff retirement taking effect 31.12.17.</p> <p>I chased the leaver form on 16.01.18 and the leaver form was sent by our payroll provider on 29.10.18. This would appear to have not arrived as a chase-up email was sent. A new leaver form was prepared and sent on 09.02.18 for which our payroll provider received an acknowledgement.</p> <p>Our payroll provider have contacted yourselves to clarify the timescales for retirements and are now aware of the 20 days notification prior to retirement date. Going forward every effort will be made to achieve this deadline, however this is not always possible if the employee's retirement date is at the beginning of a month. I will now be sending an email to the pension team of our payroll provider when I notify payroll of a retirement so that they can arrange to send the form as soon as possible.</p>
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## Prudential Funds Under Management and member fund breakdowns

Funds Under Management at 30/09/2017										
	Total Units at 01/10/2016	Unit Price at 01/10/2016	Fund Value at 01/10/2016	Total Units at 30/09/2017	Unit Price at 30/09/2017	Fund Value at 30/09/2017	% Total Fund Value	No of Members	AMC	
BlackRock Aquila UK Equity Index	8,321.98	934.10	£77,736	10,439.48	£1027.40	£107,255	1.21%	64	0.65	
M&G Recovery	26,255.35	279.50	£73,384	34,851.56	£328.80	£114,592	1.29%	68	0.65	
Prudential Ethical	86,943.93	192.40	£167,280	98,260.06	£212.90	£209,196	2.36%	121	0.65	
Prudential UK Equity	71,735.40	252.20	£180,917	95,693.63	£288.00	£275,598	3.10%	121	0.65	
M&G Global Leaders	106,197.79	187.70	£199,333							
Baillie Gifford Overseas Equity	42,220.65	332.53	£140,396	63,893.04	£395.04	£252,403	2.84%	94	0.90	
BlackRock Aquila (50:50) Global Equity Index	301,613.07	249.30	£751,921	385,838.82	£284.60	£1,098,097	12.36%	325	0.65	
BlackRock Aquila World ex-UK Equity Index	60,326.68	275.30	£166,079	83,107.39	£320.00	£265,944	2.99%	99	0.65	
HSBC Amanah Global Equity Index	24,088.40	332.41	£80,072	32,460.62	£377.96	£122,688	1.38%	94	0.80	
New ton Global Equity				79,435.88	£387.50	£307,814	3.47%	138	100.00	
Prudential Index-Linked	136,302.06	398.60	£543,300	151,793.15	£386.60	£586,832	6.61%	194	0.65	
Prudential Long Term Bond	182,630.03	326.40	£596,104	183,849.37	£314.80	£578,758	6.52%	124	0.55	
Prudential UK Property	189,308.00	254.50	£481,789	171,567.61	£275.80	£473,183	5.33%	230	0.65	
Prudential With-Profits Cash Accumulation Fund			£868,410			£1,054,808	11.87%	320		
Prudential Absolute Return	305,883.76	250.40	£765,933	337,102.55	£282.40	£951,978	10.72%	300	0.75	
Prudential All Stocks Corporate Bond	137,011.53	289.50	£396,648	155,888.39	£294.20	£458,624	5.16%	149	0.65	
Prudential Fixed Interest	60,421.76	266.50	£161,024	85,458.98	£258.30	£220,741	2.49%	99	0.65	
Prudential Deposit Fund			£1,490,371			£1,417,344	15.96%	198		
Prudential Cash	137,098.39	153.00	£209,761	252,543.57	£153.20	£386,897	4.36%	141	0.55	
	1,876,358.77		£7,350,458	2,222,184.11		£8,882,750	100.00%	1,509		

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# Agenda Item 7

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Decision:</b>	22 June 2018
<b>Title:</b>	Governance: Pension Fund Risk Management
<b>Report From:</b>	Director of Corporate Resources – Corporate Services

**Contact name:** Andrew Boutflower

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

#### 1. Recommendation

- 1.1. That the Panel and Board note the contents of this report, in particular the risks identified to the Pension Fund and the activities planned and carried out to mitigate those risks.

