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NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday, 15th December, 2017 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 3 November 2017.

4. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

5. GOVERNANCE - PENSIONS ADMINISTRATION UPDATE (Pages 9 - 46)

To consider a report from the Director of Corporate Resources-Corporate Services providing an update on pensions administration in the first six months of 2017/18 together with an analysis of employer performance, and seeking approval for the updated Administration Strategy and Dying to Work Charter.

6. GOVERNANCE - EMPLOYER POLICY AND FUNDING STRATEGY STATEMENT (Pages 47 - 92)

To consider a report from the Director of Corporate Resources-Corporate Services seeking approval from the Panel and Board for proposed changes to the Funding Strategy Statement (FSS) and Employer Policy in relation to the treatment of wholly owned companies and funding targets for new admission bodies.

7. GOVERNANCE - STATUTORY STATEMENTS (Pages 93 - 116)

To consider a report from the Director of Corporate Resources-Corporate Services seeking the annual approval of the Pension Fund Panel and Board of the Pension Fund's statutory statements - Business Plan, Statement of Investment Principles, Funding Strategy Statement, Governance Policy and Governance Compliance Statement, Communication Policy Statement and Administration Strategy Statement.

8. INVESTMENTS - CASH INVESTMENTS STRATEGY (Pages 117 - 128)

To consider a report from the Director of Corporate Resources - Corporate Services providing an update on the management of the Pension Fund's cash balances and the Annual Investment Strategy for those cash balances for 2018/19.

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 EXEMPT MINUTES OF THE PREVIOUS MEETING** (Pages 129 - 132)

To confirm the exempt minutes of the meeting held on 3 November 2017.

11. **INVESTMENTS - CASH INVESTMENTS STRATEGY - EXEMPT APPENDIX** (Pages 133 - 134)

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

12. **INVESTMENT - INVESTMENT UPDATE** (Pages 135 - 182)

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 3 November 2017.

ABOUT THIS AGENDA:

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

ABOUT THIS MEETING:

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

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

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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Mitchell Room, EII Podium, Winchester on Friday, 3rd November, 2017

PRESENT

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

p C. Carter	p A. Joy
p A. Dowden	a P. Latham
p A. Gibson	p D. Mellor (substitute for Cllr Latham)
p J. Glen	p B. Tennent
	p T. Thacker

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)
p Councillor H. Mason (Portsmouth City Council) (substitute for Cllr Giddings and Mr Robbins)

Scheme Member Representatives (Co-opted members):
p Dr C. Allen (pensioners' representative)
a Mr N. Wood (scheme members representative)
p Mrs V. Arrowsmith (deferred members' representative)

Independent Adviser:
p C. Dobson

43. **APOLOGIES FOR ABSENCE**

Cllrs Latham and Mason, Mr Wood and Mr Robbins sent their apologies.

44. **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.

45. **CONFIRMATION OF MINUTES (NON-EXEMPT)**

The minutes of the Pension Fund Panel and Board held on 29 September 2017 and 13 October 2017 were confirmed.

46. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman asked members to give updates on events they had attended or ask any questions.

Cllr Tennent asked about the liability insurance arrangements for the members of the Pension Fund Panel and Board. Paul Hodgson from Hampshire Legal Services confirmed that the members of the committee (including co-opted members of the County Council) are covered by the County Council's insurance arrangements if they are properly acting in carrying our their business as members of the committee.

47. **ACCESS JOINT GOVERNANCE COMMITTEE MINUTES 31 JULY 2017**

The Panel and Board received the minutes of the first ACCESS Joint Governance Committee held on 31 July 2017.

48. **GOVERNANCE - PENSION ADMINISTRATION STRATEGY**

The Panel and Board received a report from the Director of Corporate Resources (Item 6 in the Minute Book) on changes to the Pension Administration Strategy. An number of key changes have resulted in the strategy needing updating, including the new 2014 CARE scheme and an increased number of employers making structural changes to their organisations which impact on the provision of pensions. The updated administration strategy including the following changes will be sent to employers for their comments in a 4 week consultation period.

The key changes to the strategy are:

- The provisions to charge a flat rate to employers for the pension administration resource of dealing with employers' structural changes.
- Changing the employer service standard for reporting notification of leavers to Pensions Services.
- The provision to ask employers to carry out a mid-year data cleanse.
- A new service standard for employers changing payroll providers and outsourcing.
- To reduce Pension Services' service standard for processing retirements and estimates to reflect improvements that have been made in the pensions administration systems and processes.

RESOLVED:

(a) That the changes to the draft Administration Strategy are approved.

(b) That the draft strategy is shared with employers for consultation.

(c) That the remainder of the report was noted.

49. **EXCLUSION OF THE 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 1, 2 and 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.

50. **CONFIRMATION OF THE EXEMPT MINUTES OF THE MEETINGS ON 29 SEPTEMBER AND 13 OCTOBER 2017**

The exempt minutes of the Pension Fund Panel and Board held on 29 September 2017 and 13 October 2017 were confirmed.

51. **ACCESS JOINT GOVERNANCE COMMITTEE MINUTES 31 JULY 2017 - EXEMPT ITEMS**

The Panel and Board received the exempt minutes of the first ACCESS Joint Governance Committee held on 31 July 2017.

52. **INVESTMENTS: INVESTMENT STRATEGY REVIEW**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 10 in the Minute Book) with proposals for amendments to the Pension Fund's investment strategy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

53. **INVESTMENT - INVESTMENT PERFORMANCE UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 11 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]

54. **INVESTMENTS - PROPERTY PORTFOLIO UPDATE**

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

Chairman,

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	15 December 2017
Title:	Governance: Administration update
Report From:	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:

- approve the updated Administration Strategy for publication
- agree employers to sign the Dying to Work charter if they wish to do so
- note the performance information for the first 2 quarters of 2017/18

2. Executive Summary

2.1. The purpose of this paper is to update the Panel and Board on pensions administration in the first six months of 2017/18 (together with an analysis of employer performance for the same period), to approve the updated Administration Strategy, and to set out the Dying to Work Charter and agree to publicise it with Fund employers.

2.2. Pensions Services met the statutory deadline for producing annual benefit statements for over 50,000 members. Pension savings statements for members who exceeded the HMRC annual allowance were also sent out by the statutory deadline.

2.3. At the last meeting, the Panel and Board approved for consultation, an updated Administration Strategy. The consultation closed on 1 December and the Panel and Board are now asked to approve the final Strategy for publication.

2.4. Some employers have asked for the administering authority's view on the 'Dying to Work' charter. This is a voluntary commitment from employers which allows them to keep terminally ill staff employed so that their families will benefit from a higher death grant lump sum.

3. Performance against Service Standards (KPIs)

3.1. The KPIs for Pensions evidence the continuing strong performance in 2017/18. The tables below show that service standards were met for 100% of casework in the key areas over the last six months.

Quarter 1 2017/18

	Time to Complete							
Type of case	**0-5 days**	**6-10 days**	**11-15 days**	**16-20 days**	**20-40 days**	**40 days plus**	**Total**	**On target?**
Retirement	261	71	67	2	0	0	401	100%
Deferred Retirement	106	124	118	6	0	0	354	100%
Estimate	480	103	235	47	0	0	865	100%
Deferred	372	823	648	58	55	0	1,956	100%
Transfer out	148	61	5	0	0	0	214	100%
Transfer In	74	29	15	2	0	0	120	100%
Divorce	28	50	20	1	0	0	99	100%
Refund	989	175	15	0	0	0	1,179	100%
Rejoiners	133	6	1	0	0	0	140	100%
Interfunds	34	6	1	0	0	0	41	100%
Death	162	26	9	8	0	0	205	100%
Grand Total							**5,574**	

Quarter 2 2017/18

		Time to Complete						
Type of case	**0-5 days**	**6-10 days**	**11-15 days**	**16-20 days**	**20-40 days**	**40 days plus**	**Total**	**On target?**
Retirement	177	92	28	1	0	0	298	100%
Deferred Retirement	88	144	56	1	0	0	289	100%
Estimate	386	100	153	48	0	0	687	100%
Deferred	180	340	563	454	343	0	1,880	100%
Transfer out	132	21	7	0	0	0	160	100%
Transfer In	76	15	16	5	0	0	112	100%
Divorce	45	59	8	2	0	0	114	100%
Refund	1,428	289	29	13	0	0	1,759	100%
Rejoiners	103	27	46	0	0	0	176	100%
Interfunds	57	21	3	0	0	0	81	100%
Death	113	40	12	6	3	0	174	
Grand Total							**5,730**	

3.2. In addition to the casework, annual benefit statements for 97.5% of members were produced by the statutory deadline of 31 August. The remaining 2.5% of members had an outstanding employer query at the deadline, and approximately 2% of these were subsequently identified as leavers and therefore not due a statement.

3.3. Pension savings statements were produced for all members who exceeded the HMRC annual allowance for 2016/17 by the statutory deadline of 6 October 2017. Following the identification of some errors and feedback on the content of the letters, improvements to the process have been identified and will be implemented for the 2017/18 statements.

4. End of year processes and employer performance

4.1. Employers have to complete an annual return and submit it to Pensions by 30 April. This data is used to update pension records with current pay information and is subsequently used to produce annual benefit statements.

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

- 95 out of 320 employers were assessed as meeting all 3 areas
- 2 employers were marked as a major fail in all 3 areas.

Annual return – Employer performance summary

	Return received before deadline	**Return received between 1 May and 31 May**	**Return received more than 1 month late**
Timeliness	215	90	15
	No reconciliation issues	**Minor reconciliation issues/quickly resolved**	**Major reconciliation issues and/or slow/failed to respond**
Financial control	185	123	12
	Data quality good	**Minor data quality issues(less than 5% of membership)/quickly resolved**	**Major data quality issues (more than 5% of membership) and/or slow/failed to respond**
Data quality	178	72	70

4.3. Following the end of year process analysis, the following actions have been taken:

- a letter has been sent to the high level contact for all employers who were assessed as red in 1 or more areas, to draw their attention to the failure
- employers who were assessed with 'major data quality issues' have been asked to carry out a 'Data Validation Exercise'. This requires the employer to check the current data held by Pensions against their own records to ensure that they are up to date with notifications or else to put in place actions to correct their position.

- Face to face meetings with all large employers, and with those employers with outstanding queries from previous years, will be held by the end of the year to discuss the next year's return and any known issues.

4.4. As part of the data validation exercise, employers are asked to complete a declaration. The comments received from employers on these declarations will be fed back through the next Pension Fund Panel and Board meeting

5. Administration Strategy

5.1. At the last meeting, the Panel and Board approved an updated Administration Strategy for consultation with employers. The consultation period ended on 1 December 2017 and one response was received, which was asking for clarification on three minor points. As a result of this response, a minor change has been made in the detail of the employer service standards.

5.2. The final version of the Administration Strategy is shown in Appendix 1 (with the additional change in paragraph 5.1 highlighted for information on page 9).

5.3. A further additional change is recommended to the Administration Strategy in relation to the delegated authority level for approval of the Administering Authority's discretion in relation to deciding to whom a death grant is paid; this change did not form part of the consultation, but is a change which the Administering Authority is recommending, and is not one which directly impacts Employers.

5.4. The proposed change to the delegated authority for determining to whom a death grant is paid is from 'Team Manager - Operations' to 'Head of Pensions'. This change is shown on Appendix C, page 16, discretion number 16. This will provide for additional scrutiny and oversight of the Administering Authority's exercise of this discretion.

5.5. The Panel and Board are asked to approve Appendix 1 as the final version for publication alongside the Fund's other statutory statements.

6. Ongoing employer performance

6.1. In addition to the analysis of employer performance as part of the annual return process, performance is measured each quarter to identify employers who have not met the standards set out in the Administration Strategy. Employers are asked to provide a comment if they have not met the standards in the quarter. The performance tables for the first two quarters of 2017/18 are shown in Appendix 2

6.2. However, some of the limitations of the current monitoring have now been addressed through the changes to the Administration Strategy. The measurement and reporting of performance will be reviewed in light of these changes, with the new version included in the next administration update report.

7. Dying to Work Charter

7.1. The TUC have launched a voluntary charter called Dying to Work which sets out the treatment of terminally ill employees by employers. One of the principles of the charter is that employers will continue to employ staff so that their families will benefit from death in service benefits rather than the employee taking ill health retirement.

7.2. The charter formalises the approach already taken by most employers who request Pensions to estimate benefits under both death in service and ill health so that they can allow the employee to take the most beneficial option.

