Public Document Pack

NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday 24th July, 2020 at 10.00 am
Place	Virtual Teams Meeting - Microsoft Teams
Enquiries to	members.services@hants.gov.uk

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

FILMING AND BROADCAST NOTIFICATION
This meeting will be recorded and broadcast live 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

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make

6. GOVERNANCE - ANNUAL INTERNAL AUDIT REPORT & OPINION 2019/20 (Pages 9 - 24)

To receive a report from the Director of Corporate Resources – Corporate Services, which provides the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of Pension Services' framework of risk management, internal control and governance for the year ending 31 March 2020.

7. GOVERNANCE - INTERNAL AUDIT PLAN 2020/21 - 2022/23 (Pages 25 - 36)

To consider a report from the Director of Corporate Resources – Corporate Services, which provides the Pension Fund Panel and Board with the Internal Audit Plan 2020/21 – 2022/23 for Pension Services for approval.

8. GOVERNANCE: RESPONSIBLE INVESTMENT SUB-COMMITTEE APPOINTMENTS (Pages 37 - 40)

To consider a report from the Director of Corporate Resources – Corporate Services, which asks the Panel and Board to approve appointments to the Responsible Investment sub-committee.

9. GOVERNANCE: ADMINISTRATION PERFORMANCE UPDATE (Pages 41 - 52)

To consider a report from the Director of Corporate Resources, which updates the Panel and Board on administration performance for 2019/20, and seeks approval for a project to trace members for whom no current address is held.

10. GOVERNANCE: EXIT CREDITS (Pages 53 - 134)

To consider a report from the Director of Corporate Resources, which seeks approval from the Panel and Board for the policy on the payment of exit credits, which has been updated following regulation changes.

11. GOVERNANCE - ANNUAL REPORT, RISK REGISTER, PENSION FUND COSTS AND CASH MANAGEMENT 2019/20 (Pages 135 - 246)

To consider a report from the Deputy Chief Executive and Director of Corporate Resources, which introduces the 2019/20 draft Pension Fund Annual Report to the Panel and Board.

12. EXCLUSION OF THE PRESS AND PUBLIC

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

13. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING (Pages 247 - 250)

To confirm the exempt minutes of the meeting held on

14. GOVERNANCE: PENSION FUND INVESTMENT MANAGEMENT COSTS 2019-20 AND PENSION FUND CASH MANAGEMENT 2019-20 APPENDIX (Pages 251 - 254)

To receive the exempt appendix to item 11 on the agenda.

15. INVESTMENT - INVESTMENT UPDATE (Pages 255 - 296)

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 14 February 2020.

ABOUT THIS AGENDA:

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

This page is intentionally left blank

AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 14 February 2020.

Chairman:
* Councillor M. Kemp-Gee

Vice-Chairman:
Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

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

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

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

Independent Adviser:
* C. Dobson

*present

BROADCASTING ANNOUNCEMENT

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

236. **APOLOGIES FOR ABSENCE**

Councillors Thacker and Glen sent their apologies.

237. **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.

238. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 13 December 2019 were confirmed.

239. **DEPUTATIONS**

No deputations were received.

240. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Mrs Liz Bartle and Dr Lindsey Gowland and informed the Panel and Board they have replaced Mr David Robbins and Mrs Valerie Arrowsmith as the Other Employer representative and Deferred Member representative respectively. The Chairman told the committee he will be writing to Valerie and David to express the Panel and Board's thanks for their contribution to the committee.

The Chairman also congratulated Neil Wood on being reappointed as the Active Member representative.

241. **GOVERNANCE: ACCESS BUSINESS PLAN**

The Panel and Board considered the report from the Director of Corporate Resources (Item 6 in the Minute Book) including the ACCESS Business Plan for 2020/21, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2020/21 was £1.08m of which Hampshire's equal share would be £98,000.

RESOLVED:

(a) That the ACCESS Business Plan for 2019/20 was approved.

242. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 4 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.

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

The exempt minutes of the Pension Fund Panel and Board held on 13 December 2019 were confirmed.

244. **INVESTMENTS: INVESTMENT STRATEGY REVIEW**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 9 in the Minute Book) supporting the review of the Investment Strategy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

245. **INVESTMENTS – INVESTMENT REPORT**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 10 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]

This page is intentionally left blank

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Pension Fund Panel and Board
Date:	24 July 2020
Title:	Governance - Annual Internal Audit Report & Opinion 2019/20
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Neil Pitman; Chief Internal Auditor

Tel: 01962 845139 **Email:** Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to provide the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of Pension Services' framework of risk management, internal control and governance for the year ending 31 March 2020.

Recommendation

2. That the Pension Fund Panel and Board note the Chief Internal Auditor's Annual Internal Audit Report and Opinion for 2019/20.

Contextual Information

3. In accordance with 'proper practices' as defined in the Public Sector Internal Audit Standards (updated 2017), the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control.

4. The Annual Report for 2019/20 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of risk management, internal control and governance for the year ending 31 March 2020.

5. The Pension Fund Panel and Board’s attention is drawn to the following points:

   - Internal audit was compliant with the Public Sector Internal Audit Standards during 2019/20;
   - The internal audit plan for 2019/20 has been delivered in full;
   - ‘Substantial Assurance’ can be placed on Pension Services’ (Hampshire County Council) framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice; and
   - Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective action and a timescale for improvement were agreed with the responsible managers.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	No
People in Hampshire enjoy being part of strong, inclusive communities:	No
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: Accounts and Audit (England) Regulations 2015.	

Section 100 D - Local Government Act 1972 - background documents

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

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

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

Annual Internal Audit Report & Opinion

2019 - 20

Hampshire Pension Services

Hampshire Pension Services

Southern Internal Audit Partnership

Assurance through excellence and innovation

Contents

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

***'Independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'*.**

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

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

Page 16

2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- Level of assurance required;
- Significance of the objectives under review to the organisation's success;
- Risks inherent in the achievement of objectives; and
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

Page 17

3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of the Hampshire Pension Services' audit need that has been covered within the period.

Annual Internal Audit Opinion 2019-20

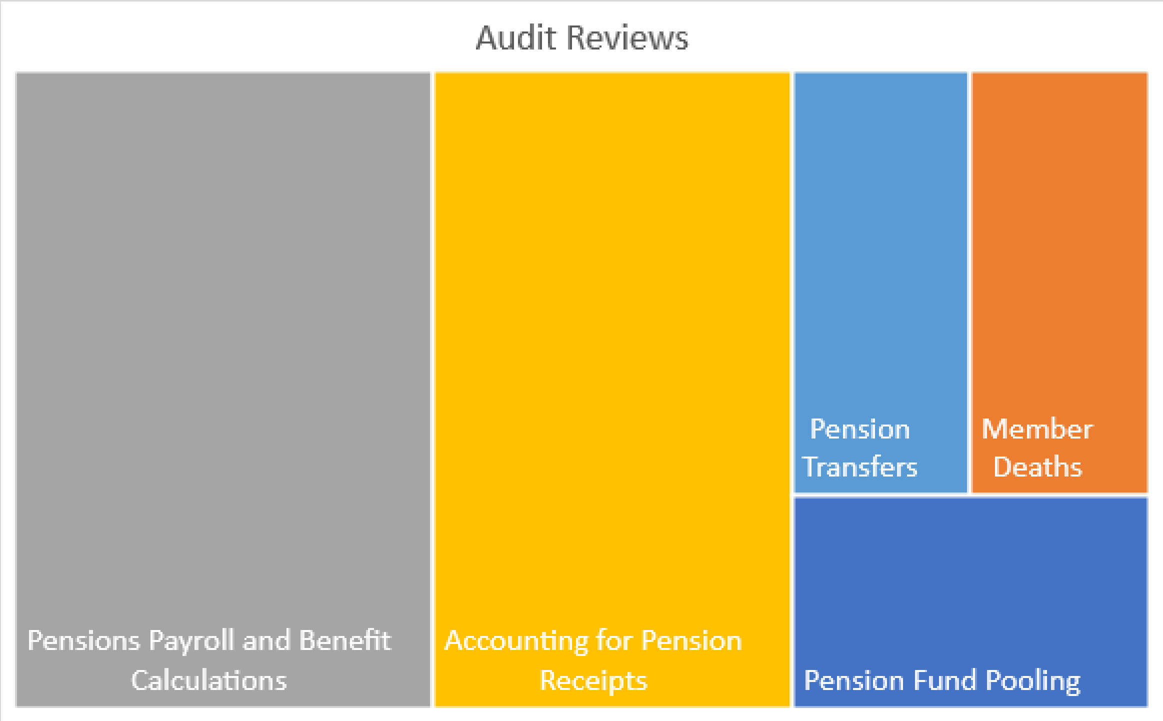
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire Pension Services' internal control environment.

In my opinion, Hampshire Pension Services' framework of governance, risk management and control is 'Substantial' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

4. Internal Audit Coverage, Output and Key Observations

The annual internal audit plan was prepared to take account of the characteristics and relative risks of Hampshire Pension Services' activities and to support the preparation of Hampshire County Council's Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2019-20 Internal audit plan was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the service.

The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken five reviews during the year ending 31 March 2020.

Due to the timely delivery of the internal audit plan, we are pleased to report that despite the significant impact and subsequent challenges posed by the coronavirus pandemic both to the way we work and the delivery of Council services, this has not inhibited our ability to provide an opinion on Hampshire Pension Services' framework of risk, governance and control for 2019-20.

The opinion assigned to each internal audit review (including draft reports) is:-

- Pensions Payroll and Benefit Calculations – Substantial Assurance
- Member Deaths - Substantial Assurance
- Accounting for Pensions Receipts - Substantial Assurance
- Pension Transfers (draft final) - Substantial Assurance
- Pension Fund Pooling – Adequate Assurance

Internal Audit work found there to be sound control environments in place across all review areas which were found to be working effectively to support the delivery of corporate objectives. We are pleased to report that there were no audits that concluded with a 'Limited Assurance or 'No Assurance' opinion, and no significant issues were identified arising from the work completed during 2019-20.

Substantial – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

Adequate - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

Limited - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

No - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

5. Anti-Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image. Policies and strategies are in place setting out the County Council's approach and commitment to the prevention and detection of fraud or corruption. There were no significant pension related frauds detected or investigated by internal audit during 2019/20.

National Fraud Initiative (NFI) - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

2019/20 was a match release year and our work focussed on facilitating match enquiries received and assisting departments with the investigation of matches. This exercise is now complete and all match reports have been closed on the Cabinet Office NFI website. The exercise has identified approximately £32,000 of pension related 'savings' for which arrangements are in place to seek recovery.

6. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

> **"It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).**
>
> **There are no instances across these standards where we determined a standard below "generally conforms", and 4 instances where the standard is assessed as "not applicable" due to the nature of SIAP's remit."**

In accordance with PSIAS, annual self-assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

7. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires 'an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation' I can confirm endorsement from the Institute of Internal Auditors that:

> **'the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards'**

There are no disclosures of Non-Conformance to report.

8. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2019-20 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

9. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of internal audit plan delivered (to draft report)	95%	100%	100%
Positive customer survey response			
• Hampshire County Council	90%	n/a	98%
• SIAP – all Partners	90%	99%	98%
Public Sector Internal Audit Standards	Compliant	Compliant	Compliant

Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process throughout the year.

10. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the Council with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Antony Harvey
Deputy Head of Southern Internal Audit Partnership
July 2020

This page is intentionally left blank

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Pension Fund Panel and Board
Date:	24 July 2020
Title:	Governance - Internal Audit Plan 2020/21 – 2022/23
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Neil Pitman; Chief Internal Auditor

Tel: 01962 845139 **Email:** Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to provide the Pension Fund Panel and Board with the Internal Audit Plan 2020/21 – 2022/23 for Pension Services (Appendix 1).

2. The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities, systems or processes under review that:
   - the framework of internal control, risk management and governance is appropriate and operating effectively; and
   - risks to the achievement of the Council's objectives are identified, assessed and managed to a defined acceptable level.

Recommendation

3. That the Pension Fund Panel and Board approve the Internal Audit Plan 2020/21 – 2022/23 for Pension Services.

Contextual Information

4. The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

5. The plan will remain fluid and subject to on-going review, and amended in consultation with the relevant officers, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Chief Internal Auditor's continued contact and liaison with those responsible for the governance of the Council.

6. The Council's 'internal audit charter' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion. Significant matters that jeopardise the delivery of the plan, or require changes to the plan will be identified, addressed and reported to the Management Team.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	No
People in Hampshire enjoy being part of strong, inclusive communities:	No
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: Accounts and Audit (England) Regulations 2015.	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

Internal Audit Plan

2020-21 to 2022-23

Hampshire Pension Services

Hampshire Pension Services

Southern Internal Audit Partnership

Assurance through excellence and innovation

Contents

Introduction

The role of internal audit is that of an:

'Independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

Hampshire Pension Services is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising Hampshire Pension Services that these arrangements are in place and operating effectively.

Hampshire Pension Services response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of objectives.

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities, systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant Audit Sponsors, to ensure it continues to reflect the needs of the service. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of Hampshire Pension Services.

Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Antony Harvey, Deputy Head of Southern Internal Audit Partnership.

Conformance with internal auditing standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2015 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In considering all sources of evidence the external assessment team concluded:

*'It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of these principles. **This performance is within the top decile of EQA reviews we have performed.** This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.*

*There are **no instances** across these standards where we determined a standard below "generally conforms", and 4 instances where the standard is assessed as "not applicable" due to the nature of SIAP's remit.'*

Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

Developing the internal audit plan 2020-21

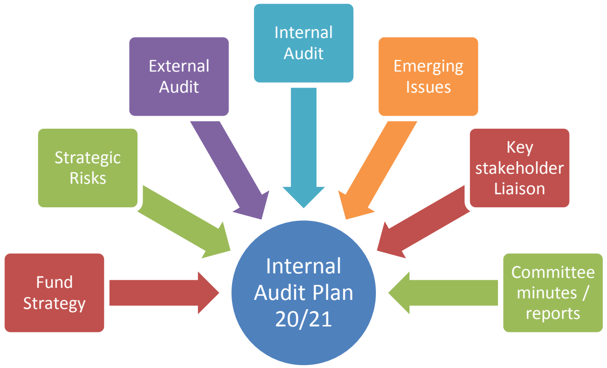
We have used various sources of information and discussed priorities for internal audit with:

- Carolyn Williamson – Deputy Chief Executive and Director of Corporate Resources;
- Andrew Lowe – Head of Pensions, Investments and Borrowing;
- Lois Downer – Deputy Head of Pensions;
- Andrew Boutflower – Deputy Investments and Borrowing Manager.

Based on these conversations with key stakeholders, review of key corporate documents and our understanding of the organisation the Southern Internal Audit Partnership have developed an annual audit plan for the forthcoming year (2020-21) together with an indicative plan for 2021-22 and 2022-23.

The Hampshire Pension Fund Panel & Board are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance is obtained.



Internal Audit Plan 2020-21 to 2022-23

Audit	Indicative scope	2020/21	2021/22	2022/23
Pensions payroll and benefit calculations	Annual review to provide assurance that systems and controls ensure that:- • Lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients; • All changes to on-going pensions are accurate and timely; • Pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies.	✓	✓	✓
Pension starters	Review of the control framework to support appropriate, complete and prompt admission of new starters to the various pension schemes administered by Hampshire Pension Services (HPS).		✓	
Pension leavers	Audit of the controls to ensure accurate, prompt and complete administration of pension leavers including the production of on-going annual benefit statements within agreed timescales.		✓	
Transfers (including Notionals)	To provide assurance over the processes and controls to support the accuracy and timeliness of transfers in and out of the schemes managed by HPS.			✓
Pension refunds	To assess that there are appropriate arrangements to ensure all refunds are valid, accurate and are paid promptly to the correct recipients following a validated request to withdraw from the schemes administered by HPS.	✓		
Member deaths	To provide assurance that systems and processes ensure that any payments related to deceased members are calculated correctly and paid promptly to the correct recipient, with the risk of overpayments minimised.			✓
Accounting for pension receipts	Review of the control framework to ensure that all funds due from employers are received promptly, are accounted for correctly and are reconciled to annual returns.			✓

Audit	Indicative scope	2020/21	2021/22	2022/23
Governance arrangements	Review of the governance arrangements for Hampshire Pension Services and Hampshire Pension Fund Panel and Board and assurance over compliance with the arrangements.		✓	
Fund management, investments and accounting for assets	Assurance over the development & approval of the Pension Fund Investment Strategy, compliance with the Strategy and that all assets are accounted for, held securely and all dividends/interest etc due is received.	✓		
Fund pooling arrangements	Review of the governance arrangements for pooling investments and assurance that all investments are appropriate and approved.			✓
UPM Application Review	Review of the UPM application including cyber security & access controls.	✓		
Management	Planning, liaison, reporting, audit committee, external audit, advice	✓	✓	✓
Total Days		**100**		

This page is intentionally left blank

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	24 July 2020
Title:	Governance: Responsible Investment Sub-Committee Appointments
Report From:	*Director of Corporate Resources – Corporate Services*

Contact name: Andrew Boutflower

Tel: 0370 779 6896 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. To ask the Panel and Board to agree appointments to the Responsible Investment sub-committee.

Recommendation

2. That the committee appoints members to the Responsible Investment sub-committee, noting that for the four politically proportionate Hampshire County Council members this should currently be on the basis of three Conservatives and one Liberal Democrat.

Responsible Investment sub-committee

3. The terms of reference for a Responsible Investment sub-committee specify that the sub-committee's membership will be reviewed annually by the Panel and Board 'following the principle that appointments will rotate annually where practical and taking proportionality requirements into account'. Furthermore the terms of reference specify that the committee is to be made up as follows:
    - four County Council members,
    - one scheme member representatives,
    - one employer representative.

4. In its first year of operation the membership of the sub-committee has been as follows:
    - Cllr Kemp-Gee
    - Cllr Latham

- Cllr Glen
- Cllr Tennent
- Cllr Barnes-Andrews
- Dr Allen

5. For 2020/21 the County Council’s proportionality requires that the County Councillors appointed should be three Conservative members and one Liberal Democrat member.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	24 July 2020
Title:	Governance: Administration performance update
Report From:	Director of Corporate Resources

Contact name: Lois Downer, Deputy Head of Pension Services

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

Purpose of this Report

1. The purpose of this report is to update the Panel and Board on administration performance for 2019/20, and to seek approval for a project to trace members for whom no current address is held.

Recommendation(s)

2. It is recommended that the Panel and Board:
   - note the strong performance of Pension Services in 2019/20
   - note the concerns raised over employers who have not provided returns, or whose returns are inaccurate
   - approve the additional spend to carry out an address tracing exercise, and delegate authority for variation to this spend to the Director of Corporate Resources.

Executive Summary

3. Pension Services have performed well against the four key measures of good administration in 2019/20. The team has been able to maintain its service despite the Covid-19 situation.

4. There has been an impact of Covid-19 for a small number of employers, affecting their ability to pay contributions over to the Fund and provide information on their employees.

5. A major employer has failed to provide information by the statutory deadline and this may impact on the ability for the pensions team to produce annual benefit statements for these employees by 31 August.

6. Improvements to the Member Portal have made it viable to carry out a one off exercise to trace members for whom no current address is held. This exercise would improve the performance against the Pension Regulator's common data scores.

Administration performance

7. As at 31 March 2020, there were 342 active employers paying into the Hampshire Pension Fund, and a total of 178,539 members. The table below provides a detailed breakdown of the membership by employer type:

		Member type		
Employer Type	**Employers**	**Active members**	**Deferred members**	**Pensioner members**
Scheduled	180	57,296	73,730	41,062
Resolution	59	296	191	208
Admitted	66	1,155	1,053	1,081
Community admitted	15	71	323	359
Transferee admitted	22	95	277	228
Active employers total	**342**	**58,913**	**75,574**	**42,938**
Councillors (no active members)	10	0	94	128
Ceased (no active members)	52	0	252	640
Grand total	**404**	**58,913**	**75,920**	**43,706**

8. Pensions Services administer the Hampshire LGPS and have performed well against the four key measures of good administration in 2019/20:
   - Cost per member
   - Internal and external audit
   - Customer Service Excellence
   - Performance against service standards

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

Cost per member

9. One of the key external measures of administration performance is cost per member. The 2019/20 administration cost per member was £12.30 (the comparative cost per member for 2018/19 was £12.11, excluding the costs of the GMP reconciliation exercise).

10. Comparative costs for all LGPS Funds are reported annually in the Sf3 return, and Hampshire is always reasonable for the size of the Fund. The latest available Sf3 data is for 2018/19 on which Hampshire was the 5th largest Fund by membership and, at £17.75, had the second lowest combined administration and governance cost per member out of the 89 English and Welsh Funds. The average cost per member across all Funds was £32.67.

Audit reports

11. The annual internal audit opinion for Pensions has been presented to the Panel and Board in a separate report. Pensions have received good reports during the year with substantial assurance given for the annual pensions payroll, deaths, transfers and accounting for pension receipt reviews. There were no formal action plans required for the administration of LGPS pensions.

Customer Service Excellence

12. Pensions Services comply with the requirements for the national standard for excellence in customer service (CSE), which considers how the service delivers against over 50 criteria in five key areas:
    - Customer insight
    - Culture of the organisation
    - Information and access
    - Delivery
    - Timeliness and quality of service

13. Pensions Services have held the Customer Service Excellence (CSE) standard since 2009, and retained the award following an interim assessment in April 2020, with compliance plus passes in nine areas (up from seven areas in 2019):
    - We use reliable and accurate methods to measure customer satisfaction on a regular basis.
    - There is corporate commitment to putting the customer at the heart of service delivery and leaders in our organisation actively support this and advocate for customers.
    - We empower and encourage all employees to actively promote and participate in the customer focused culture of our organisation.
    - We can demonstrate our commitment to developing and delivering customer focussed services through our recruitment, training and development policies for staff.

- We can demonstrate how customer-facing staffs' insight and experience is incorporated into internal processes, policy development and service planning.
- We have challenging standards for our main services, which take account of our responsibility for delivery of national and statutory standards and targets.
- We make our services easily accessible to all customers, through the provision of a range of alternative channels.
- We monitor and meet our standards, key departmental and performance targets, and we tell our customers about our performance.
- We identify any dips in performance against our standards and explain these to customers, together with action we are taking to put things right and prevent further recurrence.

Performance against service standards (KPIs)

14. The KPIs for Pensions evidence the good performance in 2019/20. As reported to the Panel and Board in December 2019, performance against service standards dipped following the go-live of the new administration partnership with West Sussex in April 2019. Unfortunately there were ten interfund transfer cases which were not completed on time in quarter 3. The team recovered its position of 100% achievement against the service standards for the final quarter of 2019/20 and has continued to achieve 100% in the first quarter of 2020/21.

15. The tables below show the performance for the second two quarters of 2019/20. All casework was measured against a 15 day standard, apart from re-joiners which have a 20 day standard, and deferred benefits which have a 30 day standard.

Q3

Type of Case	0 – 5	6 – 10	11 - 15	16 – 20	21 – 30	31 - 40	Total	% completed on time
	Time to Complete (days)							
Active Retirement	84	79	65	0	0	0	228	100.00%
Deferred Retirement	93	178	181	0	0	0	452	100.00%
Estimates	120	187	357	0	0	0	664	100.00%
Deferred Benefits	59	25	89	147	1948	0	2,268	100.00%
Transfers In & Out	79	10	61	0	0	0	150	100.00%
Divorce	40	47	37	0	0	0	124	100.00%
Refunds	314	102	0	0	0	0	416	100.00%
Rejoiners	18	41	76	33	0	0	168	100.00%
Interfunds	31	15	89	0	4	6	145	93.10%
Death Benefits	174	30	45	0	0	0	249	100.00%
Grand Total	**1,012**	**714**	**1,000**	**180**	**1,952**	**6**	**4,864**	**99.31%**

Q4

Type of Case	0 – 5	6 – 10	11 - 15	16 – 20	21 – 30	31 - 40	Total	% completed on time
	Time to Complete (days)							
Active Retirement	102	69	48	0	0	0	219	100.00%
Deferred Retirement	75	84	146	0	0	0	305	100.00%
Estimates	198	308	209	0	0	0	715	100.00%
Deferred Benefits	50	17	78	209	1171	0	1,525	100.00%
Transfers In & Out	51	24	29	0	0	0	104	100.00%
Divorce	44	36	15	0	0	0	95	100.00%
Refunds	248	27	8	0	0	0	283	100.00%
Rejoiners	47	54	34	8	0	0	143	100.00%
Interfunds	73	52	35	0	0	0	160	100.00%
Death Benefits	195	35	59	0	0	0	289	100.00%
Grand Total	**1,083**	**706**	**661**	**217**	**1,171**	**0**	**3,838**	**100.00%**

16. The performance for 2019/20 is summarised in the table below.

Area of work	Service standard	Number of cases	% cases completed against service standard			
			Q1	Q2	Q3	Q4
			%	%	%	%
Retirement	15 days	977	99.55	100	100	100
Deferred Retirement	15 days	1,635	98.67	100	100	100
Estimate	15 days	2,747	92.43	100	100	100
Deferred	30 days	6,509	90.50	99.50	100	100
Transfers In and Out	15 days	399	71.21	94.94	100	100
Divorce	15 days	409	65.26	97.89	100	100
Refund	15 days	1,338	100	100	100	100
Rejoiners	20 days	625	91.95	100	100	100
Interfunds	15 days	462	63.38	94.19	93.10	100
Death benefits	15 days	949	95.92	100	100	100

17. A total of 2,462 Scheme members retired during 2019/20, with an average retirement age of 62 years. Of this number, 1,350 (or 54.8%) took some form

of early retirement including 91 ill health retirements and 1,079 members choosing to take a reduced pension.