#### 2. Summary

- 2.1. This report provides a summary of the Pension Fund's approach to risk management and the Risk Register for review by the Pension Fund Panel and Board. In accordance with guidance the Fund's Risk Register is reported annually as part of the Annual Report.

#### 3. Risk Management Process

- 3.1. The first step in the risk management process is the identification of risk. Risks are identified through the analysis of the Pension Fund's aims and those issues that might interfere with achieving those aims. The aims of the Pension Fund are published in its Funding Strategy Statement, which is reported annually to the Pension Fund Panel and Board, and are as follows:
  - To manage the employers' liabilities effectively.
  - To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers.
  - To maximise the income from investments within reasonable risk parameters.
- 3.2. The risks to the Pension Fund not achieving these aims are captured in the Fund's Funding Strategy Statement. The Director of Corporate Resources' staff with the assistance of the Fund Actuary have assessed these risks and documented the mitigation in place, which is recorded in the Fund's Risk Register shown in Appendix 1.

- 3.3. In accordance with guidance, the Pension Fund publishes its Risk Register as part of its Annual Report. In addition the investment risks are also published in the Investment Strategy Statement.

#### Risk Management Activities

- 3.4. The management of risk is part of the control framework that is managed by the Director of Corporate Resources' staff. The following table summarises the major activities that have been undertaken and are planned by the Director of Corporate Resources' staff and the Pension Fund Panel and Board.

<b>Risk</b>	<b>2017/18 activities completed</b>	<b>New or ongoing activities</b>	<b>Person responsible</b>	<b>Date due</b>
Investment risk	Monitoring of the Fund's investments and performance of the Fund's investment managers and reporting to the Pension Fund Panel and Board	Ongoing	Director of Corporate Resources and the Pension Fund Panel and Board	Ongoing
	Review and agreement to updates to the Investment Strategy	Sourcing new investment managers to meet the requirements of the strategy. Consideration of the timing of implementation of further changes identified in the Investment Strategy	Director of Corporate Resources and the Pension Fund Panel and Board	First contract due to be agreed October 2018
	Full engagement in the process of investment pooling	Ongoing	Director of Corporate Resources and the Pension Fund Panel and Board	Ongoing
	Management of the Fund's cash balance to ensure cash is available to meet liabilities as they fall.	Ongoing	Deputy Investments and Borrowing Manager	Ongoing
	Monitoring of the	Ongoing	Deputy	July 2018

<b>Risk</b>	<b>2017/18 activities completed</b>	<b>New or ongoing activities</b>	<b>Person responsible</b>	<b>Date due</b>
Investment risk (continued)	ongoing cash surplus/deficit position and reporting to the Pension Fund Panel and Board.	(annually)	Investments and Borrowing Manager	
Employer risk	Agreement of updates to the Funding Strategy Statement and amendments to the Fund's employer groups to reflect the characteristics of different employers	Monitoring of the existing employers in the Fund and new employers based on the new Employer Policy	Head of Pensions, Investments and Borrowing	Ongoing
Administration risk	Reporting key areas of employer performance, monitor trends and propose to the Panel & Board escalation mechanisms as necessary	Ongoing	Head of Pensions, Investments and Borrowing	Ongoing
Liability risk and funding risk	Received updates from the Fund Actuary on the Fund's interim funding position	Preparation for the 2019 Actuarial Valuation	Director of Corporate Resources and the Fund Actuary	March 2019
Regulatory and compliance risk	Pensions Services' processes are maintained in accordance with the latest LGPS regulations	Compliance with new GDPR regulations	Head of Pensions, Investments and Borrowing	Ongoing
Governance risk	Completion of Training Needs Analysis and appropriate training by Panel and Board Members	Ongoing	Pension Fund Panel and Board	Ongoing