7.3. A number of employers have approached Pensions Services to ask if they can sign up to this charter, and whether it will impact on their pension contributions. Ill health and death in service costs are shared across all employers in the Fund to maintain affordability and stability of contributions, so signing the charter will not affect individual employers. However it is important that there is a consistent approach across the Fund. It is unlikely that the charter itself will increase these types of costs to the Fund, but this will be assessed at the next valuation.

7.4. It is therefore proposed that the Dying to Work charter is publicised in the next employer newsletter so that employers know that they can sign up to it if they wish to do so, with the proviso that the actuary can certify additional contributions if a particular employer’s experience is materially out of line with the rest of the Fund.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: **an action is required by the Pension Fund Panel and Board as the Administering Authority for the Hampshire Pension Fund.**	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

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 disproportionally low.

1.1. **Equalities Impact Assessment:**

1.2. 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:

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

No specific impact.

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

3.3. No specific impact.

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

Hampshire Pension Fund
administered by

Hampshire
County Council

Hampshire Pension Fund Administration Strategy

1 Introduction

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

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

1.3 This strategy statement:

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

2 Pension Administration Strategy

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

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

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

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

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

3 Roles and responsibilities

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

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

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

4 The Regulations – effect on strategy

4.1 This strategy sets out certain duties and responsibilities.

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

4.2 This agreement is based on:

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

5 Definitions

5.1 For the purpose of this Administration Agreement:

- "***Administering Authority***", 'Hampshire Pension Fund (HPF) and the Fund means Hampshire County Council;
- "***Employing authority***" or ***"employer"*** means an employer within the Hampshire Pension Fund; and
- ***"Scheme***" means the Local Government Pension Scheme, and
- ***"The Panel"*** means the Hampshire Pension Fund Panel and Board'

6 Communication

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

6.2 HPF routinely provides information and resources for employers using

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

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

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

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

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

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

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

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

7 Performance measurement and reporting

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

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

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

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

8 Costs

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

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

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

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

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

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

9 Penalties

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

- Where payment over of contributions is late more than once in any 12 month period, HPF will issue the employer with a written notice of unsatisfactory performance and may charge interest on the late payment at a daily rate equal to the Bank of England's base rate plus 1%
- Persistent failure to comply with contributions payment requirements will result in HPF informing The Pensions Regulator as required of Scheme Administrators by the Pensions Act 2004.
- Where the employer fails to comply with their scheme duties, including failure to pay contributions due, HPF reserves the right to notify the member(s) involved and to notify all members employed by the employer in the event of serious or persistent failure.
- If additional and disproportionate resources are deployed by HPF because of an employer's poor performance, the cost of the additional resources may be re-charged to the employer according to powers available under scheme regulations. Written notice will be given of the reasons for the re-charge, how the cost was calculated, and the part of this statement which, in HPF's opinion, was contravened.
- Where orders or instructions issued by The Pensions Regulator, the Pensions Ombudsman or other regulatory body require financial compensation or a fine to be paid by HPF, or by

any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the employer, the sum concerned will be recharged to the employer.

- Where, as a result of the employer's failure to notify HPF of the final retirement details in a timely manner, payment of any retirement lump sum is not made within 30 days from the date of the member's retirement, HPF may issue the employer with a written notice of unsatisfactory performance and may charge the employer for the interest payment made.
- Where it is proven that the employer is not responsible for any fine or penalty imposed by The Pensions Regulator or any other statutory body as a result of non-compliance of this Service Level Agreement, any such charge will automatically default to HPF.
- From time to time, HPF offer training and support to employers through 'Employer Days' and workshops. There is no charge made to an employer for attending this event, however HPF reserves the right to charge a late cancellation fee of £100 + VAT, where at least one week's notice has not been given of non attendance.

10 Hampshire Pension Fund contacts

Member and general employer queries
Pensions customer support team 01962 845588 pensions@hants.gov.uk Website www.hants.gov.uk/finance/pensions
Technical employer queries
Employer services team servdev.pensions@hants.gov.uk
End of year and associated matters
Employer services team pensions.eoy@hants.gov.uk

Appendix A - Employer Responsibilities

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

Employer responsibility	**Timescale**
Decide who is eligible to become a member of the LGPS and the date from which membership of the LGPS starts). Notify HPF of the new member details and provide employee with details of the pension scheme.	Within 10 working days following the end of the month in which the employee joined the LGPS.
Determine the rate of employee contributions to be deducted from the employee's pensionable pay and, where the employee holds more than one post, the rate that should be applied to each post. This should be reviewed at least annually or more often where employer policy states	For the first pay period in which the employee joins the LGPS
Move employees into the 50:50 section Provide an amendment form to advise of change to/from 50:50 section	From the next pay period after receiving the employee's request Within 10 working days following the change
Collect and pay to the HPF the deduction of, the correct rate of pension contributions payable by the employee and the employer, including any additional employee contributions of any kind.	Payment over to HPF by 19th of the month following deduction (22nd if electronic)
Complete monthly remittance form containing detail of the contributions payment.	Send to Pensions Services with payment of contributions every month
Collect and pay over AVC contributions to the specified AVC provider in accordance with statutory timescales Notify HPF of a member's election to pay, vary or cease AVCs.	Payment over to AVC provider by 19th of the month following deduction (22nd if electronic)
Refund contributions through the payroll to any employee who opts out of the scheme with less than 3 months membership. Notify HPF of opt out and refund through payroll by providing a copy of the opt out form	From the next pay period after receiving the employee's request to opt out Within 10 working days following the end of the month in which the employee left the scheme

Employer responsibility	Timescale
Calculate assumed pensionable pay for any employees who met this requirement under the regulations.	As required
Leavers (excluding retirements/casuals) When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 10 working days following the end of the month in which the employee was last paid
Leavers (casuals) When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 10 working days following the end of the month the employer is aware they have left or were last paid
Retirements When an employee's LGPS membership ends on the grounds of retirement, determine the reason for retirement and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 20 working days before an employee's retirement date
Use an independent registered medical practitioner qualified in occupational health medicine in determining requests for ill health retirement.	As required
Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.	In accordance with regulations and then regular review. Notify HPF and members of any changes to those policies within one month of setting a policy and the changes taking effect.
Appoint a person to consider applications from members regarding decisions, acts or omissions and to decide on those applications.	On entry to the HPF and review as required
Provide annual information to HPF with full details of the contributions paid by members in the year. Respond to queries on the annual return raised by HPF.	By 30 April each year Respond to queries within 10 working days of receipt
The employer will maintain employment records for each member for the purposes of determining membership and entitlement to benefits. The employer must keep a full pay history for the 13 years, ending 31 March, before the member leaves the scheme.	As required

Employer responsibility	**Timescale**
Notify HPF of a member's death and next of kin's details.	Within five working days of the member's death.
Supply details required for completion of an estimate.	Within 10 working days of the member's request
Distribute annual benefit statements and any other notifications to active members as requested by HPF.	Within 20 working days of receipt
Notify HPF of any TUPE transfer. Complete TUPE forms for each member transferring.	Notify HPF of the transfer as soon as possible in advance of the transfer date. Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place.
Notify HPF of any outsourcing arrangements which impact on employees eligible to the LGPS Where an admission agreement is required, the Scheme employer should complete an 'Outsourcing data capture' form, transferring 'staff data capture' form and 'Undertaking of costs' form Ensure admission agreement is finalised Provide individual TUPE forms for transferring staff to HPF	As soon as possible but no later than 20 working days before change As soon as possible but no later than 20 working days before change No later than date of transfer Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place

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

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Appendix B - HPF Responsibilities

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

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

HPF responsibility	**Timescales**
Invest pension contributions and account for and manage the Pension Fund's assets.	Daily.
Allocate all contributions submitted by the employer to their respective income codes and reconcile the total contributions paid on a yearly basis.	Annually.
Appoint Additional Voluntary Contributions provider(s).	As required.
Appoint an actuary for the purposes of the triennial valuation of the Fund and to provide periodical actuarial advice when required.	As required, in line with procurement provisions.
Provide accurate, timely data to the Fund actuary.	As required.
Correspond with and commission any information required of the Fund Actuary on behalf of the employer.	As required.
Arrange for the triennial valuation of the Pension Fund and provide the employer with a copy of the valuation report and the annual report and statement of accounts.	Every three years.
Arrange for the annual accounting report to be provided to all employers requiring such a report.	Annually.
Publish and review the Pension Fund's Policies and Funding Strategy Statement, and prepare annual report and accounts.	Annual review and publication.
Notify the employers of any significant changes to: • Regulations that might affect members in their employ; • policies made by the administering authority under the Regulations; or • procedures adopted by it in accordance with this strategy. Advice will be given to the employers in respect of matters arising from the interpretation and implementation of the Regulations.	As required.
Maintain a complaints procedure including the appointment of a specified person to act as a local referee at Stage 2 of the dispute process.	As required.

HPF responsibility	**Timescales**
Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.	In accordance with regulations and then regular review. Notify employers and members of any changes to those policies within 30 working days of the changes taking effect.
Answer enquiries made by members	Within 5 working days or sooner where possible Where an enquiry will take longer than 5 days to resolve, HPF will notify the member and keep the member updated.
Set up a record for each new member and issue a statutory notification.	Within 20 working days from when notified of their membership.
Issue annual benefit statements on member self service to active members or via their employer where written notification is received to opt out of member self service	By 31 August after relevant annual return information from the employer is received and uploaded
Provide an estimate of pension benefits on request from the employer, and details of any capital costs to be paid by them.	Within 15 working days of receipt of all relevant information
Amend a member's record.	Within 15 working days from when the change was notified.
Calculate benefits due when a member leaves employment and send details to the member.	Within 15 working days for retirements, or within 40 working days for deferred benefits, on receipt of all information needed to make the final calculation
Send a benefit statement to all deferred members showing the accrued benefits to the date of leaving and the other options available to them in accordance with the Regulations.	Annually by 31 August

HPF responsibility	Timescales
Pay retirement lump sums.	Within 10 days of the retirement date or of receipt of all information from the employer and member if later.
Provide details of the final capital costs to be paid by the employer into the Pension Fund.	Within 10 working days of completing the calculation.
Calculate and process transfers of members' pension rights inwards and outwards.	Within 15 working days of receipt of all information
Acknowledge in writing the death of a member.	Within 5 working days of being notified of the death.
Supply survivor beneficiaries with notification of their entitlements including the method of calculation.	Within 15 working days of all the information being received.
Pay any death grant due and set up dependant on pensioner payroll.	Within 10 working days of completing the calculation of entitlement
Apply pensions increases annually to the relevant pensions in payment and deferred pensions retained in the Fund in accordance with the Pensions Increase (Review) Order issued by the Government.	Annually

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Appendix C – Administering Authority discretions and delegated authority for approval

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

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

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

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

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

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

	Discretion	Regulation	Policy	Delegated authority for approval
34.	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	**R**83 **A**52A	HPF will decide who should receive payment of benefits, based on the circumstances of the individual case.	Head of Pensions
35.	Date to which benefits shown on annual benefit statement are calculated.	**R**89(5) **L**106A(5)	HPF uses 31 March, but will revise this if regulatory requirements, administrative efficiency or best practice demand it.	N/A
36.	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS.	**R**100(68)	HPF will not extend the 12 month limit, except if warranted by the individual circumstances of the case.	Head of Pensions
37.	Allow transfer of pension rights into the Fund.	**R**100(7)	HPF will allow transfers into the Fund.	N/A
38.	Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member. Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08.).	**TP**3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) **T**Sch 1 **L**23(9) **B**10(2)	HPF will choose the pay figure that would yield the highest overall level of benefits for beneficiaries.	Team Manager - Operations
39.	Decide to treat child as being in continuous education or vocational training despite a break.	**R**Sch 1 & **TP**17(9) **B**39 **T**14(3)	HPF will treat a child as being in continuous education or vocational training despite a break.	N/A
40.	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	**R**Sch 1 & **TP**17(9)(b) **B**25	HPF will decide the evidence required to determine financial dependence, based on guidance and best practice. For most cases, utility bills, bank statements or mortgage documentation in joint names will be accepted.	Team Manager - Operations

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

	Discretion	Regulation	Policy	Delegated authority for approval
49.	Whether acceptance of AVC election is subject to a minimum payment (councillors only).	**L**60(5)	HPF does not set a minimum payment threshold for AVCs	N/A
50.	Timing of pension increase payments by employers to fund (pre 1.4.08. leavers).	**L**91(6)	Employer payments are paid monthly on account, with an annual balancing charge after the year end.	N/A
51.	Retention of CEP where member transfers out (councillors and pre 1.4.08. leavers).	**L**118	CEP will be paid with transfers out rather than being retained in the Fund.	N/A
52.	Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1.4.08. Pension Sharing Orders for non-councillor members).	**L**147	HPF will discharge its liability by conferring pension credit rights on the person entitled to the pension credit.	N/A
53.	Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98. (rather than ceasing during any period of remarriage or co-habitation).	F7	HPF will pay spouse's LGPS pensions for life.	N/A
54.	Agree to pay annual compensation on behalf of employer and recharge payments to employer.	**DC**31(2)	HPF will pay compensation on behalf of an employer, subject to acceptable recharge arrangements.	Head of Pensions

Key to regulations:

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

Employer performance 2017/18

The tables below show the performance of employers against the service standards for notification of deaths, retirements and deferred benefits in the first six months of 2017/18.