18. The average annual pension paid in 2019/20 was £5,038 (£5,023 in 2018/19).

19. The annual exercise to apply the statutory pensions increase to pensions in payment and deferred payments was completed as planned. Deferred annual benefit statements have been produced for the majority of members in June, ahead of the statutory deadline of 31 August. There are only 28 deferred members for whom a statement is still outstanding and it is anticipated that all of these will be cleared well ahead of the deadline.

Impact of Covid-19

20. All pensions staff are working remotely from home during the Covid-19 situation, and there has been no impact on performance against service standards. An MS Teams solution has allowed the call centre team to continue operating the normal contact number but members have been asked to email where possible to leave lines clear for those without internet access. Consequently call volumes are approximately 30% of normal levels.

21. Three members of staff are going into the office twice a week to collect and scan post and to print and send letters where no email address is held for a member. The annual pensioner payslips, newsletters and P60s are printed and dispatched by an external mailing house, and this exercise was not impacted by lockdown. However further opportunities to reduce paper and encourage online access to information are being explored. In addition, a decision to delay the annual overseas mortality screening exercise has been taken as members are asked to provide a certificate signed by an unrelated person which may be more difficult for members to achieve in the current circumstances. The risk of delaying this exercise is that pensions may continue to be paid after death, although in most cases any overpayment is recovered (see paragraph 36).

22. Covid-19 has impacted some employers, particularly those who have had to furlough staff. Covid-19 has impacted on the financial viability of one employer who participates as an admission body (see paragraph 23). In addition, a higher than usual number of annual returns have been received after the deadline (see paragraphs 26 to 29 below).

Timeliness of contributions

23. All employer contributions due for 2019/20 have been received, with the exception of one admitted body who has not paid for March 2020. This employer has catering contracts with three schools and has now made the

Fund aware that they are likely to enter insolvency. A formal letter has been sent to the employer, setting out its obligations under the regulations. Officers are working with the schools which let the contracts and the guarantor has been notified that there is likely to be a call on its guarantee. The outstanding contributions at the end of June 2020 were £2,900.

24. A total of £3.845m was paid late (£3.203m in 2018/19) which was 1.13% of the total contributions received. The average delay on all late payments received during 2019/20 was 11 days (11 days in 2018/19). Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2019/20.

25. One employer approached the Fund with an enquiry about deferring contributions because of the Covid-19 situation, but decided to take no further action and has paid in full and on time.

Annual returns

26. Employers are required to provide an annual return by 30 April containing details of all employees who contributed during the year. Full details of employer performance against the annual return process is reported to the Panel and Board as part of the December administration update, after the exercise has been completed.

27. Whilst the majority of employers provide their returns on time, there are usually one or two returns which are received more than a month after the deadline. This year there were 11 returns received in June, covering 103 members. The main cause of these delays was the effect of Covid-19, as many of the organisations had furloughed their staff. These returns have now been received and uploaded.

28. Of more significant concern is Southampton City Council (SCC), which failed to provide a return by either the 30 April deadline, or its own anticipated deadline of 30 June, affecting 3,076 members. A return was received on 1 July but was not of sufficient quality to upload. A material number of queries on a separate return, covering 927 employees working in SCC maintained schools, also remain outstanding. It is increasingly unlikely that it will be possible to produce annual benefit statements for SCC members by the statutory deadline of 31 August. If this is the case, members will instead be given a letter explaining that a statement could not be produced as a result of SCC failing in its obligations to provide timely and accurate information to the Fund.

29. These matters have been escalated to the Chief Executive at SCC, with SCC formally now in special measures. In addition to resolving the outstanding issues with the annual returns, SCC will have to undertake a half year

reconciliation for 2020/21 as at 30 September as well as then providing monthly payroll reports of starters and leavers from October 2020 onwards. All administration costs incurred by the pensions team will be recharged directly to SCC. These matters will also be raised informally with the Pensions Regulator to discuss if further action, such as a formal breach report, should be taken.

Member Portal and address tracing

30. Work has continued in the year to improve the Member Portal, with the aim of this being the primary way in which members can engage with their pension information. There were 44,443 members registered on the Member Portal by 31 March 2020. From 1 April to 30 June 2020 there have been a further 3,788 registrations, bringing the total to 48,231. This increase is in part because emails have been sent out to notify deferred members that their annual benefit statements are available to view but also because of the change to the starter process described in paragraph 31 below.

31. From April 2020, new starters have received a welcome email which asks them to register for the Portal rather than being sent a letter enclosing a membership option form. It is planned that by the end of 2020/21, members who are retiring will receive their information through the Portal rather than by post.

32. It is now possible for members to run their own estimates via the Portal. This functionality is available for active and deferred members, for estimates between age 55 and 75 (i.e. early, late or normal retirements). Estimates for employer related retirements (i.e. ill health and redundancy) will continue to require an employer request to the team.

33. It was reported to the Panel and Board in December 2019 that there were a significant number of members for whom no address details are held and that this impacted the common data score reported to the Pension Regulator (tPR). There are currently 6,162 members with deferred benefits and 2,016 members who have a frozen refund for whom no current address is held. Members are traced on a case by case basis prior to age 75 (by which time benefits have to be paid) but it has not been considered worthwhile tracing younger members as it might be a further 30 years before their benefits would become payable during which time it is likely they would move again. With the improvements to the Member Portal, a one off project to trace them and request them to register is now viable as members now have the tools to update their address easily online. It is anticipated that this exercise would

improve the Fund's position against the tPR scores, and therefore should be carried out in advance of the scheme return due in November.

34. The tracing exercise would be carried out by a professional tracing service who will identify the new address and send out letters to request members register and provide their email address to the Fund. The costs of the exercise will depend on how easily members can be traced. The tracing company carry out a three stage process, the last of which is a manual search at a cost of £20 per trace. The automated tracing is likely to be successful for around 65% of cases, for a cost of around £25,000. The manual trace is charged on a no trace no fee basis and is likely to provide addresses for a further 1,700 members at a cost of £35,000.

35. The Panel and Board are asked to approve this additional spend of up to £60,000, and delegate authority to the Director of Corporate Resources for approval of any variation.

Mortality screening and National Fraud Initiative

36. Pension Services run a monthly mortality screen to ensure that all deaths are reported promptly to the Fund and to minimise overpayments of pension. Overpayments are recovered by the Fund by invoice to the estate, or, with permission from the beneficiary, from a death grant or dependant pension. The table below shows the breakdown of how overpayments were recovered by the Fund.

Recovered From	Number	Total value
Death Grant	73	£30,946.27
Dependant Pension	198	£99,219.68
Invoice	315	£137,491.55
Write Off	89	£3,464.83
Total	**675**	**£271,122.33**

37. The Fund also participates in the bi-annual National Fraud Initiative (NFI). The 2019 NFI exercise identified four deaths with a total potential recovery of £31,748.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board need to approve an additional spend to fulfil requirements set by the Pensions Regulator.	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.

This page is intentionally left blank

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	24 July 2020
Title:	Governance: Exit credits
Report From:	Director of Corporate Resources

Contact name: Lois Downer, Deputy Head of Pension Services

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

Purpose of this Report

1. The purpose of this report is to seek approval from the Panel and Board for the policy on the payment of exit credits, which has been updated following regulation changes.

Recommendation(s)

2. It is recommended that the Panel and Board approve the new policy on exit credits and the consequential changes made to the Funding Strategy Statement, Employer Policy and Administration Strategy.

Executive Summary

3. The LGPS regulations were amended in May 2018 to require the Fund to repay any surplus on exit to the employer leaving the Fund and Hampshire's policy documents were updated for this change. However following responses to a further government consultation the regulations on exit credits have recently been changed again.

4. The new regulations are effective retrospectively to 14 May 2018, and state that before paying an exit credit, administering authorities must have regard to:
   - the extent of any surplus
   - the proportion of a surplus that has arisen because of the value of the employer contributions
   - any representations made by the exiting employer or letting authority

- any other relevant factors.

5. The new regulations mean that each exit will have to be considered on its own merits, but in the interests of transparency, it is recommended that a default approach is set out in the Funding Strategy Statement and Employer Policy.

6. **Background**

7. Exit credits were introduced in May 2018 to allow the payment of surpluses on exit from the Fund; prior to this any surpluses on exit were retained in the Fund. However, concerns were raised by administering authorities about the unforeseen consequences of paying an exit credit, specifically where scheme employers had outsourced services or functions to service providers at a time when the Regulations did not provide for any surplus on exit to be repaid. Some Funds found that a short term contractor was eligible for an exit credit where this would not have been the intention of the contractual side agreement between the letting authority and the contractor, as the letting authority had retained the pension risk via a pass through arrangement.

8. Following a further consultation, the regulations have now been revised such that they set out the factors to which the administering authority must have regard when deciding whether or not to pay an exit credit. This change has been applied retrospectively to when the regulations were first changed, 14 May 2018.

9. In their response to the consultation, the Government stated that a policy on exit credits must protect the interests of employers and members as a whole, and therefore the administering authority must make a consideration that is wider than the perspective of the exiting employer. The response also states that while administering authorities will be required to take into account representations made by the parties, they will not be obliged to enquire into the precise risk sharing arrangements adopted. It will be for those parties to set out why the arrangements made by them make payment of an exit credit more or less appropriate.

Current policy

10. Hampshire's policy on exit credits prior to the new regulations coming in states that an exit payment will usually be paid to the exiting employer. This policy put the emphasis on employers ensuring that their contractual arrangements cover the treatment of exit credits as well as exit deficits, and guidance was provided to employers at the time to ensure their existing arrangements were reviewed for this change.

11. The main exception in the policy was for the Admitted Body Group employers who had a commitment from a secure scheduled body employer to subsume any liabilities on exit. In those cases, no exit credit would be paid to the exiting employer and the surplus would be retained in the Scheduled Body Group.

Proposed policy

12. The new regulations state that before paying an exit credit, the administering authority must now take into account:

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

13. After discussions with the Fund Actuary, and consultation with employers (see paragraphs 17 to 19 below) it is proposed that:

- For exits on a low risk basis (i.e. where there is no continuing employer backing the liabilities) the exit credit will usually be equal to the surplus. For exits where a continuing employer is subsuming the liabilities, the lower of the surplus or the value of employer contributions will usually paid as an exit credit.
- Actuarial and legal costs of the exit valuation will usually be deducted from the exit credit before payment.
- The exit credit will usually be paid to the departing employer, leaving letting authorities to recover the value via their side agreements if appropriate.
- No exit credit will be paid to an employer from the Admitted Body Group as it was a stated condition of the secure scheduled employer who offered to subsume liabilities on exit that no surplus will be paid.
- Representations from employers seeking to justify a different approach to the default described above will be considered on a case by case basis.
- The administering authority also will consider any other relevant factors that may result in a different approach to the default approach. These may include, but are not limited to, the extent to which the exiting employer was responsible for the funding risk during their participation in the Fund or any reputational issues arising from the payment of an exit credit.

14. It is proposed that the calculation of value of the employer contributions will be estimated as the contributions paid into the Fund during the employer's participation multiplied by the changes in Fund value over the same period. This uses the monthly change in valuation of the Fund as an approximation

for investment returns but will be sufficient to identify situations where the employer has benefited from a material change in market conditions over the course of their participation.

15. Under this proposed policy, payment will still be made to the exiting employer in most circumstances and therefore employers who let contracts will have to ensure that existing and future contracts allow for the possibility of surpluses on exit. However representations from employers must be considered and therefore letting authorities will need to show clearly why the surplus (or value of employer contributions if lower) should be retained in the Fund rather than an exit credit being paid to a contractor if they believe this to be the right course of action. Similarly, contractors will need to be able to demonstrate why an exit credit should be paid, particularly where the contract was entered into before 14 May 2018 when the regulations did not envisage surpluses being paid out.

16. The proposed policy is set out on pages 4 and 5 of the Funding Strategy Statement which is shown in Appendix 1 of this report. In addition, the Employer Policy in Appendix 2 has also been updated on pages 18 and 19 to reflect the changed approach. Discretion 56 on page 23 has been updated for the change from three months to six months for payment of an exit credit and a new discretion to determine whether an exit credit is payable has been added to page 24 of Appendix C of the Administration Strategy, which is Appendix 3 to this report.

Employer feedback

17. It is a requirement of the regulations that administering authorities detail their policy on exit credits in the Funding Strategy Statement (FSS). The regulations also require that any changes to the FSS are made after consultation with such persons as the administering authority considers appropriate. Employers were therefore asked to comment on the proposed policy on exit credits in a consultation that ran for three weeks from 19 June to 9 July 2020, with a reminder email sent on 3 July.

18. Three employers responded to the email, one to confirm that they had no comments and one who positively endorsed the proposed approach. The other employer provided feedback that it would be unreasonable for employers who were overpaying contributions into the Fund not to receive the full benefit of this if they were to exit on a low risk basis. The focus of the policy as originally considered was on the issue of short term contractors exiting the Fund, having ‘done well’ out of the fluctuations of the market. Although longer term employers exiting had been discussed with the Actuary and agreement in principle reached that if an exit was carried out on a low risk basis an employer ought to have the surplus returned as an exit credit, for simplicity, it had been decided that this would be achieved on a case by case basis under ‘other relevant considerations’.

19. Following the feedback the proposed policy was amended to be more explicit that an employer who has a surplus on a low risk basis would be likely to receive the value of the surplus as an exit credit (rather than it being limited to the lower of this or the value of the contributions).

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board need to approve a consultation response on behalf of the administering authority.	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.

This page is intentionally left blank

Funding Strategy Statement

Introduction

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

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

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

Consultation

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

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

Purpose of the Funding Strategy Statement

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

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

Aims of the Fund

The Fund has three main aims:

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

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

- Seek returns on investment within reasonable risk parameters.

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

To manage the employers' liabilities effectively

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

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

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

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

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

Exiting the fund

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

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

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

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

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

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

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

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

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

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

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

Exiting the fund – surpluses

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

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

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

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

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

This may mean that no exit credit is due for example if it is a stated condition of an employer subsuming the liabilities that no surplus will be repaid to the exiting employer as is the case for those organisations in the Admission Body Group which have a commitment from a secure scheduled employer to subsume the liabilities on exit.

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

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

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

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

Potential exits

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

Interim reviews for employers

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

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

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

- Where the date of exit is known, and is more than three years away, or is unknown and assumed to be indefinite, interim valuations will generally not be required by the Administering Authority.
- For paragraph 1(d)(i) bodies (2013 Regulations – Schedule 2 Part 3) falling into the above category, the Administering Authority sees it as the responsibility of the relevant scheme employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the Relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, for example the date of exit becoming

known, material membership movements or material financial information coming to light may cause the administering authority to review the situation informally and subsequently request a formal interim valuation.

- Where an employer is due to leave the Fund within the next three years, the administering authority will monitor developments and may see fit to request an interim valuation at any time in order to try to effect a smoother transition to exit.

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

Inter-valuation funding valuations

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

Guarantors

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

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

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

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

Bonds and other securitisation

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

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

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

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

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

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

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

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

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

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

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

Seek returns on investment within reasonable risk parameters

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

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

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

Purpose of the Fund

The purpose of the Fund is to:

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

Responsibilities of the key parties

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

The County Council as administering authority is required to:

- Operate a pension fund
- Collect employer and employee contributions, investment income and other amounts due to the Pension Fund as stipulated in LGPS Regulations.
- Pay from the Fund the relevant entitlements as stipulated in LGPS

Regulations.

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

The individual employer is required to:

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

The Fund actuary should:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the LGPS Regulations.
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs or ill health retirement costs etc.
- Provide advice and valuations on the exit of employers from the Fund.
- Provide advice to the administering authority on bonds or other forms of security against the financial effect on the Fund of employer default.
- Assist the administering authority in assessing whether employer

contributions need to be revised between valuations as permitted or required by the regulations.

- Ensure that the administering authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the fund.

Funding Strategy

Risk based approach

The Fund utilises a risk based approach to funding strategy.

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

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

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

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and 'funding success'

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

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

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

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

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

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

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

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

Probability of Funding Success

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

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

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

Funding Target

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

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

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

Recovery and Trajectory periods

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

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

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

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

Grouping of Employers

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

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

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

Group Funding Framework

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

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

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

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

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

Town and Parish Council Group

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

The TPCG includes Town and Parish Council employers under Part 2 (paragraph

2) of Schedule 2 of the Regulations who, due to being relatively small employers, benefit from being able to share risks with a wider pool.

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

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

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

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

Academies Group

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

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

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

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

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

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

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

Admission Body Group

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

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

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

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

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

Funding principles applying to grouped employers

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

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

- The group exists to produce a common percentage of pay contribution rate for employers in the group
- Only the group funding target is relevant when producing a common primary contribution rate

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

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

Notional sub-funds

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

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

Roll forward of sub-funds

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

- *Attribution of investment income*

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

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

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

Fund maturity

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

Advance payment of employer contributions

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

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

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

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

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

Additional payments by employers

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

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

Identification of risks and counter measures

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

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

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

Investment risk

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

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

The specific risks associated with assets and asset classes are:

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

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

Employer risk

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

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

The Administering Authority maintains a knowledge base on their employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS. In addition, the Administering Authority commissions the Fund Actuary to carry out a high level risk assessment for employers, as appropriate to inform its funding strategy.

Liquidity and maturity risk

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

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

Liability risk

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

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

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

Regulatory and Compliance risk

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

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

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

Governance risk

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

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

Recovery period

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

Phasing

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

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

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

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

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

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

Both documents are subject to regular review.

Future monitoring

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

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

This page is intentionally left blank

Hampshire Pension Fund – Employer Policy

Contents

1. Background

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

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

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

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

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

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

2. Aims

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

- to manage the employer's liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due,
- to enable primary contribution rates to be kept as nearly constant as

possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

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

3. Principles

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

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

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

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

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

4. Responsibilities of employers in the Fund

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

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

Changes/mergers

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

Admission agreements

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

5. Managing risk

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

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

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

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

6. New employers in the Hampshire Pension Fund

Admission bodies

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

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

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

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

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

All outsourcings

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

Paragraphs 5 & 6, Part 2, Schedule 2 bodies

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

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

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

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

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

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

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

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

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

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

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

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

Town and Parish Councils

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

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

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

Academies

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

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

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

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

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

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

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

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

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

7. Bonds and guarantors

Guarantor

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

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

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

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

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

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

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

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

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

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

Bond

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

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

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

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

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

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

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

8. Open or closed admission agreements

Open agreement

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

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

Closed agreement

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

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

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

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

Designating employers

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

9. Funding targets

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

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

Orphan (gilts) funding target

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

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

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

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

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

Secure scheduled body funding target

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

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

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

Intermediate funding targets

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

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

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

10. Pass-through

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

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

11. Fully funded or share of fund

Fully funded

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

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

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

Prioritised share of fund

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

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

Share of fund

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

Allowance for McCloud / GMP equalisation

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

12. Exit from the Fund (terminations)

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

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

-no longer has an active member contributing towards the Fund

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

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

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

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

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

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

13. Exit credits

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

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

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

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

13.4. Exit credits will usually be paid to the exiting employer. Scheme employers should note that it is their responsibility to ensure that contracts and side agreements provide for the possibility of either a deficit or a surplus at the end of the contract when the exit valuation takes place.

13.5. A known exception to 13.4 above relates to those scheme employers in the Admission Body Group whose assets and liabilities will be subsumed by a secure scheduled employer, where the subsuming employer has made it a condition of subsumption that no surplus (when measured using assumptions for secure scheduled employers) will be repaid to the exiting employer.

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

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

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

13.9. Regulation 64 (2ZAB (b)) states an exit credit must be paid within 6 months of the exit date or such longer period as is agreed. Where the circumstances mean that the 6 month period cannot be met, for example (but not limited to) to inaccuracies or delays in the provision of information by the Employer, the Fund will advise the Employer accordingly and seek to agree a later payment date (usually three months after receipt of all required information). If the

Employer does not agree, the Fund will discuss with the Actuary how the exit valuation can be finalised and an exit credit paid without increasing the risk for the remaining employers in the Fund.

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

14. Exit of Town and Parish Councils

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

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

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

[2] Provision 22

Hampshire Pension Fund
administered by
Hampshire
County Council

Hampshire Pension Fund Administration Strategy

1 Introduction

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

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

1.3 This strategy statement:

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

2 Pension Administration Strategy

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

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

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

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

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

3 Roles and responsibilities

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

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

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

4 The Regulations – effect on strategy

4.1 This strategy sets out certain duties and responsibilities.

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

4.2 This agreement is based on:

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

5 Definitions

5.1 For the purpose of this Administration Agreement:

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

6 Communication

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

6.2 HPF routinely provides information and resources for employers using

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

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

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

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

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

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

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

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

7 Performance measurement and reporting

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

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

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

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

8 Costs

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

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

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

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

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

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

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

9 Penalties

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

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

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

10 Hampshire Pension Fund contacts

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

Appendix A - Employer Responsibilities

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

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

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

Employer responsibility	Timescale
The employer must keep a full pay history for the 13 years, ending 31 March, before the member leaves the scheme.	
Notify HPF of a member's death and next of kin's details.	Within 5 working days of the member's death.
Supply details required for completion of an estimate.	Within 10 working days of the member's request
Distribute annual benefit statements and any other notifications to active members as requested by HPF.	Within 20 working days of receipt
Notify HPF of any TUPE transfer. Complete TUPE forms for each member transferring.	Notify HPF of the transfer as soon as possible in advance of the transfer date. Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place.
Notify HPF of any outsourcing arrangements which impact on employees eligible to the LGPS Where an admission agreement is required, the Scheme employer should complete an 'Outsourcing data capture' form, transferring 'staff data capture' form and 'Undertaking of costs' form Ensure admission agreement is finalised Provide individual TUPE forms for transferring staff to HPF	As soon as possible but no later than 20 working days before change As soon as possible but no later than 20 working days before change No later than date of transfer Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place

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

•

Appendix B - HPF Responsibilities

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

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

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

HPF responsibility	**Timescales**
Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.	In accordance with regulations and then regular review. Notify employers and members of any changes to those policies within 30 working days of the changes taking effect.
Answer enquiries made by members	Within 5 working days or sooner where possible Where an enquiry will take longer than 5 days to resolve, HPF will notify the member and keep the member updated.
Set up a record for each new member and issue a statutory notification.	Within 20 working days from when notified of their membership.
Make payment of a refund of contributions to an eligible member who leaves with less than 2 years service.	Within 15 working days of receipt of the election form from the member
Issue annual benefit statements on member self service to active members or via their employer where written notification is received to opt out of member self service	By 31 August after relevant annual return information from the employer is received and uploaded
Provide an estimate of pension benefits on request from the employer, and details of any capital costs to be paid by them.	Within 15 working days of receipt of all relevant information
Amend a member's record.	Within 15 working days from when the change was notified.
Calculate benefits due when a member leaves employment and send details to the member.	Within 15 working days for retirements, or within 30 working days for deferred benefits, on receipt of all information needed to make the final calculation
Send a benefit statement to all deferred members showing the accrued benefits to the date of leaving and the other options 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

Page left intentionally blank

Appendix C – Administering Authority discretions and delegated authority for approval

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

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

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

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

	Discretion	Regulation	Policy	Delegated authority for approval
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
17.	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	**R**49(1)(c) **B**42(1)(c)	HPF will choose the benefit entitlement that yields the highest level of benefits for the member.	Team Manager - Member Services
18.	Whether to set up a separate admission agreement fund	**R**54(1)	HPF has decided not to set up a separate admission agreement fund.	Director of Corporate Resources
19.	Maintain a governance policy which contains the information set out in the regulations	**R**55	HPF has a written governance policy which contains the required information and is regularly reviewed.	Pension Fund Panel and Board
20.	Decide on Funding Strategy for inclusion in funding strategy statement	**R**58	HPF has a funding strategy which is included in the funding strategy statement.	Pension Fund Panel and Board
21.	Whether to have a written pensions administration strategy and if so, the matters it should include	**R**59(1) and (2)	HPF has a written pensions administration strategy.	Pension Fund Panel and Board
22.	Maintain a communication policy which contains the information set out in the regulations	**R**61	HPF has a written communication policy which contains the required information and is regularly reviewed.	Pension Fund Panel and Board
23.	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	**R**64(4)	HPF will decide each case on its merits, with advice from the Fund Actuary.	Director of Corporate Resources

	Discretion	Regulation	Policy	Delegated authority for approval
24.	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the 'cost sharing' under **R**63	**R**65	HPF will make this decision as it arises, with advice from the Fund Actuary.	Director of Corporate Resources

	Discretion	Regulation	Policy	Delegated authority for approval
25.	Decide the frequency of payments to be made over to the Fund by employers and whether to make an admin charge	**R**69(1) **L**81(1) **L**12(5)	HPF has determined the interval for payment of employer contributions to be monthly (other than for employers who make advance payment of their contributions on 1 April). Payments are due monthly by 19th of the month (22nd if electronic) following deduction. However if in exceptional circumstances an employer makes a request to defer payment of employer contributions, consideration to this will be given on a case by case basis. Factors which will be considered include, but are not limited to; the overall financial security of the organisation making the request, the likelihood that deferring may lead to contributions not being paid within the year, the support of any guarantor or related local authority to the deferment. If a request is agreed, then deferred payments will be subject to interest at the underlying discount rate for the employer. HPF reserves the right to ask the Fund Actuary to take into account the timing of deferred payments when determining the allocation of assets. This is so that any material increase in markets is not unfairly attributed to employers during a period of non payment. Administration costs are taken into account by the actuary when setting employer contribution rates.	Head of Pensions

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

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

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

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

Page 132

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

Key to regulations:

Prefix	Regulation
R	Local Government Pension Scheme Regulations 2013
TP	Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
A	Local Government Pension Scheme (Administration) Regulations 2008
B	Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007

T	Local Government Pension Scheme (Transitional Provisions) Regulations 2008
L	Local Government Pension Scheme Regulations 1997 (as amended)
None	Local Government Pension Scheme Regulations 1995
DC	Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
RPS	The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	24 July 2020
Title:	Governance – Annual Report, Risk Register, Pension Fund Costs and Cash Management 2019/20
Report From:	*Deputy Chief Executive and Director of Corporate Resources*

Contact name: Rob Sarfas and Gemma Farley

Tel: 0370 779 1556
0370 779 4704 **Email:** rob.sarfas@hants.gov.uk
gemma.farley@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to introduce the 2019/20 draft Pension Fund Annual Report to the Panel and Board.