**CORPORATE OR LEGAL INFORMATION:****Links to the Strategic Plan**

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

**OR**

<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b>
--

For the ongoing management of the Hampshire Pension Fund

**Other Significant Links**

<b>Links to previous Member decisions:</b>	
<u>Title</u> Governance: Pension Fund Risk Management	<u>Date</u> 17/06/2017
<b>Direct links to specific legislation or Government Directives</b>	
<u>Title</u>	<u>Date</u>

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

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

DocumentLocation

None

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

1.2. **Due regard in this context involves having due regard in particular to:**

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

### **1.3. Equalities Impact Assessment:**

1.4. Equality objectives are not considered to be adversely affected by the proposals in this report.

### **2. Impact on Crime and Disorder:**

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

### **3. Climate Change:**

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

## Pension Fund Risk Register

Risk	Description	Likelihood	Impact	Mitigation
Employer risk	These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities. These events could cause the risk of unexpected structural changes in the Fund's membership and the related risk of an employer failing to notify the administering authority promptly.	M	H	The Administering Authority requires the other participating employers to communicate regularly with it on such matters. The Pension Fund Panel and Board have approved a Funding Strategy Statement that groups similar employers together for funding purposes. The Fund's Employer Policy outlines how the Administering Authority will deal with any situation resulting from a change in any Fund employers' circumstances or new employers entering the Fund. The Administering Authority monitors the status of the employers in the Fund and discusses any changes, including any necessary changes to the Funding Strategy Statement, with the Fund's Actuary.
	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.			The Pension Fund's Funding Strategy Statement groups similar employers together and reflects that most of the employers in the Fund have a degree of Central Government support. Where this is not the case the Funding Strategy Statement sets out how this will be taken into account to manage the risk.

<b>Risk</b>	<b>Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyber attack), either effecting the Pension Fund directly or one of its key suppliers.	L	M	Pension Services follow the Administering Authority's Disaster Recovery policy that ensures that processes are in place to manage in the event of the loss of key resources. Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.
Administration risk	The Pensions Regulator identifies the risks being around:	M	M	
	- Employer contribution monitoring: are employers paying the right amount of contributions on time?			Employer contributions are set out in the triennial valuation and the deadline for payment is set by Regulation as 22 <sup>nd</sup> of the month. Contributions are monitored and any late payments are reported to the Pension Fund Panel and Board. Any issues of 'material significance' will be reported to the Regulator
	- Record-keeping: how comfortable are you that your records are complete and accurate?			The Administration Strategy is the agreement between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to the certain principles, including: - provide a high quality pension service to members - take responsibility to provide accurate and timely information - the results are reported to the Panel & Board twice a year.

<b>Risk</b>	<b>Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
Administration risk (continued)	- Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated?			Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.
	- Member communication: are these always accurate, timely and clear?			There is a Communications Policy and Customer Charter on the Pension Services website, which details the service our scheme members can expect.
	- Internal disputes: do these indicate wider problems in the Fund?			The full complaint process, going all the way through to the Pensions Ombudsman, is detailed on the Pension Services website. All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.
	- Resourcing: conflicting priorities with servicing other partners.			Resourcing plans are in place to ensure services can be delivered to each partner. Project plans are in place that identify the requirements of each partner, including the on-boarding of new partners.
Investment risk	Investment management underperformance – from the Fund's investment managers failing to outperform their benchmark returns for prolonged periods of time	M	H	The Fund's investment managers' performance is reviewed regularly by the Fund's officers and reported regularly to the Panel and Board. All of the Fund's contracts for investment management contain the provision that the Fund can cancel the contract with 1 month's notice in the event of poor investment performance.
Investment				

Risk	Description	Likelihood	Impact	Mitigation
risk (continued)	Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities			The Panel and Board have set a diversified asset allocation which limits exposure to one particular market. The Fund contracts with specialist external investment managers and as a general principle aims to invest globally and set mandates for investment managers that give them as much freedom as possible, in order to manage market conditions as they see fit.
	Interest rate risk – which can affect the prices of investments that pay a fixed interest rate			The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for investment managers that give them as much freedom as possible, in order to manage risks such as changes in interest rates.
	Currency risk – the risk of fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			As a UK Pension Fund the Panel and Board consider that the Pension Fund should have a significant proportion of its assets denominated in Sterling, thereby removing the currency risk. The Panel and Board keep their view of the long term nature of currency movements under review and will seek specialist advice if they believe that this might change or there is likely to be an event that might crystallise the effect of particular currency movements.
Investment				