Notification of deaths in service – Quarter 1 and Quarter 2

Q1

Employer	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	Total
Hampshire County Council	1	1	0	1	0	0	0	0	0	3
Basingstoke and Deane Borough Council	1	0	0	0	0	0	0	0	0	1
Southampton City Council	0	0	1	0	0	0	0	0	0	1
Eastleigh Borough Council	1	0	0	0	0	0	0	0	0	1
Portsmouth University	0	0	0	0	1	0	0	0	0	1
Southampton Solent University	0	0	0	1	0	0	0	0	0	1
St Vincent College	0	0	1	0	0	0	0	0	0	1
										0
										0
	3	1	2	2	1	0	0	0	0	9

Q2

Employer	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	Total
Hampshire County Council	1	2	0	1	0	0	0	0	0	4
Basingstoke and Deane Borough Council	1	0	0	0	0	0	0	0	0	1
East Hampshire District Council	1	0	0	0	0	0	0	0	0	1
New Forest District Council	0	1	0	0	0	0	0	0	0	1
Southampton City Council	0	1	0	0	0	0	0	0	0	1
Arundel Court Primary (UCAT)	0	0	0	1	0	0	0	0	0	1
	3	4	0	2	0	0	0	0	0	9

Quarter 1 Retirements

Days - / + retirement date	<-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	Total
Age Concern Hampshire	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%	
		0%			0%			0%				100%	
Capita (SCC Schools)	0	0	1	0	0	1	0	1	0	0	0	1	4
	0%	0%	25%	0%	0%	25%	0%	25%	0%	0%	0%	25%	
		0%			25%			50%				25%	
Edwards and Ward (Test Valley)	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%	
		0%			0%			0%				100%	
Hampshire County Council	0	0	1	12	5	25	19	22	10	1	1	6	102
	0%	0%	1%	12%	5%	25%	19%	22%	10%	1%	1%	6%	
		0%			18%			65%				18%	
Hampshire Constabulary (LGPS)	0	1	2	1	1	2	1	4	1	2	0	0	15
	0%	7%	13%	7%	7%	13%	7%	27%	7%	13%	0%	0%	
		7%			27%			47%				20%	
New Forest District Council	2	2	7	0	0	1	0	0	1	0	0	0	13
	15%	15%	54%	0%	0%	8%	0%	0%	8%	0%	0%	0%	
		31%			54%			8%				8%	
Portsmouth City Council	0	13	3	1	1	1	2	0	0	0	0	1	22
	0%	59%	14%	5%	5%	5%	9%	0%	0%	0%	0%	5%	
		59%			23%			14%				5%	
Portsmouth University	4	5	0	0	2	0	0	0	0	0	0	0	11
	36%	45%	0%	0%	18%	0%	0%	0%	0%	0%	0%	0%	
		82%			18%			0%				0%	
Southampton City Council	1	7	7	2	0	4	2	2	1	0	0	0	26
	4%	27%	27%	8%	0%	15%	8%	8%	4%	0%	0%	0%	
		31%			35%			31%				4%	
Southampton Solent University	0	0	0	0	0	1	1	1	0	0	0	0	3
	0%	0%	0%	0%	0%	33%	33%	33%	0%	0%	0%	0%	
		0%			0%			100%				0%	
St John's College	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%	
		0%			0%			0%				100%	
The University of Winchester	0	1	0	0	0	0	0	0	0	0	0	1	2
	0%	50%	0%	0%	0%	0%	0%	0%	0%	0%	0%	50%	
		50%			0%			0%				50%	
Wyvern Academy	0	0	0	0	1	0	1	0	0	0	0	1	3
	0%	0%	0%	0%	33%	0%	33%	0%	0%	0%	0%	33%	
		0%			33%			33%				33%	

Quarter 2 Retirements

Days - / + retirement date	<-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	Total Total
Hampshire County Council	0	0	6	20	14	16	14	16	7	3	1	3	100
	0%	0%	6%	20%	14%	16%	14%	16%	7%	3%	1%	3%	
		0%			40%			46%				14%	
Test Valley Borough Council	0	0	0	1	1	0	0	1	1	1	0	0	5
	0%	0%	0%	20%	20%	0%	0%	20%	20%	20%	0%	0%	
		0%			40%			20%				40%	
Southampton City Council	0	6	2	3	1	1	4	1	1	1	0	0	20
	0%	30%	10%	15%	5%	5%	20%	5%	5%	5%	0%	0%	
		30%			30%			30%				10%	
Portsmouth City Council	0	12	0	1	1	0	0	1	0	1	2	0	18
	0%	67%	0%	6%	6%	0%	0%	6%	0%	6%	11%	0%	
		67%			11%			6%				17%	
Age Concern Hampshire	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%	
		0%			0%			0%				100%	
Southampton Solent University	0	1	0	0	0	2	15	1	1	0	0	0	20
	0%	5%	0%	0%	0%	10%	75%	5%	5%	0%	0%	0%	
		5%			0%			90%				5%	
Hampshire Constabulary (LGPS)	0	8	2	2	1	2	1	2	1	0	0	0	19
	0%	42%	11%	11%	5%	11%	5%	11%	5%	0%	0%	0%	
		42%			26%			26%				5%	
Capita Hart (ex Hart DC)	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%	
		0%			0%			0%				100%	
SCC Schools (Capita)	0	2	0	0	0	1	1	0	1	0	0	0	5
	0%	40%	0%	0%	0%	20%	20%	0%	20%	0%	0%	0%	
		40%			0%			40%				20%	
UCAT - Frogmore Junior Academy	0	0	0	0	0	0	0	0	0	0	1	0	1
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	
		0%			0%			0%				100%	
Hampshire Cultural Trust (WCC)	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%	
		0%			0%			0%				100%	
Aramark	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%	
		0%			0%			0%				100%	
Capita Southampton Ltd	0	0	0	0	0	0	0	0	1	1	0	0	2
	0%	0%	0%	0%	0%	0%	0%	0%	50%	50%	0%	0%	
		0%			0%			0%				100%	

Quarter 1 Deferred benefits

(only measured for those employers who failed to meet death and/or retirement standards)

Days - / + leaving date	<-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	91 to 180	181 to 365	+365	Total
Age Concern Hampshire	0	0	0	0	0	0	0	1	0	0	0	1	0	0	2
	0%	0%	0%	0%	0%	0%	0%	50%	0%	0%	0%	50%	0%	0%	
		0%			0%			50%						50%	
Capita (SCC Schools)	0	0	0	1	0	0	0	0	1	2	1	5	3	2	15
	0%	0%	0%	7%	0%	0%	0%	0%	7%	13%	7%	33%	20%	13%	
		0%			7%			0%						93%	
Hampshire County Council	1	0	0	1	2	1	3	11	104	37	34	119	13	14	340
	0%	0%	0%	0%	1%	0%	1%	3%	31%	11%	10%	35%	4%	4%	
		0%			1%			4%						94%	
Hampshire Constabulary (LGPS)	0	0	0	0	0	0	0	1	0	0	10	2	0	0	13
	0%	0%	0%	0%	0%	0%	0%	8%	0%	0%	77%	15%	0%	0%	
		0%			0%			8%						92%	
New Forest District Council	0	0	0	1	0	2	1	15	12	2	1	1	2	1	38
	0%	0%	0%	3%	0%	5%	3%	39%	32%	5%	3%	3%	5%	3%	
		0%			3%			47%						50%	
Portsmouth City Council	0	0	1	1	1	2	0	3	6	11	71	62	4	1	163
	0%	0%	1%	1%	1%	1%	0%	2%	4%	7%	44%	38%	2%	1%	
		0%			2%			3%						95%	
Portsmouth University	0	2	0	1	1	4	0	10	1	2	3	1	1	0	26
	0%	8%	0%	4%	4%	15%	0%	38%	4%	8%	12%	4%	4%	0%	
		8%			8%			54%						31%	
Southampton City Council	0	0	1	0	0	3	2	1	1	0	5	5	9	6	33
	0%	0%	3%	0%	0%	9%	6%	3%	3%	0%	15%	15%	27%	18%	
		0%			3%			18%						79%	
Southampton Solent University	0	0	0	0	0	2	1	1	5	1	0	3	16	1	30
	0%	0%	0%	0%	0%	7%	3%	3%	17%	3%	0%	10%	53%	3%	
		0%			0%			13%						87%	
St John's College	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1
	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%	0%	0%	
		0%			0%			100%						0%	
St Vincent College	0	0	0	0	0	0	0	3	1	0	0	0	3	0	7
	0%	0%	0%	0%	0%	0%	0%	43%	14%	0%	0%	0%	43%	0%	
		0%			0%			43%						57%	
The University of Winchester	0	0	0	0	0	0	0	0	1	1	0	7	6	0	15
	0%	0%	0%	0%	0%	0%	0%	0%	7%	7%	0%	47%	40%	0%	
		0%			0%			0%						100%	
Wyvern Academy	0	0	0	0	0	1	1	1	0	0	0	0	6	0	9
	0%	0%	0%	0%	0%	11%	11%	11%	0%	0%	0%	0%	67%	0%	
		0%			0%			33%						67%	

Quarter 2 Deferred benefits

(only measured for those employers who failed to meet death and/or retirement standards)

Days - / + leaving date	<-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	91 to 180	181 to 365	+365	Total
Hampshire County Council	0	0	0	0	1	6	1	78	204	215	165	355	161	17	1203
	0%	0%	0%	0%	0%	0%	0%	6%	17%	18%	14%	30%	13%	1%	
		0%			0%			7%						93%	
Test Valley Borough Council	0	0	0	0	1	0	0	0	2	1	0	1	0	0	5
	0%	0%	0%	0%	20%	0%	0%	0%	40%	20%	0%	20%	0%	0%	
		0%			20%			0%						80%	
Southampton City Council	0	0	0	0	0	2	0	0	5	6	12	46	87	7	165
	0%	0%	0%	0%	0%	1%	0%	0%	3%	4%	7%	28%	53%	4%	
		0%			0%			1%						99%	
Portsmouth City Council	0	0	0	0	0	0	0	3	2	10	47	7	3	2	74
	0%	0%	0%	0%	0%	0%	0%	4%	3%	14%	64%	9%	4%	3%	
		0%			0%			4%						96%	
Age Concern Hampshire	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	
		0%			0%			0%						100%	
Test Valley Borough Council	0	0	0	0	1	0	0	0	2	1	0	1	0	0	5
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	
		0%			0%			0%						100%	
Hampshire Constabulary (LGPS)	0	4	2	0	9	44	13	30	28	27	20	39	26	5	247
	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%	0%	0%	0%	
		0%			0%			100%						0%	
SCC Schools (Capita)	0	1	0	0	2	59	6	12	5	12	14	37	81	10	239
	0%	0%	0%	0%	1%	25%	3%	5%	2%	5%	6%	15%	34%	4%	
		0%			1%			32%						67%	
Hampshire Cultural Trust (WCC)	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1
	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%	0%	0%	0%	0%	
		0%			0%			100%						0%	
Aramark	0	0	0	0	0	0	0	0	0	1	0	1	0	0	2
	0%	0%	0%	0%	0%	0%	0%	0%	0%	50%	0%	50%	0%	0%	
		0%			0%			0%						100%	
Capita Southampton Ltd	0	0	0	0	0	0	0	0	2	1	0	0	0	0	3
	0%	0%	0%	0%	0%	0%	0%	0%	67%	33%	0%	0%	0%	0%	
		0%			0%			0%						100%	

Employer comments

Employer responses – April 2017 to September 2017		
Havant Councillors (C0325)	18/05/2017	As you know, we don't usually have any late submissions and are pretty much on top of everything pensions wise. This was just a one off oversight and I can only apologise. I think it was only due to the fact that it was a Councillor that was forced to leave (i.e. the scheme doesn't accept Cllrs anymore) that perhaps we didn't think logically about it. All of our leaver forms for any staff have many boxes regarding pensions to tick to ensure nothing is missed in the leavers process, but as this was a Councillor it is a slightly different procedure, but as no further Councillors will ever be in the scheme, this shouldn't ever happen again.
Portsmouth City Council (00323)	10/11/2017	I always prioritise the critical leavers i.e. retirements/redundancies/ill health/death in service. To help us with the normal deferments we are offering overtime, and we are looking into customising and automating part of the leavers form process to speed it up.
Hampshire County Council (00001)	16/11/2017	Hampshire County Council has been working closely with Pension Services to improve performance over the last few years, which is reflected by the fact that for 2015/16 there were 2,500 outstanding end of year queries and for 2016/17 there were 1,100 all of which have been cleared as at the end of October. We submitted all of our year end returns and reconciliations on time and have developed a more automated basis for providing leaver information. In terms of notifications, the performance data is currently presented in a way that makes the County Council's performance look worse than it is. We have an agreed process with Pension Services on when information is provided, relative to payroll runs and we perform well against this measure, but unfortunately this is out of alignment with the current basis of reporting to the Panel and Board. However we understand that the revised admin. strategy addresses this anomaly and our actual performance will be easier to measure in the future. We have also been liaising with Pension Services on a mid-year reconciliation exercise, which is expected to significantly reduces the number of queries at year end. Given the size of the County Council it will never be possible to eradicate all queries, but with the changes we have been implementing and the significant improvement in working relationships and liaison we expect the current positive direction of travel to continue.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	15 December 2017
Title:	Governance: Funding Strategy Statement and Employer Policy
Report From:	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 approve for consultation, the changes to the Funding Strategy Statement and Employer Policy.