2. The report also provides details of updates made to the Risk Register since it was last reported to the Panel and Board and analysis of costs incurred in managing the Pension Fund during 2019/20.

3. An update is also provided on the Pension Fund's policy for managing its cash balance.

Recommendations

4. That the Panel and Board notes the contents of the draft Annual Report for 2019/20, including the amendments to the Risk Register, and approves its publication.

5. That the Deputy Chief Executive and Director of Corporate Resources is authorised to make any necessary minor amendments to the Annual Report prior to publication as detailed in paragraph 19.

6. That the Panel and Board notes the total cost of managing the Fund.

7. That the outturn report on the Pension Fund's cash management in 2019/20 is approved by the Panel and Board.

Executive Summary

8. The requirement to publish an annual report was introduced into the Local Government Pension Scheme (LGPS) Regulations in 2013, with the aim of promoting awareness of the scheme and providing members and stakeholders with relevant information in an accessible and consistent manner.

9. The draft Annual Report for 2019/20 has been prepared and is presented to the Panel and Board for review and approval for publication, with further information provided in paragraphs 14 to 21.

10. The Annual Report includes the latest updates to the Pension Fund's Risk Register, including amendments to operational, investment, and administrative risks.

11. There are a variety of costs that are incurred in the management of the Pension Fund, which are disclosed in the Pension Fund's annual report and accounts under the following three categories:
    - Investment management costs – the cost of managing the Fund's assets, which includes fees paid to the Fund's investment managers and its custodian. This includes fees that are incurred by the Pension Fund directly but also indirect fees that are not paid directly but that reduce investment returns, such as those for investments held through ACCESS and alternative investments like Private Equity and Infrastructure.
    - Administration expenses – all activities the Administering Authority must perform to administer entitlements and provide members with scheme and benefit entitlement information.
    - Oversight and governance – the costs of accounting for and monitoring the Pension Fund, plus the additional professional advice and support that is required by the Fund.

12. The Fund is required to report on the costs and savings achieved through pooling; paragraphs 22 to 32 provide further detail on this as well as the three elements of the Pension Fund's management costs described above.

13. This report also provides an annual review of the policy for managing the Hampshire Pension Fund's cash balance in paragraphs 33 to 48. The Pension Fund adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the

Public Services: Code of Practice, which includes producing an annual report on the treasury management strategy after the end of each financial year.

Annual Report

14. The Pension Fund publishes an annual report each year to promote awareness of the scheme and provide members and stakeholders with relevant information in an accessible and consistent manner.

15. The Annual Report includes details of the Fund's governance, administration, and investments, as well as the Fund's accounts. The annual report now also includes additional information on pooling, including:
    - details of the ACCESS pool's annual report
    - an update on progress with investment pooling
    - updates to sections of the report including investment performance and the risk register to reflect the impact of pooling.

16. The Annual Report contains the Pension Fund's Risk Register. An assessment of each risk is conducted by officers with the assistance of the Fund Actuary and updates since it was last reported to the Panel and Board are highlighted below, with the full risk register included in Appendix 1.

Table 1 – Updates to the Risk Register		
Risk	**Description**	**Change**
Employer risk	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.	The mitigation has been updated to include a statement to say that the Administering Authority has a written policy on how it would exercise its discretion to defer pension contributions in exceptional circumstances
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyberattack), either affecting the Pension Fund directly or one of its key suppliers.	The description of the risk has been amended to specifically reference the risk of a pandemic. The mitigation has been updated to include a statement to confirm that arrangements in the described scenarios will include the ability to continue to deliver

Table 1 – Updates to the Risk Register		
Risk	**Description**	**Change**
		key services remotely should this be necessary. The likelihood of this happening has been increased from Low to High
Investment risk	Environmental, social and governance (ESG) factors – that these factors materially reduce long-term returns.	The description of the risk has been expanded to specifically reference the impact of climate change. The mitigation has been updated to specifically state that any negative contribution to climate change and the overall risk from the impact of climate change will be considered by the Pension Fund's external investment managers in making investment decisions

17. The current draft Annual Report is attached and has been reviewed by officers and the Deputy Chief Executive and Director of Corporate Resources.

18. Amendments to the Annual Report following this review by officers will be made prior to the report being finalised, however it was not possible to make these amendments ahead of the publication of papers for the Panel and Board meeting.

19. Amendments due to be made include:

- The confirmation of details of the ACCESS pool's annual report
- Minor corrections including grammatical, typographical, and formatting errors and the finalisation of page numbering

20. In addition, the Pension Fund's accounts are included in the Annual Report. The accounts are subject to audit and it may therefore be necessary to make minor changes to the Annual Report at the conclusion of the audit. The audit process normally concludes in time for the accounts to be signed off by the end of July. This year, however, the current exceptional circumstances mean that the audit deadline has been extended.

21. The final version of the Annual Report, excluding the final statement from the auditors, will therefore be available for publication at the end of July 2020. Any changes resulting from the audit will be highlighted to the Panel and Board at a future meeting and will also be published alongside the Annual Report on the Pension Fund's website.

Pension Fund costs 2019-20

22. The total cost of managing the Pension Fund is shown in the Table 2 below and also as a percentage of the average value of the Pension Fund in 2019/20 (2018/19 and 2017/18 costs are shown as a comparison):

Table 2 – Pension Fund management costs

	2019/20		2018/19		2017/18	
	£'000	%	£'000	%	£'000	%
Investment management	47,780	0.64	37,576	0.54	38,186	0.59
Administration	2,196	0.03	2,417	0.04	2,000	0.03
Oversight and governance	722	0.01	632	0.01	546	0.01
Total	50,698	0.68	40,625	0.59	40,732	0.63

Investment management costs

23. As part of the updated statutory CIPFA guidance on preparing the Pension Fund Annual Report additional data is provided, most notably about investment pooling. Investment management costs are separated between costs incurred from investments held through the pool and those that continue to be held directly.

24. Table 3 shows the actual cost of investment management for 2019/20, as well as providing a meaningful comparison by presenting the costs in terms of basis points.

25. The data in Table 3 is based on data provided by the Pension Fund's investment managers who have all completed the Cost Transparency Initiative template. The Fund's investment management costs shown in Table 3 are broken down into the following categories:

- Direct fees – that are invoiced to the Pension Fund by its investment managers
- Indirect fees – are charged directly against the Fund's investments within investment vehicles such as pooled funds within the ACCESS

pool and held outside, as well as the alternative investment funds that the Pension Fund invests in directly.

- Transaction costs – such as broker commission paid in the purchase and sale of investments, as well as costs associated with property transactions for the Fund's directly held property portfolio.
- Custody and other costs – the fees paid to the Fund's custodian for the safe custody and administration of the Fund's investments and consultancy costs where they specifically relate to investments.

Table 3 – Investment management costs 2019/20

	Pooled		Non-pooled		Total	
	£'000	% bps	£'000	% bps	£'000	% bps
Direct fees	550	0.01	7,150	0.24	7,700	0.10
Indirect fees	4,876	0.11	26,144	0.88	31,020	0.41
Transaction costs	2,382	0.05	6,244	0.21	8,626	0.12
Custody and other costs	-	-	435	0.01	435	0.01
Total	7,807	0.17	39,538	1.33	47,780	0.64

26. The investment management costs of pooled investments are disproportionately lower than the non-pooled investments because the assets that have not been pooled, specifically property and alternative assets, attract significantly higher costs, but these assets are held to ensure the Pension Fund's investment strategy is suitably diversified. The costs of the Pension Fund's investments are considered by the Panel and Board in considering investment returns on a net of costs basis when evaluating investment performance and options.

27. Investment management fees in 2019/20 increased in comparison to the previous year as a result of additional costs for maintaining and improving the Fund's investment properties, as well as an increase in fees paid to the underlying managers of the Fund's alternative investment portfolios as investments in this area increased bringing the Fund's alternative investments closer to their target allocations.

28. Table 1 in the exempt appendix provides a breakdown of the investment management costs for 2019/20 by investment manager.

29. The Annual Report also includes analysis of the pool's ongoing costs and savings achieved to date both at the pool level and for Hampshire

specifically. Hampshire's costs and savings as a result of being invested in the ACCESS pool are shown in Table 4.

Table 4 – Pool costs and savings

	Hampshire	
	2019/20	Cumulative
	£'000	£'000
Pool setup and on-going costs	(117)	(396)
Transition costs	-	(403)
Investment management fee savings	826	1,478
Total net savings / (costs)	709	679

30. During 2019/20, Hampshire's involvement in ACCESS moved from a net cumulative cost to a net cumulative saving. This saving was achieved through the following activity in the year:

- The pool setup and on-going cost during 2019/20 is Hampshire's proportion of the total ACCESS budget which is split 11 equal ways. This includes the cost of the ACCESS Support Unit including technical support provided by lead officers, any procurement exercises carried out in year, the cost of any advice received from consultants, as well as the Member Support service provided by Kent County Council;
- All of Hampshire's investments that have transitioned into the ACCESS pool transitioned prior to 2019/20, and therefore Hampshire has gained a full year of savings on these investment management fees compared with part year savings in 2018/19;
- No further investments transitioned into the ACCESS pool for Hampshire in 2019/20, and therefore Hampshire did not have any transition costs in 2019/20.

Administration costs

31. Administration costs during 2019/20 were lower in percentage terms at 0.03% in comparison to 2018/19 (0.04%), but in line with 2017/18 (0.03%). The increase in administration costs in 2018/19 were in part due to the investment in the new Member Portal. Administration is becoming increasingly complex and the costs of administration reflect the resource implications, however investment in technology has helped to produce efficiencies.

Oversight and governance costs

32. Oversight and governance costs during 2019/20 were in line with both 2018/19 and 2017/18 in percentage terms.

Pension Fund Cash – Annual Report 2019/20

33. The Pension Fund receives cash each month from contributions made by employees and employers, and from investment income. The Pension Fund requires a cash balance to be able to pay pensions and other costs. Cash is also required for the following investment reasons:
    - if the UK property manager CBRE Global Investors purchases additional properties;
    - to finance drawdowns of private equity and private debt limited partnerships and co-investments; and
    - to finance drawdowns of infrastructure investments.

34. Dividends from shares and interest receipts from bonds are retained by the external investment managers for reinvestment but rent income from the Pension Fund's direct property portfolio is credited to the Fund's cash balance. Distributions from the Fund's private equity, private debt and infrastructure investments are also paid out into the Fund's cash balance.

35. The Pension Fund's investment managers aim to be fully invested, and generally do not plan to hold cash as a matter of investment policy. All of the Fund's active investment managers will have some cash balances as a result of trading between stocks and from dividend and interest income pending investment. With the increasing use by the Pension Fund of pooled funds from ACCESS or for multi-asset credit, most of this cash will be held within the pooled fund rather than directly by the Pension Fund's Custodian bank, JP Morgan, which now only holds cash for the two remaining directly held equity portfolios.

36. There are rigorous procedures in place to ensure the security of all cash deposits which are managed by the County Council in separate investment accounts for the Pension Fund. These include criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty as set out in the Pension Fund's Annual Investment Strategy for 2020/21 for cash, which was approved by the Pension Fund Panel and Board on 13 December 2019. In addition, the County Council's treasury advisers, Arlingclose, provide advice to the Deputy Chief Executive and Director of Corporate Resources in undertaking treasury management activities.

Investment activity

37. Security of capital remains the Fund's main investment objective for the management of the cash balance. This was maintained during 2019/20 by following the Fund's counterparty policy as set out in its Annual Investment Strategy, which was approved by the Pension Fund Panel and Board on 14 December 2018 and updated on 27 September 2019. Investments during the year included:

    - Investments in AAA-rated Money Market Funds
    - Investments in UK Government Treasury Bills and Gilts
    - Call accounts, notice accounts and certificates of deposit with banks and building societies with a minimum credit rating of A-, or equivalent

38. In addition to credit ratings counterparty credit quality was assessed and monitored with reference to:

    - credit default swap prices
    - any potential support mechanisms
    - share prices
    - other economic or financial data.

39. Based on these factors and advice from the Treasury Management advisers, Arlingclose, the Director of Corporate Resources on behalf of the Pension Fund has varied investment duration limits for new investments according to the assessment of credit risk and has suspended investing with individual counterparties when it is felt to be necessary to protect the Pension Fund's capital.

40. The Pension Fund's current counterparty limits are shown in Appendix 2. The limits are the agreed maximum values and duration of investments per counterparty, which shows the full range of counterparties the Fund could potentially invest with. The placement of actual investments is likely to be below these limits and will depend on both the Fund's requirements, such as the need to maintain a high degree of liquidity, and the availability of counterparties in the market. For example, most of the foreign banks listed do not offer instant access accounts that the Pension Fund can access.

41. The UK Bank Rate was cut from 0.75% to 0.25% and then 0.10% in March 2020 due to the effect of the coronavirus pandemic on the economy. Rates had been historically low even prior to these cuts, impacting the Pension Fund's ability to generate income on cash investments. The Fund's average cash investment balance was £159.1m during 2019/20 (2.3% of the total Pension Fund based on the average value during the financial year), and interest earned was £1.176m, leading to an average yield of 0.74%. The

Fund's cash investments at 31 March 2020 and 30 June 2020 are shown in the exempt appendix.

42. As at 31 March 2020 the Pension Fund's cash balance was higher than previous cash balances due to the Pension Fund's decision in September 2019 to rebalance the portfolio as the Fund works towards implementing its investment strategy. Cash will be used to fund illiquid investments as required, and the cash management strategy was adjusted in September 2019 to allow the appropriate management of this higher cash balance.

Cash inflows and outflows from dealings with members

43. The Pension Fund monitors its surplus or deficit from dealings with members; the extent to which income from employer and employee contributions are greater or less than the outgoings on pensions and other costs. Up until 2011/12 the Fund's historic average was a surplus of around £50m. However due to austerity in the Public Sector and the reductions in scheme employers' workforces that took place beginning in 2012/13, the surplus reduced at that time.

44. The Pension Fund Panel and Board monitors the surplus or deficit on an annual basis and the draft statement of accounts for 2019/20 show that it made a surplus of £72.1m from its dealings with members, which is an increase from a £55.0m surplus in 2018/19.

45. A more accurate view of the Fund's cash flow can be achieved by removing the effect of the transfer of scheme members, which can vary significantly from year to year, and which the Fund has no control over. Removing the impact of transfers brings the net figure to £75.2m in comparison to 2018/19's net figure of £56.3m, as shown in Table 5.

Table 5: Net additions from dealing with members

	2018/19	2019/20
	£'000	£'000
Net additions from dealing with members	54,985	72,094
Net total transfers	1,313	3,141
	56,298	75,235

46. The overall increase of £18.9m in net additions from dealing with members is for the main part due to the stepped increase in employer pension contributions in 2018/19 from 15.1% to 16.1%. Overall employers'

contributions increased by 11.9% (£28.8m) in 2019/20 in comparison to 2018/19, whilst the number of active contributors to the Fund increased only very slightly to 58,913 (58,055 in 2018/19).

47. It has been reported that a number of LGPS funds are experiencing annual cash deficits from their dealings with members, which will result in them having to liquidate some of their investments to continue to meet their obligations for payments to scheme members.

48. Projecting the Pension Fund’s annual surplus or deficit from dealings with members in the future is challenging given the number of variables involved, such as membership numbers, investment returns and inflation. The Fund’s cash position will continue to be monitored by officers, with the assistance of the Fund’s actuary, Aon, where necessary, and reported to the Panel and Board.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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

Appendix 1 – Risk Register

Changes are highlighted in blue

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

Risk	Description	Likelihood	Impact	Mitigation
				the risk. The Employer Policy requires new employers to have a guarantor who would be called on in the event of an insolvency, and all charitable admission bodies now have a subsumption commitment from their associated local authority which helps to reduce any exit debt. The Administering Authority has a written policy on how it would exercise its discretion to defer pension contributions in exceptional circumstances.
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyberattack or pandemic disease), either affecting the Pension Fund directly or one of its key suppliers.	H	M	Pension Services follow the Administering Authority's Disaster Recovery policy that ensures that processes are in place to manage in the event of the loss of key resources. This includes the ability continue to deliver key services remotely, should this be necessary. Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.
Administration risk	The Pensions Regulator identifies the risks being around:	M	M	
	- Employer contribution monitoring: are employers paying the right amount of contributions on time?			Employer contributions are set out in the triennial valuation and the deadline for payment is set by Regulation as 22nd of the month. Contributions are monitored and any late payments are reported to the Pension Fund Panel and Board. Any issues of 'material significance' will be reported to the Regulator
	- Record-keeping: how comfortable are			The Administration Strategy is the agreement

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

Risk	Description	Likelihood	Impact	Mitigation
				All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.
	- Resourcing: conflicting priorities with servicing other partners.			Resourcing plans are in place to ensure services can be delivered to each partner. Project plans are in place that identify the requirements of each partner, including the on-boarding of new partners.
Investment risk	Investment management underperformance – from the Fund's investment managers failing to outperform their benchmark returns for prolonged periods of time	M	H	The Fund's investment managers' performance is reviewed regularly by the Fund's officers and reported regularly to the Panel and Board. All of the Fund's contracts for investment management contain the provision that the Fund can cancel the contract with 1 month's notice in the event of poor investment performance.
Investment risk (continued)	Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities			The Panel and Board have set a diversified asset allocation which limits exposure to any one particular market. The Fund contracts with specialist external investment managers and as a general principle aims to invest globally and set mandates for investment managers that give them as much freedom as possible, in order to manage market conditions as they see fit.
	Interest rate risk – which can affect the prices of investments that pay a fixed interest rate			The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for investment managers that give them as much freedom as possible, in order to manage risks such as changes in interest rates.
	Currency risk – the risk of fluctuations in			As a UK Pension Fund the Panel and Board consider

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			that the Pension Fund should have a significant proportion of its assets denominated in Sterling, thereby removing the currency risk. The Panel and Board keep their view of the long term nature of currency movements under review and will seek specialist advice if they believe that this might change or there is likely to be an event that might crystallise the effect of particular currency movements. Where investment returns in particular asset classes are at risk of disproportionate currency effects (such as Multi-asset Credit and Private Debt) the investments are hedged back to Sterling. In addition having taken advice to mitigate the overall currency impact on the Pension Fund, the passive global equity investments is hedged back to Sterling.
	Credit risk – the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.			The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment, with further limits set in the Investment Strategy Statement to limit the Fund's exposure to particular vehicles or assets. The Pension Fund's stock lending programme is protected by collateral managed by the Fund's custodian.
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial			The Fund contracts with specialist external investment managers and as a general principle aims to make their portfolios 'ever-green' so

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	instruments at a time of unfavourable interest rates.			that income and maturing investments can be reinvested, allowing investment managers to build portfolios that do not have a concentration of investments with a particular maturity date.
	Custody risk – losing economic rights to Fund assets, when held in custody or being traded.			The Panel and Board and the Fund's officers regularly monitor the performance of the Fund's custodian and have the power to replace the provider should serious concerns exist.
	Liability risk – that the Fund's liabilities are not accurately calculated resulting in the return target being too low and employers' contributions having to rise.			The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions.
	Environmental, social and governance (ESG) factors, including the impact of climate change – that these factors materially reduce long-term returns.			As set out in the Fund's Responsible Investment Policy, the Fund's external investment managers are required to consider ESG factors in their investment decisions, including any negative contribution to climate change and the overall risk from the impact of climate change, and to exercise the Fund's responsibility to vote on company resolutions wherever possible. They have also been instructed to intervene in companies that are failing, thus jeopardising the Fund's interests, by voting or by contacting company management directly.
	Regulatory risk – that inhibits the Pension			The Fund will be proactive in engaging with the

Risk	Description	Likelihood	Impact	Mitigation
	Fund Panel and Board's fiduciary duty.			Government, including responding to consultation, on any issues affecting the management and investment of Pension Fund monies.
	Illiquidity – that the Fund is unable to meet its immediate liabilities			The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available. The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	M	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.
Funding risk	The Government Actuary's Department (GAD) has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of the LGPS has been carried out. Their report must cover: - whether the fund's valuation is in accordance with the scheme regulations - whether the fund's valuation has been	M	H	Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2016 valuation. The Section 13 report will be reviewed and amber or red flags will be reviewed with the Fund's actuary and reported to the Pension Fund Panel and Board with proposed mitigations.

Risk	Description	Likelihood	Impact	Mitigation
Funding risk (continued)	carried out in a way which is not inconsistent with the other fund valuations within the LGPS - whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund. These requirements will have statutory force with effect from the 2016 valuations in England and Wales. Funds will be assessed against a number of measures and scored as: Red – potentially a material issue that might contribute to a recommendation for remedial action to ensure solvency Amber – highlights a possible risk Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency. GAD will then engage with Funds with any amber or red flags.			
Regulatory and compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is	M	L	The Pension Fund Panel and Board has documented Terms of

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

Appendix 2 - Current Bank and Building Society investment limits

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

This page is intentionally left blank

HAMPSHIRE PENSION FUND

ANNUAL REPORT AND ACCOUNTS

2019/2020

Hampshire County Council

www.hants.gov.uk

We hope you find this annual report informative and useful. There is a glossary of terms at page xx.

If you have any comments on the annual report, please call 01962 845588, email budget@hants.gov.uk or write to:

Pension Fund Annual Report
Pensions, Investments & Borrowing
Corporate Services
Hampshire County Council
The Castle
Winchester
SO23 8UB

A larger-print version of this annual report is available from the above address.

Foreword

Welcome to the Hampshire Pension Fund annual report for 2019/20.

I would typically begin my foreword by reflecting on the Pension Fund's investment performance over the preceding year. This year, however, we find ourselves faced with a global crisis unlike anything in recent memory and, as a result, talk of our investment returns pales into insignificance compared with the very real and immediate human impact of this awful virus. My thoughts are with everyone affected and I sincerely hope that we have returned to some form of normality when I write to you again in 2021.

Our pension scheme counts over 178,000 people in its membership and throughout the pandemic I have been exceptionally proud to hear how committed our Pension Services team has been in working to ensure these members and their employer organisations continue to receive the excellent level of service they have become accustomed to and deserve. I am sure you will join me in thanking them, and their colleagues in the Investments and Borrowing team, for their continued efforts and dedication throughout the year and in particular during what has recently been such a challenging time for us all.

When I wrote to you last year, we were in the process of consulting on a significantly revised Responsible Investment (RI) Policy and I am pleased to be able to tell you that the Pension Fund is now a signatory to both the UK Stewardship Code and the UN Principles for Responsible Investment (PRI). We have signed up as signatories to these two organisations as part of our commitment to RI, which we believe is important in seeking long term investment returns for our scheme members and their employers.

Our Responsible Investment Sub-Committee met for the first time this year following the implementation of the new RI Policy. The Sub-Committee affords us greater capacity to review important environmental, social and governance (ESG) issues and it considered items on stewardship, engagement, and the Fund's carbon emissions, which highlighted that our portfolio of equity investments currently compares favourably to the FTSE All World index. More details of our responsible investment activities are contained in the expanded RI section of the annual report on page xx. I hope you will find this of interest, and the Panel and Board would welcome your thoughts and views.

This year we have had the latest triennial actuarial valuation of the Pension Fund, which resulted in a significantly improved position compared with the previous valuation. The actuary calculated that the Fund's assets at 31 March 2019 were almost a match for its liabilities (98.9%), reflecting strong investment returns over the preceding three years. It goes without saying that the Fund's valuation has been negatively impacted by the global pandemic since then, however strong performance in the year before markets fell means the Fund lost 3.1% in 2019/20, taking the overall value to £6.9 billion.

Following the actuarial valuation, the Panel and Board commissioned Hymans Robertson to review the Fund's investment strategy, particularly with respect to taking the appropriate level of risk to achieve the Fund's objectives. One result of the review has been the allocation to a new asset class in Asset Backed Securities, and the appointment of two new investment managers (Insight and TwentyFour). The Panel and Board has also made the decision to switch the Fund's passive global equities mandate to a climate aware fund offered by UBS. This passively managed fund is designed to track the performance of the same global index whilst being tilted towards companies with better relative climate credentials.