Risk	Description	Likelihood	Impact	Mitigation
risk (continued)	Credit risk – the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.			The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment, with further limits set in the Investment Strategy Statement to limit the Fund's exposure to particular vehicles or assets
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates.			The Fund contracts with specialist external investment managers and as a general principle aims make their portfolios 'ever-green' so that income and maturing investments can be reinvested, allowing investment managers to build portfolios that do not have a concentration of investments with a particular maturity date.
	Custody risk – losing economic rights to Fund assets, when held in custody or being traded.			The Panel and Board and the Fund's officers regularly monitor the performance of the Fund's custodian and have the power to replace the provider should serious concerns exist.
	Liability risk – that the Fund's liabilities are not accurately calculated resulting in the return target being too low and employer's contributions having to rise.			The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions.
Investment				

Risk	Description	Likelihood	Impact	Mitigation
risk (continued)	Environmental, social and governance (ESG) factors – that these factors reduce long-term returns.			The Fund's external investment managers have been instructed to exercise the Fund's responsibility to vote on company resolutions wherever possible. They have also been instructed to intervene in companies that are failing, thus jeopardising the Fund's interests, by voting or by contacting company management directly.
	Regulatory risk – that inhibits the Pension Fund Panel and Board's fiduciary duty.			The Fund will be proactive in engaging with the Government, including responding to consultation, on any issues effecting the management and investment of Pension Fund monies.
	Illiquidity – that the Fund is unable to meet its immediate liabilities			The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available. The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	H	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.

Risk	Description	Likelihood	Impact	Mitigation
Funding risk	<p>The Government Actuary's Department (GAD) has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of the LGPS has been carried out. Their report must cover:</p> <ul style="list-style-type: none"> <li>- whether the fund's valuation is in accordance with the scheme regulations</li> <li>- whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS</li> <li>- whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund.</li> </ul> <p>These requirements will have statutory force with effect from the 2016 valuations in England and Wales. Funds will be assessed against a number of measures and scored as:</p> <p>Red – potentially a material issue that might contribute to a recommendation for remedial action to</p>	M	H	Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2016 valuation.

<b>Risk</b>	<b>Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
Funding risk (continued)	ensure solvency Amber – highlights a possible risk Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency GAD will then engage with Funds with any amber or red flags.			
Regulatory and compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.	M	L	The Pension Fund Panel and Board has documented Terms of Reference and Operating Procedures. The Panel and Board will consider all items that are material to the management of Hampshire Pension Fund and are supported by suitably qualified officers. Members of the Pension Fund Panel and Board complete a Training Needs Analysis based on CIPFA's Knowledge and Skills Framework and undertake identified training activities as necessary.

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# Agenda Item 8

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	22 June 2018
<b>Title:</b>	Investments: Pension Fund Cash – Annual Report 2017/18
<b>Report From:</b>	<i>Director of Corporate Resources</i>

**Contact name:** Gemma Farley

**Tel:** 01962 847540

**Email:** Gemma.farley@hants.gov.uk

### 1. Recommendation

- 1.1. That the outturn report on the Pension Fund's cash management in 2017/18 be approved.

### 2. Executive Summary

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

### 3. Background

- 3.1. The Pension Fund receives cash each month from contributions by employees and employers, and from investment income. The Pension Fund requires a cash balance to be able to pay pensions and other costs. Cash is also required for the following investment reasons:
  - if the UK property manager CBRE Global Investors purchases additional properties;
  - to finance drawdowns of private equity limited partnerships; and
  - to finance drawdowns of infrastructure investments.
- 3.2. Dividends from shares and interest receipts from bonds are retained by the external investment managers for reinvestment, but rent income from the Pension Fund's direct property portfolio is credited to the Fund's cash balance. Distributions from the Fund's private equity, infrastructure investments and indirect property funds are also paid to the Fund's balance.