2. Executive Summary

2.1. The purpose of this paper is to seek approval from the Panel and Board for proposed changes to the Funding Strategy Statement (FSS) and Employer Policy in relation to the treatment of wholly owned companies and funding targets for new admission bodies.

2.2. Employers will be consulted on the proposed changes in the new year and a final version of the FSS and Employer Policy will be brought back to the Panel and Board at the next meeting in March 2018.

2. Contextual information

2.1. The Funding Strategy Statement (FSS) describes the Fund's processes by which employer's pension liabilities are met and contribution rates are set. The Fund must keep this statement under review and, after consultation with appropriate people, make revisions to reflect any material changes in policy.

2.2. The purpose of the Employer Policy is to set out the Fund's policies and procedures in the treatment of employers including the admission and exit of employers, and is designed to be read in conjunction with the FSS.

2.3. Both of these documents need to be updated so that they clearly set out the treatment of wholly owned companies in the Fund. Additionally, the Fund actuary has advised that a change is needed in the approach used to set funding targets for new short term admitted bodies because of inconsistencies between the calculation of the contribution rate and the exit valuation.

3. Wholly owned companies

3.1. Several employers have approached Pensions Services to understand the pension implications if they were to set up wholly owned companies. Although there is already one wholly owned company in the Fund, there is no formal policy in place which addresses the treatment of these type of employers.

3.2. Under the LGPS regulations, wholly owned companies are Part 2, Schedule 2 employers, known as ‘designating’ employers. These employers have a right to be a scheme employer and can designate which of their employees can access the LGPS (unlike a Part 1, Schedule 2 employer who has to allow access to all its employees).

3.3. The regulations do not give the Administering Authority the same power to determine the terms of membership for a wholly owned company as it does for admitted bodies, and the regulations do not automatically place the controlling employer as a guarantor. Under the regulations, any outstanding liability associated with a wholly owned company would be spread across all employers in the Fund.

3.4. This risk therefore needs to be addressed through the FSS and Employer Policy to establish a higher contribution rate for the wholly owned company due to the greater risk it presents to the Fund and/or require the controlling employer to be the guarantor.

3.5. The policy also needs to give consideration to the circumstances of the employer setting up the company. This is because even though wholly owned companies can only access the LGPS if they are set up by a Part 1, Schedule 2 employer, these employers are not all considered to have the same risk profile and financial covenant.

3.6. In revising the Employer Policy to take account of wholly owned companies, the key principles are:

- in all cases, the controlling employer would be a guarantor to the wholly owned company
- the default arrangement would be for the wholly owned company to be a standalone employer, subject to the ongoing orphan funding target with an exit valuation on a low risk (gilts) basis
- to allow the use of the Scheduled Body Group funding target for companies set up by tax raising authorities who provide a subsumption commitment
- to allow ungrouped employers to pool with their wholly owned company so they share a funding target, provided this arrangement does not materially increase the risk to the Fund.

3.7. The revised Employer Policy is shown in Appendix 1, with changes highlighted on pages 3,5-6,8 and 10-12. The table in Appendix 2 sets out the intended outcome for some of the most likely scenarios in the Fund.

4. Funding targets for new admitted body employers

4.1. The Fund actuary has advised a change in the approach to setting funding targets for admitted body employers. The current policy allows most letting authorities to have the choice of whether the admitted body is placed on the ongoing orphan funding target (with an exit valuation carried out on the low risk gilts basis) or of offering a subsumption commitment (with the letting authority subsuming the assets and liabilities on exit). The main exception is for academies, where the outsourced employer is placed on the orphan funding target as the default because the new admitted body is not covered by the Department for Education guarantee.

4.2. Due to the historically poor performance of gilts, there is an emerging gap between the funding secured over the lifetime of the admitted body on the ongoing orphan funding target, and the low risk gilts exit position. This means that the assets notionally transferred at the start of the contract are insufficient to meet the liabilities at exit, and so the exit payment is larger than anticipated. Whilst this has not yet caused an issue, for example of a contractor refusing to pay, it is an unintended impact and should be mitigated.

4.3. To stop this situation occurring, the actuary is recommending that tax raising authorities are required to provide a subsumption commitment to their associated admitted bodies. There would be no change to the requirement for admitted bodies associated with academies to be on an orphan funding target. However if the academy still exists as a scheme employer at the end of the contract, subsumption can then be offered by the academy (and the extent to which the admitted body had overpaid would be reflected in the reduced exit payment).

4.4. The amended FSS which reflects this change is shown in Appendix 3 with changes highlighted on pages 2,3 and 4.

4.5. The situation with existing admitted employers on the ongoing orphan funding target will be addressed as a separate exercise, with the letting authority being given the option to offer a subsumption commitment or to manage expectations through communications with the admitted body.

5. Next steps

5.1. If the Panel and Board approve the changes to the FSS and Employer Policy, it is proposed that employers will be consulted on the changes in the new year, allowing a sufficient period for employers to understand the impact of the proposals.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because an action is required by the Pension Fund Panel and Board as the Administering Authority for the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

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 disproportionally low.

1.1. **Equalities Impact Assessment:**

1.2. 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:

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

No specific impact.

3.2. 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.

3.3. 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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Hampshire Pension Fund – Employer Policy

Contents

1. Background

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

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

1.3. This policy should be read in conjunction with the Hampshire Pensions Funding Strategy Statement.

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

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

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

2. Aims

2.1. Our aim is to minimise risk to the Fund by ensuring that the employers participating in the Fund are managed in a way that ensures they are able to adequately fund the liabilities attributable to them and, in particular to pay any deficit due when leaving the Fund. In managing this risk we will have regard to the aims of Hampshire Pensions Funding Strategy:
- to manage the employer's liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due,
- to enable primary contribution rates to be kept as nearly constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

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

3. Principles

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

3.2. As set out in the Funding Strategy Statement Scheduled body employers under Part 1 of Schedule 2 of the Regulations which are deemed to be secure public sector bodies and Town and Parish Councils under paragraph 2 or Part 2 of Schedule 2 will be part of the Scheduled body group. Decisions made by employers in the group must be in accordance with the group behaviours as set out in paragraph 4.1 below. Employers in the group will pay the same future service rate and share the funding risks of the group as set out in the Funding Strategy Statement.

3.3. Some existing Admitted bodies may be part of the Scheduled body group on the understanding that, where considered appropriate, a formal agreement will be put in place to protect the other grouped employers from the actions of the admission body and the effect of the admission agreement being closed to new entrants. The Administering Authority may remove those employers from the Group if satisfactory agreement cannot be reached or the terms of any agreement are not adhered to by the employers concerned.

3.4. Some existing Admitted body employers may be part of the Admitted body group.

3.5. Some employers will be in neither group and will be set an individual employer contribution.

3.6. Employers who are part of a group need to act in accordance with the group behaviours. The Fund will monitor the funding / membership experiences of the employers from time to time. If the Fund considers an employer is not acting in accordance with the group behaviours it will consider taking appropriate action which may include requiring the employer to pay additional contributions so the impacts of the decisions made by the employer do not adversely affect other employers in the group.

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

4. Responsibilities of employers in the Fund

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

Employers should have regard to the Hampshire Pension Fund administration strategy at all times.

Changes/mergers

4.2. All employers, whether Admission or Scheduled bodies, need to inform the Hampshire Pension Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution or mergers with other organisations or other decision which will or may materially affect the employer's Fund membership.

Admission agreements

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

5. Managing risk

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

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

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

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

6. New employers in the Hampshire Pension Fund

Admission bodies

6.1. Each Admitted body will be a stand alone body in the Fund with its own contribution rate.

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

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

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

All outsourcings

6.5. The Administering Authority will have discretion to amend the contribution the scheme employer pays where they make decisions to outsource services if it is considered that there will be significant or material number of employee members moving from the scheme employer to a new employer, relative to the size of the scheme employer. The aim will be to ensure the transfer does not increase the risk to the Fund or the Scheduled body group. Unless the circumstances dictate otherwise, the change in the scheme employer's contribution will generally be implemented as part of the next triennial valuation of the Fund when new contributions for all employers will be implemented.

Paragraphs 5 & 6, Part 2, Schedule 2 bodies

6.6. Unless any of the situations listed below apply, the default arrangement will be for the wholly owned company to be a stand alone employer subject to the ongoing orphan funding target. On exit, unless a subsumption commitment is in place, a low risk ("gilts") basis will be used to value the liabilities in accordance with the Funding Strategy Statement. In all cases any liabilities which the outgoing employer is unable to meet on exit will be assumed to pass to the related scheme employer, i.e. the scheme employer setting up the wholly owned company must provide a guarantee in relation to the liabilities of the wholly owned company.

6.7. If a wholly owned company is set up by a tax raising authority in the Scheduled Body Group, that employer can provide a subsumption commitment which will allow the company to be set up with the Scheduled Body Group funding target. The company will still be a stand alone employer with its own contribution rate.

6.8. If a wholly owned company is set up by an ungrouped Part 1 Schedule 2 employer the Fund will accept the scheme employer being pooled with its wholly owned company, provided the bodies share the same financial covenant and attributes, and the arrangement does not materially increase the risk to the Fund. This will allow the company to have the same funding target as the scheme employer. A parent company guarantee and subsumption agreement will need to be put in place for pooling to be acceptable to the Fund and the Administering Authority will reserve the right to review the contributions for the pool on the establishment of the wholly owned company.

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

6.10. Contribution rates for closed employers will be calculated using the attained age methodology (closed contribution rate) with a recovery period equal to future working life. This approach may also be taken for those employers where, in the opinion of the Administering Authority, access to the LGPS is being restricted. The Administering Authority will monitor the number of active members and in particular the number of new entrants in forming this opinion. If the scheme employer enters into a pooling arrangement with the wholly owned company under (3) above, but one of either the scheme employer or the wholly owned company is closed (or restricts access), the default position for the pool will be to use the attained age methodology with a recovery period equal to the future working lifetime. A period of transition or other easement may be agreed where the number of active members is expected to reduce only slowly over time and new entrants are still expected to be admitted to the group and, where in the Administering Authority's view, such period of transition or easement does not constitute a material risk to the Fund/other employers.

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

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

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

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

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

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

Town and Parish Councils

6.17. Town and Parish Councils joining the Fund will automatically join the Scheduled body group.

6.18. When a Town or Parish Council designates to join an employee to the Fund, they have no current active members and are not currently subject to a suspension notice (see section 12 below), a standard employer rate equal to the prevailing future service rate of the Scheduled body group (currently 14% of pay, increasing to 16.9% of pay with effect from 1 April 2017) will be payable until the contributions from the next triennial valuation come into force.

Academies

6.19. Schools and colleges converting to academy status will retain the position in the Fund held by the former establishment. This means that an academy created from the conversion of an LEA school will be part of the Scheduled body group. An academy created from a 6th form college, or where there is no former establishment, will be a standalone employer in the Fund. A new free school will also become a standalone employer in the Fund.