Alongside our own strategic review and governance, Hampshire has continued to be an active participant and collaborator in the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool alongside our 10 partner LGPS funds and I have had the honour this year of being appointed as the Chairman of the pool's Joint Committee. About 36.5% of the Pension Fund is invested through the pool's passive manager, UBS, with a further 19.8% invested in three sub-funds managed by Link Asset Services, the operator. Further assets are expected to transfer this year and I look forward to giving you a further update next year as we continue to reap the benefits of the hard work and dedication to establish these arrangements.

As I have detailed in describing some of our key activities, the landscape is constantly changing and our ongoing focus on developing and maintaining relevant skills and knowledge feels more important now than ever. We have once again benefited from several excellent bespoke in-house training sessions for all members, while individuals have also attended externally arranged conferences and seminars. Training continues to be given high priority and more details can be found on page xx.

Finally, I would like to thank the members of the Pension Fund Panel and Board for their valuable input and dedication during 2019/20 and the role they play in the robust governance of the Fund. I am looking forward to working with all the members over the coming year and full details of the membership of the Panel and Board can be found on page xx.

I hope you find the following report helpful.

Mark N. Kemp-Gee

Councillor Mark Kemp-Gee

Chairman, Pension Fund Panel and Board, July 2020

Who's Who

Administering authority and Scheme Manager
Hampshire County Council

Treasurer
Carolyn Williamson, Deputy Chief Executive
and Director of Corporate Resources

Independent adviser
Carolan Dobson

Investment managers
Aberdeen Standard Investments
Acadian
Alcentra
Baillie Gifford
Barings
CBRE Global Investors
Dodge & Cox
GCM Grosvenor
Insight Investment
J.P.Morgan Asset Management
Morgan Stanley
Schroders
TwentyFour Asset Management
UBS

Asset Pool
ACCESS

Pool Operator
Link Asset Services

Custodian
JP Morgan

Actuary
Aon

Bankers
The National Westminster Bank plc

External auditor
Ernst & Young

AVC providers
Zurich
Prudential
Utmost

County Council contacts

Head of Pensions, Investments & Borrowing	Andy Lowe 01962 845588
Legal adviser	Paul Hodgson

Pension Fund Panel and Board

as at 31 March 2020

County Council members

Cllr Mark Kemp-Gee
(Chairman)
15 years' membership

Cllr Tom Thacker
(Vice-Chairman)
11 years' membership

Cllr Christopher Carter
11 years' membership

Cllr Alan Dowden
3 years' membership

Cllr Jonathan Glen
3 years' membership

Cllr Andrew Gibson
8 years' membership

Cllr Andrew Joy
7 years' membership

Cllr Peter Latham
6 years' membership

Cllr Bruce Tennent
11 years' membership

County Council deputies

Cllr Derek Mellor
Cllr Keith House
Cllr Michael White
Cllr Roger Price

Employer representatives

Cllr Stephen Barnes-Andrews
Unitary Council representative
1 years' membership

Cllr Paul Taylor
District Council representative
1 years' membership

Liz Bartle
Other employer representative
1 years' membership

Cllr Cal Corkery
Substitute employer representative
1 years' membership

Member representatives

Neil Wood
Employee representative
4 years' membership

Lindsay Gowland
Deferred member representative
1 years' membership

Cliff Allen
Pensioner representative
7 years' membership

Sarah Manchester
Substitute Scheme representative
2 years' membership

Pension Fund Panel and Board continued

The Pension Fund Panel and Board has 15 full members and 6 substitute or deputy members. The 15 full members comprise 9 County Council elected members, 3 employer representatives and 3 scheme member representatives. The employer representatives represent the Southampton and Portsmouth unitary authorities, Hampshire's district authorities, and other scheme employers respectively, while the 3 scheme member representatives cover active contributors to the scheme, members with deferred pension rights, and members currently in receipt of their pension. All full members of the Panel and Board have voting rights. Substitute or deputy members may attend all meetings and will have voting rights when other members for whom they are substitutes are not present. 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 are:

- 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.

More detail can be found in the Business Plan:

https://documents.hants.gov.uk/pensions/2018-2019-BusinessPlan.pdf

During 2019/20, Cllr Stephen Barnes-Andrews and Cllr Paul Taylor were appointed as Unitary and District Council employer representatives respectively, replacing Cllr Jeanette Smith and Cllr Trevor Cartwright in these roles, with Cllr Cal Corkery taking over as the substitute employer representative from Cllr Mark Chaloner. Liz Bartle was appointed as the other employer representative, replacing David Robbins, and Lindsay Gowland was appointed to represent deferred members in place of Valerie Arrowsmith.

Attendance of the members at Panel and Board meetings, Responsible Investment Sub Committee meetings, internally organised training events, and other external training opportunities in 2019/20 is shown in the table below. It should be noted that internal training sessions, including sessions provided by ACCESS, have greater weight as they cover topics on which the most Panel and Board members have identified a training need. For Pension Fund Panel and Board meetings and Responsible Investment Sub Committee meetings, the number of meetings attended is shown against the number of possible meetings for that member.

Panel and Board member	Pension Fund Panel and Board	Responsible Investment Sub Committee	Internal training sessions	External training sessions
Cllr Kemp-Gee	4/6	2/2	7	2
Cllr Thacker	4/6		2	0
Cllr Carter	5/6		2	0
Cllr Dowden	3/6	1/1	2	1
Cllr Gibson	2/6		4	3
Cllr Glen	4/6	1/2	5	4
Cllr Joy	6/6		1	0
Cllr Latham	6/6	2/2	4	0
Cllr Tennent	5/6	2/2	2	3
Cllr Barnes-Andrews*	4/5	2/2	0	0
Cllr Taylor*	2/3		0	0
Liz Bartle*	1/1		0	1
Cliff Allen	5/6	2/2	5	4
Lindsay Gowland*	1/1		0	0
Sarah Manchester (Substitute)	5/6		5	3
Neil Wood	5/6		5	0
Cllr Mellor (Deputy)	4/5		3	0

* During the year the following members were appointed to the Panel and Board: Cllr Barnes-Andrews (July 2019), Cllr Taylor (November 2019), Liz Bartle and Lindsay Gowland (both February 2020).

Conflicts of interest have been managed in accordance with the County Council's standing orders:
http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=620&MId=3642&Ver=4&Info=1.

Details of the Pension Fund's approach to conflicts of interest in relation to responsible investment and stewardship are set out in the Responsible Investment Policy, which can be found in the Investment Strategy Statement.

Board report

Hampshire Pension Fund has the endorsement of the Ministry of Housing, Communities and Local Government (MHCLG) for the arrangement of managing the Fund with a joint Panel and Board.

This efficient governance model was developed to ensure effective oversight whilst avoiding unnecessary duplication across two committees. Board issues are dealt with under separate governance agenda items. Items that have been considered in 2019/20 are as follows:

Governance

- Panel and Board training
- Investment pooling updates
- Pension administration updates
- Risk management
- Pension Fund Annual Report
- Pension Fund budget and costs
- Responsible Investment Policy
- Proposed changes to grouping arrangements in the Fund
- 2019 triennial actuarial valuation
- Internal audit plan and progress reports
- Internal audit report and opinion
- Review of the Business Plan
- Investment Strategy Statement
- Funding Strategy Statement
- Employer Policy
- Administration Strategy
- Communication Policy Statement
- Governance Compliance Statement
- Governance Policy Statement
- Provision of advice to the Panel and Board
- Scheme Advisory Board Good Governance Consultation
- Scheme Advisory Board guidance on Responsible Investment
- Appointments to the Panel and Board and the RI Sub-Committee
- Investment consultancy aims and objectives

Investment

- Custodian performance updates
- Investment Strategy review
- Investment updates
- Alternative investments portfolio updates
- Property portfolio update
- Pension fund cash reports
- ACCESS pool business plan and investment updates
- MHCLG draft pooling guidance

The Pension Fund also has a dedicated Responsible Investment Sub-Committee of the Panel and Board that met twice during 2019/20 and considered the following items:

- Sub-Committee work plan
- UK Stewardship Code
- UN Principles for Responsible Investment
- Global Real Estate Sustainability Benchmarking (GRESB)
- Shareholder voting
- Portfolio ESG considerations for the Acadian investment manager
- Responsible Investment Policy review
- Responsible Investment annual report

All Panel and Board members take part in a full training programme covering the range of knowledge and skills required for their membership of the Panel and Board, as summarised on page XX.

The Panel and Board receives regular updates on investment pooling and the performance of assets managed within the pool, providing oversight as part of the effective governance of pooling arrangements. These arrangements have been set up to ensure each administering local authority may exercise proper democratic accountability and continue to meet fiduciary responsibilities. The Chairman of the Panel and Board is a member of the ACCESS pool's Joint Committee (JC) and was elected as Chairman of the JC during 2019/20. Officers represent the administering authority in various officer groups.

More detail on the governance of the Pension Fund is provided in the Governance Policy Statement:
https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/policies

Further information on the governance arrangements for the ACCESS pool can be found on the pool's website:
https://www.accesspool.org/

Progress on investment pooling

In 2015 the Department of Communities and Local Government (DCLG as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity and capability to invest in infrastructure.

The Hampshire Pension Fund is a member of the ACCESS pool (A Collaboration of Central, Eastern and Southern Shires) with 10 other Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire, East Sussex, Essex, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire, Suffolk, and West Sussex. The following paragraphs describe Hampshire's individual pooling progress. ACCESS' annual report, highlighting the progress of the pool overall is contained in the following section.

Value of pooled and non-pooled investments

	2018/19		2019/20	
	£'000	%	£'000	%
Equities	1,737,878	24.2	1,366,327	19.8
Passive investments	2,813,476	39.2	2,521,958	36.5
Pooled sub-total	**4,551,355**	**63.4**	**3,888,285**	**56.3**
Equities	771,358	10.7	734,497	10.6
Fixed income	657,421	9.2	921,425	13.3
Property	538,317	7.5	509,548	7.4
Alternative assets	588,358	8.2	645,310	9.3
Cash and other assets	75,071	1.0	211,415	3.1
Non-pooled subtotal	**2,630,526**	**36.6**	**3,022,195**	**43.7**
Total	**7,181,881**	**100.0**	**6,910,480**	**100.0**

The proportion of investments held under the ACCESS pool reduced in 2019/20 as a result of reductions in asset values and tactical and strategic investment decisions made by the Pension Fund Panel and Board to reduce the Pension Fund's exposure to equities. The Pension Fund has kept the same number of portfolios under the ACCESS pool throughout 2019/20.

It is planned that Hampshire's remaining Global Equity and Bond investments will transfer to the pool in the coming years, with options for pooling new Alternative Investments being available in subsequent years.

ACCESS' business case for pooling that was accepted by DCLG stated that there was no economic case to pool LGPS property and cash investments.

Pooled costs and savings

Hampshire Pension Fund's investment management costs of £47,780m are also reported in the Fund's accounts and are broken down into the following criteria based on the guidance published by CIPFA for pension fund annual reports. The data is based on data provided by the Pension Fund's investment managers who have completed the Cost Transparency Initiative template. The Fund's investment management costs shown in the table below are broken down into the following categories:

- Direct fees – that are invoiced to the Pension Fund by its investment managers.
- Indirect fees – are charged directly against the Fund's investments within investment vehicles such as pooled funds within the ACCESS pool and held outside, as well as the alternative investment funds that the Pension Fund invests in directly.
- Transaction costs – such as broker commission paid in the purchase and sale of investments, as well as the costs of maintaining the Fund's directly held property.
- Custody and other costs – the fees paid to the Fund's custodian for the safe custody and administration of the Fund's investments and consultancy costs where they specifically relate to investments.

	Pooled		Non-pooled		Total	
	£'000	bps (%)	£'000	bps (%)	£'000	bps (%)
Direct fees	550	0.01	7,150	0.24	7,700	0.10
Indirect fees	4,876	0.11	26,144	0.88	31,020	0.41
Transaction costs	2,382	0.05	6,244	0.21	8,626	0.12
Custody and other costs	–	0.00	435	0.01	435	0.01
Total	**7,807**	**0.17**	**39.538**	**1.33**	**47,780**	**0.64**

The investment management costs of pooled investments are disproportionately lower because the assets that have not been pooled, specifically property and alternative assets, attract significantly higher costs, but these assets are held to ensure the Pension Fund's investment strategy is suitably diversified. The costs of the Pension Fund's investments are considered by the Panel and Board in considering investment returns on a net of costs basis when evaluating investment performance and options.

Cumulative pooling costs and savings	£'000
Pool setup and on-going costs*	396
Transition costs	403
Investment management fee savings	(1,478)
Net saving of pooling to date	**-679**

*The breakdown of pool costs is detailed in the ACCESS Annual Report

The investment performance of both the Pension Fund's pooled and non-pooled investments are shown in the Investment Performance section of the Annual Report.

ACCESS Annual Report

The ACCESS Annual Report had not been finalised at the time of publication of this draft.

The report will be available on the ACCESS pool's website: **https://www.accesspool.org/**

Training and Development Report

Knowledge and Skills Framework Policy

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

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

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

The Deputy Chief Executive and Director of Corporate Resources at the County Council is responsible for ensuring that policies and strategies are implemented.

Training received in 2019/20

Four internal training sessions were arranged by the Hampshire Pension Fund for Panel and Board members and officers in Winchester during November 2019 and January 2020. The topics covered in these sessions were focused on delivering training alongside the Panel and Board's responsible investment actions during 2019/20 and further developing the Panel and Board's understanding of investing in private debt following the appointment of JP Morgan Alternative Asset Management to manage this new mandate:

Date	Topic	Provider
November 2019	Private Debt	JP Morgan Alternative Asset Management
November 2019	Sustainable Investing for Passive Investments	UBS
January 2020	Responsible Investing Policy	MJ Hudson Spring
January 2020	Principles of Responsible Investing	UN PRI

These training sessions were supplemented by a training session on treasury management, which was open to all County Councillors as well as the Pension Fund Panel and Board members and officers, and was provided by Arlingclose, the County Council's advisers on treasury management.

The internal training sessions followed a similar programme of in-house training in previous years which has been designed to cover the full range of knowledge and skills required by Panel and Board members and staff.

In addition, some Panel and Board members and officers attended internal training sessions arranged by ACCESS. The topics covered by these sessions were as follows:

Date	Topic	Provider
September 2019	Responsible Investment	East Sussex County Council
October 2019	ACCESS Investor Day	LINK Asset Services
December 2019	Governance	Squire Patton Boggs
March 2020	Alternative Investments	bFinance

Individual Panel and Board members and officers attended a range of training events in 2019/20 provided by the Pension Fund's investment managers and other external organisations, as follows:

27th Annual Property & Infrastructure Investment Strategies for Pension Funds	SPS
Alternative Investments & Equity Protection	LGPS
Annual Investor Conference	Alcentra
DB Strategic Investment Forum	DG Publishing
ESG & Sustainable Investments for Pension Funds	SPS
Infrastructure & Real Assets Investment Strategies for Pension Funds	SPS
Investment & Training Seminar	Baillie Gifford
Investment Seminar	LGC
Investment Strategies & Cash Flow Management for Maturing Pension Funds	SPS
LGC Investment & Pensions Summit	LGC
LGPS Fundamentals	LGA
Local Authority Responsible Investment Seminar	SAB
Pensions Expert LGPS Forum 2019	FT
Private Equity (& Debt) Investors' Annual Seminar	SPS
Schroders Trustee Training	Schroders

Evaluation of training

Training logs for each member of the Panel and Board are completed on an on-going basis and are used to record the training undertaken during the year. The training logs include details of all relevant training courses, seminars and events attended, along with an assessment of whether each training event has fulfilled the need it was intended to meet. This information is used to help design the training plan for the following year.

Training in 2020/21

During the early part of 2020/21, individual members of the Panel and Board will be reviewing their knowledge and skills against a Training Needs Analysis. The purpose of this exercise is to allow Panel and Board members to consider their existing level of knowledge and areas where additional training is likely to be beneficial.

The Training Needs Analysis is designed around the CIPFA Pensions Finance Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector, and the CIPFA Technical Knowledge and Skills Framework for Local Pension Boards and helps to ensure the Panel and Board meet the requirements set out in the guidance referenced in the regulations. The Training Needs Analysis is also completed by all new Panel and Board members to enable them to identify any training requirements.

The training plan for 2020/21 is due to be approved by the Pension Fund Panel and Board in September 2020 based on the Training Needs Analysis. Proposed training includes further in-house training sessions, external training events, use of online learning tools, briefing information in reports to the Panel and Board from officers, and background reading as appropriate.

Relevant internal training sessions will be arranged for 2020/21 and 2021/22 based on the Training Needs Analysis.

Investment Policy including Responsible Investment

The Pension Fund Panel and Board is responsible for determining at a strategic level how investments will be made by the Pension Fund, with the objective of achieving the investment return required to meet the target calculated by the Fund's actuary without exposing the Fund to excessive risk.

The Investment Strategy Statement sets out the Pension Fund's strategic asset allocation and has been designed to achieve this objective by ensuring the Pension Fund can meet 100% of pension liabilities over the long term by investing within reasonable risk parameters whilst also ensuring primary contribution rates are kept affordable and steady.

Investment Strategy: Understanding cost, risk and return

The Pension Fund's investments are grouped into three categories in the Investment Strategy Statement: growth, income and protection. Holding different types of investments helps the Fund to achieve diversification, which means the required investment returns are not heavily dependent on the performance of one economy, sector or asset class. The Pension Fund uses different fund managers so that returns are not tied to how well a single fund manager performs. These fund managers all manage diversified portfolios, the most concentrated of which holds around 30 stocks, whilst the most diverse will hold many hundreds of securities.

Different asset classes bring different levels of risk and uncertainty. The Pension Fund therefore invests in assets across multiple classes, aiming to ensure the profile of returns will not be completely correlated, for example by investing in assets that deliver an income stream as well as those held to deliver capital growth. Where investments are in riskier asset classes, such as equities, the aim is to ensure that the return achieved more than compensates for the risk taken.

In line with its investment beliefs, the Pension Fund holds passive investments, which are low cost and are designed simply to track a given market, and actively managed investments, where a premium is paid to an investment manager to select the right investments to outperform the comparative market.

Responsible Investment Policy and ESG considerations

The Hampshire Pension Fund believes in the importance of Responsible Investment (RI) and is a signatory to both the UK Stewardship Code and the UN Principles for Responsible Investment (PRI).

The Pension Fund's investment principles include:

i) that it has a long-term focus, and

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

The UN PRI provides the following examples of ESG factors:

- Environmental – climate change – including physical risk and transition risk, resource depletion, including water, waste and pollution, deforestation
- Social – working conditions, including slavery and child labour, local communities, including indigenous communities, conflict, health and safety, employee relations and diversity
- Governance – executive pay, bribery and corruption, political lobbying and donations, board diversity and structure, tax strategy

These factors are not exhaustive but provide a baseline when considering ESG issues as part of the Pension Fund's overall investment strategy.

The Hampshire Pension Fund Panel and Board has created a dedicated Responsible Investment sub-committee that meets at least twice a year to consider emerging ESG issues and support the implementation of the Responsible Investment Policy.

The Pension Fund sets out its expectations for different types of investment manager in its Responsible Investment Policy, which can be found in full on the Pension Fund's Responsible Investment webpage:

https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment

Passive investment managers and quantitative investment managers are expected to engage on ESG issues with companies within their index and to exercise voting rights. Active investment managers are required to pro-actively consider how all relevant factors, including those relating to ESG, will influence the long-term value of each investment.

Where investments are made in closed-ended limited partnerships, investment managers are required to integrate ESG considerations into their selection of these funds. The Pension Fund also holds directly owned UK property and the investment manager is required to consider improving the environmental impact of these properties as part of the investment case.

The Panel and Board will consider disinvestment from particular stocks or sectors, or the investment in specific 'social' investments, where it believes the decision would be supported by a significant majority of scheme members and employers, so long as it does not result in significant financial detriment to the Pension Fund.

Investment managers are expected to work actively with companies they are invested with to ensure they achieve the best possible outcomes for the Pension Fund and are instructed to exercise the Fund's responsibility to vote on company resolutions wherever possible. The Responsible Investment Policy provides guidelines for investment managers when casting their votes and managers who do not follow these guidelines must report to the Pension Fund to explain why.

Responsible Investment Activity 2019/20

The Pension Fund recognises that two important elements of responsible investment are disclosing and making its RI policy available and being transparent about the RI activity of the Fund. The following activities have taken place during 2019/20.

Responsible Investment Sub-Committee

The following items were considered by the Responsible Investment Sub-Committee during 2019/20:

- Sub-Committee work plan
- UK Stewardship Code
- UN Principles for Responsible Investment
- Global Real Estate Sustainability Benchmarking (GRESB)
- Shareholder voting
- Portfolio ESG considerations for the Acadian investment manager
- Responsible Investment Policy review
- Responsible Investment annual report

Training

Responsible Investment has been a significant focus in the training provided to Pension Fund Panel and Board members during 2019/20, including:

- a briefing from a representative from the UN Principles for Responsible Investment (PRI)
- a specialist RI investment consultant reviewing the Fund's RI policy
- a session delivered by the Pension Fund's passive investment manager UBS on stewardship and ESG approaches.

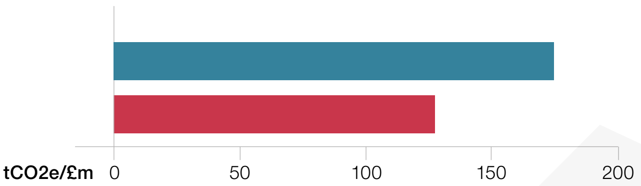
Members have also received training on Responsible Investment and ESG through sessions arranged by ACCESS and at externally run training events.

Reporting

The Pension Fund's initial focus on ESG disclosure has been on carbon emissions. The following graphs show the carbon data of the companies in the Fund's equity portfolios, both active and passive, (50% of the Fund) in comparison to the global index.

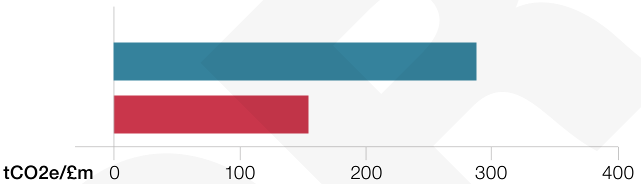
Carbon footprint
31 December 2019 (tCO2/£m invested)

FTSE All World	170.4
Hampshire average	128.0



Carbon intensity
31 December 2019 (tCO2/£m revenue)

FTSE All World	287.4
Hampshire average	158.8



This shows that the Pension Fund's investments had a lower carbon impact than the global index both in terms of the carbon footprint (emissions per pound invested) and the carbon intensity (emissions per pound of revenue generated).

Investment decisions won't be made solely on the basis of carbon emissions, but the data above will be used as a baseline to enable the Panel and Board to monitor the actions of its investment managers and as a useful way to help these managers to target their engagement with companies on the reduction of carbon emissions.

Investments

The Pension Fund's passive investments are managed by UBS. The Pension Fund Panel and Board has agreed to switch its passive global equity portfolio (6.8% of the Fund) to the Climate Aware Fund, which is 'tilted' to continue to deliver returns in line with the global index but favouring companies with lower carbon emissions. The Fund is also employing a specialist RI consultant to report on the ESG credentials of its investment managers and portfolios, to improve monitoring.

Engagement and shareholder voting

The Pension Fund's investment managers' engagement and shareholder voting continues to be a key feature of the Fund's RI policy and is regularly reviewed. The Fund's investment managers have reported that key themes they have covered are:

- good governance, including board composition and executive pay,
- diversity, inclusion, and the quality of company workforces, and
- sustainability and climate change including reducing use of fossil fuels and plastic.

All voting rights have been exercised in accordance with the Investment Strategy Statement.

Feedback

The Pension Fund would like to hear what members think about RI for the Pension Fund. Members can contact the Pension Fund using the following email address: **responsible.investment@hants.gov.uk**

Custody of assets

The Pension Fund's global custodian, JP Morgan, provides a wide variety of services that underpin the work of the officers of the Pension Fund and its investment managers in managing the Pension Fund's assets. The performance of the global custodian is reported to the Panel and Board on an annual basis.

The custody services provided by JP Morgan to the Fund include:

- safekeeping of the Pension Fund's assets in the various different investment markets that the Pension Fund owns assets
- settlement of trades placed by the Pension Fund's active non-pooled investment managers
- collection of income from dividends and interest
- tax reclamation services
- corporate action processing and proxy voting based on the instructions received by the Pension Fund's investment managers
- filing of US-based class action lawsuits
- foreign exchange settlement to enable the Pension Fund to buy and sell assets in foreign currencies
- stock lending
- reporting on the value of the Pension Fund's assets and the investment performance of the Fund's investment managers.

Pooled investments are managed by the pool operator (Link Asset Services) and are held in custody by Northern Trust, the custodian appointed by Link. JP Morgan have custody of all of the Pension Fund's non-pooled active equity portfolios. Other listed investments (multi-asset credit and asset-backed securities) are held in unitised funds managed by the respect investment managers. All other assets are held directly by the Pension Fund. JP Morgan report on the performance of the entire portfolio.