- 3.3. The Pension Fund's investment managers aim to be fully invested in equities, bonds and hedge funds, and generally do not plan to hold cash as a matter of investment policy. The exception at the current time is Newton, who are holding a cash balance of 4.40% which is close to the 5% limit set as part of their Investment Management Agreement, as a hedge against falling equity values. All of the Fund's active investment managers will have some cash balances as a result of trading between stocks and from dividend and interest income pending investment. These cash balances are held by the Pension Fund's Custodian bank, JP Morgan, and are held in an account on which interest is earned.
- 3.4. There are rigorous procedures in place to ensure the security of all cash deposits which are managed by the County Council in separate investment accounts for the Pension Fund. These include criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty as set out in the Pension Fund's Annual Investment Strategy for 2018/19 for cash, which was approved by the Pension Fund Panel and Board on 15 December 2017. In addition the County Council's treasury advisers, Arlingclose, provide advice to the Director of Corporate Resources in undertaking treasury management activities.

#### **4. Investment activity**

- 4.1. Security of capital remains the Fund's main investment objective for the management of the cash balance. This was maintained during 2017/18 by following the Fund's counterparty policy as set out in its Annual Investment Strategy, which was approved by the Pension Fund Panel and Board on 16 December 2016. Investments during the year included:
- Investments in AAA-rated Money Market Funds
  - Investments in UK Government Treasury Bills
  - Investments in Corporate Bonds
  - Call accounts, notice accounts and certificates of deposit with banks and building societies with a minimum credit rating of BBB+, or equivalent
- 4.2. In addition to credit ratings counterparty credit quality was assessed and monitored with reference to:
- credit default swap prices
  - any potential support mechanisms
  - share prices
  - other economic or financial data.
- 4.3. Based on these factors and advice from the Treasury Management advisers, Arlingclose, the Director of Corporate Resources on behalf of the Pension Fund has varied investment duration limits for new investments according to the assessment of credit risk and has suspended investing with individual counterparties when it is felt to be necessary to protect the Pension Fund's capital.

- 4.4. The Pension Fund's current counterparty limits are shown in Appendix 1. The limits are the agreed maximum values and duration of investments per counterparty, which shows the full range of counterparties the Fund could potentially invest with. The placement of actual investments is likely to be below these limits and will depend on both the Fund's requirements, such as the need to maintain a high degree of liquidity, and the availability of counterparties in the market; most of the foreign banks listed do not offer instant accounts that the Pension Fund can access.
- 4.5. The UK base rate increased by 0.25% to 0.50% in November 2017 and short term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income. The Fund's average cash investment balance was £74.3m (1.1% of the total Pension Fund) during 2017/18, and interest earned was £230,000, leading to an average yield of 0.31%. The Fund's cash investments at 31 March 2018 and 31 May 2018 are shown in the exempt appendix.

## **5. Cash inflows and outflows from dealings with members**

- 5.1. The Pension Fund monitors its surplus or deficit from dealings with members; the extent to which income from employer and employee contributions are greater or less than the outgoings on pensions and other costs. Up until 2011/12 the Fund's historic average was a surplus of around £50m. However due to austerity in the Public Sector and the reductions in scheme employers' workforces that took place beginning in 2012/13, the surplus reduced at that time. The Hampshire Pension Fund's draft statement of accounts for 2017/18 show that it made a surplus of £40.0m from its dealings with members, which is an increase from a £21.3m surplus in 2016/17.
- 5.2. A more accurate view of the Fund's cash flow can be achieved by removing the effect of the transfer of scheme members, which can vary significantly from year to year, and the Fund has no control over. Removing the impact of transfers brings the net figure to £41.7m in comparison to 2016/17's net figure of £22.3m.