6.20. Similarly new multi academy trusts (MATs) will become standalone employers in the Fund unless at the point of creation they wholly consist of former LEA schools (in which case the MAT will stay in the Scheduled body group). Academies which join a MAT will become part of that MAT. An exception may be made for a former LEA school which joins a MAT which is a standalone employer. The MAT can choose for the LEA school to remain part of the Scheduled body group. This will mean that the school continues to share the experience of the Scheduled body group and may pay a different contribution rate to the rest of the MAT.

6.21. The DfE guarantee extends to all academies and free schools, including those created from 6th form colleges. While this guarantee is in force, contribution rates for all academies will be set using the same risk basis as for the Scheduled body group, even if the academy or MAT is a standalone employer.

6.22. A MAT which participates in the Scheduled Body Group will be treated as a single employer in the Group and will receive a single contribution rate and fixed contribution amount. A single report will be provided for IAS19 and will not be split between the academies which are part of the MAT.

6.23. New academies that are formed from an LEA school will also be asked to take responsibility for a portion of the local education authority's deficit contributions in line with the proportion of pensionable payroll which is transferring from the local education authority to the academy. If an academy moves to a MAT, the MAT will become responsible for those deficit contributions in addition to its own.

6.24. Where academies outsource services or set up a wholly owned company and the new admission body or new Part 2 Schedule 2 body is not backed by a guarantee from the Department for Education or the Local Education Authority, the new employer will be treated as an ungrouped employer subject to the ongoing orphan funding target as set out in the Funding Strategy Statement.

7. Bonds and guarantors

Guarantor

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

7.2. Under The Local Government Pension Scheme Regulations 2013[1] every employer who outsources services becomes an ultimate guarantor for the pension liabilities of the new employer. It is the Administering Authority's policy that all wholly owned companies which participate in the Fund as Part 2 Schedule 2 bodies are guaranteed by the Part 1 Schedule 2 employer to which they are related.

7.3. In some circumstances, where the letting authority is not a tax raising authority the Fund will require a bond to be put in place to cover certain funding risks to the Fund on the advice of the Fund actuary.

7.4. The admission agreement ends if the new employer becomes an exiting employer[2]. The Fund will arrange for a valuation of the assets and liabilities of the exiting employer and, where appropriate, a revised rates and adjustment certificate.

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

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

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

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[1] Schedule 2, Part 3, 1(d)
[2] The Local Government Pension Scheme Regulations 2013 Part 2 , 64

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

Bond

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

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

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

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

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

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

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

8. Open or closed admission agreements

Open agreement

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

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

Closed agreement

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

8.4. Unless advised otherwise, we will assume the admission agreement is closed and there will be a default joining window of 6 months.

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

Designating employers

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

9. Funding targets

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

9.2. The presumption will be that the scheme employer will provide a "subsumption commitment" (i.e. be responsible for the future funding of the liabilities post-exit). This will automatically apply to the non-active liabilities of admission bodies in Part 3 paragraph 1(d)9i) of Schedule 2 which commenced in the Fund after 15 December 2017, i.e. these liabilities and any associated assets will be subsumed by the relevant Scheme employer. This should be confirmed in all other cases.

Orphan (gilts) funding target

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

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

9.5. To achieve this, as set out in the Funding Strategy Statement, when an exiting employer would leave orphaned liabilities, the administering authority will seek sufficient funding from the outgoing employer to match the liabilities with low risk investments, generally Government fixed-interest and index-linked bonds.

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

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

Scheduled Body Group funding target

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

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

9.10. Where the subsuming employer is a tax raising body or is deemed to be of similar covenant to a tax raising body the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer or group. Generally this will mean assuming continued investment in more risky investments than Government bonds. In other cases a more prudent funding target will apply, for example in relation to admission bodies following an outsourcing by an academy or other educational establishment where the admission body is not subject to a guarantee from the Department for Education or Local Education Authority, as set out in paragraph 6.22 above.

Intermediate funding target

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

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

10. Pass-through

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

10.2. New Admitted bodies will not be included in the scheduled body or admitted body group even if there is a pass-through arrangement in place between the letting authority and the admitted body.

11. Fully funded or share of fund

Fully funded

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

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

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

Share of fund

11.4. In exceptional circumstances and only where agreed between the employers the Fund may consider starting a new employer with a share of fund. The Fund will only agree to this where it doesn’t increase the risk to the Fund.

12. Exit from the Fund (terminations)

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

12.2. An exit valuation will be carried out when an employer becomes an "exiting employer", i.e. it :
- ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or
-no longer has an active member contributing towards the Fund

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

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

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

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

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

12.7. The Fund will pursue the body, any insurer providing a bond or any guarantor as appropriate but ultimately, if unsuccessful, the scheme employer will become liable for any outstanding costs. If there is no scheme employer (e.g. in relation to community admission bodies whose participation pre-dates the requirement for a guarantor), depending upon the circumstances the Scheduled Body Group may subsume the assets and liabilities, failing which they will fall to be funded by all employers in accordance with Regulation 64 (3)(b).

Town and Parish Councils

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

12.9. Given the unique nature of a Town or Parish Council, the Fund will not request an exit valuation immediately when the last member leaves as it may take some time to replace a member of staff and the Parish Council may wish to admit the new employers into the scheme. The Local Government Pension Scheme (Amendment) Regulations 2013 specifically introduced the power to suspend a demand for an exit payment for up to 3 years where the administering authority believes that the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. The Administering Authority considers that it would be appropriate to exercise that discretion in relation to Town and Parish Councils.

12.10. The Fund will issue written notice of the period of the suspension notice. The employer must continue to pay any deficit payments and the actuary will recalculate any deficit at the next valuation.

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[3] Provision 22

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Table of intended outcomes from proposed policy on wholly owned companies in the Hampshire Pension Fund

	Type of employer setting up a wholly owned company and nature of company	**Intended outcome under proposed policy**
	Ungrouped Schedule 2 Part 1 employer sets up a company which is closed to new members. Schedule 2 Part 1 employer transfers majority of its staff to the company.	Company will be permitted to enter a pool with the employer if they share financial covenant/attributes. Keep existing funding target but contribution rate calculated using attained age / recovery = future working life (unless there are good reasons to do otherwise – see above re a transition period/easement).*
	Ungrouped Schedule 2 Part 1 employer sets up a company which is open to new members. Schedule 2 Part 1 employer continues to employ majority of its staff directly.	Company will be permitted to enter a pool with the employer if they share financial covenant/attributes. Keep existing funding target and contribution rate calculated using projected unit method / same recovery period. Re-assess contribution rate and consider increasing if financial conditions suggest this is necessary*.
	Ungrouped Schedule 2 Part 1 employer with a DfE guarantee sets up a company which is closed to new members. Schedule 2 Part 1 employer transfers majority of its staff to the company.	Company is standalone with ongoing orphan target. Contribution rate calculated using attained age / recovery = future working life. Consider whether the contribution rate for the scheme employer should be re-assessed.
	Ungrouped Schedule 2 Part 1 employer with a DfE guarantee sets up a company which is open to new members. Schedule 2 Part 1 employer continues to employ majority of its staff directly.	Company is standalone with ongoing orphan target. Contribution rate calculated using projected unit method / same recovery period. Consider whether the contribution rate for the scheme employer should be re-assessed.*

	Type of employer setting up a wholly owned company and nature of company	Intended outcome under proposed policy
	Grouped Schedule 2 Part 1 employer sets up a company which is closed to new members. Schedule 2 Part 1 employer transfers majority of its staff to the company.	Company is standalone with Scheduled Body Group funding target if a subsumption commitment is in place. Contribution rate calculated using attained age / recovery = future working life (unless there are good reasons to do otherwise – see above re a transition period/easement). Consider whether the contribution rate for the scheme employer should be re-assessed – may depend upon whether the new employer is fully funded or is allocated assets on a share of fund basis.* Consider if the scheme employer still meets the criteria to remain in the Scheduled Body Group.
	Grouped Schedule 2 Part 1 employer sets up a company which is open to new members. Schedule 2 employer continues to employ majority of its staff directly.	Company is standalone with Scheduled Body Group funding target if employer is a tax raising authority and a subsumption commitment is in place (otherwise ongoing orphan). Consider whether the contribution rate for the scheme employer should be re-assessed – may depend upon whether the new employer is fully funded or is allocated assets on a share of fund basis.*
	Grouped academy/MAT sets up a company which is closed to new members. Academy/MAT transfers majority of staff to the new company.	Company is standalone with ongoing orphan target. Contribution rate calculated using attained age / recovery = future working life. Contributions for the scheme employer need to be re-assessed – LERP adjustment likely to be required in future if new employer is fully funded on the orphan basis*. Consider if the scheme employer still meets the criteria to remain in the Scheduled Body Group.
	Grouped academy/MAT sets up a company which is open to new members. Academy/MAT continues to employ majority of its staff directly.	Company is standalone with ongoing orphan target. Contribution rate calculated using projected unit method / same recovery period. Contributions for the scheme employer need to be re-assessed – LERP adjustment likely to be required in future if new employer is fully funded on the orphan basis*.

Funding Strategy Statement

Introduction

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

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

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

Consultation

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

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

Purpose of the Funding Strategy Statement

The purposes of this FSS are to set out the processes by which the administering authority:

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

Aims of the Fund

The Fund has three main aims:

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

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

- Seek returns on investment within reasonable risk parameters.

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

To manage the employers' liabilities effectively

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

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

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

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

The administering authority operates a group funding framework. Many employers are grouped for the purpose of determining employers' contributions in respect of the liabilities and more details are given later in this statement.

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

Exiting the fund - subsumed liabilities

Where an employer is leaving the Fund and will no longer have any contributing members, another employer, or group of employers, in the Fund may agree to provide future funding in respect of any emerging deficiencies. On exit the non-active liabilities of admission bodies in paragraph 1(d)(i) of Schedule 2 Part 3 which commenced in the Fund on or after 1 April 2018 will be attributed to (i.e. assumed to be subsumed by) the relevant Scheme employer as defined in the regulations.

In such circumstances the liabilities are known as subsumed liabilities, as responsibility for them is subsumed by the accepting employer or group. For subsumed liabilities the exit valuation will be calculated using a funding target (and hence assumptions) consistent with that used to set ongoing contributions for the employer. This will be the ongoing orphan funding target for employers admitted under paragraph 1(d)(i) of Schedule 2 where the relevant Scheme Employer is an academy. For all other employers the administering authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer or group. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Exiting the fund - orphan liabilities

Where an employer is leaving the Fund and will no longer have any contributing members, and the residual liabilities are not subsumed, the administering authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The administering authority will seek to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities. To achieve this, the administering authority will seek sufficient funding from the outgoing employer to match the liabilities with low risk investments, generally Government fixed-interest and index-linked bonds.

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

Exiting the fund – valuations

Where an admission body exits the fund, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of exiting the fund regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

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

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

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer (or Guarantor if the employer is unable to pay) will generally be expected to make good the funding obligation revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not necessarily remove the possibility of an exit payment being required.

For those employers who are grouped with other employers for funding purposes, the exit valuation may also include allowance for any cross subsidies anticipated from other employers with which it is grouped. This would allow the employer to take immediate credit for contributions expected to be paid over the long term from other group employers in respect of the outgoing employer's share of any group deficiency.

Interim reviews for employers

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

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

The administering authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years away, or is unknown and assumed to be indefinite, interim valuations will generally not be required by the administering authority.
- For paragraph 1(d)(i) bodies (2013 Regulations – Schedule 2 Part 3) falling into the above category, the administering authority sees it as the responsibility of the Relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the Relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, for example the date of exit becoming known, material membership movements or material financial information coming to light may cause the administering authority to review the situation informally and subsequently request a formal interim valuation.
- Where an employer is due to leave the Fund within the next three years, the

administering authority will monitor developments and may see fit to request an interim valuation at any time in order to try to effect a smoother transition to exit.

In addition, the administering authority reserves the right to request an interim valuation of any employer at any time in accordance with Regulation 64(4).

Inter-valuation funding valuations

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

Guarantors

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

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

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

The Guarantor will be permitted to subsume all assets and liabilities of an employer including the inheritance of any deficiency. However, where the Guarantor is a grouped employer, the administering authority will insist upon the Guarantor meeting the contributions required to clear the deficiency inherited by the Guarantor (whether immediately or over an appropriate period), to protect the other employers in the Guarantor's group from this element of the group's deficiency.

Bonds and other securitisation

Paragraph 7 of Part 3 of Schedule 2 of the 2013 Regulations creates a requirement for a new admission body to carry out to the satisfaction of the administering authority (and the Relevant Scheme Employer in the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013

Regulations), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

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

The administering authority's approach in this area is as follows:

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

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

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

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

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

Where justified, and as long as it doesn't run counter to the main aims of ensuring solvency and long-term cost efficiency, the administering authority will permit a stepping in of changes to employers' primary contribution rates over a period of up to four years. Care needs to be taken in relation to admission bodies and other employers which participate in the Fund for a fixed period (for example, non-local authority employers awarded contracts to provide local authority services), where use of stepping to smooth primary contribution rate changes is less appropriate.