Matters relating to implementation of the Funding Strategy Statement

All grouped employers' contribution rates stepped up by 1% in 2019/20. No bonds or other secured funding arrangements were entered into during the year.

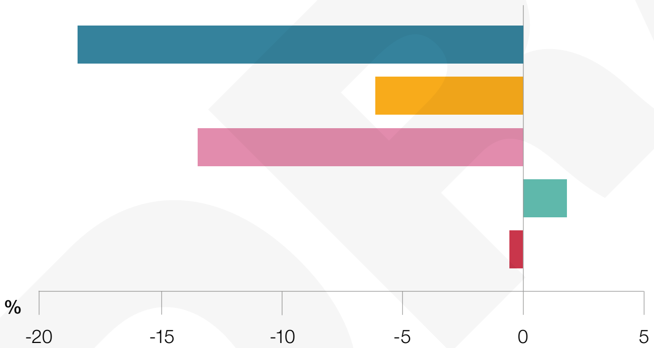
All admission bodies were managed in accordance with the Funding Strategy Statement and Employer Policy.

Investment Performance

The global coronavirus pandemic had a significant impact on financial markets at the end of 2019/20. After seeing gains of over 22% in the 2019 calendar year, global stock markets fell at a historic pace in March as investors reacted to the pandemic, resulting in a 6.22% fall for the year to 31 March 2020. The annual impact on the UK stock market was even more severe, with UK stocks suffering a decline of 18.45%, while emerging market equities fell 13.30%. UK index-linked bonds delivered modest positive returns of 1.97% for the year, while the UK commercial property market saw a marginally negative return at -0.50%.

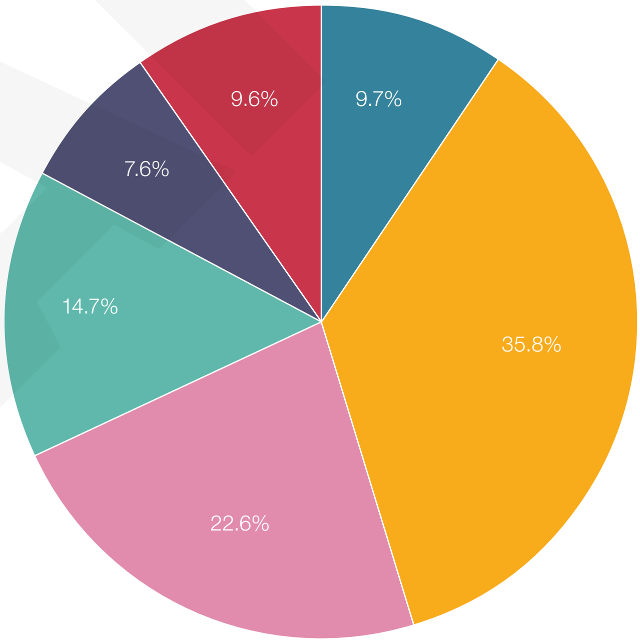
Market returns in 2019/20

Market returns in 2019/20	%
UK equities	-18.45
Global equities	-6.22
Emerging market equities	-13.30
UK index-linked bonds	1.97
UK property	-0.50



Breakdown of the Hampshire Pension Fund's investments on 31 March 2020*

	%
UK equities	9.7
Overseas equities	35.8
UK bonds	22.6
Overseas bonds	14.7
UK and European property	7.6
Alternative investments	9.6
Total	**100.0**



* Based on Note 11a of the Pension Fund's accounts and excluding accounting adjustments for long term debtors, current assets and current liabilities (notes 18 to 20 in the accounts)

The Fund has appointed investment managers responsible for several specialist portfolios, as follows.

Pension Fund investment management structure

	Target portfolio size %	Actual allocation at 31 March 2020† %	Benchmark	Annual target performance gross/ net of fees
Growth				
UK equities				
LF ACCESS UK Equity Fund (Schroders)	5.4	4.5	FTSE All Share	+1.25% gross
High-performance global equities				
Acadian Asset Management	6.5	6.4	MSCI World	+1.5% to 2.5% net
Baillie Gifford & Co	3.7	4.2	MSCI All Countries World	+1.5% to 2.5% net
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	8.1	9.1	MSCI All Countries World	+1.5% to 2.5% net
LF ACCESS Global Stock Fund (Dodge & Cox)	6.7	6.2	MSCI All Countries World	+1.5% to 2.5% net
Passive equities				
UBS (UK equities)	4.6	4.1	FTSE All Share Index	–
UBS (global equities)	0.6	4.8	FTSE All World Equity Index	–
UBS (alternative beta)	5.4	5.4	MSCI All Countries World	–
Private equity and other alternatives				
Aberdeen Standard Investments	5.0	4.4	–	+9% to 11.5% net
Hedge funds				
Morgan Stanley	0.0	0.1*	–	+5.5% to 8.0% net
Income				
Multi-asset Credit				
Alcentra	5.5	4.6	3 month GBP LIBOR	+3.0%
Barings	4.5	3.7	3 month GBP LIBOR	+3.0%
Asset Backed Securities				
Insight	1.0	2.5	3 month GBP LIBOR	+2.0%
TwentyFour	1.0	2.6	3 month GBP LIBOR	+2.0%
Private debt				
JP Morgan	5.0	1.9	3 month GBP LIBOR	+4.0%
Infrastructure				
GCM Grosvenor	5.0	3.0	–	+7.5% to 10.0% net
European property				
Aberdeen Standard Investments	0.0	0.0*	Eurozone Harmonised	+5% gross

Pension Fund investment management structure (continued)

	Target portfolio size %	Actual allocation at 31 March 2020*† %	Benchmark	Annual target performance gross/ net of fees
Income (continued)				
UK property				
CBRE Global Investors	10.0	7.4	Retail Prices Index (RPI)	+3.5% net
Protection				
Passive index-linked bonds				
UBS	22.0	22.1	FT British Government Over Five Years Index-Linked Gilts Index	–
Other				
Cash and other net assets	0.0	3.0	–	–
Total	**100.0**	**100.0**		

* portfolio no longer forms part of the Investment Strategy and positions are being exited

† as per Note 11b in the Pension Fund's accounts

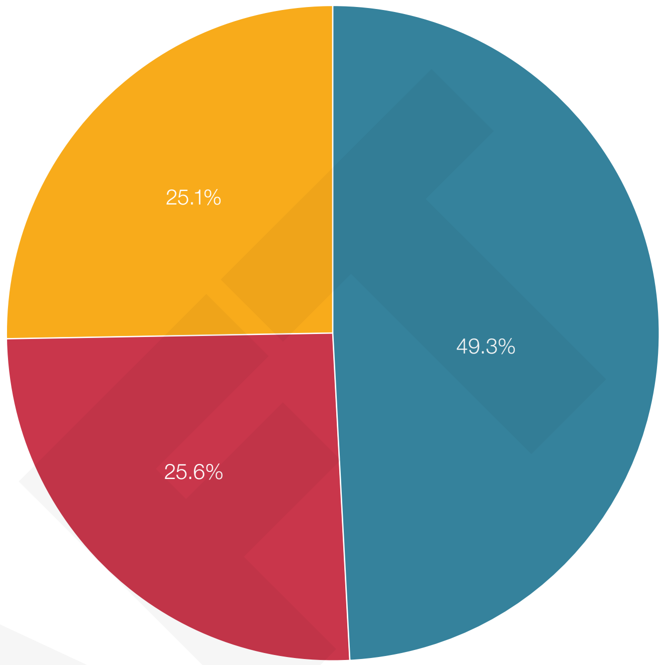
The value of the investments held by each of the Fund's managers on 31 March 2020 is shown in the following table.

Value of investments on 31 March 2020†

Manager	£million
Growth	
LF ACCESS UK Equity Fund (Schroders)	309
Acadian (global equity portfolio)	448
Baillie Gifford (global equity portfolio)	287
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	632
LF ACCESS Global Stock Fund (Dodge & Cox)	426
UBS (passive UK equities portfolio)	286
UBS (passive global equities portfolio)	334
UBS (passive alternative beta portfolio)	375
Aberdeen Standard (private equity and other alternatives)	304
Morgan Stanley (hedge funds)	7*
Income	
Alcentra (Multi-asset Credit)	315
Barings (Multi-asset Credit)	252
Insight (ABS)	175
TwentyFour (ABS)	179
GCM Grosvenor (infrastructure)	207
Aberdeen Standard (European property)	1*
CBRE (UK property)	509
Protection	
UBS (index-linked bond portfolio)	1,527
Cash and other net assets	208
Total	**6,911**

* portfolio no longer forms part of the Investment Strategy and positions are being exited

† as per Note 11b in the Pension Fund's accounts



Monitoring the performance of the investment managers

All the Pension Fund's investment managers have been set targets, with the expectation that these targets will be achieved over any three to five-year period. The performance of managers investing in listed equities is benchmarked against the relevant global, local or specialist index. Active managers are set targets to outperform the benchmark, whereas passive managers should track the index. Managers in asset classes other than listed equities are given targets relevant to both their asset class and the level of risk the Pension Fund considers appropriate to achieve its investment objectives.

For some asset classes, such as listed equities, the performance of the Pension Fund's assets will often show a strong degree of correlation to the benchmark and reflect what is going on in the wider market, albeit the investment managers appointed to the Fund's actively managed equity mandates are still expected to outperform their respective benchmarks. For other asset classes, investment returns are likely to show less correlation to the benchmarks against which targets have been set, such as where the Fund's managers invest in debt and credit instruments and the target is to outperform LIBOR rates.

The Pension Fund Panel and Board will continue to monitor the investment managers' performance against their targets on a rolling three and five-year basis.

Investment Performance continued

The Fund in total

Total investment returns for the Hampshire Pension Fund were negative in 2019/20 as the global coronavirus pandemic caused markets to fall significantly shortly before the end of the reporting year on 31 March 2020. As a result, the Pension Fund's investments returned -3.1% compared with a weighted benchmark return of -1.4%.

The Fund's investment return was 2.7% per annum over the three years to March 2020, and 6.1% per annum over the five years to March 2020, with the impact of the global pandemic partially but not wholly eroding positive gains made in previous years. Over the five-year period to 31 March 2020 the Fund has achieved total returns greater than the weighted benchmark but below the weighted targets set for its investment managers.

When looking at the Pension Fund's equity investments, global and UK equity markets suffered losses in 2019/20 as a result of the global coronavirus pandemic, with companies listed in the UK particularly badly hit. All of the Pension Fund's active and passive equity managers saw marginal to significant losses in value in 2019/20, with the exception of the very strong positive performance delivered by the pooled Long Term Global Growth Fund (Baillie Gifford). This fund has been a strong performer for the Pension Fund since the Fund first invested in 2016.

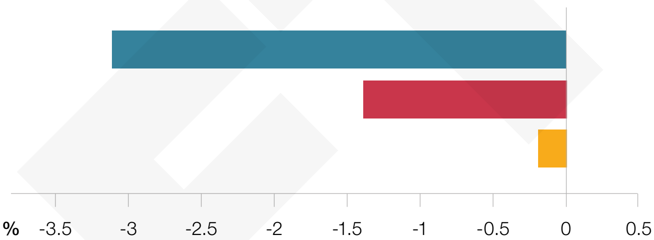
The pandemic also had a significant impact on debt markets, leading to falls in value for the Fund's Multi-Asset Credit and Asset Backed Securities investments. The impact on the less liquid property, private equity, infrastructure and private credit markets had not been fully quantified by the end of March 2020 due to the longer timescales involved in valuing these assets, however the estimated impact has been included in the Pension Fund's accounts (see page xx).

The Fund did see positive returns from the UBS managed UK index linked bonds portfolio, which is part of the Protection category of the Fund's Investment Strategy and accounts for approximately 22% of the overall Fund.

All performance figures are shown net of fees for the periods covering one and three years to 31 March 2020 but are shown gross of fees over the five year period due to the performance data available.

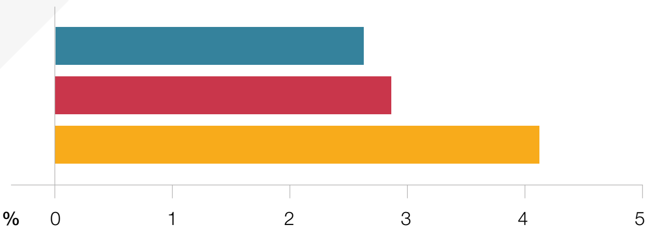
Total investment returns for the Fund
12 months to 31 March 2020

	%
Total Fund return	-3.1
Weighted benchmark indices	-1.4
Weighted benchmarks plus targets	-0.2



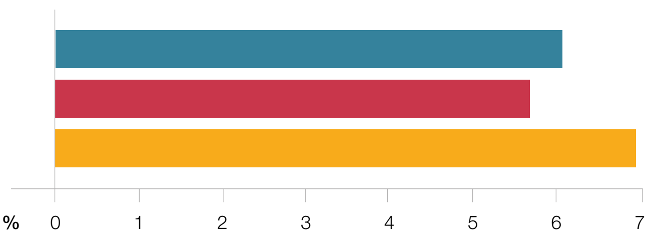
Total investment returns for the Fund
Three years to 31 March 2020

	% per annum
Total Fund return	2.7
Weighted benchmark indices	2.9
Weighted benchmarks plus targets	4.1



Total investment returns for the Fund
Five years to 31 March 2020

	% per annum
Total Fund return	6.1
Weighted benchmark indices	5.7
Weighted benchmarks plus targets	6.9



Global equities

The Pension Fund invests in global equities through a combination of passive and actively managed mandates. Two of the four actively managed mandates are through the ACCESS pool, while the other two mandates are currently managed outside of the pool but with the intention that they will transfer to the pool in future. The passive mandates are managed by UBS, the ACCESS pool's passive manager.

Full details of the investment management arrangements are on page xx and performance data is only shown where meaningful data is available.

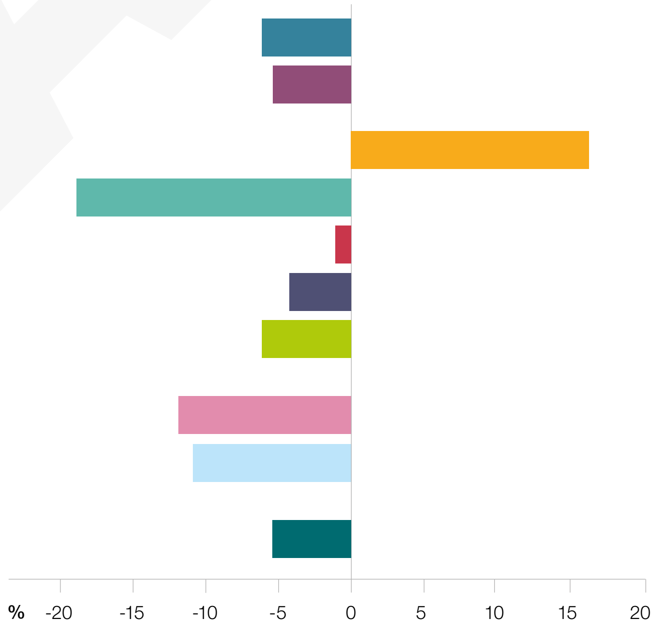
Global stock markets lost 6.2% in 2019/20, as measured by the MSCI All Countries World Index (ACWI), and 5.3% when emerging market stocks were excluded (MSCI World).

The Baillie Gifford Long Term Global Growth fund greatly outperformed the MSCI ACWI. This was due to a concentrated portfolio of growth stocks that performed well both before and during the pandemic. The Dodge and Cox Global Stock Fund suffered a more significant fall than the wider market as the value strategy employed has not been favoured by the market. In aggregate, the Fund's active global equity managers outperformed the MSCI ACWI benchmark, falling 5.4% compared with the 6.2% fall for the index.

Global equities

12 months to 31 March 2020

	%
Acadian	-6.2
MSCI World	-5.3
ACCESS Long Term Global Growth (Baillie Gifford)	16.4
ACCESS Global Stock Fund (Dodge & Cox)	-18.4
Baillie Gifford Global Alpha	-1.4
UBS Alternative Beta	-4.4
MSCI All Countries World Index	-6.2
UBS Global Equities	-11.7
FTSE All World Equity Index	-10.9
All active global investment managers	-5.4



Two of the Pension Fund's current global equity managers have a track record of three years and their performance is shown in the table below against their respective benchmarks. The table also shows the aggregate performance over three years, including the performance of the Fund's previous active equity managers, showing that the Fund's active equity managers have outperformed the wider market.

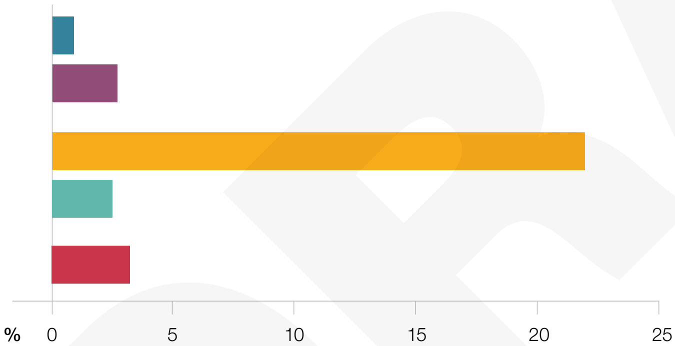
Investment Performance continued

The Baillie Gifford Long Term Global Growth Fund has achieved very strong returns over this period, significantly outperforming the benchmark. This has been because of a concentrated portfolio of growth stocks that have benefited from disruption and change. The Acadian portfolio has underperformed the benchmark because the strategy focuses on low volatility stocks and there has not been significant volatility in the market for the majority of the three year period.

Global equities

Three years to 31 March 2020

	% per annum
Acadian	0.9
MSCI World	2.8
ACCESS Long Term Global Growth (Baillie Gifford)	21.9
MSCI All Countries World Index	2.3
All active global investment managers	3.2

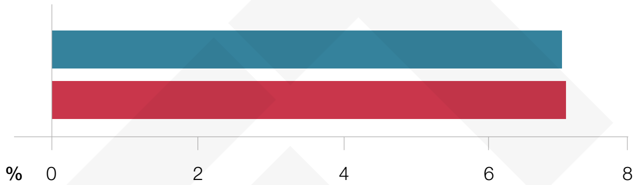


None of the Pension Fund's current active global equity managers has a track record of five years. The table below shows the aggregate performance of the Fund's active global equity managers over the last 5 years including the Fund's previous managers and shows the Fund's managers have marginally lagged the benchmark.

Global equities

Five years to 31 March 2020

	% per annum
All active global investment managers	7.1
MSCI All Countries World Index	7.2



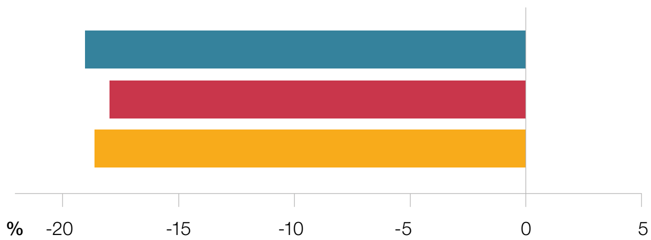
UK equities

The UK stock market experienced a significant fall as a result of the global coronavirus pandemic and lost 18.5% during 2019/20 as measured by the FTSE All Share Index. The ACCESS UK Equity Fund (managed by Schroders) has underperformed the FTSE All Share index over the last one year, three and five year periods. Underperformance in 2019/20 was partly due to some unsuccessful individual stock picks, but also due to Schroders' value strategy not being favoured by the market over this time period. The passive mandate with UBS has slightly outperformed the index over the one and five year time horizons.

UK equities

12 months to 31 March 2020

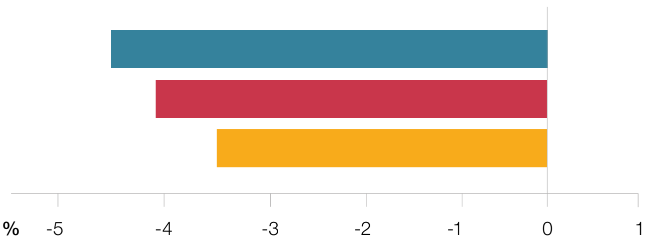
	%
ACCESS UK Equity Fund (Schroders)	-18.8
UBS UK equities	-18.2
FTSE All Share Index	-18.5



UK equities

Three years to 31 March 2020

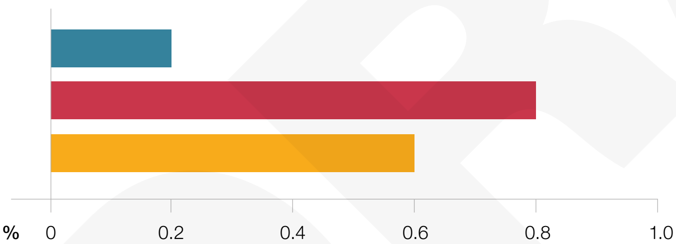
	% per annum
ACCESS UK Equity Fund (Schroders)	-4.5
UBS UK equities	-4.1
FTSE All Share Index	-3.5



UK equities

Five years to 31 March 2020

	% per annum
ACCESS UK Equity Fund (Schroders)	0.2
UBS UK equities	0.8
FTSE All Share Index	0.6



Bonds

The FTSE British Government Over Five Years Index-Linked Gilts Index returned 1.98% during 2019/20 and UBS tracked this performance almost exactly.

The Pension Fund appointed Alcentra and Barings as its two Multi-Asset Credit investment managers during 2019 and 2019/20 is the first year for which performance data is available. Both investment managers predominantly invest directly in bonds and loans and have been given a target to deliver returns of 3% per annum above the 3 month average LIBOR rate. The value of both portfolios fell significantly as markets reacted to the global coronavirus pandemic and investors sought safety in cash and there was a sell-off in bonds and loans.

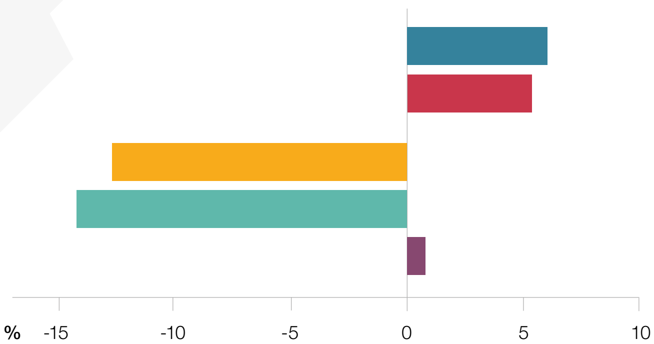
Two new investment managers were appointed during 2019/20 to manage investments in Asset Backed Securities (Insight and TwentyFour). Performance data is not shown for these managers as investments have been held for under a year. The Fund's investments in private debt through JP Morgan Alternative Asset Management are covered under the section on alternative investments on page xx.

None of the Fund's current bond managers have a track record of three years or more.

Bonds

12 months to 31 March 2020

	%
UBS	5.8
FTSE index linked gilts index	5.1
Alcentra	-13.1
Barings	-14.5
3 month average LIBOR	0.8



Property

CBRE Global Investors manage a portfolio of UK properties, with a performance target of the Retail Price Index (RPI) plus 3.5% over seven to 10 years. CBRE Global Investors performance return of -0.5% in 2019/20 was below their target. CBRE Global Investors have underperformed their RPI plus 3.5% target over the last three year period but have outperformed over the last 5 years, as well as over the 7 and 10 year periods against which their target is judged.

CBRE Global Investors mirrored the Investment Property Databank (IPD) benchmark return of -0.5% during 2019/20

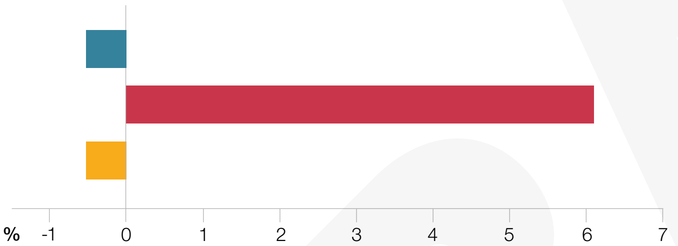
Investment Performance continued

while slightly underperforming the benchmark over the previous 3 year period and slightly outperforming over 5 years. The IPD benchmark reflects the returns achieved by similarly sized property portfolios but is not the performance target for this portfolio.

Shown below are the performance results of the Fund's UK property manager against the IPD benchmark and their benchmark of RPI plus 3.5%.