Table 1: Net additions from dealing with members

	2016/17	2017/18
	£'000	£'000
Net additions from dealing with members	21,304	40,010
Net total transfers	948	1,707
	<hr/>	<hr/>
	22,252	41,717

- 5.3. The overall increase of £19.5m in net additions from dealing with members is for the main part due to 2017/18 being the first year of the new employer contribution rates following the 31 March 2016 triennial actuarial valuation. Overall employers' contributions increased by 10.9% (£21.3m) in 2017/18 in

comparison to 2016/17, whilst the number of active contributors to the Fund increased only very slightly to 57,877 (57,781 in 2016/17).

- 5.4. This increase in employers contributions is a result of an increase of 16.2% in Past Service Deficit received and an increase of 8.2% in Future Service Rate contributions received.
- 5.5. It has been reported that a number of LGPS funds are experiencing annual cash deficits from their dealings with members, which will result in them having to liquidate some of their investments to continue to meet their obligations for payments to scheme members.
- 5.6. Projecting the Pension Fund's annual surplus or deficit from dealings with members in the future is very difficult given the number of variables involved, such as membership numbers, investment returns and inflation. The Fund's cash position will continue to be monitored by officers, with the assistance of the Fund's actuary, Aon Hewitt, where necessary, and reported to the Panel and Board.

**CORPORATE OR LEGAL INFORMATION:**

**Links to the Strategic Plan**

**This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because a decision by the Pension Fund Panel and Board to approve the annual report on Pension Fund cash for 2017/18.**

**Other Significant Links**

**Links to previous Member decisions:**

<u>Title</u>	<u>Date</u>

**Direct links to specific legislation or Government Directives**

<u>Title</u>	<u>Date</u>

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

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

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

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

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

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

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

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

#### **1.2. Equalities Impact Assessment:**

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

### **2. Impact on Crime and Disorder:**

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

### **3. Climate Change:**

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

### Current Bank and Building Society investment limits

Country / Domicile	Counterparty	Maximum investment	Maximum duration
UK	Bank of Scotland	£15m	6 months
UK	Barclays Bank	£15m	100 days
UK	Close Brothers	£15m	6 months
UK	Goldman Sachs	£15m	100 days
UK	HSBC Bank	£15m	6 months
UK	Leeds Building Society	£15m	100 days
UK	Lloyds Bank	£15m	6 months
UK	Nationwide Building Society	£15m	6 months
UK	Santander UK/Abbey National	£15m	6 months
UK	Standard Chartered	£15m	100 days
Australia	Australia and NZ Banking Group	£15m	6 months
Australia	Commonwealth Bank of Australia	£15m	6 months
Australia	National Australia Bank	£15m	6 months
Australia	Westpac Banking Group	£15m	6 months
Canada	Bank of Montreal	£15m	6 months
Canada	Bank of Nova Scotia	£15m	6 months
Canada	Canadian Imperial Bank of Commerce	£15m	6 months
Canada	Royal Bank of Canada	£15m	6 months
Canada	Toronto-Dominion Bank	£15m	6 months
Denmark	Danske Bank	£15m	100 days
Finland	OP Corporate Bank	£15m	6 months
Germany	Bayerische Landesbank (BayernLB)	£15m	6 months
Germany	DZ Bank	£15m	6 months
Germany	Landesbank Baden-Wuerttemberg (LBBW)	£15m	6 months
Germany	Landesbank Hessen-Thuringen (Helaba)	£15m	6 months
Netherlands	Cooperative Rabobank	£15m	13 months
Netherlands	ING Bank	£15m	100 days
Singapore	DBS Bank Ltd	£15m	13 months
Singapore	Oversea-Chinese Banking Corporation	£15m	13 months
Singapore	United Overseas Bank	£15m	13 months
Sweden	Nordea Bank AB	£15m	13 months
Sweden	Svenska Handelsbanken	£15m	13 months
Switzerland	Credit Suisse	£15m	100 days

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# Agenda Item 10

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# Agenda Item 12

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