The administering authority recognises that a balance needs to be struck regarding the financial demands made of admission bodies. On the one hand, the administering authority requires all admission bodies to be fully self funding (either on a grouped or an individual basis), such that other employers in the Fund are not subject to expense as a consequence of the participation of those admission bodies. On the other hand, requiring contributions to target full funding at all times, without further smoothing, may cause failure of the body in question in periods of extreme economic conditions, leading to significant costs for other participating employers.

Employers within the Admission Body Group where there is no subsumption commitment from a long-term secure employer such as one of the Councils, or the Scheduled Body Group as a whole, should in theory pay contributions to target solvency on the ongoing orphan funding target. However, to enable contributions to remain affordable for them in the short term, the funding target adopted for the Admission Body Group has been relaxed and is the same as that adopted for the Scheduled Body Group. This is a temporary measure to enable contributions to remain affordable in the short-term than would otherwise be permitted. However should a body in the Admission Body Group leave the Fund during the relaxation period, that body would be required to make good its funding deficiency including any underpayment on account of contributions having been relaxed. Only if that body is unable to meet any exit deficiency and there is no Guarantor would other solutions to the ongoing funding of the body's liabilities be sought (such as the Scheduled Body funding group providing future funding for any deficiency which cannot be met by the outgoing community admission body).

The Admission Body Group will be re-assessed in advance of the 2019 valuation with a view to moving admission bodies with no subsumption commitment onto the ongoing orphan funding target.

Seek returns on investment within reasonable risk parameters

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

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

The Fund's funding strategy requires the assets to deliver a long-term return of above the discount rate of 4.5%, the fund actuary's best estimate for the Fund's average return is 5.7% as at March 2016. An investment management structure has been developed and managers appointed to deliver a long-term return in excess of returns on cash and gilt investments within an acceptable level of risk. Details of the structure and managers are in the Investment Strategy Statement.

Purpose of the Fund

The purpose of the Fund is to:

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

Responsibilities of the key parties

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

The County Council as administering authority is required to:

- Operate a pension fund
- Collect employer and employee contributions, investment income and other amounts due to the Pension Fund as stipulated in LGPS Regulations.
- Pay from the Fund the relevant entitlements as stipulated in LGPS Regulations.
- Invest surplus monies in accordance with LGPS Regulations
- Ensure that cash is available to meet liabilities as and when they fall due.

- Take measurers as set out in the regulations to safeguard the Fund against the consequences of employer default.
- Manage the valuation process in consultation with the Fund’s Actuary.
- Prepare and maintain a Funding Strategy Statement and an Investment Strategy Statement, both after proper consultation with interested parties.
- Monitor all aspects of the Fund’s performance and funding, and amend the FSS/ISS accordingly.
- Effectively manage any potential conflicts of interest arising from its dual role as both administering authority and as a Scheme Employer.
- Enable the Pension Fund Panel and Board to review the valuation process.

The individual employer is required to:

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

The Fund actuary should:

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

Funding Strategy

Risk based approach

The Fund utilises a risk based approach to funding strategy.

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

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

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

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and 'funding success'

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

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%. For Scheduled Bodies, and certain other bodies of sound covenant whose participation is indefinite in nature, appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund's financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be a better than evens chance that the Fund would continue to be 100% funded after a period of 25 years. The level of funding implied by this is the Solvency Target. For the purpose of this Statement, the required level of chance is defined as the Probability of Maintaining Solvency. The administering authority will generally assume indefinite investment in a broad range of assets of higher risk than risk-free assets for scheduled bodies and certain other bodies.

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

For such bodies the administering authority will normally adopt a funding target which:

- in the case of admission bodies, particularly those which do not admit new members, anticipates the approach to valuing the liabilities on exit – the "ongoing orphan funding target" as defined earlier in this statement;
- in the case of scheduled bodies without a government guarantee which are deemed to be of weaker covenant than the local authorities, produces a higher chance of achieving solvency/funding success through adoption of a lower discount rate than adopted for the local authorities.

Probability of Funding Success

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

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

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

Funding Target

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

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

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

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

Recovery and Trajectory periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date which solvency is targeted to be achieved. A Trajectory Period of 25 years has been adopted at the 2016 valuation.

When an actuarial valuation shows that the Fund is in deficiency, employers' contribution rates will be adjusted to achieve a 100% funding ratio over a period of years (the Recovery Period), while ensuring that the probability of achieving solvency over the Trajectory Period remains acceptable. In consultation with the Fund's actuary, the administering authority has set a common maximum recovery period of 19 years for all employers in the Fund. The actual recovery period within this maximum of 19 years is determined at each actuarial valuation by balancing the Fund's solvency requirements against the financial strength of the Fund's main scheduled employers.

The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the administering authority has agreed a recovery period of 19 years for scheduled bodies in the 2016 actuarial valuation.

Grouping of Employers

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

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

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

Group Funding Framework

Within the Fund there are two groups of employers for funding purposes; the Scheduled Body Group and the Admission Body Group. Employers within a group share all risks of participation, with the exception of liability for ill health pensions, partner's pensions and lump sum benefits payable on death in service, with other employers in the group. A small, but increasing, number of employers sit outside of the groups.

Scheduled Body Group

The Scheduled Body Group includes:

- Scheduled bodies listed in Part 1 of Schedule 2 of the Regulations, excepting those employers (or category of employers) who in the view of the Administering Authority:
    - Are deemed by central government to be private sector organisations, or
    - Receive a significant proportion of their income from either non-government sources or otherwise are not considered to have a central or local government guarantee, or
    - Are otherwise considered by the Administering Authority to be less financially secure than the principal councils to the extent that there is a perceived (or potential) covenant risk to the Fund.
- Town and Parish Council employers under Part 2 (paragraph 2) of Schedule 2 of the Regulations who, due to their unique size and transience as active participating bodies, would benefit significantly from being able to share risks with a wider pool (and where the risk to that wider pool is deemed negligible)
- Paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations where
    - the employer was admitted to the Group before 4 March 2016
    - there is a pass through arrangement with an employer which is itself a grouped scheduled body, and
    - that body and letting authority (as appropriate) adheres to any mechanisms as required by the Administering Authority to protect other grouped employers from the additional and unique risks which that body contributes to the Group.

With effect from 31 March 2016, the following category of employers have ceased to participate in the Scheduled Body Group to become ungrouped employers in the Fund:

- Bodies in the Higher Education and Further Education sector (including post-92 Colleges and Universities)

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

Admission Body Group

The Administering Authority views the purpose of the Admission Body Group to be primarily to smooth contributions for charities and other not-for-profit organisations which would otherwise be exposed to the potential of volatile contributions. For historic reasons other admission bodies have participated in the Group. With effect from 31 March 2016, the following category of employers have ceased to participate in the Admission Body Group to become ungrouped employers in the Fund:

- Bodies in the Higher Education and Further Education sector (including pre-92 Universities and independent schools). These bodies will become ungrouped employers, consistent with the treatment of other post-92 Universities and colleges.
- Housing Associations. These are closed employers with no subsumption commitment.

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

Funding principles applying to grouped employers

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

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

- The group exists to produce a common primary contribution rate for employers in the group
- Only the group funding target is relevant when producing a common primary contribution rate, and
  - An employer's cash contribution depends on its level of payroll when a stream of deficit contributions is being set, and any special arrangements put in place in relation to being a Relevant Scheme Employer for a grouped paragraph 1(d)(i) body admitted under Schedule 2 Part 3 of the 2013 Regulations,
  - While an employer has contributing members in the Fund, the employer will share a responsibility to contribute towards any emerging deficiency within the relevant funding group, or will benefit from an emerging surplus within the relevant funding group through a deduction against previous deficiency obligations.

- Unless it is a paragraph 1(d)(i) body admitted under Schedule 2 Part 3 of the 2013 Regulations, or as otherwise agreed between the administering authority and the employer, the employer is assumed to belong to the group indefinitely
  - As an employer can always be called upon to pay its share of any group deficiency, a flow of new entrants to the employer is required to finance this
  - Funding targets used to assess ongoing contributions at the triennial valuation are set using an ongoing actuarial basis that assumes participation is indefinite
- Employers are liable to fund deficiencies emerging at each valuation in proportion to their own payroll at the time of the valuation. Relevant Scheme Employers in relation to a grouped paragraph 1(d)(i) body admitted under Schedule 2 Part 3 of the 2013 Regulations will also be liable in respect of payroll transferred to the paragraph 1(d)(i) body, to the extent that the contributions are not fully covered by those made by the paragraph 1(d)(i) body.
- Streams of deficiency contributions, once certified at a valuation will normally remain in place for the duration of the relevant recovery period. New streams of such contributions may be certified at subsequent valuations in respect of new surplus or deficiency emerging at the relevant valuation. In certain circumstances, contribution streams set at a previous valuation may be modified at subsequent valuations if the administering authority and the Fund's actuary agree.
- Employers will pay a common future service contribution rate. Relevant Scheme Employers in relation to a grouped paragraph 1(d)(i) body will also be liable in respect of any increased rate payable in respect of the paragraph 1(d)(i) body by virtue of the admission agreement being a closed agreement.
- When employers exit the Fund they will be assumed to leave the group. The funding target adopted at that time will be assessed in light of the employer's circumstances and, in particular whether its liabilities will be subsumed (i.e. another employer or group will be responsible for the future funding of those liabilities) or will become orphan (where the Fund has no access to any future funding for those liabilities).

For most purposes, such as for the purpose of calculating an exit valuation or calculations under FRS102/IAS19, each employer in a group is assumed to have the same funding level as the group as a whole, based on the value of benefits accrued to date for the group as a whole and notional assets held in respect of the group. The funding level of the group is expressed as a percentage and calculated as:

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

However, where circumstances dictate otherwise (e.g. to protect the remaining employers in a group), and it is necessary to allocate a notional value of assets to an employer in a group, this may be calculated as the value of the liabilities less the present value of the employer's stream of deficiency contributions.

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

Notional sub-funds

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

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

Roll forward of sub-funds

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

In some cases there is insufficient information to complete these calculations. In these circumstances:

- Where, in the opinion of the Fund's Actuary, the unavailable cashflow data is of low materiality, estimated cashflows will be used.
- Where, in the opinion of the Fund's Actuary, the unavailable cashflow data is material, the Fund's Actuary will use an analysis of gains and losses to update the notional sub-fund. This method is less precise than using cashflows, and involves calculating gains and losses to the surplus or deficiency shown at the previous valuation to determine an expected surplus or deficiency at this valuation. This is compared with the liabilities evaluated at this valuation to calculate an implied notional asset holding.

Attribution of investment income

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

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

Phasing in of new contribution rates

At each actuarial valuation, the Administering Authority will consider whether changes to employers’ contribution rates should be payable immediately, or be phased in. The Administering Authority discusses with the Fund's actuary the risks of adopting such an approach. The current policy is to phase in changes to the primary rate of employers' contributions over a maximum of four steps. However, phasing in of increases to deficit recovery contributions may be permitted if unusual and difficult budgetary constraints make this necessary, or if other changes, such as changes to the funding target, justify this approach.

Whenever contribution changes are being phased in, this can only be achieved if the regulatory requirements of setting employer contributions to ensure the solvency and long-term cost efficiency of the Fund would still be met.

Fund maturity

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

Identification of risks and counter measures

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

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

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

Investment risk

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

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

The specific risks associated with assets and asset classes are:

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

- currency risk
- macroeconomic risks

The administering authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisers, Fund Managers and Fund's Actuary. The administering authority also annually reviews the effect of market movements on the Fund's overall funding position.

Employer risk

Those risks that arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

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

The administering authority maintains a knowledge base on their employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the Funding Strategy Statement.

Liquidity and maturity risk

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications:

- The increased emphasis on outsourcing and other alternative models for service delivery may result in active members leaving the LGPS,
- transfer of responsibility between different public sector bodies,
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.

The administering authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

Liability risk

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

The administering authority will make sure the Fund's Actuary investigates these matters at each valuation, or more often if necessary. The Fund's Actuary will report to the administering authority as appropriate. The administering authority will then agree with the Fund's actuary any necessary changes to the assumptions used in assessing solvency.

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

Regulatory and Compliance risk

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

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

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

Governance risk

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

To limit this risk, the administering authority requires the other participating employers to communicate regularly with it on such matters. The administering authority also undertakes to inform the Fund's Actuary promptly of any such matters.