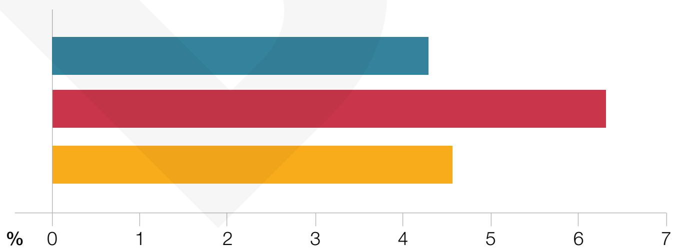
Property
12 months to 31 March 2020

	%
CBRE Global Investors – UK property	-0.5
RPI plus 3.5%	6.1
IPD benchmark	-0.5



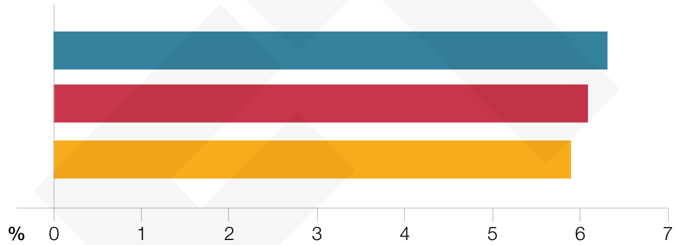
Property
Three years to 31 March 2020

	% per annum
CBRE Global Investors – UK property	4.3
RPI plus 3.5%	6.3
IPD benchmark	4.6



Property
Five years to 31 March 2020

	% per annum
CBRE Global Investors – UK property	6.3
RPI plus 3.5%	6.1
IPD benchmark	5.9



Alternative investments

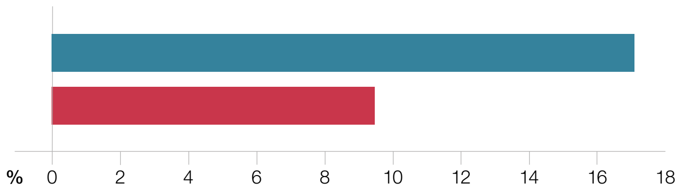
The Pension Fund's private equity and infrastructure portfolios are managed by Aberdeen Standard Investments and GCM Grosvenor respectively. Following changes to the Investment Strategy, the Pension Fund is in the process of disinvesting from the hedge funds portfolio (Morgan Stanley) and has established a new private debt mandate with JP Morgan.

The performance of the private equity and infrastructure portfolios is measured using the Internal Rate of Return (IRR), which gives an annualised effective interest rate for the investment, taking account of the timing of the cashflows. The infrastructure portfolio in particular should be considered a long-term investment.

No performance data is shown for the private debt portfolio because investments have been held for less than a year. The full impact of the global coronavirus pandemic is not reflected in the performance figures for the private equity and infrastructure investments at 31 March 2020 due to the longer timescales associated with the valuation of illiquid assets. The valuations in the Pension Fund's accounts for these investments have, however, been adjusted to allow for the estimated impact, with more detail provided on page xx

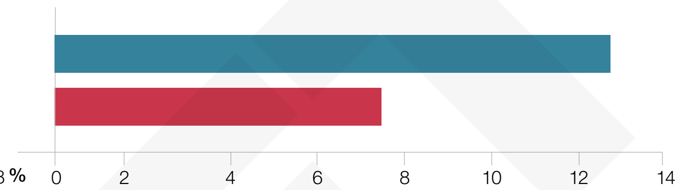
Private equity and other
12 months to 31 March 2020

	%
Aberdeen Standard Investments	17.1
Absolute target 9.5% p.a	9.5



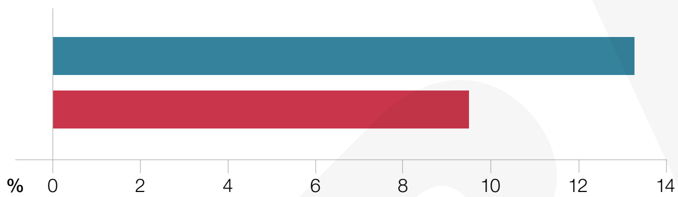
Infrastructure
12 months to 31 March 2020

	%
GCM Grosvenor	12.7
Absolute target 7.5% p.a	7.5



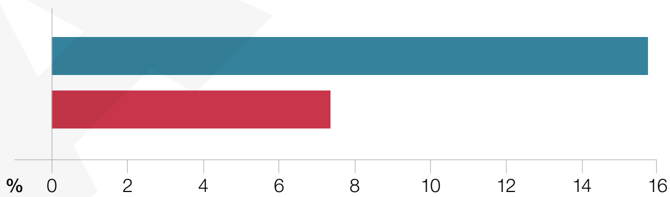
Private equity and other
Three years to 31 March 2020

	%
Aberdeen Standard Investments	13.3
Absolute target 9.5% p.a	9.5



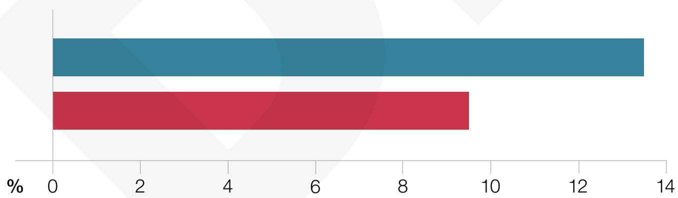
Infrastructure
Three years to 31 March 2020

	%
GCM Grosvenor	15.8
Absolute target 7.5% p.a	7.5



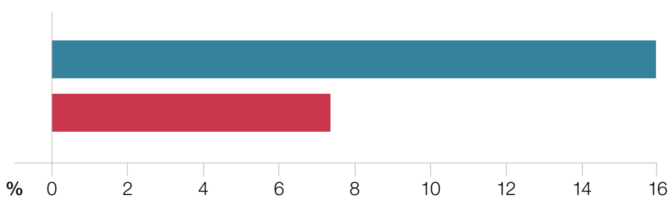
Private equity and other
Five years to 31 March 2020

	%
Aberdeen Standard Investments	13.5
Absolute target 9.5% p.a	9.5



Infrastructure
Five years to 31 March 2020

	%
GCM Grosvenor	16.0
Absolute target 7.5% p.a	7.5



Analysis of Fund Assets and Investment Income

The following tables show an analysis of the fund assets and investment income as at 31 March 2020, split between UK, non-UK and global portfolios. Not all of the Fund's investments distribute income and in such cases any gains instead contribute to the overall value of the asset.

Fund Assets at 31 March 2020*

	UK £m	Non-UK £m	Global £m	Total £m
Equities	655.8	–	2,417.7	3,073.5
Bonds	1,526.5	–	992.5	2,519.0
Property	509.1	0.4	–	509.5
Alternatives	31.9	–	613.4	645.3
Cash and cash equivalents	0.0	–	–	0.1
Total	**2,723.3**	**0.4**	**4,023.6**	**6,747.4**

** Based on Note 11a of the Pension Fund's accounts. Excludes accounting adjustments for long term debtors, current assets, current liabilities (notes 18 to 20 in the accounts) and investment liabilities.*

Investment income received in 2019/20

	UK £m	Non-UK £m	Global £m	Total £m
Equities	–	–	14.0	14.0
Bonds	31.8	–	9.9	41.7
Property	26.7	0.0	–	26.7
Alternatives	1.5	–	16.7	18.2
Cash and cash equivalents	–	–	–	1.2
Other (including stock lending)	–	–	–	1.8
Total	**60.0**	**0.0**	**40.6**	**103.6**

Scheme Administration Report

Who belongs to the Hampshire Pension Fund?

The Hampshire Pension Fund provides pensions for employees of Hampshire County Council, the unitary authorities of Southampton and Portsmouth and the 11 district / borough councils in the Hampshire county area. These are 'scheduled bodies', which means their employees have a statutory right to be in the Scheme. Other scheduled bodies include the Office of the Police and Crime Commissioner and the Chief Constable for Hampshire, Hampshire Fire and Rescue Authority, the University of Portsmouth, Southampton Solent University and other colleges that were part of the County Council. Town and parish councils that have opted to join the Fund are known as resolution bodies.

There are also admission bodies which include voluntary organisations that the County Council has admitted to the Scheme under its discretionary powers. Other admission bodies include employees of contractors for jobs transferred from scheduled bodies.

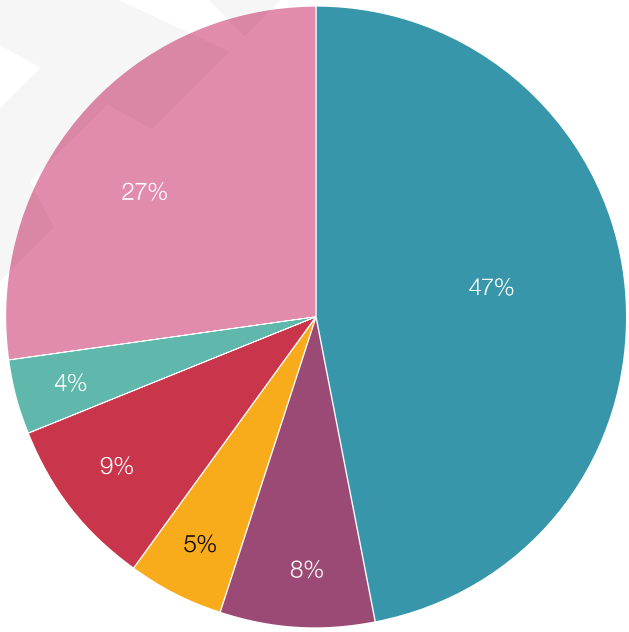
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years.

The LGPS is a qualifying scheme under the automatic enrolment regulations, and can be used as such by Fund employers.

Further information on automatic enrolment can be found on the Pensions Regulator website **www.thepensionsregulator.gov.uk**

On 31 March 2020 there were 43,706 pensioners, 75,920 deferred members, and 58,913 contributors, a total of 178,539 Scheme members.

	Number of contributors	%
Hampshire County Council	27,610	47
Portsmouth City Council	4,678	8
Southampton City Council	3,200	5
District and Borough Councils	5,110	9
Office of Police and Crime Commissioner and Chief Constable	2,530	4
Other organisations	15,785	27
Totals	**58,913**	**100**



Page 187

The following table shows a summary of employers in the fund analysed by type.

Employer Type	Employers	Active members	Deferred members	Pensioner members
Scheduled	180	57,296	73,730	41,062
Resolution	59	296	191	208
Admitted	66	1,155	1,053	1,081
Community admitted	15	71	323	359
Transferee admitted	22	5	277	228
Councillors (no active members)	10	0	94	128
Ceased (no active members)	52	0	252	640
Total	**404**	**58,913**	**75,920**	**43,706**

How the service is delivered

Responsibility for the administration of the Hampshire Pension Fund is delegated to Pensions Services, part of the Corporate Resources department of the County Council. Pensions Services use UPM, a Civica system, to provide all aspects of pensions administration including pensioner payroll and employer web access. Members can access their pension information online via the Member Portal.

There are 53 full time equivalent members of staff involved in the administration of the scheme for Hampshire, split into two main teams, supported by finance, projects and systems staff:

- a single Member Services team responsible for administering all casework, handling all member queries and paying pensioners
- an Employer Services team, responsible for all employer work including new and exiting employers, training and employer support.

Assurance over the effective and efficient operation of the administration is provided by internal audit, who carry out assurance and consultancy in accordance with an annual, risk based, programme. An annual opinion concludes on the overall adequacy and effectiveness of the Pensions Services framework of governance, risk management and control.

In addition, Pensions Services comply with the requirements for the national standard for excellence in customer service (CSE).

The CSE assessment considers how Pensions Services deliver against over 50 criteria in five key areas:

- Customer insight
- Culture of the organisation
- Information and access
- Delivery
- Timeliness and quality of service

The assessment is carried out by a qualified external assessor, with a full on-site review every third year and annual interim reviews. As well as viewing documentation, and observing working practices, the assessor speaks to customers, staff and partners to review Pensions Services' approach, along with details of their customer focussed initiatives and performance.

Pensions Services have held the Customer Service Excellence (CSE) standard since 2009, and retained the award following an interim assessment in April 2020, with compliance plus passes in nine areas:

- We use reliable and accurate methods to measure customer satisfaction on a regular basis.
- There is corporate commitment to putting the customer at the heart of service delivery and leaders in our organisation actively support this and advocate for customers.

- We empower and encourage all employees to actively promote and participate in the customer focused culture of our organisation.
- We can demonstrate our commitment to developing and delivering customer focussed services through our recruitment, training and development policies for staff.
- We can demonstrate how customer-facing staff's insight and experience is incorporated into internal processes, policy development and service planning.
- We have challenging standards for our main services, which take account of our responsibility for delivery of national and statutory standards and targets.
- We make our services easily accessible to all customers, through the provision of a range of alternative channels.
- We monitor and meet our standards, key departmental and performance targets, and we tell our customers about our performance.
- We identify any dips in performance against our standards and explain these to customers, together with action we are taking to put things right and prevent further recurrence.

Pensions Services ran 11 training events in the year which were attended by 171 people representing 66 employers and two Employer Focus Group meetings. The Annual Employers Meeting was held in October 2019 and was attended by representatives from 90 employers. In addition Pensions Services staff attended various employer liaison meetings throughout the year, as well as the regional payroll officer's group.

Scheme information for members is provided on the Pensions Services website. Members can view their own record including their annual benefit statement via member self-service, as well as update personal details. 45,993 members had registered for the Member Portal by 30 April 2020.

Key performance data

Pensions Services ran 11 training events in the year which were attended by 171 people representing 66 employers and two Employer Focus Group meetings. The Annual Employers Meeting was held in October 2019 and was attended by representatives from 90 employers. In addition Pensions Services staff attended various employer liaison meetings throughout the year, as well as the regional payroll officer's group.

Scheme information for members is provided on the Pensions Services website. Members can view their own record including their annual benefit statement via member self-service, as well as update personal details. 45,993 members had registered for the Member Portal by 30 April 2020.

			% cases completed against service standard			
Area of work	**Service Standard**	**Number of Cases**	Q1 %	Q2 %	Q3 %	Q4 %
Retirement	15 days	977	99.55	100	100	100
Deferred Retirement	15 days	1,635	98.67	100	100	100
Estimate	15 days	2,747	92.43	100	100	100
Deferred	30 days	6,509	90.50	99.50	100	100
Transfers In and Out	15 days	399	71.21	94.94	100	100
Divorce	15 days	409	65.26	97.89	100	100
Refund	15 days	1,338	100	100	100	100
Rejoiners	15 days	625	91.95	100	100	100
Interfunds	15 days	462	63.38	94.19	93.10	100
Death	20 days	949	95.92	100	100	100

Annual benefit statements were produced for 99.43% of active members and for 100% of deferred members by the statutory deadline of 31 August 2019. Of the 321 active members who did not have a statement by the deadline, 244 were produced by December 2019 once employers had provided the outstanding information.

Pension Savings Statements (PSS) were produced by the statutory deadline of 6 October for the 104 members who were identified as breaching the annual allowance limit in 2018/19. Of these 25 had a tax charge.

The annual internal audit opinion concluded that Pensions Services have a sound framework of internal control in place, which is operating effectively. No risks to the achievement of system objectives were identified

Timeliness of contributions

All employer contributions due for 2019/20 have been received, with the exception of one admitted body who has not paid for March 2020.

A total of £3.845m was paid late (£3.203m in 2018/19) which was 1.13% of the total contributions received. The average delay on all late payments received during 2019/20 was 11 days (11 days in 2018/19). Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2019/20.

Mortality screening and National Fraud Initiative

Pension Services run a monthly mortality screen to ensure that all deaths are reported promptly to the Fund and to minimise overpayments of pension. Overpayments are recovered by the Fund by invoice to the estate, or, with permission from the beneficiary, from a death grant or dependant pension. The table below shows the breakdown of how overpayments were recovered by the Fund.

Recovered From	Number	Total Value
Death Grant	73	£30,946.27
Dependent Pension	198	£99,219.68
Invoice	315	£137,491.55
Write Off	89	£3,464.83
Total	**675**	**£271,122.33**

Cost benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Department for Communities and Local Government. The most recent data is that for the financial year 2018/19 and is summarised in the following table:

	2018/19		2017/18	
	Hampshire	All Funds	Hampshire	All Funds
Administration cost per member	£14.07	£22.28	£11.96	£20.85
Governance cost per member	£3.68	£10.39	£3.27	£8.96
Investment cost per member	218.70	£189.59	£228.42	£175.44

The increase in administration costs in 2018/19 were in part due to the investment in the new Member Portal.

Value for money statement

Hampshire Pension Services deliver an efficient and effective administration service as demonstrated by:

- delivery against service levels
- internal audit assurance on sound control framework
- retention of Customer Service Excellence award
- low administration cost per member

Work has continued in the year to improve data quality, with a focus on working with employers to improve the timeliness and quality of the information they provide.

Summary of activity in 2019/20

As well as the focus on processing casework, Pension Services also completed a number of projects.

- Dismantling the main employer funding group and creating two smaller pools; providing information and support to affected scheme employers, as well as wider support for employers in the valuation year.

- New starters now receive an email rather than a letter welcoming them to the Fund. The email asks them to register for the Member Portal to securely access their documents and complete a membership option form.
- The Pension Services website has been fully reviewed to ensure the content is accessible and relevant to members.

Common and conditional data scores were reported to the Pensions Regulator in November 2019. The results of this provided a score for conditional data of 94% (87% in 2018/19). The score for common data was measured as 92% (94% in 2018/19). The main reason for the reduction in the common data score is the number of deferred members for whom we do not hold a current address (approximately 6,000 of whom 261 are over age 65). With the new Member Portal now in place, a one-off exercise to trace deferred members will be carried out in 2020/21 to ask them to register so that they can easily keep the Fund informed when they change their details.

What does membership cost and what are the benefits?

The Scheme operates tiered employee contribution rates set by Government. Employees pay a rising percentage depending on their pay band. The rates that apply from 1 April 2020 are set out in the following table:

Band	Actual salary	Contribution rate per year Main Section	50:50 Section
1	Up to £14,600	5.50%	2.75%
2	£14,601 to £22,800	5.80%	2.9%
3	£22,801 to £37,100	6.50%	3.25%
4	£37,101 to £46,900	6.80%	3.4%
5	£46,201 to £65,600	8.50%	4.25%
6	£65,601 to £93,000	9.90%	4.95%
7	£93,001 to £109,500	10.50%	5.25%
8	£109,501 to £164,200	11.40%	5.7%
9	£164,201 and more	12.50%	6.25%

Every three years the Fund's actuary, Aon, completes an actuarial valuation. This involves looking at the Fund's investments, future contributions from employees and commitments to decide the future level of employers' contributions. The most recent actuarial valuation of the Fund was undertaken at 31 March 2019. The actuarial position of the Fund is explained in more detail on page XX.

Following the 2010 valuation, the employer contribution rate was split into two elements. This approach has continued with the subsequent valuations:

- a percentage of contributor's pay for future service (primary contribution rate).
- a fixed cash amount based on a percentage of employer payroll for past service (secondary contributions).

At the 2019 valuation for the Fund as a whole, the primary contribution rate was 17.8% and secondary contributions required to remove the past service shortfall over a recovery period of 16 years from 1 April 2020 are £1.3m per annum (increasing at 3.1% per annum).

Prior to 1 April 2019 all the secure scheduled bodies in the Fund participated in a grouped funding arrangement called the 'Scheduled Body Group'. With effect from 1 April 2019 the Scheduled Body Group was disbanded, with the main employers instead having their contributions assessed on an individual basis.

At this valuation, an Academies pool was created, as well as a Town and Parish Council pool. In addition a small Admitted Body Group remains consisting mainly of small charitable bodies. Within these groups, employers pay the same future service contribution.

Benefits

The normal retirement age for all members is the later of age 65 or their state pension age. At retirement, members will receive:

- a pension of 1/80th of their final year's pay for each year of membership before 1 April 2008, and
- a lump sum of 3/80ths of their final year's pay for each year of membership before 1 April 2008, and
- a pension of 1/60th of their final year's pay for each year of membership after 31 March 2008 until 31 March 2014, and
- a pension of 1/49th of their actual pay for each year of membership after 1 April 2014.

In addition to the lump sum for membership before 1 April 2008, each member can exchange part of their pension pot for a lump sum and will receive £12 for every £1 of pension given up. However, the total lump sum is limited to 25% of their pension pot's value.

HM Revenue and Customs (HMRC) values retirement benefits in defined benefit schemes like the Hampshire Scheme at £20 for each £1 of pension, whatever the person's age. For all pensions already in payment, the value will be £25 for each £1 of pension.

The average annual pension paid in 2019/20 was £5,038 (£5,023 in 2018/19).

Retirement age

The normal retirement age for members under the Scheme is the later of age 65 or their state pension age, but members can choose to retire from age 55 and receive their benefits immediately, although these may be reduced for early payment.

A total of 2,462 Scheme members retired during 2019/20, with an average retirement age of 62 years. Of this number, 1,350 (or 54.8%) took some form of early retirement including 91 ill health retirements and 1,079 members choosing to take a reduced pension.

Additional voluntary contributions

Scheme members can pay additional voluntary contributions (AVCs) if they wish to supplement their pension or get an extra tax-free retirement lump sum. The AVCs are invested separately from the Fund's main assets and are used to buy extra pension benefits on retirement.

The Fund has two AVC providers, Prudential and Zurich. Members with existing AVCs with Equitable Life transferred to Utmost Life and Pensions in January 2020, following the positive vote by shareholders.

Membership information

A full listing of contributing employers to the Hampshire Pension Fund is available at:

https://www.hants.gov.uk/hampshire-services/pensions/local-government

Year ending 31 March	No. of contributors	No. of deferreds	No. of pensioners
2013	46,319	48,970	33,449
2014	50,551	52,417	33,286
2015	54.679	55,787	34,364
2016	57,815	59,857	36,519
2017	57,781	64,060	38,216
2018	57,877	69,503	39,796
2019	58,055	72,050	41,714
2020	58,913	75,920	43,706

The number of contributors has increased slightly in the year. The number of pensioners and deferred members in the Fund have increased in line with the general trend.

Complaints

If you have a complaint about the service, Pensions Services staff will do their best to put things right. If you are still dissatisfied, you can write to the Complaints Officer at:

The Complaints Officer
Corporate Services
Hampshire County Council
The Castle
Winchester
SO23 8UB

There were ten formal complaints made in 2019/20. These were all investigated and changes were made to processes where appropriate.

Appeals

The LGPS regulations provide a two stage formal appeal process for members. For stage one it will either be heard by the employer, if the appeal is against a decision made by the employer, or by the Hampshire County Council Director of Finance if it is against Pension Services.

In either case, if the member is still dissatisfied, they can make a second stage appeal, which will be considered by the Hampshire County Council Monitoring Officer. After this second stage, if the member wishes, the matter can be investigated by the Pensions Ombudsman.

The Fund considered one stage one Internal Dispute Resolution Procedure (IDRP) appeals against the Pension Fund during 2019/20. This was not upheld and proceeded to stage two of the IDRP process, the outcome agreeing with the stage one decision.

There were two stage two appeals against employer decisions; one on ill health, and one on purchasing additional pension contributions. These were not upheld.

The Fund's statutory statements

Hampshire Pension Fund maintains a number of statutory statements, as follows:

Business Plan
Funding Strategy Statement
Investment Strategy Statement
Governance Policy Statement
Governance Compliance Statement
Communication Policy Statement
Hampshire Pension Fund Administration Strategy
Employer Policy

These statements were last reviewed and approved by the Pension Fund Panel and Board during 2019/20:

http://democracy.hants.gov.uk/ieListMeetings.aspx?CId=189&Year=0

All reports are available on the Pension Fund website at the following link:

https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel

Risk Management Report

The management of risk is part of the control framework managed by the staff of the Deputy Chief Executive and Director of Corporate Resources with assurance provided through the work of Hampshire County Council's internal audit function.

The aims of the Pension Fund are published in the Funding Strategy Statement, which is reported to the Pension Fund Panel & Board annually. Risks are identified by analysing what may interfere with the achievement of these aims, including risks associated with investment pooling arrangements.

An assessment of each risk is conducted by the staff of the Director of Corporate Resources with assistance from the Fund Actuary. The risk register is reported to the Pension Fund Panel & Board annually. In addition, investment risks are published in the Investment Strategy Statement.

Control assurance reports from investment managers and the custodian (JP Morgan) are received by the Pension Fund and are used to provide assurance over third party operations.

The Pension Fund has identified the following risks and has put in place the following mitigating action:

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

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Risk	Description	Likelihood	Impact	Mitigation
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyber attack or pandemic disease), either effecting the Pension Fund directly or one of its key suppliers.	H	M	Pension Services follow the Administering Authority's Disaster Recovery policy that ensures that processes are in place to manage in the event of the loss of key resources. Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.
Administration risk	The Pensions Regulator identifies the risks being around:	M	M	
	• Employer contribution monitoring: are employers paying the right amount of contributions on time?			Employer contributions are set out in the triennial valuation and the deadline for payment is set by Regulation as 22nd of the month. Contributions are monitored and any late payments are reported to the Pension Fund Panel and Board. Any issues of 'material significance' will be reported to the Regulator
	• Record-keeping: how comfortable are you that your records are complete and accurate?			The Administration Strategy is the agreement between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to the certain principles, including: • provide a high quality pension service to members • take responsibility to provide accurate and timely information • the results are reported to the Panel & Board twice a year. The annual returns exercise is completed each year and employer performance is monitored with processes in place to help improve this where necessary. The Compliance and Delivery Manager is responsible for ensuring that data is complete and accurate in line with TPR requirements and that any actions on the data improvement plan are implemented. The Administering Authority has implemented a data analysis tool which provides daily management information on potential data issues.