Recovery period

Allowing surpluses or deficiencies to be eliminated over a recovery period of up to 19years means there is a risk that too little will be done to restore solvency between successive actuarial valuations. The associated risk is reviewed with the Fund's actuary as part of the three-yearly valuation process, to ensure as far as possible that enough is done to restore solvency and that deficit contributions are compared to the amount of interest accruing on the deficit.

Stepping

Increasing employers' contribution rates in annual steps rather than immediately introduces a risk that too little will be done to restore solvency in the early years of the process or, in relation to the primary rates of contributions, that employers are not paying enough to meet the cost of benefits being accrued in future. The administering authority's policy is to limit the number of permitted steps to four. In addition, it accepts that a slightly higher final rate may be necessary at the end of the stepping process to help make up the shortfall.

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

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

Both documents are subject to regular review.

Future monitoring

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

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel & Board
Date:	15 December 2017
Title:	Governance: Review of the Pension Fund's Statutory Statements
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Gemma Farley

Tel: 01962 847540 **Email:** Gemma.farley@hants.gov.uk

1. Recommendations

1.1. That progress on the Business Plan's actions be noted, and subject to any amendments the Panel and Board may wish to make, the updated Business Plan be approved.

1.2. That the Governance Policy and Governance Compliance Statements be approved.

1.3. That the Communication Policy Statement be approved.

2. Executive Summary

2.1. The purpose of this paper is for the Pension Fund Panel and Board to approve the Pension Fund's statutory statements on an annual basis, which are its Business Plan, Investment Strategy Statement, Funding Strategy Statement, Governance Policy and Governance Compliance Statement, Communication Policy Statement and Administration Strategy Statement, which need to be done on an annual basis. In addition the Panel and Board is usually also asked to approve changes to the Employer Policy.

3. Background

3.1. The Pension Fund's statutory statements are reviewed annually to ensure that current versions comply with the latest Government and other relevant guidance. All the documents are published in the Pension Fund's Annual Report. The documents were last reviewed by the Panel and Board at their meeting in December 2016.

4. Business Plan

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

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

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

4.4. The business plan approved by the Pension Fund Panel and Board in December 2016 included several actions for completion by March 2018. Progress against these action points is summarised below.

Planned Action	Deadline	Progress
Monitor the Fund's investment managers' performance.	Ongoing	Up-to-date performance information is reported to each meeting of the Panel and Board, and is closely monitored by officers on a monthly basis.
Keep Panel and Board members' training needs under review and provide any extra training considered necessary, for example to any new members of the Panel and Board.	Ongoing	In March 2017, the Panel and Board approved the training plan for 2017/18. Bespoke training events for Panel members was arranged for June, October and November 2017, and Panel and Board members have attended a number of Pension industry events.
Prepare the Fund's Investment Strategy Statement, replacing the Fund's current Statement of Investment Principles.	1 April 2017	The Panel and Board approved the draft version in March 2017, and subsequently updated the and approved the statement in November 2017 following the review of the Fund's Strategic Asset Allocation.
Review the Fund's Strategic Asset Allocation following the results of the 2016 Triennial Valuation	December 2017	The Panel and Board reviewed the Fund's Strategic Asset Allocation throughout 2017, with approval given in November 2017.
Review the Fund's Funding Strategy Statement	December 2017	Included in this meeting's agenda.

Planned Action	Deadline	Progress
Review the Governance Policy and Governance Compliance Statements	December 2017	Included in this report.
Review this business plan, including progress against the action plan	December 2017	Included in this report
Review the Communication Policy Statement	December 2017	Included in this report
Review the Administration Strategy Statement	December 2017	Included in this meeting's agenda.
Review the Fund's management fees and transaction costs.	December 2017	Reported at September 2017 Pension Fund Panel and Board meeting
Review the Employer policy.	December 2017	Included in this meeting's agenda.
Review performance of the Fund's Custodian.	December 2017	Reported at March 2017 Pension Fund Panel and Board meeting.
Continue the process of retendering all of the investment managers' contracts, by calling off the National Framework for new contracts for the management of the Fund's passive investments.	March 2018	UBS Asset Management were appointed to manage the ACCESS pool's (including the Fund's) passive investments, following a call off procurement process of the National Framework.
Respond to all consultations and requests for information from Central Government on the Pension Fund's investments.	Ongoing	Responded to the Scheme Advisory Board consultation on a national cross pool group.
Comply with any requests from the Scheme Advisory Board.	Ongoing	No requests have been made this year to date.
Continue to work with the ACCESS pool to comply with the Government target to begin pooling assets by April	Ongoing	Hampshire joined the ACCESS pool, and is working with the pool to provide a pooling solution that is suitable for all

Planned Action	Deadline	Progress
2018.		LGPS funds within the ACCESS pool.

5. Funding Strategy Statement

5.1. A review of the Funding Strategy Statement has been carried out. A change is being made to the Fund's orphan funding target, which is described in the update on the administration of the Fund on this meeting's agenda.

6. Investment Strategy Statement

6.1. Following the review of the Fund's Strategic Asset Allocation, the Fund's Investment Strategy Statement was reviewed and approved in November 2017.

7. Governance Policy and Governance Compliance Statements

7.1. The Governance Policy and Governance Compliance Statements are attached as Appendix 2 for approval; there have been minor changes added to these statements.

8. Communication Policy Statement

8.1. The Communication Policy Statement is attached as Appendix 3 for approval, there have been no proposed changes added to these statements.

9. Administration Strategy Statement

9.1. Following a public consultation of changes to the Administration Strategy Statement, the strategy has been revised and has been reported separately within this agenda.

10. Employer Policy

10.1. A review of the Employer Policy has taken place. Changes are being made to better manage wholly-owned companies that join the Fund, which is described in the update on the administration of the Fund on this meeting's agenda.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board are required to review the Pension Fund's Statutory Statements on an annual basis.	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

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 disproportionally 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:

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.

The Fund's statutory statements

Business Plan

Mission and objectives

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

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

The Panel and Board's objectives:

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

The funding level and employers' contribution rate

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

- drafting and maintaining a Funding Strategy Statement, in partnership with the Fund's actuary and participating employers. This sets out the background and parameters the actuary must use when carrying out actuarial valuations, and

the duties of the County Council as administering authority and the Fund's other employers
- commissioning a full actuarial valuation of the Fund every three years as required by law to determine employers' contribution levels. The actuary completed the latest actuarial valuation of the Fund at 31 March 2016 in March 2017, and the next actuarial valuation will be valued at 31 March 2019.
- arranging interim actuarial valuations if developments mean that the funding level can be expected to have changed
- commissioning an asset/liability study following valuations or as necessary to help determine the best asset allocation needed to meet the Fund's liabilities
- where an actuarial valuation reveals a past service deficit, agreeing employers' contributions with the actuary to recover the deficit.

Investment of the Fund

The Panel and Board seeks a return on the Fund's investments which will enable 100% funding to be achieved and its liabilities to be met with a stable employers' contribution rate. The Fund's Actuary advised that the Pension Fund should aim to achieve an overall investment return equal to the discount rate, which for the 2016 triennial valuation was 4.5%. The Panel and Board aims to achieve this by:

- using the results of the analysis by the Fund actuary and others to set benchmark asset allocations and performance targets for external investment managers
- reviewing managers' performance against those targets over three-year and five-year rolling periods at quarterly Panel and Board meetings – performance will also be monitored over one-year periods at those meetings and ongoing consideration given to the size of and need for each manager's portfolio in the light of their performance in each financial year
- reviewing in the autumn of each year the levels of all costs incurred in the previous 12 months by the external managers on the Fund's behalf
- delegating to the Director of Corporate Resources responsibility for monitoring the managers' performance between Panel and Board meetings.

Arrangements for investing additional voluntary contributions (AVCs)

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

The current AVC providers for contributors to the Fund are Prudential and Zurich. The Panel and Board will review the performance and options offered by these providers, as necessary.

Legislative changes

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

- closely monitoring new legislation affecting the LGPS or pension provision generally – this role is delegated to the Director of Corporate Resources
- considering reports on the implications for the Fund of relevant draft legislation
- agreeing any actions necessary to ensure full compliance when the final legislation is enacted, including meeting any deadlines.

Consultation papers

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

Best practice

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

Decision-making

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

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

Developments and training plan

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

A training plan was prepared in March 2017 for the Joint Pension Fund Panel and Board and training logs are maintained for individual Panel and Board members. As part of the Panel and Board's training plan bespoke training sessions delivered by external speakers were arranged in June, October and November 2017 giving an overview of asset allocation, private debt investing, multi asset credit investing, treasury management. and a refresher course of LGPS fundamentals. A new training plan will be prepared in March 2018 for the year ahead; this will be based on feedback from the annually completed training needs analysis.

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

Communications with participating employers and Fund members

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

- an annual report on the Fund for each financial year, to be available for an Annual Employers Meeting of the Fund's employers held in the following October
- an annual summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members
- an annually updated employees' guide to the Scheme
- an annual newsletter to pensioners.

Review and evaluation of business plan

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

Actions to March 2019

New actions:

Implement actions as a result of the investment strategy review completed in November 2017. This includes:

- implementing a private debt portfolio
- implementing a multi-asset credit portfolio.

Review of the Admitted Bodies Group in the Pension Fund's Funding Strategy Statement..

Ongoing actions:

Monitor the Fund's investment managers' performance.

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

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

Comply with any requests from the Scheme Advisory Board.

Complete the following annual reviews – deadline March 2019:

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

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

Governance Policy Statement

The Local Government Pension Scheme (Amendment) (No 3) Regulations 2007 require the Fund to maintain a Governance Policy Statement.

The County Council, as administering authority for the Hampshire Pension Fund, has delegated responsibility for managing the Fund's investments to the Joint Pension Fund Panel and Board.

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

- appointing external fund managers and advisers
- making suitable custody arrangements for the Fund's investments
- considering and approving actuarial valuations every three years and determining the level of employers' contributions
- considering changes in pension fund regulations and determining actions required
- considering and approving strategic advice on investment policy
- considering and approving the external managers' investment strategies
- monitoring the investment performance of each manager against their target and benchmark, based on statistics prepared by the custodian
- the periodic review of the Investment Strategy Statement, the Fund's Business Plan, its Funding Strategy Statement, this Governance Policy Statement, its Governance Compliance Statement and the Fund's Communication Policy Statement.

The Joint Pension Fund Panel and Board normally meets seven times a year. These meetings are used for discussions with the Fund's investment managers, using a report on their strategies and performance prepared by the Director of Corporate Resources, any views of the independent adviser, and presentations prepared by the managers themselves. The Panel and Board also considers reports from the Director of Corporate Resources, the independent adviser and other consultants as necessary on a range of issues, for example reviews of the Investment Strategy Statement, the Fund's business plan, training, and proposals for scheme change.

The Joint Pension Fund Panel and Board is constituted as follows:

- the County Council as administering authority and the largest employer with 45% of the contributing membership
- an equal number of scheme members and employer representatives (three of each) in line with the requirements of the LGPS (Amendment) (Governance) Regulations 2014

The Joint Pension Fund Panel and Board consists of:

- nine county councillors with voting rights

- three scheme member representatives with voting rights
- three employer representatives with voting rights

There is also an independent adviser without voting rights, who attends all Panel and Board meetings.

Training

Members of the Joint Pension Fund Panel and Board and officers in Corporate Services have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate. The cost of attending is charged to the Pension Fund.

A training plan for members of the Joint Pension Fund Panel and Board has been prepared, and training logs for individual members are maintained.

Use of advisers

The Director of Corporate Resources advises the Panel and Board on all Pension Fund investment and administrative matters.

The Fund's independent adviser advises the Panel and Board on investment matters.

The Panel and Board uses the Fund's actuary, Aon Hewitt, and other consultants as necessary, for advice on matters when in-house expertise is not available. The Panel and Board takes advice from the actuary, the fund managers or specialist consultants or advisers as required on allocating assets, selecting managers, and investment performance targets.

Communications with Fund employers and members

Each financial year, an annual report on the Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.

In the autumn, a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members.

The Investment Strategy Statement is published and made available to scheme employers within three months of any amendments.

Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners.

Service standards

The County Council follows best practice as set out in the LGPC circular 'Principles of Good Practice for the Management of Local Government Pension Schemes'.

Governance Compliance Statement

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

Ref.	Principles	Compliance	Comments
A	**Structure**		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance.	Hampshire County Council's constitution sets out the functions of the Joint Pension Fund Panel and Board.
b.	That representatives of participating LGPS employers, admission bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full compliance.	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Full compliance.	No formal secondary committees or panels have been established.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Full compliance.	No formal secondary committees or panels have been established.
B	**Representation**		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g. admission bodies) • scheme members (including deferred and pensioner scheme members) • where appropriate, independent	Full compliance.	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members. The Fund's independent adviser attends Joint Pension

Ref.	Principles	Compliance	Comments
	professional observers, and • expert advisers (on an ad-hoc basis).		Fund Panel and Board meetings. Independent professional observers are not regarded as appropriate.
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance.	Equal access is provided to all members of the Joint Pension Fund Panel and Board.
C	**Selection and role of lay members**		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance.	
D	**Voting**		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance.	All representatives on the Joint Pension Fund Panel and Board have full voting rights, but the Panel and Board works by consensus without votes often being required.
E	**Training/facility time/expenses**		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance.	Full training and facilities are made available to all members of the Joint Pension Fund Panel and Board.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.	
c.	That the administering authority considers adopting annual training	Full	A training plan has been prepared for the

Ref.	Principles	Compliance	Comments
	plans for committee members and maintains a log of all such training undertaken.	compliance.	Joint Pension Fund Panel and Board, and training logs are maintained for individual Panel and Board members.
F	**Meetings (frequency/quorum)**		
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance.	
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Full compliance.	No formal secondary committees or panels have been established.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance.	The Joint Pension Fund Panel and Board includes lay members. An Annual Employers Meeting of the Pension Fund is held and road shows are arranged for employers.
G	**Access**		
a.	That, subject to any rules in the County Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance.	Equal access is provided to all members of the Joint Pension Fund Panel and Board.
H	**Scope**		
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance.	The Joint Pension Fund Panel and Board deals with fund administration issues as well as fund investment.
I	**Publicity**		
a.	That administering authorities have published details of their governance arrangements in such a way that	Full compliance.	The County Council's Governance Policy Statement is published

Ref.	Principles	Compliance	Comments
	stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.		in the Pension Fund's Annual Report and on its website.

Communication Policy Statement 2017

Introduction

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

We have five key stakeholder groups:

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

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

http://www3.hants.gov.uk/finance/pensions.htm

We also have a customer charter that shows the service our scheme members can expect:

http://www3.hants.gov.uk/pensions/pensionscustomerservice.htm#section409024-3

Methods of communication

Our communication with scheme members

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

Website

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

Scheme literature

The *Employee's Guide* is the main reference point for current scheme members. This and other scheme literature is available on the Pensions Services website. Scheme literature is provided by the LGA and is updated regularly, usually when regulations are changed.

Member support

We have a general query call centre which operates during office hours. We aim to answer 90% of the incoming queries without the need to refer on to our operational teams. We also have a general email address for all queries and ask people for feedback on our survey forms on all emails we send.

There is a range of information and forms available on our website.

Correspondence

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

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

Benefit statements

Each year, we provide an annual benefits statements for all current and deferred members showing their benefits as at 31 March. These will be available on the secure member self service by 31 August each year. Where a written request has been received we will issue a printed copy each year.

Pay advice slips and P60s

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

Newsletters

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

Report and accounts

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

Life certificates

Life certificates are sent every year to pensioners that live overseas. They will also be sent when we have payments or mail returned to verify the continuing entitlement to receive pension payments.

Our communication with prospective scheme members

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

Scheme literature

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

Website

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

Our communication with employing authorities

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

Scheme literature

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

Correspondence

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

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

Website

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

Employer training

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

Administration strategy

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

Employer liaison meetings

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

Reports and accounts

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

Valuation report

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

Pension Fund Annual Employers Meeting (AEM)

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

Our communication with Pensions Services staff

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

Email

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

Internet access

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

Employer contact information

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

Meetings

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

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

Staff training

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

Our communication with other bodies

Members' representatives

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

Joint Pension Fund Panel and Board

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

Prospective employing authorities

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

Complaints and appeals

We have a comprehensive process for dealing with complaints and appeals. Full details of the internal disputes resolution procedure is available on our website:

http://www3.hants.gov.uk/pensions/lgps/a-z/internal-dispute-resolution-procedures.htm

Publications matrix

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

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Hampshire Pension Fund Panel and Board
Date:	15 December 2017
Title:	Investments: Pension Fund cash monitoring report and Annual Investment Strategy 2018/19
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Gemma Farley

Tel: 01962 847540 **Email:** Gemma.farley@hants.gov.uk

1. Recommendations

1.1. That the Annual Investment Strategy for 2018/19 be approved.

1.2. That, if the Annual Investment Strategy referred to in recommendation 1.1 is approved, that it be implemented from the date of this meeting for the remainder of 2017/18.

1.3. That the Director of Corporate Resources be authorised to manage the Fund's cash balance in accordance with the policy set out in this report.

2. Executive Summary

2.1. This report provides an update on the management of the Pension Fund's cash balances and the Annual Investment Strategy for those cash balances for 2018/19, which is outlined in Section 6 for approval.

2.2. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, an investment policy must be formulated for the investment of the Fund's cash.

2.3. The production of an Annual Investment Strategy is in line with the recommendations of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised code.

3. Background

3.1. The Pension Fund's Investment Strategy Statement does not include a strategic allocation in cash as an asset class. However, the Pension Fund receives cash each month from contributions by employees and employers, and income from some of its investments, which needs to be managed.

3.2. Dividends from shares and interest receipts from bonds are held by the Pension Fund's custodian bank, JP Morgan, and retained by the Fund's external investment managers for reinvestment, but rental income from the Pension Fund's direct property portfolio, distributions from private equity investments, infrastructure investments and indirect property funds are credited to the Fund's cash balance.

3.3. The Pension Fund requires a cash balance to meet outgoings on pensions and benefits, existing commitments to invest in property and to fund drawdowns by the private equity and infrastructure funds, as well as covering day-to-day cash flow.

4. External Context

4.1. The following paragraphs explain the economic and financial background against which the Annual Investment Strategy is being set.

Economic background

4.2. The major external influence on the Pension Fund's investment strategy for 2018/19 will be the UK's progress in negotiating a smooth exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

4.3. Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee (MPC) judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without general inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's MPC raised official interest rates to 0.5% in November 2017.

Credit outlook

4.4. High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

4.5. Bail-in legislation has now been fully implemented in the European Union, Switzerland and USA, whilst Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

Interest rate forecast

4.6. The County Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.5% during 2018/19. The MPC re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

4.7. Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependent and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

5. Performance of cash investments

5.1. The Pension Fund's cash investment holding was £57.4m as at 30 November 2017 which represents 0.9% of the Pension Fund's total value. As expected, the current cash balance has reduced since last year due to large investments in property, as well as increased draw downs from the Fund's infrastructure and private equity investments.

5.2. It is expected that the Pension Fund's cash balances will need to be maintained by disinvesting further from the Fund's passive equity portfolios, as the amounts paid in benefits payments, new property investments, and draw downs to fund private equity and infrastructure investments will be greater than pension contributions and investment income received directly. This will move the Pension Fund closer to its agreed strategic asset allocation.

5.3. The priority for cash investments is security and liquidity and the Pension Fund's aim is to achieve a yield commensurate with these principles. This has been maintained by following the Pension Fund's counterparty policy as set out in its Annual Investment Strategy for 2017/18, which was approved by the Pension Fund Panel at its meeting in December 2016. A full breakdown of current investments is provided in the exempt appendix.

5.4. Whilst regulations provide an explicit power for pension funds to borrow for a period of up to 90 days for cash flow purposes, such as allowing scheme benefits to be paid and during a transition period when the investment of the Fund's assets is being changed, the Pension Fund's cash flow will be managed on the basis that the need for borrowing for the Fund is avoided and therefore all of the Pension Fund's cash investments are either overnight or for a very short duration.

5.5. As at 30 November 2017 the weighted average return on the Pension Fund's cash investments was 0.35%, which should be considered within the context of a recently increased, although still very low, UK Base Rate of 0.5%. This rate largely reflects interest rates available prior to the Base Rate increase, and is likely to increase slightly in the coming months.

6. Annual Investment Strategy

6.1. In the past 12 months, the Pension Fund's investment balance has ranged between £34.1 and £117.4 million.

6.2. The following Annual Investment Strategy, for the period to 31 March 2019 has been prepared with the advice of the County Council's treasury management advisers, Arlingclose.

6.3. The primary objective in relation to the investment of Pension Fund cash remains the security of capital. The liquidity or accessibility of the Fund's cash investments followed by the yields earned on these investments are important but secondary considerations.

Negative Interest Rates

6.4. If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Risk Assessment and Credit Ratings

6.5. Credit ratings are obtained and monitored by the County Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.6. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the Security of Investments

6.7. The Pension Fund understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantial doubts about its credit quality, even though it may meet the credit rating criteria.

6.8. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances the Pension Fund will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

Investment Limits

6.9. Given the impact of bail-in legislation, which has increased the credit risk that unsecured bank/building society investments could be subject to a loss and/or converted to equities, the following investment limits are proposed to mitigate the risk whilst allowing sufficient flexibility to manage the Pension Fund's investment balances.

6.10. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Maximum limits will also be placed on fund managers and industry sectors as below:

Table 1: Investment Limits

	Cash limit	**Maximum Term**
Any single organisation, except the UK Central Government	£20m each	2 years
UK Central Government	Unlimited	2 years
Any group of organisations under the same ownership	£20m per group	2 years
Any group of pooled funds under the same management	£15m per manager	2 years
Registered Providers	£15m in total	2 years
Money Market Funds	50% in total	Overnight

Approved Investment Counterparties and Limits

6.11. Appendix 1 shows a table of counterparty types which the Pension Fund may invest its cash in, subject to the cash limits (per counterparty) and the time limits shown. The Pension Fund will continue to largely invest overnight with banks and money market funds, given that cash is only held to meet immediate liabilities. Other more secure options that might mitigate the risk of bank bail-ins are available should the Pension Fund be required to hold larger amounts of cash for longer periods. The list of currently authorised counterparties is available in Appendix 2 for information. Therefore the Director of Corporate Resources and her staff will use the guidance of the Pension Fund's treasury management advisers, Arlingclose, in order to place cash on deposit, within the limits shown in Appendix 1.

Liquidity Management

6.12. The Pension Fund has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements.

7. Other items

Investment Training

7.1. The needs of the Pension Fund's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

7.2. Staff members regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

7.3. The Pension Fund's training policy states that all Panel and Board members should receive appropriate training relevant to their needs and understand fully their roles and responsibilities, which includes treasury management responsibilities, and the scrutiny of the treasury management function. All Panel and Board members were invited to a workshop presented by Arlingclose on 29 November 2017, which gave an update on treasury matters. Another workshop is planned for November 2018.

Investment Advisers

7.4. The Pension Fund has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Director of Corporate Resources and her staff and Arlingclose.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because management of the Pension Fund's cash needs deciding.

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

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 disproportionally 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.

Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates
UK Govt	n/a	n/a	£ Unlimited 2 years	n/a
AAA	£15m 2 years	£20m 2 years	£20m 2 years	£15m 2 years
AA+	£15m 2 years	£20m 2 years	£20m 2 years	£15m 2 years
AA	£15m 2 years	£20m 2 years	£20m 2 years	£15m 2 years
AA-	£15m 2 years	£20m 2 years	£20m 2 years	£15m 2 years
A+	£15m 2 years	£20m 2 years	£15m 2 years	£15m 2 years
A	£15m 13 months	£20m 2 years	£15m 2 years	£15m 2 years
A-	£15m 6 months	£20m 13 months	£15m 2 years	£15m 13 months
None	£1m 6 months	n/a	£15m 2 years	n/a
Pooled funds	£15m per fund			

The table must be read in conjunction with the notes below

Credit Rating

Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts

Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank/building society's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is not investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 2 years.

Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Pooled Funds

Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Operational bank accounts:

The Pension Fund may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The Pension Fund's operational bank account is with National Westminster; therefore the Fund does not unsecured investment with this bank, and aims to keep the overnight balances held in current accounts as close as possible to £0. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Pension Fund maintaining operational continuity.

List of UK and non-UK banks and building societies

Country / Domicile	Counterparty	Maximum investment	Maximum duration
UK	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	NatWest/Royal Bank of Scotland	£10m	35 days
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	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

* Please note that the counterparties listed above meet the Fund’s minimum credit rating criteria as at 1 December 2017, additional counterparties could be added to this list if, for example, a counterparty/country is upgraded. Alternatively if a counterparty is downgraded, this list may be shortened.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 10

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of the Local Government Act 1972.

Agenda Item 11

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