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Risk	Description	Likelihood	Impact	Mitigation
	• Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated?			Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.
	• Member communication: are these always accurate, timely and clear?			There is a Communications Policy and Customer Charter on the Pension Services website, which details the service our scheme members can expect.
	• Internal disputes: do these indicate wider problems in the Fund?			The full complaint process, going all the way though to the Pensions Ombudsman, is detailed on the Pension Services website. All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.
	• Resourcing: conflicting priorities with servicing other partners.			Resourcing plans are in place to ensure services can be delivered to each partner. Project plans are in place that identify the requirements of each partner, including the on-boarding of new partners.
Investment risk	Investment management underperformance – from the Fund's investment managers failing to outperform their benchmark returns for prolonged periods of time	M	H	The Fund's investment managers' performance is reviewed regularly by the Fund's officers and reported regularly to the Panel and Board. All of the Fund's contracts for investment management contain the provision that the Fund can cancel the contract with 1 month's notice in the event of poor investment performance.
	Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities			The Panel and Board have set a diversified asset allocation which limits exposure to one particular market. The Fund contracts with specialist external investment managers and as a general principle aims to invest globally and set mandates for investment managers that give them as much freedom as possible, in order to manage market conditions as they see fit.
	Interest rate risk – which can affect the prices of investments that pay a fixed interest rate			The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for investment managers that give them as much freedom as possible, in order to manage risks such as changes in interest rates.

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Risk Management Report continued

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	Currency risk – the risk of fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			As a UK Pension Fund the Panel and Board consider that the Pension Fund should have a significant proportion of its assets denominated in Sterling, thereby removing the currency risk. The Panel and Board keep their view of the long term nature of currency movements under review and will seek specialist advice if they believe that this might change or there is likely to be an event that might crystallise the effect of particular currency movements. Where investment returns in particular asset classes are at risk of disproportionate currency effects (such as Multi-asset Credit and Private Debt) the investments are hedged back to Sterling. In addition having taken advice to mitigate the overall currency impact on the Pension Fund, the passive global equity investments is hedged back to.
	Credit risk – the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.			The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment, with further limits set in the Investment Strategy Statement to limit the Fund's exposure to particular vehicles or assets
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates.			The Fund contracts with specialist external investment managers and as a general principle aims make their portfolios 'ever-green' so that income and maturing investments can be reinvested, allowing investment managers to build portfolios that do not have a concentration of investments with a particular maturity date. The Pension Fund's stock lending programme is protected by collateral managed by the Fund's custodian.
	Custody risk – losing economic rights to Fund assets, when held in custody or being traded.			The Panel and Board and the Fund's officers regularly monitor the performance of the Fund's custodian and have the power to replace the provider should serious concerns exist.

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Risk	Description	Likelihood	Impact	Mitigation
	Liability risk – that the Fund's liabilities are not accurately calculated resulting in the return target being too low and employer's contributions having to rise.			The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions.
	Environmental, social and governance (ESG) factors including the impact of climate change – that these factors materially reduce long-term returns.			As set out in the Fund's Responsible Investemnt Police, the Fund's external investment managers are required consider ESG factors in their investment decisions, including any negative contribution to climate change and the overall risk from the impact of climate change, and to exercise the Fund's responsibility to vote on company resolutions wherever possible. They have also been instructed to intervene in companies that are failing, thus jeopardising the Fund's interests, by voting or by contacting company management directly.
	Regulatory risk – that inhibits the Pension Fund Panel and Board's fiduciary duty.			The Fund will be proactive in engaging with the Government, including responding to consultation, on any issues effecting the management and investment of Pension Fund monies.
	Illiquidity – that the Fund is unable to meet its immediate liabilities			The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available. The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	M	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.

L = Low likelihood / impact   M = Medium likelihood / impact   H = High likelihood / impact

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

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Risk	Description	Likelihood	Impact	Mitigation
Funding risk (continued)	**Green** – no material issue that might contribute to a recommendation for remedial action to ensure solvency GAD will then engage with Funds with any amber or red flags.	M	H	Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2016 valuation.
Regulatory and Compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.	M	L	The Pension Fund Panel and Board has documented Terms of Reference and Operating Procedures. The Panel and Board will consider all items that are material to the management of Hampshire Pension Fund and are supported by suitably qualified officers. Members of the Pension Fund Panel and Board complete a Training Needs Analysis based on CIPFA's Knowledge and Skills Framework and undertake identified training activities as necessary.
Pooling risk	That the investment pool which Hampshire has joined does not function effectively and provide the investments that Hampshire requires in order to implement its Investment Strategy	L	M	The Chairman of the Panel and Board supported by the Pension Fund's officers take an active part in the operation of the ACCESS pool to ensure its continued effectiveness. The Panel and Board and officers will continue to monitor the suitability of the Pension Fund's investments and where necessary consider appropriate alternatives available via ACCESS.
Contractual risk	The contractual arrangements between the County Council (on behalf of the Pension Fund) and its suppliers are challenged as unlawful	L	H	The Pension Fund receives advice from the County Council's Legal and Procurement staff about the most appropriate contractual arrangements to put in place to meet its legal obligations.

Pension Fund Budget Commentary

Shown below is the Pension Fund's budget for 2019/20 compared to actual expenditure, and the budget for the years 2020/21 to 2022/23. The budget for 2020/21 was agreed by the Pension Fund Panel and Board at its meeting of 13 December 2019.

	Budget 2019/20 £'000	Actual 2019/20 £'000	Budget 2020/21 £'000	Actual 2021/22 £'000	Budget 2022/23 £'000
Contributions received – Employers – normal	176,600	179,290	397,910	92,540	95,520
Contributions received – Employers – deficit	86,900	91,293	6,300	6,500	6,800
Contributions received – Employers – total	263,500	270,583	404,210	99,040	102,320
Contributions received – Members	68,500	69,558	70,400	72,600	74,900
Transfer values	0	-3,141	0	0	0
Benefits paid	-258,800	-264,906	-277,200	-282,700	-288,400
Net additions/withdrawals from dealings with members	**73,200**	**72,094**	**197,410**	**-111,060**	**-111,180**
Investment management fees	41,555	47,780	44,751	48,352	52,960
Staff	1,560	1,698	1,597	1,635	1,674
Premises	60	65	61	62	63
IT	280	244	285	290	296
Supplies & Services	230	155	234	239	243
Other	0	34	0	0	0
Administrative Costs	2,130	2,196	2,177	2,226	2,276
Staff	330	355	375	385	395
Premises	5	5	5	5	5
IT	5	5	5	5	5
Supplies & Services	350	347	335	325	345
Other	5	10	5	5	5
Oversight & Governance Costs	695	722	725	725	755
Management Expenses	**44,380**	**50,698**	**47,653**	**51,303**	**55,991**

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Dealings with members

Net additions from dealing with members was £1.1m lower than forecast. The Fund received a net inflow of £3.1m for pension transfers. Transfer values cannot be forecast as they are equally likely to be a net inflow or outflow. Benefits paid were £6.1m more than forecast, as the value of pensions was higher than planned. Employer contributions were £7.1m more than forecast as the number of active members of the scheme was higher than forecast as was the salary base for the level of contributions.

Management expenses

The Pension Fund pays its investment managers a percentage fee based on the value of investments. Investment management fees were higher than forecast as a result of additional costs for maintaining the Fund's investment properties and in fees paid to the underlying managers of the Fund's alternative allocations.

The increase in staff costs under the administration costs budget heading is due to work undertaken to reshape the teams to reflect the increasing complexity of administration. Investment in technology has produced more efficient processes and a reduction in budgeted printing and postage costs. Other expenditure is an increase in the Pension Fund's bad debt provision. This provision is made on debts owed to the Fund, including any outstanding contributions. A more prudent provision has been made because of the current Coronavirus crisis.

Governance costs were higher than forecast due to a reallocation of senior management costs between administration and governance.

Statement of the Actuary

for the year ended 31 March 2020

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Hampshire Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £7,181.9M) covering 98.9% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

   - 17.8% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

   Plus

   - an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 below, and monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 16 years from 1 April 2020, which together comprise the secondary rate

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

   Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2020	18.6	7.2
2021	18.6	7.5
2022	18.6	7.8*

** Increasing at 3.1% p.a.*

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	
Scheduled body group employers *	4.40% p.a.
Intermediate funding targets	
– Low Risk	3.90% p.a.
– Medium Risk	3.75% p.a.
– High Risk	3.55% p.a.
Ongoing Orphan employers	3.55% p.a.
Discount rate for periods after leaving service	
Scheduled body group employers *	4.40% p.a.
Intermediate funding targets	
– Low Risk	3.90% p.a.
– Medium Risk	3.75% p.a.
– High Risk	3.55% p.a.
Ongoing Orphan employers	1.60% p.a.
Rate of pay increases	3.10% p.a.
Rate of increase to pension accounts	2.10% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.10% p.a.

** The appropriate secure scheduled body or intermediate discount rate was also used for employers whose liabilities will be subsumed after exit by an employer subject to that funding target.*

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2N mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience using Aon's Demographic HorizonsTM longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018), with a smoothing parameter Sĸ of 7.5% and long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	**Women**
Current pensioners aged 65 at the valuation date	22.9	25.4
Current active members aged 45 at the valuation date	24.6	27.1

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31 March 2020 in paragraph 10 below.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

- **Increases to GMPs:**
  The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. However, the Government is still exploring various options, including

Page 205

conversion of GMPs to Scheme benefits, in order to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case.

The results of the 2019 valuation do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5 April 2021 nor for conversion of GMPs to Scheme benefits. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

- **Cost Management Process and McCloud judgement:** Initial results from the Scheme Advisory Board cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS is expected in June 2020.

  The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the LGPS changes have been agreed depending upon the precise nature of the new final salary underpin, the members in scope, and how this affects the cost management process.

10. Since the valuation date, Fund asset returns have fallen short of the assumed return of 4.40% over the year to 31 March 2020, on its own leading to a reduction in the funding level. In addition, reduced expectations of future asset returns and falls in gilt yields have led to an decrease in the discount rates, further reducing funding levels and increasing the primary rate. The Actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action if it believes necessary.

11. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

    This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

    Aon does not accept any responsibility or liability to any party other than our client, Hampshire County Council, the Administering Authority of the Fund, in respect of this Statement.

12. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:

    https://www.hants.gov.uk/hampshire-services/pensions/local-government/employers/technical-information/finance/actuarial-valuation

Aon Hewitt Limited
May 2020

Pension Fund Accounts

Fund Account

	See note	2018/19 £'000	2019/20 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	307,962	340,141
Transfers in from other pension funds		12,744	31,080
		320,706	**371,221**
Benefits	8	-251,664	-264,906
Payments to and on account of leavers		-14,057	-34,221
		-265,721	**-299,127**
Net additions from dealings with members		**54,985**	**72,094**
Management expenses	9	-40,625	-50,698
Net additions/withdrawals inc. fund management expenses		14,360	21,396
Returns on investments			
Investment income	10	115,530	103,557
Taxes on income		-1,043	870
Profits and losses on disposal of investments and changes in the market value of investments	11a	439,795	-397,224
Net return on investments		**554,282**	**-292,797**
Net increase in the net assets available for benefits during the year		**568,642**	**-271,401**
Opening net assets of the scheme		**6,613,239**	**7,181,881**
Closing net assets of the scheme		**7,181,881**	**6,910,480**

Net Assets Statement for the year ending 31 March 2020

	See note	31 March 2019 £'000	31 March 2020 £'000
Investment assets		7,087,835	6,739,972
Cash deposits		86	105
Investment liabilities		-43	0
Total net investments	**11**	**7,087,878**	**6,740,077**
Long term debtors	20	3,043	1,521
Current assets	18	99,940	178,471
Current liabilities	19	-8,980	-9,589
Net assets of the Fund available to fund benefits at the period end		**7,181,881**	**6,910,480**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the period. The actuarial present value of promised retirement benefits is disclosed at Note 17.

Notes to the Pension Fund Accounts

1. Description of Fund

The Hampshire Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Hampshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the Scheme.

a) General

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit pension scheme administered by Hampshire County Council to provide pensions and other benefits for pensionable employees of Hampshire County Council, Portsmouth and Southampton City Councils, the 11 district councils in Hampshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Hampshire Pension Fund Panel and Board, which is a committee of Hampshire County Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hampshire Pension Fund include:

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

There are 342 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2019	31 March 2020
Number of employers with active members	338	342
Number of employees in Scheme		
County Council	27,191	27,610
Other employers	30,864	31,303
Total	**58,055**	**58,913**
Number of pensioners		
County Council	18,171	18,929
Other employers	23,543	24,777
Total	**41,714**	**43,706**
Deferred pensioners		
County Council	35,557	37,485
Other employers	36,493	38,435
Total	**72,050**	**75,920**
Total members in the Pension Fund	**171,819**	**178,539**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2019. Employer contribution rates for most employers were a range from 16.1% to 18.6% of pensionable pay plus a past service deficit contribution.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Hampshire Pension Fund's website:
https://www.hants.gov.uk/hampshire-services/pensions

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year end at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

Hampshire County Council remains satisfied the LGPS that it administers continues to be a going concern. The Pension Fund's latest actuarial valuation, as at 31 March 2019, showed it to be 99% funded – a significant increase from the position 3 years prior of 81%. The impact of the Coronavirus pandemic on investment markets has affected the value of the Fund to 31 March 2020, however the Fund still has the remaining 3 years of the actuarial period to achieve the target return, and beyond this has agreed a 16 year recovery period in its Funding Strategy Statement should this be necessary to make good an increase in the funding deficit at the next actuarial valuation.

The vast majority of employers in the pension scheme (88% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions. Following the latest actuarial valuation and schedule of employer contribution prepayments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet is ongoing obligations to pay pensions from its cash balance. In the unlikely event that investments need to be sold 83.3% of the Fund's investments can be converted into cash within 3 months.

3. Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase Scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

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

iv) Property-related income

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

d) Benefits payable

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

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Income and expenditure exclude VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However in the interest of greater transparency, the Council discloses its Pension Fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.*

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance costs

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

Investment management expenses

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

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2019/20 £2.1 million of fees is based on such estimates (2018/19 £4.8 million).

Net Assets Statement

g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/ Investment Association, 2016).

h) Freehold and leasehold properties

The properties were valued on 31 March 2020 by an external valuer, Mark White, BSc MRICS of Colliers International, in accordance with the *Royal Institute of Chartered Surveyors' Valuation – Current Global Standards*; see Note 13 for more details.

i) Foreign currency transactions

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

j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 12).

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 17).

n) Additional voluntary contributions

Hampshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Utmost, but only by legacy contributors (closed to new members). AVC policies with Equitable Life transferred to Utmost on 1 January 2020. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Note 21).

o) Contingent assets and contingent liabilities

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

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

4. Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of alternative investments: private equity, infrastructure and private debt. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equity and infrastructure investments are valued by the investment managers using guidelines set out by *the International Private Equity and Venture Capital Valuation Guidelines*. The value of unquoted private equity investments was £301 million and infrastructure investments was £206 million at 31 March 2020 (£465 million combined at 31 March 2019). There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as *Duff & Phelps*. The value of unquoted private debt investments at 31 March 2020 was £136 million (no private debt investments were held at 31 March 2019).

Pension fund liability

The pension fund liability is recalculated every three years by the appointed actuary, with updates in the intervening years.

The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions, which are agreed with the actuary and are summarised in Note 16.

These actuarial revaluations are used to set future employer contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund's property portfolio includes a number of directly owned properties, which are leased commercially to various tenants with rental periods from less than a month to 118 years (based on current leases). The Fund has determined that these contracts all constitute operating lease arrangements under the classification permitted by IAS7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account when it is paid by the tenant according to the terms of the lease.

Wholly owned companies

The Pension Fund's investments include two companies that it owns that have been specifically created to hold the Pension Fund's investments. These companies have no other purpose and therefore the value of the companies is equal to value of the investments.

The Pension Fund accounts for these investments according to the types of investments held by the companies, in line with the rest of the Pension Fund's accounting and reporting.

5. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the Net Assets Statement at 31 March 2020 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 17)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £1,023 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £47 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £372 million.

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity (Note 13)	Private equity investments are valued at fair value in accordance with the *International Private Equity Venture Capital Valuation Guidelines.* These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £301 million. The investment manager recommends a tolerance of 10% around the net asset value (+/-£30m)
Infrastructure (Note 13)	Infrastructure investments are valued at fair value in accordance with the *International Private Equity Venture Capital Valuation Guidelines.* These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure investments in the financial statements are £206 million. The investment managers recommends a tolerance of 10% around the net asset value (+/-£21m)
Private debt (Note 13	There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as *Duff & Phelps*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private debt investments in the financial statements are £135 million. The investment managers recommends a tolerance of 5% around the net asset value (+/-£7m)
Freehold and leasehold properties and pooled property funds (Note 13)	Properties are valued at fair value at the year end using the investment method in accordance with the *RICS Valuation – Current Global Standards*	The total freehold and leasehold property and pooled property fund investments in the financial statements are £510 million. The Pension Fund's independent property valuer recommends a tolerance of 10% around the net asset value (+/-£51m)
Hedge funds (Note 13)	Hedge funds are valued at the sum of the fair values provided by the administrators of the funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £4 million. There is a risk that this investment may be under or overstated in the accounts. The investment manager recommends a tolerance of +/- 5% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £0.2 million.

6. Events after the reporting date

It is clear the spread of Coronavirus had a significant impact on financial markets in the run up to 31 March 2020 and will continue to weigh heavily on global growth prospects for 2020 and beyond. A unique and challenging landscape has emerged for governments and their economies to navigate.

Following the reporting date, in the period that these accounts have been prepared the value of investments has improved, recovering some of the losses sustained following the first recognition of the effects of Coronavirus. Therefore no further adjustments to these accounts have been made.

7. Contributions receivable

By category

	2018/19 £'000	2019/20 £'000
Employees' contributions	66,161	69,558
Employers' contributions		
Normal contributions	160,065	179,290
Deficit recovery contributions	81,736	91,293
Total Employers' contributions	241,801	270,583
Total	**307,962**	**340,141**

By authority

	2018/19 £'000	2019/20 £'000
Administering authority	117,275	128,829
Scheduled bodies	175,155	193,120
Admitted bodies	15,532	18,192
Total	**307,962**	**340,141**

8. Benefits payable

By category

	2018/19 £'000	2019/20 £'000
Pensions	209,547	220,205
Commutation and lump sum retirement benefits	36,335	38,865
Lump sum death benefits	5,782	5,836
Total	**251,664**	**264,906**

By authority

	2018/19 £'000	2019/20 £'000
Administering authority	93,791	97,738
Scheduled bodies	144,837	154,627
Admitted bodies	13,036	12,541
Total	**251,664**	**264,906**

9. Management expenses

	2018/19 £'000	2019/20 £'000
Administrative costs	2,417	2,196
Investment management expenses	37,576	47,780
Oversight and governance costs	632	722
Total	**40,625**	**50,698**

This analysis of the costs of managing the Hampshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

In addition to these costs, implicit costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 11a).

9a. Investment Management expenses

	2018/19 £'000	2019/20 £'000
Management fees	27,915	44,705
Custody fees	255	111
Transaction costs	9,406	2,964
Total	**37,576**	**47,780**

10. Investment income

	2018/19 £'000	2019/20 £'000
Income from bonds	7,526	0
Income from equities	55,021	13,957
Pooled property investments	1,651	1,651
Pooled investments – unit trusts and other managed funds	259	41,696
Rents from property	25,765	25,064
Interest on cash deposits	557	1,177
Alternative investment income	18,145	18,227
Stock lending	935	135
Other	5,671	1,650
Total before taxes	**115,530**	**103,557**

11. Investments

	31 March 2019 £'000	31 March 2020 £'000
Bonds		
Overseas		
Public sector unquoted	159	0
	159	**0**
Equities		
UK – Quoted	30,378	61,396
Overseas – Quoted	724,736	701,345
	755,114	**762,741**
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	1,496,970	1,526,538
Unit trusts	1,089,532	594,382
Overseas		
Fixed income unit trusts	657,184	992,425
Unit trusts	1,964,853	1,716,366
	5,208,539	**4,829,711**
Pooled property investments	51,160	54,268
Alternative investments	585,565	645,310
Property	487,255	455,280
Derivative contracts:		
– Forward currency contracts	43	4
	1,124,023	**1,154,862**
Cash deposits	86	105
Total investment assets	**7,087,921**	**6,747,419**
Investment liabilities		
Derivative contracts:		
– Forward currency contracts	-43	-7,342
Derivatives	**-43**	**-7,342**
Total investment liabilities	**-43**	**-7,342**
Net investment assets	**7,087,878**	**6,740,077**

11a) Reconciliation of movements in investments and derivatives

Period 2019/20

	Market value 1 April 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Bonds	159	1,411	-1,652	82	0
Equities	755,114	406,533	-347,542	-51,364	762,741
Pooled investments	5,208,539	517,914	-602,619	-294,123	4,829,711
Pooled property investments	51,160	11,134	-4,316	-3,710	54,268
Alternative investments	585,565	196,893	-111,688	-25,460	645,310
Property	487,255	3,604	-15,392	-20,187	455,280
	7,087,792	**1,137,489**	**-1,083,209**	**-394,762**	**6,747,310**
Derivative contracts:					
– Forward foreign exchange	0	14,753	-17,911	-4,180	-7,338
Other investment balances:					
– Cash deposits	86	-	-	1,718	105
Net investment assets	**7,087,878**	**-**	**-**	**-397,224**	**6,740,077**

Period 2018/19	Market value 1 April 2018 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2019 £'000
Bonds	256,696	245,831	-507,138	4,770	159
Equities	2,652,257	2,663,799	-4,699,916	138,974	755,114
Pooled investments	2,541,460	3,105,681	-664,588	225,986	5,208,539
Pooled property investments	49,270	1,250	-1,490	2,130	51,160
Alternative investments	497,470	247,316	-239,379	80,158	585,565
Property	433,070	56,362	-4,105	1,928	487,255
	6,430,223	**6,320,239**	**-6,116,616**	**453,946**	**7,087,792**
Derivative contracts:					
– Futures	-237	8,865	-6,443	-2,185	0
– Forward foreign exchange	-3,100	53,490	-42,867	-7,523	0
– Purchased/written options	0	-150	-37	187	0
	-3,337	**62,205**	**-49,347**	**-9,521**	**0**
Other investment balances:					
– Cash deposits	15,954	-	-	-4,630	86
– Spot foreign exchange contracts	-24	-	-	-	0
Net investment assets	**6,442,816**	**-**	**-**	**439,795**	**7,087,878**

Purchases and sales of derivatives are recognised in note 11a above as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

11b) Net assets analysed by fund manager

	Market value 31 March 2019 £'000	%	Market value 31 March 2020 £'000	%
ACCESS Pooled investments (Link)	1,737,878	24.2	1,366,327	19.8
ACCESS Pooled investments (UBS)	2,813,476	39.2	2,521,958	36.5
ACCESS Pooled investments Subtotal	**4,551,354**	**63.4**	**3,888,285**	**56.3**
Acadian	476,052	6.6	447,506	6.4
Alcentra	362,273	5.1	314,917	4.6
Baillie Gifford	289,850	4.0	286,991	4.2
Barings	294,912	4.1	252,305	3.7
CBRE Global Investors	537,270	7.5	508,671	7.3
Insight	0	0.0	175,362	2.3
Twenty-four Asset Management	0	0.0	178,841	2.6
	1,960,357	**27.3**	**2,164,593**	**31.3**
Other investments	595,098	8.3	649,710	9.4
Other net assets	75,072	1.0	207,892	3.0
Total	**7,181,881**	**100.0**	**6,910,480**	**100.0**

All the companies named above are registered in the United Kingdom.

11c) Stock lending

The Fund's Investment Strategy Statement sets the parameters for the Fund's stock lending programme for its directly held equities and bonds. At the year end, the value of quoted stock on loan was £67.7 million (£103.9 million 2018/19). These stocks continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank, JP Morgan. As at 31 March 2020, the custodian bank held collateral at fair value of £74.8 million (£119.8 million 2018/19). Collateral consists of acceptable securities and government debt.

Stock lending commissions are remitted to the Fund via the custodian bank. During the period the stock is on loan the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

11d) Property holdings

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase or sell any of these properties. The Pension Fund is required to meet the cost of repairs, maintenance or enhancements necessary to maintain the investment income of its property assets.

The future minimum lease payments receivable by the Fund are as follows.

	Year ending 31 March 2019 £'000	Year ending 31 March 2020 £'000
Within one year	24,200	22,842
Between one and five years	72,356	66,997
Later than five years	176,353	166,381
Total future lease payments due under existing contracts	**272,909**	**256,220**

The above disclosures have been reduced by a credit loss allowance of 4.5% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property investment manager. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

12) Analysis of derivatives

Objectives and policies for holding derivatives

Investments in forward currency contracts were to hedge exposures to reduce risk in the Fund by removing the exposure to foreign (non-Sterling) currency. The forward foreign currency contracts are all OTC (over the counter) contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

Open forward currency contracts

At 31 March 2020, the Fund had open forward currency contracts in place with a net unrealised loss of £7.3 million.

Settlement	Currency bought	Local value '000	Currency sold*	Local value '000	Asset value £'000	Liability value £'000
1 to 6 months	GBP	144,170	USD	-188,104	0	-7,331
1 to 6 months	GBP	882	EUR	-1,008	0	-11
1 to 6 months	EUR	412	GBP	-361	4	0
Open forward currency contracts at 31 March 2020					**4**	**-7,342**
Net forward currency contracts at 31 March 2020						**-7,338**
Prior year comparative:						
Open forward currency contracts at 31 March 2019					**43**	**-43**
Net forward currency contracts at 31 March 2019						**0**

* List of currencies

EUR = Euro GBP = British Pound USD = United States Dollar

13. Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Market quoted investments	1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Spot foreign exchange contracts	1	Market exchange rates at the year end	Not required	Not required
Exchange traded pooled investments	1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – fixed income	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required
Pooled investments – property funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Property valuers have included a 'material uncertainty' clause in their valuations, due to effect on property prices of the Coronavirus pandemic

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Freehold and leasehold properties	3	Valued at fair value at the year end using the investment method of Mark White, BSc MRICS of Colliers International in accordance with the *RICS Valuation – Global Standards 2017*	Comparable recent market transactions on arm's-length terms	Not required
Alternative Investments – Hedge funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Alternative Investments – Private equity, infrastructure and private debt	3	Comparable valuation of similar companies in accordance with *International Private Equity Venture Capital Valuation Guidelines* where appropriate or use of third-party valuers such as *Duff & Phelps.*	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium Loan to value multiple	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with the Fund's investment managers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges and has set below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/–)	Value at 31 March 2020 £'000	Value on increase £'000	Value on decrease £'000
Freehold and leasehold properties	10%	455,280	500,808	409,752
Pooled investments – property funds	10%	54,268	59,695	48,841
Alternative Investments – Hedge funds	5%	4,018	4,219	3,817
Alternative Investments – Private debt	5%	134,516	141,242	127,790
Alternative Investments – Infrastructure	10%	205,897	226,487	185,307
Alternative Investments – Private equity	10%	300,879	330,967	270,791

13a) Fair value hierarchy

Assets and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair value. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2020	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	4,971,229	621,227	699,578	6,292,034
Non-financial assets at fair value through profit and loss	0	0	455,280	455,280
Financial liabilities at fair value through profit and loss	0	-7,342	0	-7,342
Net investment assets	**4,971,229**	**613,885**	**1,154,858**	**6,739,972**

Values at 31 March 2019	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	5,306,469	708,546	585,565	6,600,580
Non-financial assets at fair value through profit and loss		487,255		487,255
Financial liabilities at fair value through profit and loss	0	-43	0	-43
Net investment assets	**5,306,469**	**1,195,758**	**585,565**	**7,087,791**

The table includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included. There were no transfers in classifications in 2018/19.

13b) Reconciliations of fair value measurements within level 3

Period 2019/20	Market value 1 April 2019 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2020 £'000
Pooled investments – property funds	51,160	11,134	-4,316	-3,710	54,268
Freehold and leasehold properties	487,255	3,604	-15,392	-20,187	455,280
Alternative investments	585,565	196,893	-111,688	-25,460	645,310

£54m of pooled property funds and £455m of freehold and leasehold properties transferred from Level 2 to Level 3 on 31 March 2020 as a result of the inclusion of 'material uncertainty' clauses in the statements of the property valuer's due to the difficulty in valuing property due to the Coronavirus pandemic.

14. Financial instruments

14a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

31 March 2019 Fair value through profit and loss £'000	31 March 2019 Loans and receivables £'000	31 March 2019 Financial liabilities at amortised cost £'000		31 March 2020 Fair value through profit and loss £'000	31 March 2020 Loans and receivables £'000	31 March 2020 Financial liabilities at amortised cost £'000
			Financial assets			
159			Fixed interest securities	0		
755,144			Equities	762,741		
5,208,539			Pooled investments	4,829,711		
51,160			Pooled property investments	54,268		
585,565			Alternatives	645,310		
43			Derivative contracts	4		
17,820	40,601		Cash	88,060	57,204	
	10,182		Debtors		4,948	
6,618,400	**50,783**	**0**		**6,380,094**	**62,152**	**0**
			Financial Liabilities			
-43			Derivative contracts	-7,342		
		-8,146	Creditors			-8,737
-43	**0**	**-8,146**		**-7,342**	**0**	**-8,737**
6,618,357	**50,783**	**-8,146**		**6,372,752**	**62,152**	**-8,737**

14b) Net gains and losses on financial instruments

31 March 2019 £'000		31 March 2020 £'000
	Financial assets	
447,575	Fair value through profit and loss	-372,857
	Financial liabilities	
-9,708	Fair value through profit and loss	-4,180
437,867	**Total**	**-377,037**

The Administering Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

15. Nature and extent of risks arising from financial instruments

Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel and Board. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions

15a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2019/20 reporting period based on a one standard deviation movement in the value of the Fund's investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-)
UK equities	12.26%
Overseas equities	12.72%
UK bonds	10.64%
Overseas bonds	8.51%
Property	2.86%
Alternative investments	6.33%
Cash	0.10%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the previous table, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2020	**6,740,077**	**689,884**	**7,429,961**	**6,050,193**
Total assets 2019	7,087,878	665,565	7,753,443	6,422,313

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates. The Pension Fund's fixed interest investment manager has applied their market experience to the Fund's portfolio of investments to calculate the effect of a change in interest rates. The figures below for Fixed Interest Securities do not include the Fund's pooled investment in Index Linked Gilts. This better reflects the Fund's approach to the management of investment risk and how this analysis is applied to the Fund's different investments.

Assets exposed to interest rate risk	Value as at 31 March 2020 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	145,159	0	145,159	145,159
Cash deposits	105	0	105	105
Bonds	0	0	0	0
Total	**145,264**	**0**	**145,264**	**145,264**

Assets exposed to interest rate risk	Value as at 31 March 2019 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	58,335	0	58,335	58,335
Cash deposits	86	0	86	86
Bonds	657,184	7,154	650,030	664,338
Total	**715,605**	**7,154**	**708,451**	**722,759**

Income exposed to interest rate risk	Amount receivable as at 31 March 2020 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits / cash & cash equivalents	1,177	1,018	2,195	159
Bonds	0	0	0	0
Total	**1,177**	**1,018**	**2,195**	**159**

Income exposed to interest rate risk	Amount receivable as at 31 March 2019 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits / cash & cash equivalents	557	963	1,520	-406
Bonds	7,526	0	7,526	7,526
Total	**8,083**	**963**	**9,046**	**7,120**

Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds). The Fund holds both monetary and non-monetary assets denominated in currencies other than GB pounds.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations

Currency risk – sensitivity analysis

Following analysis of historical data the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 7.8% (as measured by one standard deviation).

A 7.8% fluctuation in the currency is considered reasonable based on the Pension Fund's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.8% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2020	**2,629,780**	**206,050**	**2,835,830**	**2,423,730**
Total assets 2019	2,701,298	256,808	2,958,106	2,444,490

15b) Credit risk

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

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on OTC derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Pension Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Pension Fund invests an agreed percentage of its funds in the money markets to provide diversification. The money market funds chosen all have AAA rating from a leading ratings agency.

The Pension Fund has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £186.305 million (31 March 2019: £46.820 million). This was held with the following institutions:

	Rating as at 31 March 2020	Balances as at 31 March 2019 £'000	Balances as at 31 March 2020 £'000
Money market funds			
Aberdeen Standard	AAAm	4,350	18,000
Blackrock	AAAm	2,200	18,000
DWS (formerly Deutsche)	AAAm	2,010	11,110
Federated Investors UK	AAAm	4,550	18,000
Insight	AAAm	940	4,950
JP Morgan	AAAm	3,770	18,000
Bank deposits			
DZ Bank AG	AA+	0	10,000
HSBC	AA-	0	21,000
Lloyds	A+	1,000	1,000
NatWest	A	0	200
Nordea Bank AB	AA-	0	15,000
Rabobank	AA-	5,000	0
Santander UK	A	5,000	0
Standard Chartered	A	5,000	0
Handelsbanken	AA-	1,000	18,000
Treasury bills			
UK Government	AA-	12,000	33,045
Total		**46,820**	**186,305**

15c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2020 the value of illiquid assets was £1,127million, which represented 16.7% of the total fund assets (31 March 2019: £1,098 million, which represented 15.5% of the total fund assets).

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

The key risk is that the Pension Fund will be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

16. Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2019. The next valuation will take place at 31 March 2022.

The key elements of the funding policy are:

- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met and that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 16 years from 1 April 2020 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

At the 2019 actuarial valuation, the Fund was assessed as 99% funded (81% at the March 2016 valuation). This corresponded to a deficit of £78 million (2016 valuation: £1,240 million) at that time.

The aggregate employer contributions were certified as 18.6% of Pensionable Pay, plus an additional total contribution amount of £7.2 million over 2020/21, £7.5 million over 2021/22 and £7.8 million over 2022/23.

The Fund operates three funding groups (or pools) in which participating employers share risks and pay a common primary contribution rate. All academies participate in the Academy Pool; all Town and Parish Councils participate in the Town and Parish Council Pool, and many of the charitable community admission bodies continue to participate in the Admission Body Group. Further information on these funding arrangements is contained within the Funding Strategy Statement. All other employers' liabilities and contribution rates are assessed individually.

Contribution schedules for the period to 31 March 2023 have been agreed for all employers. The contributions for employers reflect the profiles of their membership (or profile of the group in which they participate); the approach taken to value the liabilities on exit; the covenant of the employer and take into account the recovery of any surplus or deficiency relating to their participation over an appropriate period. Where annual contribution amounts have been certified to an employer to remove a deficit these are expected to increase by approximately 3.1% p.a. until 31 March 2036 (or an earlier date in some cases depending on the employer's circumstances).

The valuation of the Fund has been undertaken using the projected unit method for most employers, under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

Financial assumptions

Full details of the assumptions used by the Fund's actuary are set out in the 2019 actuarial valuation report and summarised in the Statement of the Actuary.

Generally, a common set of assumptions is adopted for all employers in the Fund with the exception of the discount rate (assumption for future investment returns) which is dependent on the circumstances of the employer. In setting the discount rate the actuary takes into account the financial risk of the employer and, if the employer is expected to exit the Fund in the future, will have regard to the funding target that will be used in an exit valuation under Regulation 64.

The main actuarial assumptions that were used for the secure scheduled bodies in the March 2019 actuarial valuation were as follows:

Financial assumptions – discount rate for periods

Discount rate	4.4% a year
Rate of general pay increases	3.1% a year
Rate of increase to pension accounts and deferred pension increases	2.1% a year
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.1% a year

The assets were valued at market value.

Demographic assumptions:

A 65 year old male pensioner retiring in normal health in 2019 was assumed on average to live to 87.9 (rather than 89.1 under the assumptions adopted at the previous valuation). A 65 year old female pensioner retiring in normal health in 2019 was assumed on average to live to 90.4 (rather than 92.3).

Commutation assumption:

Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

50:50 option:

All active members were assumed to remain in the Scheme they were in at the valuation date.

17. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the Pension Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting the Fund's contribution rates and the Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 16). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2019 was £10,141million (31 March 2016: £7,595 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date.

As noted above the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2019 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

The principal financial assumptions used by the Fund's actuary for the March 2019 IAS 19 calculation were:

Discount rate	2.5%
CPI inflation / pension increase rate assumption	2.1%
Salary increase rate	3.1%

18. Current assets

	31 March 2019 £'000	31 March 2020 £'000
Debtors:		
– Contributions due - employees	173	25
– Contributions due - employers	25,508	23,661
– Transfer values receivable (joiners)	1,521	1,521
– Tax	4,221	3,157
– Sundry debtors	10,182	4,948
Cash balances	58,335	145,159
Total	**99,940**	**178,471**

Analysis of debtors

	31 March 2019 £'000	31 March 2020 £'000
Central government bodies	7,309	5,258
Other local authorities	18,006	18,225
Other entities and individuals	16,290	9,829
Total	**41,605**	**33,312**

19. Current liabilities

	31 March 2019 £'000	31 March 2020 £'000
Sundry creditors	8,146	8,737
Transfer values payable (leavers)	0	0
Benefits payable	184	114
Tax	650	738
Total	**8,980**	**9,589**

Analysis of creditors

	31 March 2019 £'000	31 March 2020 £'000
Central government bodies	650	738
Other local authorities	2,452	906
Other entities and individuals	5,878	7,945
Total	**8,980**	**9,589**

20. Long term debtors

With effect from 1 April 2005, the Magistrates Courts Service (a body participating in the Hampshire Pension Fund) became part of the Civil Service. Terms have been agreed for the transfer of liabilities from all Local Government Pension Schemes (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). Each affected LGPS fund's actuary has determined the value of the pensioner and deferred liabilities remaining with the LGPS and calculated the requirement for sufficient retained assets to match these liabilities.

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over 10 instalments commencing April 2012. The total amount of the remaining debt is £3.043 million; of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance (£1.521 million) is a long-term debtor.

	31 March 2019	31 March 2020
	£'000	£'000
Magistrates Courts – agreed liability settlement due from central government body	3,043	1,521
Total	**3,043**	**1,521**

21. Additional voluntary contributions

	Market value 31 March 2019	Market value 31 March 2020
	£'000	£'000
Prudential	13,323	13,817
Zurich	6,930	5,221
Utmost	932	961
Total	**21,185**	**19,999**

During the year, AVCs of £4.292 million were paid directly to Prudential (2018/19: £4.194 million), £0.279 million to Zurich (2018/19: £0.455 million), and £0.007million to Utmost (2018/19: £0.007 million). On 1 January 2020 AVCs managed by Equitable Life transferred to Utmost.

22. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £128.829 million to the Fund in 2019/20 (2018/19 £117.275 million).

During the reporting period, the County Council incurred costs of £2.778 million (2018/19: £2.935 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The key management personnel of the Fund are the Director of Corporate Resources of Hampshire County Council, acting as Treasurer to the Fund, and the Head of Pensions, Investments and Borrowing. Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council's charge for the administration of the Fund above. Details of the salary of the Director of Corporate Resources can be found in the main accounts of Hampshire County Council.

Part of the Pension Fund's cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2020, the Fund had an average cash balance of £159.138 million (year to 31 March 2019: £64.024 million), earning interest of £1.157 million (2018/19 £0.515 million) on these funds.

23. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2020 totalled £629.438 million (31 March 2019: £326.591 million). These commitments relate to outstanding call payments due on unquoted alternative investment and property limited partnership funds held in the alternative investments and property parts of the Fund. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

In December 2018 the Court of Appeal ruled against the Government in the McCloud and Sargeant cases, that the underpin protections for those within 10 years of retirement is age discrimination. The underpin was a protection that was put in place when the scheme changed on 1 April 2014 and applied to members who were an active member on 31 March 2012 and were within 10 years of their normal retirement age (usually 65). The Ministry for Housing, Communities and Local Government has stated its intention to engage fully with the Employment Tribunal to agree how the discrimination will be remedied for all the main public service pension schemes, including LGPS. At present the financial impact of the remedy is difficult to determine, but it is a potential future liability for the Fund.

24. Contingent assets

The Fund had no contingent assets on 31 March 2020.

25. Impairment losses

During 2019/20, the Fund has recognised an impairment loss for bad and doubtful debt of £0.037 million (2018/19: £0.003 million) for possible non-recovery of pensioner death overpayments, and there were no potential non-payment of cessation values where the employer is not backed up by a guarantee on 31 March 2020. An Expected Credit Loss has been recognised of £0.061 million (2018/19 £0.013m) for cash investments held at amortised cost.

Statement of Responsibilities

for the Hampshire Pension Fund Accounts

Fund's responsibilities

The Fund is required to:

- make arrangements for the proper administration of its financial affairs and to make one of its officers responsible for the administration of those affairs. The Deputy Chief Executive and Director of Corporate Resources of the County Council fulfils that responsibility
- manage its affairs so as to use resources economically, efficiently and effectively, and safeguard its assets
- approve the Hampshire Pension Fund's statement of accounts.

Deputy Chief Executive and Director of Corporate Resources' responsibilities

Deputy Chief Executive and Director of Corporate Resources is responsible for preparing the Hampshire Pension Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2015/16 ('the Code of Practice').

In preparing this statement of accounts, the Director of Corporate Resources has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

Deputy Chief Executive and Director of Corporate Resources has also:

- kept proper accounting records, which are up to date
- taken reasonable steps to prevent fraud and other irregularities.

Deputy Chief Executive and Director of Corporate Resources' statement

I certify that the statement of accounts as set out on pages xx to xxpresents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Carolyn Williamson FCPFA
Deputy Chief Executive and Director of Corporate Resources

Independent Auditors' Statement

to the Members of Hampshire Pension Fund on the Pension Fund Financial Statements

Due to the exceptional circumstances arising from the coronavirus pandemic, the deadline for the completion of the 2019/20 audit was extended.

The Independent Auditor's Statement will therefore be published alongside the Annual Report on the Pension Fund's website upon completion of the audit.

Glossary

ACCESS pool

The Pension Fund is one of 11 LGPS members of ACCESS (A Collaboration of Central, Eastern and Southern Shires). The pool was established in response to the 2015 DCLG (now MHCLG) guidance on LGPS investment reform criteria. The aim was to deliver benefits of scale; strong governance and decision making; reduced costs and excellent value for money; and an improved capacity and capability to invest in infrastructure.

Actuary

A person or firm that analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep the Fund solvent.

Added-years

An additional period of membership purchased within the LGPS by an employee or employer. The facility for employees to purchase added years was withdrawn on 1 April 2008, although existing contracts remain valid.

Administering Authority

A body required to maintain a pension fund under the LGPS regulations. For Hampshire Pension Fund this is Hampshire County Council.

Admission bodies

Employers who have been allowed into the Fund at the County Council's discretion. These can be Community or Transferee admission bodies.

Alternative investments

Less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

Asset Backed Securities

An investment such as a bond that is backed by another financial asset that provides security in the event of default.

AVCs

Additional voluntary contributions – paid by a contributor who decides to supplement his or her pension by paying extra contributions to the scheme's AVC providers (Prudential, Zurich and Equitable Life).

Benchmark asset allocation

The allocation of the Fund's investments to the different investment sectors; this is expected to enable the Fund to meet its long-term liabilities with the minimum of disruption to employers' contributions.

Bonds

A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.

Bulk transfer

A transfer of a group of members agreed by and taking place between two pension schemes.

Cessation valuation

A calculation carried out by the actuary when an employer leaves the Fund, which may result in a final deficit payment becoming due to the Fund.

Community admission bodies

Organisations that provide a public service other than for the purpose of gain and have sufficient links with a scheme employer to be regarded as having community interest.

Commutation

The conversion of an annual pension entitlement into a lump sum on retirement.

Contingent liability

A possible loss, subject to confirmation by an event after the balance sheet date, where the outcome is uncertain in terms of cost.

Deferred member

A Pension Fund member who no longer contributes to the Fund but has not yet retired.

Derivatives

Financial instruments that are based on the movements of underlying assets. They allow exposures to markets and individual assets to be adjusted, thereby altering the risk characteristics of a fund. Common types of derivatives include forward contracts, futures, options, and swaps. Derivatives may be traded on an exchange, or over the counter.

Discretionary

Allowable but not compulsory under law.

Dividends
Income to the Fund on its holdings of UK and overseas shares.

Economic exposure
This term relates specifically to a derivative futures contract. It represents the value of the equivalent amount of physical securities that would need to be bought or sold to get the same market exposure as that provided by the derivative futures contract.

Emerging markets
The financial markets of developing economies.

Equities
Shares in UK and overseas companies.

ESG
Environmental, Social and Governance factors

Full Funding
100% of the Funding Target chosen.

Funding Principle
The basis on which the Fund is financed. It ensures there are funds available to pay all benefits promised.

Funding Success
Reaching the Aspirational Funding Target by the end of the recovery period.

Funding Target
The amount of assets which the Fund needs to hold at any point in time to meet the Funding Principle.

FT
Financial Times – publishers of the FTSE-100 index and other indices. The FTSE-100 covers the 100 largest stocks in the UK stock market.

Gilt-edged securities (or Gilts)
Fixed-interest stocks issued by the UK Government.

Global custodian
A bank that looks after the Fund's investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

GMP
The Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme between 6 April 1978 and 5 April 1997

Gross of fees
The percentage investment return delivered by an investment manager before the deduction of fees and expenses

Guarantors
A body which guarantees to pay for an Admission Body's liabilities in case of default. For any new admission body wishing to join the Fund, the administering authority will require a Guarantor.

Hedge fund
A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

Income yield
Annual income on an investment divided by its price and expressed as a percentage.

Index
A measure of the value of a stock market based on a representative sample of stocks.

Index linked
Investments which generate returns in line with an index.

Index return
A measure of the gain or loss achieved in a year based on a representative sample of stocks and expressed as a percentage. It includes both income received and gains and losses in value.

Informal valuations
Valuations where the calculations are based on an approximate update of the asset and liability values, and liabilities calculated using assumptions consistent with the latest formal valuation updated for changes in market conditions.

Interim valuations
Actuarial valuations carried out in between the triennial valuations.

Glossary continued

LIBOR
The benchmark London Interbank Offered Rate interest rate at which large banks lend to one another.

LGPS
Local Government Pension Scheme – a nationwide scheme for employees working in local government or working for other employers participating in the scheme and for some councillors.

MSCI ACWI
The Morgan Stanley Capital International (MSCI) All Countries World Index (ACWI) is used by the Hampshire Pension Fund to measure global stock markets.

MHCLG
The Ministry for Housing, Communities and Local Government.

Myners
Paul Myners, author of the Myners Report into institutional investment in the UK, published in March 2001.

Multi-Asset Credit
A flexible and diversified approach to investing in credit (debt) across different asset classes such as loans and bonds. The diversification allows the targeting of higher returns than a traditional fixed income strategy focused on government debt and investment grade credit.

Net of Fees
The percentage investment return delivered by an investment manager after the deduction of fees and expenses

Notional sub-funds
A subdivision of assets for funding purposes only. It does not imply any formal subdivision of assets, nor ownership of any particular assets of groups of assets.

Orphan liabilities
Residual liabilities of employers from whom no further funding can be obtained.

Pooled investment vehicle
A collective investment scheme that works by pooling money from different individual investors.

Private equity
Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (ie, not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

Private debt
Specialist pooled partnerships that invest in debt (also referred to as credit) of companies that is not publicly traded. These investments are often described as illiquid as it is more difficult to sell the debt instruments and turn the investment back into cash. Expected returns are therefore often higher than for the equivalent publicly traded debt instruments due to this illiquidity risk.

Projected unit actuarial method
A method of calculation of an actuarial valuation, where an allowance is made of projected earnings on accrued benefits. The contribution rate required is that necessary to cover the cost of all benefits accrued up to the date used in the valuation, but based on earning projected to the date of retirement.

Quartile
Three points that divide data into four equal groups, each representing a quarter. The lower quartile consists of the bottom quarter of all data, whilst the upper quartile consists of the top quarter of all data.

Recovery period
Timescale allowed (up to a maximum of 40 years) over which surpluses or deficiencies to the Fund can be eliminated.

Relaxation period
Temporarily relaxing the contribution pattern required to target funding for community admission bodies under economic circumstances which the administering authority judges to be extreme.

Relevant Scheme Employer
The local authority which has outsourced the service to a Transferee Admission Body.

Responsible Investment
The PRI (Principles for Responsible Investment) defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership

Resolution bodies

Employees have the right to be members of the LGPS, as long as their employing Council has resolved to allow membership.

Roll forward

The process of updating an employer's notional sub-fund and/ or value of liabilities to account for all cashflows associated with that employer's membership, accrual of new benefits, and changes in economic conditions.

Rolling three-year periods

Successive periods of three years, such as years one to three, followed by years two to four. Performance is often measured over longer periods than a single year to eliminate the short-term effects of volatile changes in stock markets.

Scheduled bodies

Organisations that have a right to be in the Fund. These bodies are listed in Schedule 2 of the Local Government Pension Scheme (Administration) Regulations 2008.

Scheme Advisory Board (SAB)

The Local Government Pension Scheme Advisory Board is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. It seeks to encourage best practice, increase transparency and coordinate technical and standards issues

Smoothing adjustment

An adjustment to the Fund's market value of assets to level out market fluctuations over a certain period of time up to the valuation date.

Soft commission

A soft commission arrangement is when an investment manager agrees to do a minimum amount of business with a broker in exchange for free research and information services. The Fund has no soft commission arrangements with any of its managers.

Solvency

When the Fund's assets are greater than or equal to 100% of the Funding Target.

Standard lifetime allowance

The limit on the value of retirement benefits that an individual can accumulate over their lifetime before tax penalties apply.

Statutory

Controlled by the law.

Subsumption

A process by which a Scheduled Body or the Scheduled Bodies funding group provide future funding for any resulting deficiency where an admission body leaves the Fund.

Transfer value

A cash sum representing the value of a member's pension rights which can be paid to another pension scheme only.

Transferee admission body

Typically private sector companies or charities, which have taken on staff from a local authority as a result of an outsourcing of services and the transferring employees had a right to remain in the LGPS or a "broadly equivalent" scheme.

Triennial valuation

The valuation carried out by the Actuary every three years.

UN Principles for Responsible Investment

The PRI is an organisation that works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Six principles for responsible investment have been developed: **https://www.unpri.org/pri/about-the-pri**

UK Stewardship Code

The UK Stewardship Code sets expectations of those investing money on behalf of UK savers and pensioners and establishes a benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society: **https://www.frc.org.uk/investors/uk-stewardship-code**

Weighted benchmark

A combination of the benchmarks of the individual investment managers, weighted according to the value of assets held by each manager as a percentage of the total Fund assets.

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

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

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank