HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel & Board
Date:	10 December 2021
Title:	Governance: Good Governance Review Update
Report From:	Director of Corporate Operations

Contact name: Andrew Boutflower

Tel: 0370 779 2620 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. This report outlines the Pension Fund's progress against the recommendations of the Scheme Advisory Board's (SAB) Good Governance Review including the Fund's documents for review that fulfil the Good Governance review.

Recommendations

2. That the Pension Fund Panel and Board note the Fund's progress against the SAB's Good Governance review in the Shadow Governance Compliance Statement and approve the following documents that form the Fund's Governance Framework:
   - Conflicts of Interest Policy (Appendix 1)
   - Funding Strategy Statement (Appendix 2)
   - Employer Policy (Appendix 3)
   - Administration Strategy Statement – including Decision Matrix (Appendix 4)
   - Business Plan, including the Fund's Budget, Risk Register and Training Plan (presented elsewhere on this agenda)
   - Investment Strategy Statement (Appendix 5)
   - Representation Policy (Appendix 6)
   - Communication Policy Statement (Appendix 7)
   - Governance Policy and Compliance Statement - current version (Appendix 8)

Background

3. In 2019 the consultancy firm Hymans Robertson was appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the

LGPS. Phase I[1] of the review involved a comprehensive consultation exercise to collect the views of stakeholders, culminating in a report in July 2019. This report was accepted by the SAB and identified that no single governance model was suitable for all funds and that the focus should instead be on outcomes assessed against a governance framework. Phase II[2] of the review then involved further development of the ideas from Phase I, which was done through two working groups representing all areas of the LGPS, as well as The Pensions Regulator and MHCLG.

4. Phase III[3] of the reporting was agreed in February 2021 and built on the recommendations agreed in 2019 with further input from a range of scheme stakeholders and an action plan for the SAB and MHCLG (as was). The recommendations to date have not yet been translated into statutory guidance by Government, however the Pension Fund has taken the opportunity to continue to review its current governance arrangements in line with the outcome of the Good Governance review.

5. The purpose of this paper is to review the proposed Governance Compliance Statement that was agreed as part of the Good Governance review and show how Hampshire meets the required outcomes, with links to the documents that form the Pension Fund's governance framework, which the Panel and Board are also being asked to approve. These documents were traditionally referred to as the Pension Fund's Statutory Statements, which the Panel and Board were asked to review each December.

Senior Responsible Officer

6. The Good Governance Review has introduced the concept of a Senior Responsible Officer for each LGPS fund. The Senior Responsible Officer is responsible for the delivery of the LGPS function in its entirety, with suitable qualifications, experience and capacity. The Senior Responsible Officer needs to be close enough to the running of the fund to have sight of all aspects of its business and be able to identify the necessary resources to deliver the business to the required standard. Following the changes to the Council's senior management structure, the Deputy Chief Finance Officer to the Pension Fund will be the Senior Responsible Officer for the Pension Fund. This role does not change the responsibilities of the CFO of the Pension Fund, which remains with the Director of Corporate Operations.

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[1] https://www.hymans.co.uk/insights/research-and-publications/publication/good-governance-in-the-lgps-report/
[2] https://www.hymans.co.uk/insights/research-and-publications/publication/good-governance-in-the-lgps-phase-2-report/
[3] LGPS Scheme Advisory Board - Good Governance (lgpsboard.org)

Policy changes

7. The framework of governance documents now includes a Conflicts Policy following the best practice recommendations of the Good Governance Review. The proposed draft policy, contained in Appendix A, will require Pension Fund Panel and Board members and officers to complete a declaration of interest form each year.

8. The Pension Fund's Discretions Policy (referred to in the Good Governance review as a Decision Matrix) which is contained in Appendix C of the Administration Strategy, has been updated to included additional decisions for the Fund's investments.

9. Under the existing Funding Strategy Statement (FSS) and Employer Policy, 24 closed employers are on the Ongoing Orphan Funding Target (OOFT). These employers will leave orphan liabilities in the Fund when their last active member leaves as there is no ongoing employer to pay for those liabilities in the future.

10. The funding target seeks to minimise the investment risk to ongoing employers by assuming investment in government index linked gilts post exit (effectively pre funding for exit). Index linked gilt yields have continued to fall in recent years which increases the cost to employers on the OOFT. Aon was asked to review the index linked gilts approach to ensure it continues to be a suitable policy for the Fund or if there were viable alternatives. The report concluded that the index linked gilts approach remained a practical, cost effective approach which materially reduces the risk for other employers in the Fund and is the most common approach adopted by LGPS Funds. The draft FSS and Investment Strategy Statement (ISS) have been updated to explicitly state that the Fund will notionally allocated index linked gilts to meet orphan liabilities (see section 4.1 of the FSS and Strategic Asset Allocation section of the ISS, both highlighted in green).

11. In keeping the index linked gilts approach, Aon were also asked to calculate the impact of the changes in the gilts market on affordability for the 24 affected employers. Aon compared the exit positions using gilt yields as at the 2019 valuation and as at 30 June 2021. The impact varied depending on the maturity of the liabilities for each employer with nine seeing a neutral or improved position compared with 2019. However 15 employers show a material increase in their potential exit deficits at June 2021.

12. Three of these employers are connected with employers who are themselves on the intermediate funding target (which recognises that their liabilities would be orphan if the employer exited but that the prospect of an exit is unlikely). It is therefore appropriate that these employers remain on the OOFT.

13. A further three are on the OOFT because of a decision taken by the letting authority. Officers will contact the letting authority to explain the material increase and ask if they will instead offer to subsume the liabilities on exit. This would allow contributions for these three contractors to be set using the Secure Scheduled Bodies funding target (SSBFT). This is permissible under the existing FSS and Employer Policy.

14. The remaining nine employers are contractors who are running outsourced cleaning or catering services for academies, with 10 or fewer employees. These contracts were let before April 2019. The FSS and Employer Policy were

changed in 2019 such that if an academy outsourced services after 1 April 2019 and 10 or fewer employees transferred to the contractor, liabilities would be subsumed on exit rather than becoming orphan. These changes were not retrospective and therefore the nine employers remained on the OOFT. However in light of changes in the gilts market it is appropriate to revisit this and bring these contractors onto the same footing as those with contracts which were let after 1 April 2019.

15. The Panel and Board are asked to approve draft changes to the FSS and Employer Policy which put all contractors who are running services for academies (provided 10 or fewer employees transfer) on the same footing. The changes mean that on exit liabilities will be subsumed into the academy pool, regardless of when the contract was let and the exit position will be calculated on an ongoing basis rather than using the index linked gilts approach.

16. The changes have been highlighted in yellow in the draft FSS and Employer Policy, in sections 2.2, 4.1 and 4.4 of the FSS and 6.28, 6.29 and 9.27 of the Employer Policy.

17. There are no other significant changes to the remainder of the Pension Fund's governance documents.

Shadow Governance Compliance Statement

18. The following statement is taken from the Phase III Good Governance report, amended to reflect Hampshire's practice, to demonstrate how the outcomes of the Good Governance review are being met. The statement also includes a set of 16 Key Performance Indicators (KPIs), also included in the Good Governance report, to provide a set of measures to further evidence the effectiveness of the Fund's governance.

Shadow Governance Compliance Statement

This statement shows how Hampshire County Council as the administering authority of the Hampshire Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) based on Phase 3 of the Scheme Advisory Board's (SAB) Good Governance project. This statement will be updated once Statutory Guidance is published by Government.

A Conflicts of interest

A1. Conflicts of Interest Policy

The Fund has published a **Conflict of Interest Policy (included in Appendix 1)** which sets out:

- How it identifies potential conflicts of interest
- How it ensures that those covered by the policy understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- That the policy applies to officers, elected members, co-opted members (scheme member and employer representatives on the Pension Fund Panel and Board) and advisers and contractors;
- Systems, controls and processes for managing and mitigating conflicts of interest effectively;
- How it reviews the effectiveness of its conflict of interest policy and updates it as required;
- How it embeds a culture which supports the management and mitigation of conflicts of interest.

A2. Conflicts of Interest Process

The Fund embeds the management of conflicts of interest into its everyday processes. This includes:

- Providing regular briefings or training to members of the Pension Fund Panel and Board and officers on identifying and managing potential conflicts of interest;
- Ensuring all Members and relevant officers complete a Conflicts of Interest declaration and that the declarations are collated into a Conflicts of Interest register for the Pension Fund;
- Ensuring that a declaration of interests forms part of the agenda for all Pension Fund Panel and Board meetings and that a log is kept of situations where the Conflict of Interest Policy has been applied to mitigate or manage a potential conflict situation;
- Ensuring actual and potential conflicts of interest are considered during procurement processes; and
- Ensuring that conflicts of interest form part of the Fund's suite of policies for example the Funding Strategy Statement and Administration Strategy.

A3. The Council as administering authority and employer

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all of the Fund's employers and scheme members are treated fairly and equitably.

The Fund achieves this in the following ways:

- The **Funding Strategy Statement shown in Appendix 2** sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Fund Panel and Board. The approach to contribution setting is based on appropriate funding targets for types of employer using characteristics such as time horizon, strength of covenant and risk profile. This approach ensures a consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.
- The Fund also has an **Employer Policy shown in Appendix 3** which includes in detail its approach to admitting new employers to the Fund covering the Fund's approach to the use of guarantors, bonds and funding targets. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted into the Fund and their treatment when changes are made.
- The Fund's **Administration Strategy shown in Appendix 4** sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.
- The Pension Fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. The Pension Fund Panel and Board approve a budget each year that provides the resources necessary for the management of the Pension Fund, and this will in future be the budget as recommended by the Senior Responsible Officer.

B Clarity of Roles and Responsibilities

B.1 Clear decision making

The Council's constitution and scheme of delegation set out the terms of reference for the Pension Fund Panel and Board. The terms of reference and the membership for any sub-committees, such as the Pension Fund Responsible Investment sub-committee are also published.

The scheme of delegation (decisions matrix) is supported by:

- Clearly documented role and responsibilities for the Pension Fund CFO (Director of Corporate Operations/S151 Officer), LGPS Senior Responsible Officer, (Deputy CFO for the Pension Fund); and Head of Pensions Administration and Head of Investments and Borrowing.
- A **Decision Matrix (part of the Administration Strategy)** which sets out the key decisions that are required to be made in the management of the Fund and the role that the main decision makers have in those decisions. The matrix sets out when an individual or body is responsible for a decision, accountable for a decision or where they must be consulted or informed of a decision.

On a regular basis the Fund's business processes are referenced against the decision matrix, to ensure that they properly reflect the correct responsibility and accountability.

The Fund's **Investment Strategy Statement (shown in Appendix 5)** sets out the Pension Fund's asset allocation, the tolerances that asset allocations can move within and the basis on which the Pension Fund Panel and Board will take advice.

C Sufficiency of resources for service planning and delivery

In order to ensure that the Fund has the appropriate resource to deliver its statutory obligations it has adopted a 3 stage approach.

<u>C.1 Business planning and budget setting</u>

The Fund operates a 3 year **Business Plan (presented elsewhere on this agenda)** which sets out the priorities for the Fund's services. It is comprehensively reviewed, updated and agreed by the Pension Fund Panel and Board before the start of each financial year. If necessary, the plan is reviewed and updated on a more frequent basis. The business plan is publicly available.

The business plan takes into account the risks facing the Fund, performance of the Fund and anticipated regulatory changes.

The business plan also includes the Fund's **Budget**. Resource requirements (including staff recruitment, procurement and other specialist services) are determined by the requirements of the Fund's business plan, and the proposed annual budget will be based on a recommendation from the Senior Responsible Officer.

Progress against the business plan, including actual spend, is reported to the Pension Fund Panel and Board and published in the Fund's Annual Report and accounts.

<u>C.2 Service delivery</u>

The Fund publishes an Administration Strategy which sets out how it will deliver the administration of the Scheme. The strategy includes:

- details of processes for liaison and communication with Scheme Employers;
- expected levels of performance for the delivery of key Fund and employer functions;
- the Fund's approach to costs and penalties arising from a failure to comply with the expected level of performance;
- examples of notifiable events which may materially affect an Employer's liabilities or ability to meet those liabilities.

C.3 Monitoring delivery and Control environment

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done in the following ways:

- Performance against Key Performance Measures is reported to the Pension Fund Panel and Board twice a year and in the Fund's Annual Report. Monthly performance is published on the Fund's website.
- The Fund produces an annual Cyber compliance statement including a report on the IT controls in place to ensure the security of data held and used by the Fund.
- The Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. The areas for review are agreed in advance with the Pension Fund Panel and Board and findings are reported to them.
- The Fund benchmarks itself using the SF3 data to ensure that its costs are comparable to other LGPS Funds. In addition, the Fund is accredited by Customer Service Excellence which provides an annual comprehensive review of the quality of the service offered to members.
- The Pension Fund accounts are subject to independent external audit

D. Representation and engagement

The Fund has published a **Representation Policy shown in Appendix 6**.

D.1 Representation on the main decision making body

Hampshire's decision making body is the Pension Fund Panel and Board, which was created by merging its requirement for a pension committee and pension board with Secretary of State approval. The policy recognises all scheme members and employers should be appropriately represented in the running of the Fund while at the same time ensuring that the County Council, as the body with ultimate responsibility for running the Fund, maintains a majority position on the key governance body. To this end the Fund's representation policy and the County Council's constitution specify that the County Council shall maintain a majority of voting members on the Pension Fund Panel and Board. The present Pension Fund Panel and Board is constituted as follows, with attendance as published in the Fund's 2020/21 Annual Report.

Pension Fund Panel and Board	Admin Authority / Employer / Member rep	Meeting Date 2020/21						Attendance
		24 Jul	25 Sep	20 Nov	04 Dec	12 Feb	26 Mar	
Voting Members								
Cllr M Kemp-Gee (chair)	Admin Authority	Y	N	Y	Y	Y	Y	83%
Cllr T Thacker (vice chair)	Admin Authority	Y	Y	Y	Y	Y	Y	100%
Cllr C Carter	Admin Authority	Y	N	Y	Y	Y	Y	83%
Cllr A Dowden	Admin Authority	Y	Y	N	Y	Y	Y	83%
Cllr A Gibson	Admin Authority	Y	Y	Y	Y	Y	Y	100%
Cllr J Glen	Admin Authority	Y	Y	Y	Y	Y	Y	100%
Cllr A Joy	Admin Authority	Y	Y	N	Y	Y	Y	83%
Cllr P Latham	Admin Authority	Y	Y	Y	Y	Y	Y	100%
Cllr B Tennent	Admin Authority	Y	Y	Y	Y	Y	Y	100%
Cllr D Mellor*	Admin Authority	-	Y	Y	-	-	-	100%
Cllr C Corkery	Employer Rep	Y	Y	Y	Y	Y	Y	100%
Cllr P Taylor	Employer Rep	Y	N	N	Y	Y	Y	67%
Dr L Bartle	Employer Rep	Y	Y	Y	Y	Y	Y	100%
Cllr S Barnes-Andrews*	Employer Rep	-	Y	N	-	-	-	50%
Dr C Allen	Member Rep	Y	Y	Y	N	Y	Y	83%
Mr N Wood	Member Rep	Y	Y	Y	Y	Y	Y	100%
Ms L Gowland	Member Rep	Y	Y	Y	Y	Y	Y	100%
Ms S Manchester*	Member Rep	-	-	-	Y	-	-	100%
							Average attendance	97%
							Proportion of members not from the Administering Authority	6 out of 15 (40%)
Non-Voting Members								
Carolan Dobson	Independent Advisor	Y	Y	Y	Y	Y	Y	100%

*Deputy - attendance is only recorded in the table when asked to deputise

RI Sub-committee	Admin Authority / Employer / Member rep	Meeting date 2020/21		Attendance
		20-Oct	05-Mar	
Voting Members				
Cllr M Kemp-Gee (chair)	Admin Authority	Y	Y	100%
Cllr T Thacker (vice-chair)	Admin Authority	Y	Y	100%
Cllr A Joy	Admin Authority	Y	Y	100%
Cllr B Tennent	Admin Authority	Y	Y	100%
Cllr C Corkery	Employer rep	Y	Y	100%
Mr N Wood	Member rep	N	Y	50%
			Average attendance	92%
			Proportion of members not from the Administering Authority	2 out of 6 (33%)

D.3 Engagement with employers

The Fund carries out a range of activities that are designed to engage employers. These are set out within the Fund's **Communication Strategy** and include:

- An Annual Employer Meeting which provides an opportunity for employers to receive an update on the performance of the Fund, provide feedback on the service and receive updates on the LGPS and related issues;
- The Fund engages and consults with employers during the actuarial valuation and specifically on key strategies such as the Funding Strategy Statement;
- A quarterly employer newsletter provides update on technical changes, process reminders and a calendar of key upcoming dates;
- Stop Press communications are issued to Employers where an important issue arises which requires immediate notification, and which cannot wait for the next quarterly employer newsletter
- Provision of Employer Workshops to help with specific areas of employer responsibilities and Employer Overview Sessions for new employer staff
- Publish and maintain an employer area of the Fund's website as well as an Employer Manual and factsheets to support employers with their responsibilities.

D.4 Engagement with members

The Fund's Communication Strategy sets out how it engages with active, deferred and pensioner scheme members including:

- The Fund maintains a website which provides general advice, information and updates including copies of all current policies.
- Members have secure online access to their own pension records in order to view documents, update personal details and run retirement estimates.
- A dedicated team with single phone number and email address to respond to member's queries
- Member's annual benefit statements, pensioner newsletters, payslips and P60s are available online or in writing (including large text, braille or audio) on request.
- Member presentations and bite size online learning on the basics of the LGPS

E. Training

E.1 Training Strategy

The Fund has adopted a **Training Strategy** (part of the Fund's Business Plan) which establishes how members of the Pension Fund Panel and Board and Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision making responsibility placed upon them. The Training Strategy sets out how those involved with the Fund will:

- Have their knowledge assessed; and

- Receive appropriate training to fill any knowledge gaps identified.

The Fund will measure and report on progress against the training plans.

E.2 Evidencing standards of training

Details of the training undertaken by members of the Pension Fund Panel and Board are reported in the Fund's Annual Report and in this statement.

Pension Fund Panel and Board members' subject knowledge is assessed on an annual basis through completion of CIPFA's Knowledge and Skills framework. The results are analysed and any gaps identified are addressed as part of the ongoing training plans.

Targeted training will also be provided that is timely and directly relevant to the Pension Fund Panel and Board's activities as set out in the business plan.

Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

CIPFA will introduce a requirement for continuous professional development for s151 officers that includes a regular LGPS element. This requirement applies to the s151 officer for the County Council as well as the district and borough councils within the Fund. The Fund will comply with this element once it is introduced.

The table below shows the training undertaken in 2020/21.

		Subject				
Attendee category	**Attendees**	**Governance**	**Investment**	**Other**	**Pensions Admin**	**Total**
Pension Fund Panel and Board	Cllr Kemp-Gee	2.0	7.0			9.0
	Cllr Thacker	1.0	3.5			4.5
	Cllr Carter	1.0	1.5			2.5
	Cllr Dowden	2.0	7.0			9.0
	Cllr Gibson	2.0	13.5			15.5
	Cllr Glen	4.0	71.0	7.5	1.0	83.5
	Cllr Joy	2.0	3.5			5.5
	Cllr Latham	1.0	1.0			2.0
	Cllr Mellor	1.0	4.5	1.5		7.0
	Cllr Tennent	2.0	9.5	1.5		13.0
	Cllr Taylor	1.0				1.0
	Cllr Corkery		6.0			6.0
	Cllr Barnes-Andrews	1.0				1.0
	Liz Bartle	4.8	5.5	1.5	1.0	12.8
	Cliff Allen	2.0	6.0			8.0
	Lindsay Gowland	7.0	7.0		2.0	16.0
	Neil Wood	2.0	9.0			11.0
	Sarah Manchester	2.0	23.5	10.5		36.0
Pension Fund Panel and Board Total		37.8	179.0	22.5	4.0	243.3
Officer	Carolyn Williamson	2.0	2.0			4.0
	Andy Lowe	1.0	1.0			2.0
	Andrew Boutflower	2.0	1.0			3.0
	Rob Sarfas	2.0	2.0			4.0
	Gemma Farley	2.0	2.0			4.0
	Mike Chilcott	2.0	1.0			3.0
Officer Total		11.0	9.0			20.0
Grand Total		48.8	188.0	22.5	4.0	263.3

Table of governance and administration KPIs

Governance		
Subject area	**KPI**	**2020/21**
Breadth of representation	1. Percentage make-up (employer/member) on Panel and Board	40% non Administering Authority members (scheme members or employers)
	2. Average attendance level at meetings (percentage) – split between absence and vacancies	97%
Training and expertise	3. Hours of relevant training undertaken across Panel and Board in last year	243 hours in total
	4. Relevant experience across senior management team	Yes
Compliance/Risk	5. Number of times risk register reviewed annually – number of times on agenda at committee/board	1
	6. Number of times carried out business continuity testing and/or cyber security penetration testing	Annual pensions test
Appropriate governance time spent on key areas	7. Split of Panel and Board spent on administration/governance/investment	By number of papers 15%/49%/36%
Administration		
Data quality	1. Common/conditional data score, in line with TPR expectations	93% (common) 95% (conditional)
	2. Annual Benefit Statement percentage as at 31 August	99.73% actives, 100% deferreds
Service standards/SLAs	3. Number and percentage of pension set-ups (new retirements) within disclosure requirement timeframe	100% (2,495)
	4. Does the Fund monitor and report its own standards?	Yes
	5. Percentage of calls to customer helpline answered and resolved at first point of contact	92.5% (16,142 calls, 1,216 messages).
Engagement and communication –	6. Specify which online services are available to members/employers	Secure Member Portal, including functionality to:

<table>
<tr>
<td>capabilities and take-up</td>
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Add or amend an ‘expression of wish’ for payment of a death grant
Change personal details
Upload documents
Securely view documents including Annual Benefits Statements, Pension Savings Statements, payslips and P60s
Self service retirement estimates
Complete online forms
Send secure messages to HPS

Secure Employer Hub, including functionality to:

View and amend employee data
Run reports
Upload documents

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<td>7. Percentage of members registered for the Fund’s online services and the percentage that have logged onto the service in the last 12 months split by status</td>
<td>
<table>
<tr><th>Status</th><th>Registrations to date</th><th>% of total membership</th></tr>
<tr><td>Active</td><td>38,273</td><td>64.90%</td></tr>
<tr><td>Deferred</td><td>20,972</td><td>26.66%</td></tr>
<tr><td>Pensioner</td><td>7,109</td><td>14.73%</td></tr>
<tr><td>TOTAL</td><td>66,354</td><td>35.69%</td></tr>
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<td>8. Number of employer engagement events and/or briefings held in the last 12 months and percentage take-up</td>
<td>12 remote training events attended by 151 attendees representing 60 employers.
Annual Employers Meeting (AEM) attended by representatives of 121 employers.</td>
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Customer satisfaction	9. Percentage of members (or employers if appropriate) satisfied with the service provided by their LGPS Fund.	78% (223 respondents to customer satisfaction survey)

Climate Change Impact Assessments

19. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

20. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. This is captured in the Pension Fund's governance framework. Therefore the Pension Fund recognises in its Risk Register, which forms part of the Business Plan, that the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns.

21. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's Responsible Investment (RI) policy InvestmentStrategyStatementincludingRIpolicy.pdf (hants.gov.uk) which is part of part of the Investment Strategy Statement.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENTS:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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

Hampshire Pension Fund – Conflicts of Interest Policy

Introduction

1. The potential for conflicts of interest has always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.
2. It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.
3. This is the Conflict of Interest Policy of the Hampshire Pension Fund, which is managed and administered by Hampshire County Council (the Administering Authority). The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Hampshire Pension Fund, whether directly or in an advisory capacity.
4. This Conflict of Interest Policy is established to guide Hampshire Pension Fund Panel and Board (PFPB) Members, Fund Officers and Advisers. Along with other constitutional documents, including the PFPB's Terms of Reference, the Officer's Code of Conduct, the Code of Conduct for Members and relevant HR policies, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimises the risk of any matter prejudicing decision making or management of the Fund otherwise.
5. This Conflict of Interest Policy is a key tool for all the stakeholders in the Hampshire Pension Fund to assist in complying with the law and meeting the Fund's objective to act with integrity.

To whom this Policy Applies

6. This Conflict of Interest Policy applies to:
    - All elected and co-opted Members of the PFPB, including scheme member and employer representatives, whether voting members or not.
    - All managers in the Hampshire County Council Pension Fund Management Team, and the Director of Corporate Operations (Section 151 Officer) who are, from hereon in, collectively referred to as the 'senior officers of the Fund'.

- All “advisers” to the Fund. This includes all advisers, suppliers and other parties providing advice and services to the Administering Authority, the PFPB, the Responsible Investment Sub Committee or officers in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and Additional Voluntary Contribution (AVC) providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" will normally mean the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

Responsibilities

7. **Hampshire County Council** as the Administering Authority for the Hampshire Pension Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Director of Corporate Operations for Hampshire County Council (CFO for the Pension Fund) is the designated individual for ensuring the procedures below are carried out.
8. However, it is also the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties, to declare and register interests and to seek advice and where necessary withdraw from meetings if there is a conflict.
9. **The Director of Corporate Operations** will monitor potential conflicts for less senior officers involved in the daily management of the Fund and highlight this Policy to them as appropriate.
10. This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assistance role and including responsibilities representing the Fund on other boards, committees, groups and bodies.
11. **Members** – Elected and co-opted members of the PFPB are responsible for understanding their obligations under the County Council’s Constitution including the Code of Conduct for Members, and this Policy, including ensuring their declarations of interest are accurate and up-to-date and adhering to the operational processes set out in this Policy.
12. **Officers** – Officers are responsible for understanding their obligations under the Code of Conduct for Officers and this Policy and for adhering to the operational processes set out in this Policy.
13. **Advisers** - In accepting any role covered by this Policy, advisers agree that they must:
    - acknowledge any potential conflict of interest they may have;
    - be open with the Administering Authority and any other body on which they represent the Administering Authority, on any actual or potential conflicts of interest they may have;
    - adopt practical solutions to managing those conflicts; and

- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

14. The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

What is a Conflict or Potential Conflict?

15. The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

16. Therefore, a conflict of interest may arise when an individual:
    - has a responsibility or duty in relation to the management of, or provision of advice to, the Hampshire Pension Fund; and
    - at the same time has a separate personal interest (financial or otherwise); or
    - has another responsibility in relation to that matter, giving rise to a possible conflict with their first responsibility; or
    - has an interest due to a family member or close colleague having a specific responsibility or interest in a matter.

<u>Areas of potential conflict that are specific to the LGPS</u>

17. There are areas of potential conflict that the Scheme Advisory Board identifies as specific to the LGPS. They apply to PFPB Members, as well as officers, advisers and suppliers and are to be managed in the same way as other conflicts of interest under this and other relevant policies:
    - Any commercial relationships between the administering authority or host authority and other employers in the Fund/or other parties which may impact decisions made in the best interests of the Fund. These may include shared service arrangements which impact the Fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the County Council, which do not relate to Pension Fund operations.
    - Contributions setting for the administering authority and other employers.
    - Cross charging for services or shared resourcing between the administering authority and the fund.
    - Dual role of the administering authority as owner and client of a pool.
    - Local investment decisions
    - Any other roles within the County Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or cabinet should be disclosed.

Minor Gifts and Hospitality

18. The acceptance of gifts and hospitality can lead to potential conflicts of interest or the perception of conflicts of interest. Hampshire County Council Members and Officers are required to comply with the Code of Conduct for Members and the Officers Code of Conduct which contain the applicable rules regarding the acceptance and registration of gifts and hospitality.

Summary

19. A conflict of interest may arise when an individual has a responsibility or duty in relation to the management of, or provision of advice to, the Hampshire Pension Fund, and at the same time has:

    - a separate personal interest (financial or otherwise) or
    - another responsibility in relation to that matter, giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

20. Some examples of potential conflicts of interest relating to the areas of conflict specific to the LGPS are included in Appendix 1.

Managing Conflicts of Interest

21. Hampshire County Council, as Administering Authority, will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

22. The Administering Authority will evaluate the nature of any interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

23. Elected and co-opted members of the PFPB need to ensure their register of disclosable pecuniary interests is up to date and actively consider at each meeting of the PFPB whether they have any prejudicial interests (whether personal or pecuniary) in any matter of PFPB business.

24. Officers will need to consider whether they have any conflicts of interest as defined in this policy and if so, declare these in accordance with the procedures set out in this policy so that appropriate management action and mitigation can be considered.

25. Advisers and suppliers to the Fund also need to consider whether any of the above conflicts of interest apply to their contract with the Administering Authority and if so declare them in accordance with the procedures set out in this policy so that appropriate mitigation can be considered.

26. The Administering Authority will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

27. Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue;
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a PFPB meeting); or
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen).

  NB in respect of elected and co-opted members of the PFPB, there are requirements in the Localism Act 2011 and the County Council's Constitution that require the disclosure of pecuniary interests and regulate member participation in matters relating to such interests. These requirements must be adhered to by all elected and co-opted members of the PFPB.

28. The above is not an exhaustive list of the measures that may be taken in respect of a particular conflict and the Administering Authority will, having taken any appropriate professional advice, endeavour to manage conflicts that arise reasonably and proportionately.

Operational procedure for elected and co-opted PFPB Members and Senior Officers

29. The following procedures must be followed by all individuals to whom this policy applies.
30. However, it should be noted all Members of the PFPB have an overriding legal obligation to follow and abide by the requirements of the Localism Act 2011 and Hampshire County Council's Code of Conduct for Members relating to the treatment and disclosure of certain disclosable pecuniary interests and personal interests. Accordingly, for those Members, disclosures under this policy may be in addition to disclosures required under the Council's Code of Conduct/the Localism Act 2011.

What is required	How this will be done
Step 1 - Initial identification of interests which do or could give rise to a conflict	On appointment to their role or on the commencement of this Policy if later, all Members and Senior Officers will be provided with a copy of this Policy and will be required to complete a Registration of Interest Form similar to that included in Appendix 2. The information contained in these forms will be collated into the Pension Fund Register of Interests. Elected and co-opted Members of the PFPB are also required to complete a register of interests in respect of "disclosable pecuniary interests" and personal interests and submit it to Hampshire County Council's Monitoring Officer. This will be

	published in accordance with the County Council's obligations and Constitution.
Step 2 - Ongoing notification and management of potential or actual conflicts of interest	At the commencement of any meeting of the PFPB or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any interests relevant to any item of business at the meeting as well – whether or not they are already on the register – as well as any new potential conflicts which may not have been recorded and also any other interests which are not required to be recorded. At PFPB meetings there will also, at the start of the meeting, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda. These will be recorded in the record of the meeting and also in the Fund's Register of Interests and Declaration Log. Any individual who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, is asked to advise the Chairman and the Director of Corporate Operations as soon as they become aware of it and preferably prior to the meeting. The Chairman, in consultation with the Director of Corporate Operations and legal advisor to the Pension Fund, should then decide whether the conflicted or potentially conflicted individual is advised to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter. With respect to the Code of Conduct for Members and the Localism Act 2011, the Monitoring Officer will provide advice. Whilst ultimately it is for the Member to decide whether or not to be present, if they do not follow advice they are at risk of a formal complaint being made. If such a conflict is identified outside of a meeting the notification must be made to the Director of Corporate Operations and where it relates to the business of any meeting, also to the Chairman of that meeting. The Director of Corporate Operations in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict. The Director of Corporate Operations is responsible for monitoring the PFPB Register of Interests and Declarations Log on an ongoing basis to determine if any actual or potential conflict could impact on the ongoing business of the Hampshire Pension Fund. Where information relating to any potential or actual conflict has been provided, the Director of Corporate Operations may

	seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer of Hampshire County Council) on to how to address any identified conflicts. Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of Interests, the Declarations Log and in the record of the meeting if raised during a meeting.
Step 3 - Periodic review of potential and actual conflicts	At least once every 12 months, the Director of Corporate Operations will provide to all individuals to whom this Policy applies a copy of the Fund's Register of Interests. All individuals will be asked to complete a new Declaration of Interest confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration. If a member fails to do so the matter will be escalated to the Chairman of the PFPB in conjunction with the Director of Corporate Operations. The updated Register will then be circulated by the Director of Corporate Operations to all individuals to whom it relates.

Operational procedure for advisers

31. All of the key advisers to the Hampshire Pension Fund are expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with the Administering Authority as part of the contract award or contract management process.

32. All advisers must:

    - be provided with a copy of this Policy on appointment and whenever it is updated;
    - adhere to the principles of this Policy;
    - provide, on request, information to the Director of Corporate Operations in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to Hampshire County Council as Administering Authority;
    - notify the Director for Corporate Operations immediately should a potential or actual conflict of interest arise; and
    - highlight at all meetings they attend any potential or actual conflict of interest in any item of business, preferably at or before the start of the meeting.

33. All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of Interests and Declaration Log.

Monitoring and Reporting

34. The Fund's Register of Interests will be subject to the requirements of the Freedom of Information Act 2000 and any requests for information will be considered via the County Council's corporate process on a case-by-case basis. Exemptions from disclosure under the Freedom of Information Act may be applied as relevant.

35. In order to identify whether the objectives of this Policy are being met the Administering Authority will review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity.

Key Risks and Mitigation

36. The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Director of Corporate Operations will monitor these and other key risks and consider how to respond to them.

Risk	Mitigating action
Insufficient training or poor understanding in relation to individuals' roles on pension fund matters	Briefing provided by officers at the introduction of the new policy and annually when the policy is reviewed. Officers are available to answer Members questions at any time
Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy	Responsibilities for supporting will be shared within the Investments and Borrowing team to ensure no single point of failure
Failure by a chairman to take appropriate action when a conflict is highlighted at a meeting	Support available at each meeting from Pension Fund and Legal Services officers to advise the chairman as appropriate
A decision by an individual to disregard advice and be subject to formal action under the Localism Act 2011	Failure to abide by the policy will result in a referral under the Members Code of Conduct or Officers Code as appropriate.

Costs

37. All costs related to the operation and implementation of this Policy will be met directly by the Hampshire Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Approval and Review

38. This Conflict of Interest Policy was approved on 10 December 2021 by the PFPB. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS rules or other relevant Regulations or Guidance which need to be taken into account.

Appendix 1 – Examples of situations where a conflict of interest may arise
The table below sets out examples of potential conflicts that might arise and the action that may be taken in response. It is intended to be illustrative only and is not intended to be an exhaustive list of all conflicts that might arise or the action that will be taken in practice in any individual case. Each conflict that arises in practice would need to be treated on its meris and action that is appropriate in all the circumstances taken.

Scenario	**Action**
An Employer Representative on the PFPB may be required to consider a policy or covenant change which could result in an increase in employer costs by the employer he or she represents.	If the representative has a conflict on a particular issue with their host employer/group, they should declare this and absent themselves from any decision if they are unable to act in the best interest of the Pension Fund and all employers and scheme members.
A Member of the PFPB is on the board of an Investment Manager that the Committee is considering appointing.	The Member should declare the interest and not take part in the discussion and decision on the appointment.
A PFPB Member is a beneficiary of the Hampshire Pension fund and a discussion item as a result of legislative change could affect members' benefits.	The Member should declare the interest but may still take part in the discussion, given no decision is being made.
An officer of the Pension Fund also has responsibilities within the administering authority or relating to a shared service initiative which provides services to the Fund, and which has objectives which are not fully aligned to that of the Fund.	If appropriate to the advice being provided by the officer to the PFPB, the conflict should be reported, along with clarity on why the advice in question is in the best interest of the Pension Fund.
An Employer Representative on the PFPB is employed by a company to which the County Council has commissioned services from and the PFPB is reviewing the standards of service provided by that company.	The Member must declare their pecuniary interest (as a result of their employment) and not take part in the discussion of the review of the service.
The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.	The conflict should be reported and an alternative person found to review the case.
The Pension Fund is considering alternative supply of services currently provided by the Administering Authority. The Director of Corporate Operations, who has responsibility for the County	The Director must act in their role as CFO to the Pension Fund, providing advice in the best interest of the Pension Fund, although if appropriate should reference the impact on the

Council's budget, is expected to approve the report to go to the PFPB which, if agreed would result in a material reduction in the recharges to the County Council from the Fund.	County Council. If appropriate the Deputy CFO to the Pension Fund can provide advice to the Pension Fund.
Officers are asked to provide a report to the PFPB on whether the administration services should be outsourced which, if it were to happen could result in a change of employer or job insecurity for the officers.	Officers must provide advice in the best interest of the Pension Fund, if necessary with the presentation of the report being escalated to the Director of Corporate Operations, if appropriate should reference the impact on the County Council. Officers that could be directly effected by the changes, would not be asked to input into the report directly.
An Employer Representative appointed to the PFPB to represent employers generally could be conflicted if he or she only serves to act in the interests of their own authority/organisation, rather than those of all participating employers. Equally, a Scheme Member representative, who is also a trade union representative, appointed to the Pension Board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.	As part of their appointment process, applicants to be representative on the PFPB will be asked to demonstrate how they can represent all scheme members or employers as appropriate. Ongoing training and guidance is provided to PFPB Members of the nature of their role and need to represent the interests of the whole Fund. If the representative has a conflict on a particular issue with their host employer/group, they should declare this and absent themselves from any decision if they are unable to act in the best interest of the Pension Fund and all employers and scheme members.
A Fund adviser is party to the development of a strategy which could result in additional work for his or her firm, for example, selection of new investment managers, providing assistance with monitoring the covenant of employers or where they are also advisers to the ACCESS Pool.	The Pension Fund should be sensitive in only sharing information with advisors, which is relevant to the work that they have been asked to undertake. If the Pension Fund wants to ensure that its advice is not prejudiced by the potential for winning future work, the Fund could be clear in letting a contract if they want it to preclude participation in potential future related piece of work. The Pension Fund would have regard to the advisors' professional standards to provide a standard of care to the client regardless of the bearing it may have on being awarded future work.
An Employer or Scheme Member Representative has access to	No PFPB Member should be asked to breach their confidentiality

information by virtue of his or her employment, which could influence or inform the considerations of the PFPB . He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the PFPB.	responsibilities to their employer, if a Member's access to information does result a conflict they should report this and take the appropriate action.
An officer of the Fund or member of the Pension Committee accepts a dinner invitation or gift from an Investment Manager who has submitted a bid as part of a tender process.	PFPB Members should consider the appropriateness of any offers of hospitality and ensure that they comply with the Members Code of Conduct on Gifts and Hospitality Policy.

Appendix 2 – Sample of Declaration of Interest Form
Form to Register Interests relating to the management of Hampshire Pension Fund administered by Hampshire County Council

I, [insert full name], am [delete as applicable]:

- an officer involved in the management
- Pension Fund Panel and Board Member

of the Hampshire Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under the Hampshire Pension Fund Conflict of Interest Policy. I have put "none" where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members or friends

Undertaking:
I declare that I understand my responsibilities under the Hampshire Pension Fund Conflict of Interest Policy. I undertake to notify the Director of Corporate Operations of any changes in the information set out above.

Signed ___________________________________ Date _____________________

Name (CAPITAL LETTERS) ____

Funding Strategy Statement

Table of Contents

1. Introduction

This section sets out the legislative context for the Funding Strategy Statement as well as the aims and purpose of the Fund and the responsibilities of the key parties.

1.1. Background

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.

1.2. 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.

1.3. 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.

The processes set out in this FSS detail the strategy which:

- 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.
- makes use of the provisions of Regulation 64(7A), 64A,and 64B

The overriding focus of the FSS are on those actions that are in the best long term interests of the Fund. Therefore, to ensure that all parties to the FSS share a common understanding, the aims and purpose of the Fund are set out below.

1.4. Aims of the Fund

The Fund has three main aims which are to:

- manage the employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable primary contribution rates to be kept 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 in Appendix 1.

1.5. 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 Pension Scheme (Management and Investment of Funds) Regulations 2016.

1.6. Roles and responsibilities of key parties

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. There are a wide range of stakeholders in LGPS funds, all of whom have a role in its effective management. For the purpose of the FSS, the roles and responsibilities of the three key parties; the administering authority, individual employer and the Fund actuary are set out in Appendix 2.

1.7. Links to 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).

1.8. 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.

2. Funding Strategy

2.1. 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 in sections 2.1.1 to 2.1.3 below.

2.1.1. Solvency

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.

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 later 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 – the ‘intermediate funding target(s)’.

For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement (DDA) ends. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government bonds at the end of the period of the DDA.

2.1.2. 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 for the secure scheduled bodies 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 maximum recovery period is determined at each actuarial valuation by balancing the Fund’s solvency and long-term cost efficiency requirements against considerations of affordability and stability of contributions, taking account of 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. In determining the recovery period which applies to other employers the Administering Authority may take into account, without limitation, the following factors:

- the expected remaining period of participation
- the type/group of the employer
- the size of the funding shortfall or surplus;
- the business plans of the employer;
- the assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.
- the views of the subsuming employer where the funding target adopted is dependent upon another employer subsuming the assets and liabilities post-exit.

2.1.3. 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.

2.2. 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. The discount rate is a key driver of the Funding Target and is set allowing for the assumed investment strategy and level of risk considered appropriate in light of the employer covenant and treatment of liabilities on exit. For the secure scheduled bodies who collectively comprise around 85% of the Fund's liabilities the discount rate is set by considering the Fund's long-term investment strategy and the Administering Authority's risk preference, measured via the chance of achieving the Solvency Target at the end of the Trajectory Period (defined above).

Different funding targets are adopted for different employers as set out in the Employer Policy. At the 2019 valuation the funding targets adopted were as follows:

- secure scheduled body funding target for scheduled bodies expected to participate indefinitely, and any employers with a subsumption commitment from such an employer, other than academy contractors admitted prior to 1 April 2019
- intermediate funding targets for Tier 3 scheduled bodies based on a risk assessment carried out by the Fund Actuary, and any employers with a subsumption commitment from such an employer
- ongoing orphan funding target for admission bodies expected to leave orphan liabilities on exit, and any academy contractors admitted prior to 1 April 2019*
- low risk (gilts) funding target for the liabilities of former employers where these are orphaned

* The funding target which applies on the exit of academy contractors where 10 or fewer members transferred has been amended since the 2019 valuation. It is therefore expected that use of the ongoing orphan funding target for those academy contractors will be reviewed as part of the 2022 valuation.

Employers who are able to provide security, including but not limited to a charge over assets may be permitted to pay ongoing contributions below the appropriate target level. The employer should recognise that underpayment of contributions is more likely to lead to additional contributions being required at subsequent reviews.

For deferred employers where a DDA is in place, the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the DDA is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the DDA;
- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

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.

2.3. Grouping of Employers

2.3.1. Group funding framework

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.

The group funding framework is set out in more detail in Appendix 3.

2.3.2. 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, even where a DDA is entered into. The funding target adopted at that time will depend on whether the 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).

2.4. Further aspects of funding strategy

2.4.1. 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.

2.4.2. 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.

2.4.3. 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 (estimated where appropriate) 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.

2.4.4. 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.

2.4.5. 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.

2.4.6. 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.

3. Security

3.1. 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, although in determining the contributions the Administering Authority would have regard to the intentions of the Guarantor and its agreement with the Admission Body. The Guarantor should ensure that it is clear what would happen to any surplus arising on the subsequent exit of the Admission Body, in particular whether or not an exit credit would become payable.

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.

3.2. 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.

In relation to existing employers, including Scheduled Bodies, the Administering Authority will consider whether provision of security, including but not limited to a charge over assets; Government guarantee; or subsumption commitment from a long-term secure scheduled body is sufficient to justify reviewing an employer's contributions between triennial valuations in line with Regulation 64A and its policy on use of these provisions.

4. Exiting the fund

4.1. Exiting the Fund

Where an employer meets the relevant criteria, an exit valuation will be carried out in accordance with Regulation 64. The exit valuation and any associated exit payment due 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, including any agreement to spread the exit payment or Deferred Debt Agreement.

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 for funding purposes the Fund's Actuary matches the value of orphan liabilities to an equal amount of index-linked gilts from the Fund's investments, with the balance of the Fund's investment returns credited to the other employers ~~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 generally be calculated using a funding target (and hence assumptions) in line with the ongoing funding target for the accepting employer or group. This will mean assuming continued investment in more risky investments than Government bonds. However, for employers admitted under paragraph 1(d)(i) of Schedule 2 where the relevant Scheme Employer is an academy and more than 10 employees transferred to the admission body, the exit valuation will be calculated using a funding target (and hence assumptions) consistent with that used to calculate the initial asset transfer, which will generally be the ongoing orphan funding target. For the avoidance of doubt, it is assumed that the liabilities of any employers admitted under paragraph 1(d)(i) of Schedule 2 where the relevant Scheme Employer is an academy and 10 or fewer employees transferred, will be subsumed by the academy if they are not otherwise transferring to a new admission body.

~~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, unless a Deferred Debt Agreement is entered into, 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.

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. As an interim measure given the uncertainty, 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. This allowance will be kept under review and will be updated as agreed by the Administering Authority on the advice of the Fund Actuary.

4.2. Spreading exit deficits

Any exit deficit would normally be levied on the departing employer as a single capital payment although the Administering Authority may allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is summarised below and set out in more detail in Appendix 4. below.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;

- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

4.3. Deferred debt agreements

Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement," or "DDA"). An employer which has entered into a DDA is known as a 'deferred employer'.

The Administering Authority's policy in relation to the entering into DDAs under Regulation 64(7A) is set out in Appendix 4 and summarised below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- the materiality of the employer and any exit deficit in terms of the Fund as a whole;
- the risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser
- the rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit; and
- whether an up front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time, or where the employer's financial capacity to support an increase in the exit debt is limited, the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full. The Administering Authority is also unlikely to enter into a DDA for very small employers where it considers the administration and advisory costs of doing so are disproportionate.

4.4. Surpluses

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

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

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

This may mean that no exit credit is due for example if it is a stated condition of an employer subsuming the liabilities that no surplus will be repaid to the exiting employer as is the case for those organisations in the Admission Body Group which have a commitment from a secure scheduled employer to subsume the liabilities on exit. This will also be the case in relation to any employers admitted under paragraph 1(d)(i) of Schedule 2 where the relevant Scheme Employer is an academy and the initial allocation of assets was calculated on the ongoing funding target but the liabilities on exit are assumed to be subsumed by the academy and the exit valuation is carried out using the ongoing funding target appropriate to the academy.

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.

4.5. 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.

4.6. Interim reviews for employers which may exit the Fund

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 participation is assumed to be indefinite, interim valuations under Regulation 64(4) 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 (using Regulation 64A if required – see next section).
- 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.

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).

4.7. Inter-valuation funding valuations

Regulation 64A enables employer contributions to be reviewed between triennial valuation where:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer(s) to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer(s) has requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

The Administering Authority's policy on use of these provisions is set out in Appendix 4.

5. 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 summarised in Appendix 5.

Appendix 1 – Aims of the Fund

The Fund has three main aims:

- to manage the employers' liabilities effectively
- to enable primary contribution rates to be kept as nearly constant as possible
- to seek returns on investment within reasonable risk parameters.

These are detailed 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. For the purpose of determining the Solvency Target for individual employers, the Administering Authority may without limitation, take into account the following factors:

- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.;
- whether the employer has set up a subsidiary company to employ staff which does not participate in, or admit new employees to, the Fund

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

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. Details of the updated structure and managers are in the Investment Strategy Statement.

Appendix 2 – Roles and responsibilities of key parties

The 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 pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the 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 an FSS and an SIP/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 fund administrator and scheme employer
- enable the local pension board to review the valuation process as set out in their terms of reference.

The individual employer is required to:

- deduct contributions from employees' pay correctly
- pay all ongoing contributions, including employer contributions determined by the actuary and set out in the rates and adjustments certificate, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- notify the administering authority promptly of all changes to active membership that affect future funding.
- pay any exit payments on ceasing participation in the fund.

The fund actuary should:

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

Appendix 3 - Group funding framework

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 to 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 lifetime 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.

Appendix 4 – Employer flexibilities and exits

The Administering Authority's policy on the use of Regulation 64 in relation to employer flexibilities is set out below.

Spreading exit payments

The spreading of exit payments will only be considered at the request of an employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period. Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be three years but longer periods of up to ten years may be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where the Administering Authority has agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable* and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision. The Administering Authority will endeavor to notify the employer of its decision within 2 months of the provision of the required information by the employer. The employer will be given a period of 1 month to respond to the decision. Payments will be expected to commence by the later of 2 months following the Administering Authority's decision, or 6 months of the exit date. If there is no agreement between both parties within this timeframe the Administering Authority will instruct the Fund Actuary to certify the exit payment due as an immediate capital payment.

*Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

Deferred debt agreements

It is envisaged that DDAs will only be entered into at the request of an employer. In all cases the Administering Authority will then engage/consult with the employer determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. Employers should be aware that all advisory fees incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

The Administering Authority has a template agreement for DDAs, which it will require employers (and any guarantors) to sign up to. The matters which the Administering Authority will reflect in the DDA, include:

- an undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;

- a provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;
- a provision that the DDA will terminate on the first date on which one of the following events occurs-
  - (a) the deferred employer enrols new active members;
  - (b) the period specified, or as varied, elapses;
  - (c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
  - (d) the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
  - (e) the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.
- the responsibilities of the deferred employer
- the circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above
- It is expected that the consultation process with the employer will include discussions on the precise details of the DDA, although the purpose of developing a template agreement is to make the process easier, quicker and cheaper and therefore it is not envisaged that there will be material changes to the Administering Authority's template.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund
- where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, as long as, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer’s ability to meet the contributions

payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months

- where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d). It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches.

Employers should be aware that all advisory fees and administrative expenses incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

Inter-valuation funding valuations

Regulation 64A enables employer contributions to be reviewed between triennial valuation where:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer(s) to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer(s) have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Factors used to determine when a review is appropriate

In determining whether or not a review should take place, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of a council due to a move to unitary status, the restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract
- the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate
- whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, or other form of indemnity in relation to the employer's liabilities in the Fund
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pensions Administration Strategy Statement and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms

Assessment of the risk/impact on other employers

In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Scheme employers.

Where contributions are being reviewed for an employer with links to another Fund employer, particularly where there is a formal organisational or contractual link, e.g.

there is a tripartite admission agreement, an ownership relationship or a formal guarantee or subsumption commitment is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

Employer involvement and consultation

It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. A list of notifiable events is set out in the Administration Strategy.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that just because a review is being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related/linked employer in the Fund and the proximity to the next formal valuation.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any employer which provides a guarantee or subsumption commitment or, if none exists, will take the decision on behalf of all employers noting Hampshire County Council is the largest employer in the Fund and any unmet liabilities on exit are shared in proportion to each employer's liabilities.

Process for requesting a review

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact Employer Services and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees and administrative expenses incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Other considerations

The Administering Authority will carry out an annual assessment of the risk for Tier 3 employers as considered appropriate. This will help identify whether a contribution review is required and is expected to be carried out as at each 30 September with any contribution changes effective from the following 1 April.

More generally, the Administering Authority may carry out a review at any time during the valuation cycle where it becomes aware that a review is required. In such cases the employer will be expected to provide the requested information within one month of request and the review will be completed within 6 weeks of the provision of all requested information, or completion of the risk/covenant assessment if later.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

Appeals process

In the event of any dispute, employers should contact Pension Services for an informal discussion. Any formal appeal will be heard under the Fund's Internal Dispute Resolution Process.

Appendix 5 – Risks and counter measures

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 where employers are unable to meet their obligations to the Scheme. The response to the COVID-19 pandemic may have adverse consequences in relation to employer finances and their ability to make contributions. The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the Administering Authority's policy, as set out in the Employer Policy, are met.

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. In due course it will also ask the Fund Actuary to review the funding position of any deferred employers on a regular basis between triennial valuations, noting that the Regulations specifically provide for a deferred debt agreement to end when the Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation (review) date.

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 bringing 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 with 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:

- monitors the membership of employers on an annual basis; and
- requires the other participating employers to communicate regularly with it on such matters
- has formalised its notification requirements within the notifiable events section of the Pension Administration Strategy.

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.

Climate Change

The systemic risk posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities to investors. The Fund's policy in relation to how it takes climate change into account in relation to its investments is set out in its Investment Strategy Statement and Statement of compliance with the UK stewardship code for institutional investors. In relation to the funding implications, the Administering Authority keeps the effect of climate change on future returns and demographic experience, e.g. longevity, under review and will commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.

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 equalization

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.

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 outsourced services prior to 1 April 2019, the new employer was treated as an ungrouped employer subject to the ongoing orphan funding target[4]. 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[5] 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

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[4] As the funding target which applies on the exit of academy contractors admitted has been amended since the 2019 Valuation, it is expected that use of the ongoing orphan funding target for academy contractors where 10 or fewer members transferred will be reviewed as part of the 2022 valuation

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

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 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 academy contractors admitted ~~admission bodies~~ under paragraph 1(d)(i) of Schedule 2 Part 3 on or after 1 April 2019 where more than 10 employees transferred to the admission body ~~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 2016 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.

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[6] 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.	From the next pay period after receiving the employee's request to opt out Within 10 working days following the end of the

Employer responsibility	Timescale
Notify HPF of opt out and refund through payroll by providing a copy of the opt out form	month in which the employee left the scheme
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

Employer responsibility	**Timescale**
Provide annual information to HPF with full details of the contributions paid by members in the year. Respond to queries on the annual return raised by HPF.	By 30 April each year Respond to queries within 10 working days of receipt
The employer will maintain employment records for each member for the purposes of determining membership and entitlement to benefits. The employer must keep a full pay history for the 13 years, ending 31 March, before the member leaves the scheme.	As required
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.

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

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Appendix B - HPF Responsibilities

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

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

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

HPF responsibility	Timescales
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.
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.

HPF responsibility	Timescales
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
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

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

	Discretion	Regulation	Policy	Delegated authority for approval
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
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

	Discretion	Regulation	Policy	Delegated authority for approval
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
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

	Discretion	Regulation	Policy	Delegated authority for approval
15.	Approve medical advisors used by employers (for ill health benefits)	**R**36(3) **L**97(10)	HPF requires employers to provide details of medical advisors used for assessing entitlement to ill health benefits and will liaise with any employer who is using a medical advisor of which HPF does not approve.	Head of Pensions
16.	Decide to whom death grant is paid	**TP**17(5) to (8) **R**40(2) **R**43(2) **R**46(2) **B**23(2) & **B32**(2) **B**35(2) **T**Sch1 **L**155(4) **L**38(1) **L**155(4) E8	HPF will decide each case on its merits, after assessing all potential beneficiaries, but will take into account the member's valid expression of wish form.	Head of Pensions
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

	Discretion	Regulation	Policy	Delegated authority for approval
21.	Whether to have a written pensions administration strategy and if so, the matters it should include	**R**59(1) and (2)	HPF has a written pensions administration strategy.	Pension Fund Panel and Board
22.	Maintain a communication policy which contains the information set out in the regulations	**R**61	HPF has a written communication policy which contains the required information and is regularly reviewed.	Pension Fund Panel and Board
23.	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	**R**64(4)	HPF will decide each case on its merits, with advice from the Fund Actuary.	Director of Corporate Resources
24.	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the 'cost sharing' under **R**63	**R**65	HPF will make this decision as it arises, with advice from the Fund Actuary.	Director of Corporate Resources

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

	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

	Discretion	Regulation	Policy	Delegated authority for approval
33.	Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in the Administration of Estates (Small Payments) Act 1965.	**R**82(2) **A**52(2) **L**95	HPF will pay death grants that are under the amount specified in the Administration of Estates (Small Payments) Act 1965 without the need for grant of probate / letters of administration.	N/A
34.	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	**R**83 **A**52A	HPF will decide who should receive payment of benefits, based on the circumstances of the individual case.	Head of Pensions
35.	Date to which benefits shown on annual benefit statement are calculated.	**R**89(5) **L**106A(5)	HPF uses 31 March, but will revise this if regulatory requirements, administrative efficiency or best practice demand it.	N/A
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

	Discretion	Regulation	Policy	Delegated authority for approval
40.	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	**R**Sch 1 & **TP**17(9)(b) **B**25	HPF will decide the evidence required to determine financial dependence, based on guidance and best practice. For most cases, utility bills, bank statements or mortgage documentation in joint names will be accepted.	Team Manager - Member Services
41.	Decide policy on abatement of pensions following re-employment, including the pre April 14 element for post 14 leavers.	**TP**3(13) & **A**70(1)* & **A**71(4)(c) **T**12 **L**109 **L**110(4)b	HPF will not abate pension for any re-employment starting after 1 April 2014. Pensions already abated at this date will continue to be abated until the re-employment ends.	N/A
42.	Extend time period for capitalisation of added years contract	**TP**15(1)(c) & **T**Sch1 & **L**83(5)	HPF will not extend the time limit for applications to pay off added years contracts.	N/A
43.	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	**A**45(3) **L**89(3)	HPF will usually recover as a deduction from benefits.	Team Manager - Member Services
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

	Discretion	Regulation	Policy	Delegated authority for approval
46.	Select appropriate final pay period for deceased non-councillor member (leavers post 31.3.98. / pre 1.4.08.).	**L**22(7)	HPF will choose the appropriate pay period that would yield the highest overall level of benefits for beneficiaries.	Team Manager - Member Services
47.	Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31.3.98 / pre 1.4.08. leavers).	**L**47(1) G11(1)	HPF will apportion children's pension equally amongst eligible children.	N/A
48.	Commute benefits due to exceptional ill-health (councillor members, pre 1.4.08. leavers and pre 1.4.08. Pension Credit members).	**L**50 and **L**157	HPF will commute benefits due to exceptional ill health, provided regulatory conditions are met.	N/A
49.	Whether acceptance of AVC election is subject to a minimum payment (councillors only).	**L**60(5)	HPF does not set a minimum payment threshold for AVCs	N/A
50.	Timing of pension increase payments by employers to fund (pre 1.4.08. leavers).	**L**91(6)	Employer payments are paid monthly on account, with an annual balancing charge after the year end.	N/A
51.	Retention of CEP where member transfers out (councillors and pre 1.4.08. leavers).	**L**118	CEP will be paid with transfers out rather than being retained in the Fund.	N/A
52.	Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1.4.08. Pension Sharing Orders for non-councillor members).	**L**147	HPF will discharge its liability by conferring pension credit rights on the person entitled to the pension credit.	N/A
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

	Discretion	Regulation	Policy	Delegated authority for approval
55.	Whether to agree to that an admission agreement may take effect on a date before the date on which it is executed.	**R**Sch2, Part 3, para 14	As set out in the Employer Policy, HPF requires employers to notify the Fund of any outsourcing as soon as possible and complete an admission agreement with sufficient time before the contract start date. However each case will be decided on its merits, with advice from the Fund Actuary.	Head of Pensions
56.	Whether to extend the period beyond ~~3~~ 6 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit	**R**64 (2ZA)	As set out in the Employer Policy, HPF will agree a later date with an employer if circumstances mean that an exit credit cannot be paid within ~~3~~ 6 months of the employer exiting the Fund.	Head of Employer Services
57.	To determine the amount of an exit credit, which may be zero	**R**64 (2ZAB)	HPF will determine the amount of any exit credit to be paid with regard to the factors set out in the regulations, in accordance with the policy in the Funding Strategy Statement and Employer Policy.	Head of Pensions
58.	Whether to suspend (by way of issuing a suspension notice) for up to 3 years an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	**R**64(2A)	As set out in the Employer Policy, HPF will exercise this discretion in relation to Town or Parish Councils. Any other circumstance will be considered on its merits with advice from the Fund Actuary.	Head of Employer Services

	Discretion	Regulation	Policy	Delegated authority for approval
59.	To decide whether it is legally able to offer voluntary scheme pays and, if so, to decide the circumstances (if any) upon which it would do so.	**RPS** 2	HPF will allow a request for Voluntary Scheme Pays (VSP) where the tax charge is over £1,000 and under £2,000 in relation to an excess over the standard annual allowance. Any request for VSP below this minimum will be considered on a case by case basis with regard for the administration cost of administering a small pension debit. In addition, HPF will allow a request for VSP in relation to a tax charge of £1,000 or more which has arisen in relation to an excess over a tapered annual allowance (including any amount up to £2,000 over the standard annual allowance if the total tax charge is more than £1,000).	Head of Pensions
60.	Appoint an Actuary	**Reg 64.**		
61.	To decide to open a bank account to receive amounts due under the regulations	**IN** 4,6	As set out in the County Council's Financial Procedures all arrangements with bankers must be made only by the Chief Financial Officer, who is authorised to operate any bank accounts considered necessary. Management of the Pension Fund's cash balances will be undertaken following the Fund's Cash Strategy agreed by the Pension Fund Panel and Board.	Chief Finance Officer (Director of Corporate Operations) Director of Corporate Resources as delegated to the Investments and Borrowing Team via the Treasury Management Procedures and Decision Sheets

	Discretion	Regulation	Policy	Delegated authority for approval
62.	To decide to open a custodian bank account to receive income and capital deriving from investments	**IN** 4	The Panel and Board will be asked to approve the procurement and contracting with a custodian bank for the service of safekeeping of the Fund's investments.	Director of Corporate Operations when agreed by the Panel and Board
63.	To decide to pay costs, charges and expenses incurred in administering the pension fund	**IN** 4	Costs, charges and expenses will be paid that have due incurred by the Pension Funds	As per the County Council's hierarchy of budget holder responsibility
64.	To decide to borrow to meet obligations to pay pensions or to meet investment commitments when changing between different types of investment	**IN** 5	The Pension Fund's cash strategy as agreed by the Panel and Board is to avoid borrowing other than in the exceptional circumstances as set out in Regulations	Director of Corporate Operations to agree decision sheet with Treasury Management Team
65.	To decide to commission investment advice	**IN** 7	The Panel and Board will decide when they wish to procure specialist investment advice and independent advice. Director of Corporate Operations will commission advice when necessary for the day-to-day operation of the Pension Fund.	Head of Pensions, Investments & Borrowing
66.	To decide where to invest money	**IN** 7	The Panel and Board must agree an Investment Strategy Statement which specifies the types of investments that the Pension Fund with make.	Panel and Board
67.	To decide which investment pool to join	**IN** 7	The Panel and Board has recommended to Council that Hampshire joins the ACCESS pool and County Council agreed that Hampshire signed the pool's Inter-Authority Agreement.	County Council

	Discretion	Regulation	Policy	Delegated authority for approval
68.	To decide to appoint or change the appointment of investment managers	**IN** 9	Investment manager appointments will be made in line with the Pension Fund's Investment Strategy Statement, where appropriate taking options available from the ACCESS pool. Administration of the Pension Funds investment will be undertaken by the Fund's officers to make payments to meeting investment commitments and commission the relevant services when necessary e.g. legal advice, tax advice, transition management and class action services.	Panel and Board Director of Corporate Operations to approve the Pension Fund's authorised signatory list in line with the Corporate Schedule of Payments list
69.	Responsibility for the day-to-day operation of the Pension Fund		Operations are split between two teams; Administration and Investments & Borrowing	Deputy Head of Pensions and Deputy Investments & Borrowing Manager

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
IN	Local Government Pension Scheme Regulations 2016 (Management and Investment of Funds)
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

Investment Strategy Statement

Introduction

Hampshire County Council is the administering authority for the Hampshire Pension Fund (the "Fund"), which covers employees of the County Council, two unitary councils, 11 district councils, and 326 other scheduled and admission bodies. The total number of contributors is 59,000 and there are 78,834 deferred members and 45,576 pensioners (all as at 31 March 2021).

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require pension fund administering authorities to prepare and review, from time to time, an Investment Strategy Statement.

This Statement has been drafted to comply with these regulations in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.

Investment Strategy

The Fund has three main aims:

- To manage the employers' liabilities to achieve long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term.
- To enable primary contribution rates to be kept to nearly as constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike.
- Seek returns on investment within reasonable risk parameters.

In compiling the Fund's 2019 Actuarial Valuation, the Fund's Actuary, Aon advised that the Pension Fund requires the assets to deliver a long-term return of above the discount rate of 4.4%, which is set out in the Fund's Funding Strategy Statement.

The Pension Fund Panel and Board have prepared a set of investment beliefs based on their experience of the workings of the Fund and the nature of the underlying investments held, which are contained in Annex 1.

Variety of investments

In order to achieve the return in its Funding Strategy, the Investment Regulations require the Pension Fund to invest money in a wide variety of investments and state the maximum percentage that it will invest in particular investments or classes of investment.

The strength of the majority of the Fund's employers' covenants and the present positive annual cashflows allow the Fund to have set a long-term deficit recovery period and to take a corresponding long-term view of investment strategy. For the purpose of setting maximum limits the Pension Fund has done this at a strategic level. The total is deliberately greater than 100% to allow flexibility between the categories. The allocation below favours growth assets as the Fund believes that participation in economic growth is a major source of long-term equity returns, which will be required to meet its long-term investment return target and mean that employer contributions can be kept lower.

	Minimum	Maximum
Growth assets – To deliver sufficient return to meet the funding target and maintain the affordability of the target level of contributions (assets such as equities and hedge funds)	40%	70%
Income assets – Structuring the assets to meet the Fund's income requirements or increase the confidence of achieving required returns through a more stable and observable return stream (assets such as property, infrastructure, loans and alternative credit)	10%	45%
Protection assets - Employing investment strategies that provide some downside protection or diversification benefit to maintain stability in the level of contributions (assets such as traditional gilts and index-linked gilts)	10%	30%

Suitability of investments and receipt of investment advice

The Pension Fund has access to the necessary skills, expertise and resources to manage the whole Fund. When making investment decisions the Pension Fund Panel and Board will take advice from appropriate specialist investment professionals including officers, consultants and independent advisers. The Panel and Board have appointed a permanent independent adviser (currently Investment Trustee and Adviser Ltd) to provide advice on all investment decisions.

The Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The members of the Panel and Board annually complete a training needs analysis based on CIPFA's Knowledge and Skills Framework for pension funds, which includes investments, and a training plan is prepared to meet the requirements identified. To fulfil the training needs of officers and members the Pension Fund will access training from a variety of investment professionals, including both companies that it does and does not currently contract with, in order to gain exposure to a wide variety of views.

Strategic Asset Allocation

To implement the Pension Fund's Investment Strategy the Pension Fund Panel and Board sets a Strategic Asset Allocation with the aim of achieving the Fund's overall long-term target return without exposing the Fund to excessive risk. In setting the Strategic Asset Allocation advice was commissioned from Hymans Robertson on the options for the Fund's asset allocation and the most effective allocation for achieving the Fund's target return with the degree of certainty specified in the Funding Strategy Statement.

Investment sector	Interim % of Fund	Long Term % of Fund
Growth	48.0%	43.0%
Income	30.0%	40.0%
Protection	22.0%	17.0%
Total Fund	**100.0%**	**100.0%**

In line with the Regulations, the Fund's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with the County Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Strategic Asset Allocation was agreed in 2017 following the Fund's last triennial actuarial valuation and the Panel and Board has agreed an implementation plan in order to move to the new allocation. The Fund's Asset Allocation will be reviewed from time to time by the Panel and Board and at least every 3 years following the actuarial valuation.

To manage the portfolios in the Fund's asset allocation the Pension Fund contracts with specialist external investment managers. No assets are managed internally, with the exception of the Fund's cash balance. Since the implementation of the Strategic Asset Allocation the Pension Fund has taken advice from MJ Hudson on the appointment of investment managers and transition management. The Fund's current investment managers are shown in Annex 2.

At the 2019 valuation 1.6% of the Fund's liabilities were orphan liabilities. The Administering Authority's policy is to minimise the risk to the participating employers in the Fund by matching the value of the orphan liabilities to an equal amount of index-linked gilts from the Fund's investments. The Administering Authority currently operates a single investment strategy as outlined above, so the Fund Actuary notionally allocates index linked gilts to the orphaned liabilities within the valuation calculations, with the balance of the Fund's investment returns credited to the participating employers.

Approach to risk

The Pension Fund has identified a number of risks on its risk register that may impact its funding and investment strategies, contained in Annex 3, which is reviewed at least annually by the Panel and Board. The Pension Fund maintains a risk register to identity key risks, consider and assess their significance, likelihood of occurrence and potential impact of the risk.

The Panel and Board is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. The Fund's appetite for risk is to minimise the overall portfolio risk while delivering the target returns through a diversified portfolio.

Approach to pooling

Hampshire is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire	Kent
East Sussex	Norfolk
Essex	Northamptonshire
Hertfordshire	Suffolk
Isle of Wight	West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter-Authority Agreement to underpin their partnership. The first investments that were pooled are passively managed investments, and Hampshire also now has four active equity mandates invested through the pool operator, Link Fund Solutions. The Operator is currently working to launch further sub-funds throughout 2021/22 and ACCESS has commissioned further work to facilitate the pooling of other asset classes.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS' website http://www.accesspool.org/

All 11 ACCESS funds are working in the expectation that all investments will be pooled apart from a minority of investments where there is no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Hampshire will not be pooling its allocation to directly held UK property (10% of its Strategic Asset Allocation). As set out by the ACCESS funds in their July 2016 submission to the Government, there is a dis-economy in pooling direct property investments due to the cost (principally tax) of making changes to portfolios and the limited anticipated savings available from pooling.

In addition, Hampshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

Responsible Investment Policy

1. Rationale and definition

The Pension Fund's investment principles include:

i. that it has a long term focus and must make investment returns to meet pensions liability (currently calculated by the Fund's actuary as 4.4%pa), and

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

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

The Pension Fund’s approach to RI, includes consideration of the Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing as it relates to ESG. The PRI provides the following examples of ESG factors:

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

2. Investment Strategy

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

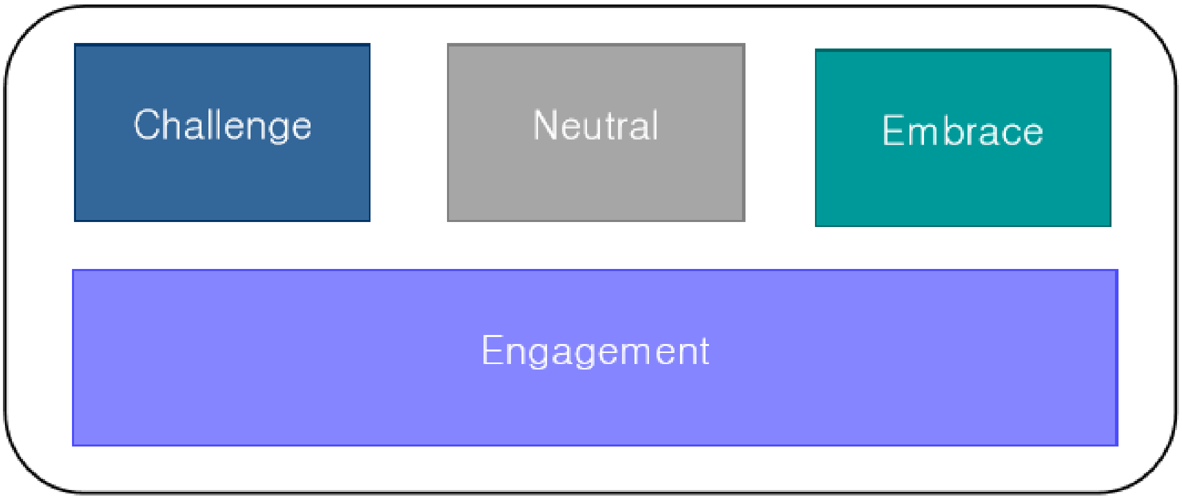
<u>Stock/Sector Exclusions and Social Impact investments</u>

The PFPB may also consider disinvestment from a particular stock, the exclusion of a particular type of stock or investment in specific ‘social’ investments where, based on an evaluation of ESG factors, it believes that the decision would be supported by a significant majority of scheme members and employers; the PFPB may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

3. Framework and Approach

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

The Pension Fund delegates its investment decisions to its current and future appointed investment managers, who are a combination of specialist external active investment managers and passive investment managers. The PFPB engages in responsible stewardship with its investment managers and will review and monitor investments based on the following model:



- **Challenge** – where the underlying investment/company delivers less than a net neutral contribution to a sustainable society with a high barrier to transformation, the Fund will challenge its investment manager (where appropriate) on their decision to hold the investment.
- **Neutral** – underlying investments/companies that have potential to transform their operations and/or business model to fit in a sustainable future.
- **Embrace** – where underlying investments/companies are delivering a positive contribution with an undebatable fit in a sustainable future, the Fund will be in dialogue with its investment managers to understand what it can learn from these investments and its investment managers' decisions to invest.
- **Engagement** – in all situations the Fund expects its investment managers to engage with companies that they have invested in, as described in more detail below.

The Fund recognises that there are different expectations for its investment managers in the context of this Policy as follows:

Passive investment managers

These managers are employed to mirror the stocks in various indices, and the PFPB accept that in making investments for the Pension Fund through an index, passive managers are unable to actively take ESG factors into account.

However, the PFPB does expect its passive investment managers to act in the best interests of the Pension Fund to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the PFPB expects its passive investment managers to engage with companies within the index on areas of concern related to ESG issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments (see separate section below on Exercising Voting rights).

Quantitative investment managers

These investment managers employ particular automated techniques to select stocks as opposed to individual judgement (used by 'traditional' active investment managers), but unlike passive investments are not constrained by any index. The Pension Fund would only utilise a quantitative investment manager if having taken advice it was appropriate for implementing the Fund's investment strategy and following a thorough assessment of the investment manager and their quantitative model, including the extent to which it can account for ESG factors.

Similarl to passive investment management the Pension Fund accepts that a quantitative investment manager cannot make stock specific judgements on ESG issues and therefore may not be able to take all ESG factors into account in their investment decisions. However, the Fund still requires the same level of engagement and exercise of voting rights (as described above) as with all other investment managers.

Active investment managers

The PFPB delegates responsibility for making individual investment decisions (non passive) to its active investment managers.

In delivering their service to the Pension Fund, the PFPB requires its active investment managers to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment.

To ensure that ESG factors are considered in investment decisions, the PFPB uses the following framework of questions, which it requires its investment managers to be able to answer and uses these as a basis to scrutinise them.

For each investment has the investment manager assessed and concluded that the overall expected long-term financial return is mitigated from the risk of:

- Detrimental social impacts or increasing health inequalities from the company's products/services, such as armaments or tobacco.
- Negatively contributing to Climate Change or other environmental issues, such as pollution and the use of plastic.
- The impacts of Climate Change.
- Poor corporate governance, systems of control and a lack of transparency.
- A senior management pay structure that is biased towards managers making short-term decisions that aren't in the company's and investors long-term interests.
- The detrimental treatment of the company's workforce or workers in the company's supply chain on issues such as health and safety, gender equality and pay.
- Dangerous business strategies, such as the creation of monopolies, that may expose the company or wider economy to unacceptable risk.
- Any outcome damaging to human rights.
- Reputational damage to the company, the Pension Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code; as a result of its approach to any ESG issue.

If the PFPB do not receive satisfactory responses to these questions they may undertake further engagement with investment managers (and possibly directly with investments) and/or consider directing the investment manager to not invest in the company/sector in question.

Closed-ended limited partnerships

The Pension Fund invests in closed ended limited partnerships and has let a number of discretionary contracts to investment managers for investments in private equity and infrastructure in these types of investments. The Pension Fund requires that its investment managers integrate ESG considerations into their selection of these investments, which it believes will improve the long-term risk adjusted returns. Whilst the Pension Fund expects its investment managers to be able to influence the investment decisions of these partnerships, it accepts that once the Fund has committed its investment it cannot control the underlying investments that are made.

Direct property

The Pension Fund has made a strategic allocation to invest in UK commercial property, and therefore recognises that as a landlord it has an opportunity to affect the quality of the buildings that it owns. As part of the investment management contract that the Pension Fund has let for the discretionary management of its property portfolio, the Pension Fund expects its investment manager to consider improving the environmental impact of each of the properties it owns as part of the investment case for owning each property.

<u>Responsible Investment Sub-Committee</u>

The Pension Fund Panel and Board (PFPB) take their responsibilities for Responsible Investing and the consideration of ESG issues very seriously, and have established a Responsible Investment sub-committee, which meets at least twice a year, to review ESG issues and support implementation of the Responsible Investment Policy.

The Terms of Reference of the sub-committee are as follows:

To make recommendations to the PFPB on ESG issues having completed the following activities:

a. to review regularly the Pension Fund's Responsible Investment Policy (contained in its Investment Strategy Statement), and practices relating to it, to ensure that ESG issues are adequately reflected
b. to provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it;
c. to engage in responsible stewardship with its investment managers and to provide a forum for the review and monitoring of investments in the context of the Policy;
d. to receive any relevant training on ESG issues;
e. to review investment managers' company engagement and voting decisions and when necessary engage directly and indirectly with investment managers (and where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate;
f. to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate;

g. to report annually on the Pension Fund's Responsible Investment activities to demonstrate progress to the Pension Fund's stakeholders.

Conflicts of interest

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

The Pension Fund expects the investment managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pension Fund Panel and Board members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the County Council's website at www.hants.gov.uk. Hampshire County Council, as the Administering Authority of the Hampshire Pension Fund, requires all members of the Panel and Board and officers to declare any pecuniary or other registerable interests, including any that may affect the stewardship of the Fund’s investments. Details of the declared interests of County Council members are maintained and monitored on a Register of Member Interests. These are published on the County Council’s website under each member’s name and updated on a regular basis.

4. Exercise of rights attaching to investments

Each of the Pension Fund’s investment managers is asked to work in a consistent and transparent manner with companies they are invested in to ensure they achieve the best possible outcomes for the Pension Fund, including forward-looking ESG standards. This includes requiring investment managers to exercise the Fund’s responsibility to vote on company resolutions wherever possible.

The Fund believes that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of stakeholders including shareholders, company employees and consumers. The Fund’s investment managers should cast their votes with this in mind.

In particular, the Fund’s investment managers should cast their votes to ensure that:

- executive directors are subject to re-election at least annually
- executive directors’ salaries are set by a remuneration committee consisting of a majority of independent non-executive directors, who should make independent reports to shareholders
- arrangements for external audit are under the control of an audit committee consisting of a majority of independent non-executive directors, with clear terms of reference – these should include a duty to ensure that investment managers closely control the level of non-audit work given to auditors, and should not significantly exceed their audit-related fee unless there are, in any investment manager’s opinion, special circumstances to justify it

- in the investment managers' opinion, no embarrassment is caused to the Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code.

5. Monitoring and Reporting

The Pension Fund's investment managers (both active and passive) are required to report to the Pension Fund on their engagement with company management and voting recording, highlighting any instances that they voted against company management or did not follow these guidelines. The reports of the investment managers on their consideration of ESG factors, company engagement and shareholder voting will be viewed by the Pension Fund's officers, the Responsible Investment Sub-Committee and Pension Fund Panel and Board.

<u>RI Standards</u>

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

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

Annex 1 – Investment Beliefs

Belief: Clear and well-defined objectives are essential to achieve future success

The Pension Fund Panel and Board is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due. The Panel and Board have considered their own priorities and believe that setting clear objectives for the Fund is key in providing focus for the way the investment strategy is implemented.

Belief: Strategic asset allocation is a key determinant of risk and return

The Panel and Board understands that having the appropriate strategy in place is a key driver of the Fund's future success and thus is typically more important than manager or stock selection.

Belief: Funding and investment strategy are linked

The Panel and Board understands that a number of funding related aspects feed into investment strategy decisions, including maturity and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Panel and Board.

Belief: The Panel and Board will take an appropriate level of investment risk

As a long term LGPS Fund the Panel and Board acknowledge the need to take investment risk to ensure the affordability and sustainability of the Fund. However, the level of risk will be set which is aligned to the long-term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.

Belief: Long term investing provides opportunities for enhancing returns

The Panel and Board believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long-term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

Belief: Equities are expected to generate superior long-term returns

The Panel and Board believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Panel and Board is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

Belief: Government bonds provide liquidity and a degree of liability matching

Government bonds have characteristics that are similar to the assumptions used in valuing pension liabilities e.g. sensitive to changes in interest rates and (for index linked) to changes in market-implied inflation. This makes them a suitable asset for reducing the Fund's funding risks. In addition, this asset class has proven to be highly liquid at times of market stress, enabling it to be used for rebalancing and to help meet any outflows that may fall due. Given this, the Fund hold a proportion of its assets in this asset class.

Belief: Alternative investments provide diversification

The Panel and Board believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Panel and Board believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Fees and costs matter

The Panel and Board recognises that fees and costs reduce the Fund's investment returns. The Panel and Board considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. The Panel and Board will consider paying higher fees to access the strategic opportunity or where the Fund can achieve better or more consistent net of fees returns.

Beliefs: Market inefficiencies will provide opportunities to add value over time

The Panel and Board belief that at times relative market movements or dislocations will provide opportunities to generate additional returns for the Fund. However, the Panel and Board do not believe that they are best placed to capitalise on these opportunities. The Panel and Board will therefore set mandates with the flexibility for specialist external investment managers to add value through allocation decisions where deemed appropriate. Alongside this the Panel and Board will assess the position of the Fund against the long-term strategic benchmark and any requirements to rebalance back toward the long term target.

Belief: Active management can add value

The Panel and Board recognises that certain asset classes can only be accessed via active management. The Panel and Board also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Panel and Board will therefore use active management selectively and when doing so will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance may arise, the Panel and Board seeks to minimise the additional risk from active management.

Belief: Passive management has a role to play in the Fund's structure

The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

Belief: Responsible Investment is important to the Panel and Board and can have a material impact on the long-term performance of its investments

The Panel and Board recognises that Responsible Investment issues incorporating all forms of Environmental, Social and Governance (ESG) issues can impact the Fund's returns. Given this, the Panel and Board aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Pension Fund is a signatory of the Principles of Responsible Investment with a Responsible Investment policy and a RI Sub-Committee.

Annex 2 – Current investment management arrangements

Portfolio	Investment Manager	Benchmark	Annual target performance gross/net of fees
High-performance global equities	Link Fund Solutions (Acadian Asset Management)	MSCI World Index	+1.5-2.5% net
	Link Fund Solutions (Baillie Gifford)	MSCI ACWI	+1.5-2.5% net
	Link Fund Solutions (Dodge & Cox).	MSCI ACWI	+1.5-2.5% net
	Link Fund Solutions (Baillie Gifford)	MSCI ACWI	+1.5-2.5% net
Passive Global Equities	UBS Asset Management	FTSE All World Equity Index	
		FTSE RAFI All-World 3000	
		MSCI World Min Vol	
		MSCI World Quality	
Private equity	abrdn		+9%-11.5% net
Hedge funds (legacy portfolio)	Morgan Stanley		+5.5%-8% net
Infrastructure	Grosvenor Capital Management		+7.5%-10% net
Private debt	JP Morgan Alternative Asset Management	LIBOR	+4% net
Multi-asset Credit	Alcentra	LIBOR	+3% net
	Barings	LIBOR	+3% net
Passive UK index-linked bonds	UBS Asset Management	FT British Government Over Five Years Index-Linked Gilts Index	

Portfolio	Investment Manager	Benchmark	Annual target performance gross/net of fees
UK property	CBRE Global Investors	Retail Price Index (RPI)	+3.5% net
Asset Backed Securities	Insight Investment	LIBOR	+2% gross
	TwentyFour Asset Management	LIBOR	+2% gross

Hampshire Pension Fund – Representation Policy

The Pension Fund Panel and Board[7]

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

Composition

The Pension Fund Panel and Board includes within its membership:

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

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

Employer representatives and scheme member representatives should remain as members of the Pension Fund Panel and Board during their appointed term of office unless in the opinion of the County Council they are not adequately performing their role, they become incapable of acting, they cease to represent their constituency, they resign by giving written notice to the Proper Officer of the County Council, a replacement member is nominated by their relevant nominating body or they are removed from the Panel and Board pursuant to Paragraph 6.8[8].

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

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

Appointment of Substitute Members

Allocation

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

Powers and duties

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

Substitution

Substitute members may attend meetings in that capacity only:

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

Voting rights

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

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

Scheme Member and Employer Representatives

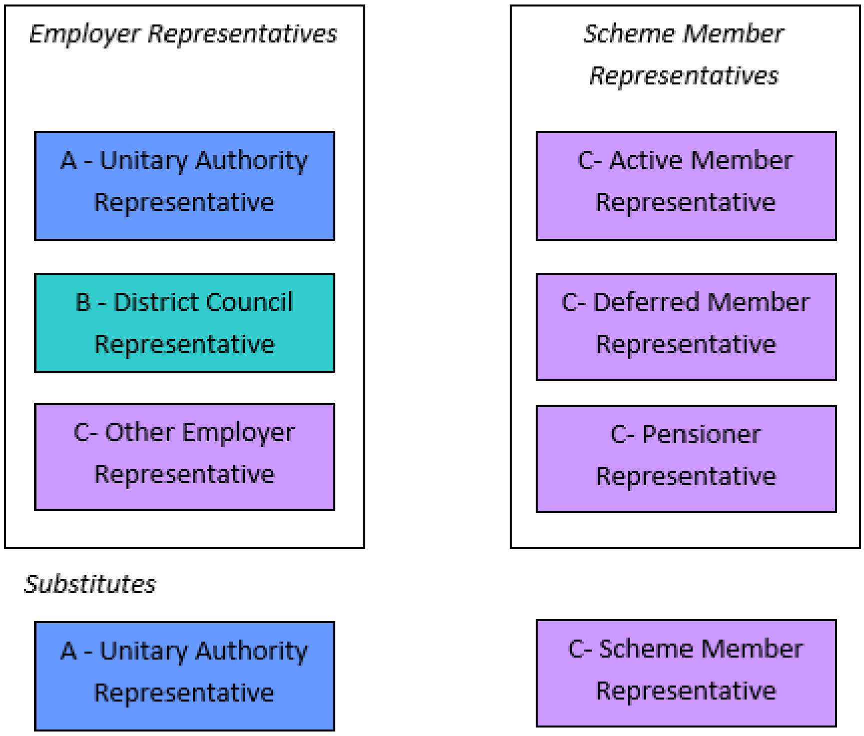
The objective of the Scheme Member and Employer Representatives Appointments Policy is that the Hampshire Pension Fund has Scheme Member and Employer Representatives who are most able to contribute to the governance of the Pension Fund and represent the broadest range of the Pension Fund's scheme members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

Role of the Employer and Scheme Member Representatives

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

Application and Nomination Routes

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



A – Unitary Authority Representative

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

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

B – District Council Representative

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

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

C – Other Employer Representative and Scheme Member Representatives

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

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

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

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

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

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

Criteria for the selection of Employer or Scheme Member Representatives

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

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

Approval of appointments

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

Hampshire Pension Fund (HPF)
Communication Policy Statement

Introduction

We are committed to engaging with our stakeholders in a clear and concise manner. This policy sets out how we will do that effectively, using the most appropriate method taking into account the needs of the target audience.

The five key stakeholders we have are:

- scheme members ,
- prospective scheme members,
- employing authorities,
- Pension Services' staff and
- other bodies, for example, the Pensions Fund Panel and Board, Scheme Advisory Board, prospective employing authorities.

We aim to provide a high-quality service to all our stakeholders. Our statement of service standards for scheme members and employers can be found on our website.

Method of communication

Our aim is to provide all communications electronically where possible.

We use the following for electronic communications:

- Member Portal – which provides members with secure access to their specific details, allows them to complete various forms and upload certain documents.
- Employer Hub – which allows employers to access records for their employees and notify us of changes.
- Pension Services website – which provides information about the scheme, details of how members can manage their pension choices, a news feed and other resources.

Although electronic communications provide rapid access and a secure means of sharing personal information, we recognise that it is not always the most suitable method of contact for stakeholders. Where appropriate, we will also share information by other means such as:

- in writing or
- in an alternative format such as large print or Braille.

Joint Pension Fund Panel and Board

Hampshire has a Joint Pension Fund Panel and Board which is responsible for ensuring:

- that we comply with the LGPS (Local Government Pension Scheme) regulations and any other legislation relating to the governance and administration of the LGPS,
- that we satisfy the requirements of The Pensions Regulator and
- effective and efficient governance and administration of the scheme.

Members may find further information and contact this committee on our website, including meeting agendas and minutes plus contact details.

Our communication with all stakeholders

Helpline

Our helpline service offers telephone support during office hours. We aim to answer 90% of incoming queries without the need to refer to our operational teams. If a query is referred to an operational team then we ensure that a call back is made within 1 working day.

If a scheme member telephones us then a summary of the conversation is noted on the member's record.

Email

We have a general email address for all queries. We include a link to our customer satisfaction survey at the end of every email we send. The survey feedback is reviewed on a weekly basis and used to make improvements to our service where appropriate.

Our communication with scheme members

We communicate with our members in a variety of different ways.

Our Member Portal

We encourage members to access their pension account through our Member Portal https://upmliveportal.hants.gov.uk

This is a secure area which allows members to see the personal details that we hold for them. We actively encourage all members to register for the Portal which offers a wide range of facilities. We regularly upgrade the Portal and add more facilities for members to use.

We email members who are registered for our Portal to advise when key documents such as annual benefit statements or advice of regulation changes become available.

All members can use the Portal to:

- send us a secure message,
- update personal details such as name, address and marital status,
- add or amend an 'expression of wish' for payment of a death grant,
- complete a membership option form on joining the LGPS.

In addition, pensioner members can:

- update their bank details,
- securely view or download their P60 and payslips,
- view tax code changes.

Active and deferred members can also use the Portal to:

- view their annual benefit statements,
- complete a retirement declaration form,

- obtain a retirement estimate.

Our website

Our website https://www.hants.gov.uk/hampshire-services/pensions offers extensive information about membership of the LGPS and scheme regulations, as well as forms and guides for members and links to other relevant organisations. It is regularly updated and offers a news feed for topical information.

Our annual report and the most recent Hampshire Pension Fund valuation report are all available on our website. The website also provides members with information on all aspects of our scheme governance including details of our Pension Fund Panel and Board, our Fund investment strategy including our Responsible Investment Policy and all our policies relating to administration of the scheme.

We regularly update the website in order to comply with the accessibility regulations but welcome feedback from any member who is experiencing problems with accessing information on this site. We will then work to improve the site or provide information in a different format.

The website provides access to a customer satisfaction survey where members can leave feedback or register complaints or compliments about our service.

Correspondence

Most of our communication with members is undertaken electronically, either through our Member Portal or by secure email. If we hold a member's email address then we will email to advise when a letter or document is made available for them to view.

However, if we are unable to communicate electronically then we send the information in writing to the member's home address.

If a member wishes to opt out of electronic communications and to receive paper copies, then we ask that they put their request to us in writing.

We can also communicate with members in a specific way on request, for example in large print or Braille.

All emails sent contain a link to our satisfaction survey to encourage feedback from members.

Benefit statements

We make our annual benefit statements available to all members through our Member Portal. If we hold an email address for a member then we email to advise that the statement is available to view on the Portal.

Members can choose to opt out of this online service and instead receive paper statements.

All statements include some explanatory notes and members are advised where to find a more detailed explanation of their statement on our website.

Pension saving statements

By 6 October each year, we send a pension saving statement to any member who may be affected by the annual allowance tax limit. These are also available to view on the Member Portal.

Pensioner payslips, P60s and annual newsletter

All payslips are available to our pensioners through the Member Portal. If a member has paid income tax during the preceding year, then a P60 will also be available through the Portal by the end of May. The member can either view or download copies of the payslip and P60.

A pensioner newsletter is added to the Member Portal every year in March or April. An expanded version of the newsletter can be viewed on our website.

Pensioner members can opt out of electronic communications and choose always to receive paper copies, by putting their request to us in writing.

Declaration of pension entitlement

We send forms to verify a member's continuing entitlement to receive pension payments:

- every year, to pensioners that live overseas and
- whenever a pensioner payment or mail is returned to us.

Our communication with prospective scheme members

Website

Our website contains extensive information about the LGPS in a dedicated 'About the Scheme' section. This explains the scheme benefits and regulations and also provides information about the governance of the Hampshire Pension Fund.

Via employers

We provide relevant information about the scheme to employers and ask them to ensure that eligible staff are made aware of their pension details and options.

We also ask employers to signpost all new members to our Member Portal where they will find personal pension information and a membership option form to make choices regarding previous LGPS membership. If they have previous pension benefits which are not in the LGPS, they are directed to the pension transfer booklet on our website.

Our communication with our employers

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

Website

Our website has a dedicated section for employers. It includes technical information, details of training courses, the latest employer news and an Employer Manual which contains details of procedures and employer responsibilities.

The website offers access to our Employer Hub. Employers are asked to register for this service which enables them to view or amend details of their own employee's records, submit forms to us or to provide member estimates, depending on their level of access.

Correspondence

We send a regular electronic newsletter, "Pensions Matters", to employing authorities to keep them up to date with the latest regulation changes and proposals, as well as any changes in administrative processes.

We also send ad hoc email communications, under the heading "Stop Press" to advise employers of any changes or information they should be aware of or would find useful.

Copies of "Pensions Matters" and "Stop Press" emails are also added to the employer section of the website.

Employer training

We offer employer training workshops on a variety of topics, in addition to dealing with queries via email or phone.

In addition, Pension Services will work with employers who have individual training needs offering targeted training on request or when a need is identified.

Administration strategy

Our administration strategy is an agreement between the Hampshire Pension Fund (HPF) and the scheme employers and can be accessed through our website. It sets out the roles and responsibilities of both our employers and the HPF and indicates the level of service that HPF and the employers will provide each other.

Pension Fund Annual Employers' Meeting (AEM)

We invite all our employing authorities to attend the Pension Fund Annual Employers' Meeting. As well as providing information on issues such as the annual report, scheme changes and investment managers' performance results, the Annual

Employers' Meeting provides opportunities for employers to put questions to the Joint Pension Fund Panel and Board or those presenting.

Employer meetings

We hold employer liaison meetings throughout the year with key employers or those where additional support is required. All employers may request a meeting with us. We also hold six-monthly meetings with employer focus groups and we attend established employer forums such as the Payroll Officers' Group.

Reports and accounts

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

Valuation report

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

Our communication with Pension Services staff

We ensure that our staff are kept up to date with regulatory changes to the scheme and updates in our software and our processes so that they can continue to administer the scheme effectively and offer a high-quality service to all stakeholders.

Our staff communications include:

- Staff webpages - providing a range of information about regulations, topical pensions news, administrative details, our charity events team and access to our suggestion box.
- "Pensworld" - a weekly email bulletin to staff which provides updates on regulation changes, internal processes, software updates and other news.
- Suggestion box – available online to allow staff to submit suggestions which may improve our processing and customer service.
- Employer contact information database – to ensure that staff are aware of the names of authorised employer contacts that they can share information with.
- Meetings – regular meeting are held across the whole section and within individual teams to share information on changes in regulations and processes and other news.
- Staff training – this includes a structured development programme for new staff, regular training and staff workshops and the support of staff studying for professional qualifications.

Our communication with other bodies

Members' representatives

We provide information to members' representatives where they provide appropriate authorisation for us to share the member's information.

Joint Pension Fund Panel and Board

The Joint Pension Fund Panel and Board receive reports from the Director of Corporate Operations which cover the administration, governance and investments of the Pension Fund, such as reports:

- from internal audit,
- regarding the performance of the Fund's investment managers and
- on changes to scheme rules.

In addition, the Panel and Board has created a Responsible Investment sub-committee, specifically to consider how Environmental, Social and Governance issues are considered for the Fund's investments, and to make recommendations to the Panel and Board.

Prospective employing authorities

We provide new employers with information about the responsibilities and costs of joining the scheme and invite them to employer training sessions.

Local Government Association (LGA)

The LGA provide support for LGPS pension funds and employers in England and Wales and represents their interests to central government and other bodies.

We access many resources on the LGA website and take an active role in both their Communications working group and their Technical group, which allow us to discuss regulation changes and communication issues with other LGPS Funds.

Investment managers and Fund actuaries

We have regular meetings with the Fund's investment managers, including meetings facilitated by ACCESS for the investment managers of the ACCESS pools' sub-funds, who invest the monies belonging to Hampshire Pension Fund (HPF). We also meet the HPF actuaries who measure and value the assets and liabilities of the Fund and set employer contribution rates to keep the Fund in a good position.

Hampshire Pension Fund publications

Publications matrix										
	Format Available			Available to:					Published	Reviewed
	Portal	Website	Paper	Prospective members	Current members	Deferred members	Pensioners	Employers		
Scheme information	No	Yes	On request	Yes	Yes	Yes	No	Yes	Always available	As regulations change
Employer manual	No	Yes	No	No	No	No	No	Yes	Always available	As regulations change
Reports and accounts	No	Yes	On request	Yes	Yes	Yes	Yes	Yes	Annually	Annually
Benefit statements	Yes	No	On request	No	Yes	Yes	No	No	Annually	Annually
Pension Saving Statements	Yes	No	Yes	No	Yes	No	No	No	Annually	Annually
Pensioner newsletters	No	Yes	On request	No	No	No	Yes	No	Always available	Annually
Service Standards	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Always available	Annually
Complaints and appeals process	No	Yes	On request	Yes	Yes	Yes	Yes	Yes	Always available	Annually

Hampshire Pension Fund - Governance Policy Statement

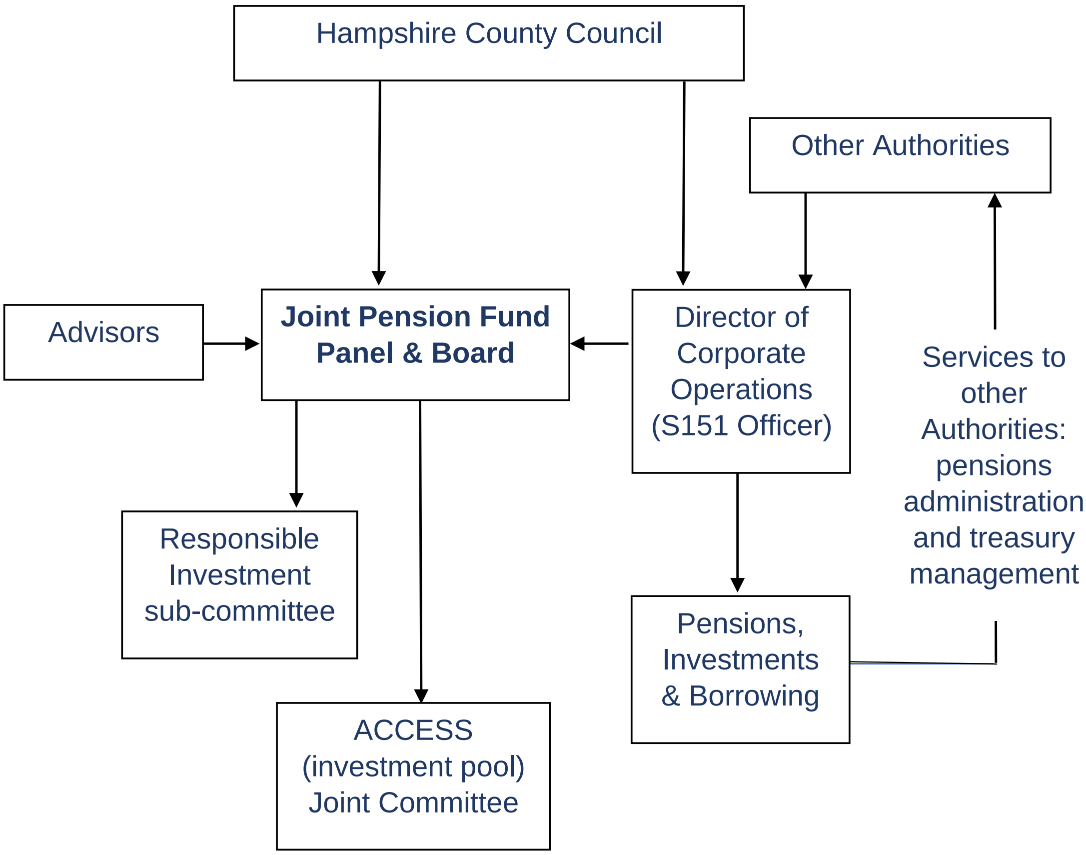
Introduction

This statement outlines the governance arrangements for the Hampshire Pension Fund (the Fund), maintained by Hampshire County Council. Section 55 of the Local Government Pension Scheme Regulations 2013 require the Fund to maintain this Governance Policy Statement. The Fund is also required to publish a compliance statement under Regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended) and review that statement on an ongoing basis under Regulation 31 of the 2008 Regulations. Under Regulation 31 (3) (c) there is a requirement to measure the Fund's governance arrangements against a number of standards set out within guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG), which are shown in Appendix 1.

In accordance with this requirement, what follows is the Fund's assessment of its compliance with the standards as outlined.

Governance of the Fund

The following diagram shows the governance structure of the Fund with Hampshire County Council as the Administering Authority.



Pension Committee

The County Council, as Administering Authority for the Hampshire Pension Fund, has delegated responsibility for managing administration of benefits and investment strategy the Joint Pension Fund Panel and Board.

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

- making suitable custody arrangements for the Fund’s investments,
- considering and approving actuarial valuations every three years and determining the level of employers’ contributions,
- considering changes in pension fund regulations and determining actions required,
- considering and approving strategic advice on investment policy,
- the selection of an investment pool and holding that pool to account,
- selecting the pool sub-funds to invest in,
- appointing external fund managers (for investments held outside of the pool) and advisers,
- monitoring the investment performance of each manager against their target and benchmark, based on statistics prepared by the custodian and Pension Fund officers, and
- the periodic review of the Investment Strategy Statement, the Fund’s Business Plan, its Funding Strategy Statement, this Governance Policy Statement, its Governance Compliance Statement and the Fund’s Communication Policy Statement.

In its role as the Pension Board for the Hampshire Pension Fund the Pension Fund Panel and Board is responsible for assisting Hampshire County Council as the Administering Authority of the Hampshire Pension Fund to secure compliance with the regulations and any other legislation relating to the governance and administration of the LGPS, for securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator and for ensuring the effective and efficient governance and administration of the Fund.

The membership of the committee is as follows (all members have full voting rights):

- 9 county councillors,
- 3 employer representatives (representing unitary councils, district councils and other employers), and
- 3 scheme member representatives (representing active, deferred and pensioner members).

Officers and Advisors

Pension investment, funding and administration are complex areas and the Fund recognises the need for Joint Pension Fund Panel and Board members to receive appropriate and timely advice and training. The main areas of support from officers are as follows:

- High level advice on the management of the Pension Fund from the Director of Corporate Operations (also S151 Officer).
- Legal administrative advice from the Monitoring Officer and Hampshire Legal Services.
- Financial and technical advice from the Senior Responsible Officer who is the lead senior support officer and has direct responsibility for implementing funding, investment and administration strategy; budget and service delivery; risk management and compliance through a team of professionally qualified staff.
- Independent assurance on the Fund's risk management, governance and internal control processes from the Southern Internal Audit Partnership.

Clarity of roles and responsibilities is documented in role profiles for officers working for the Pension Fund and a scheme of delegation is in operation for decision making.

A range of external specialist advisors are appointed, covering areas such as:

- investment strategy and asset allocation,
- funding strategy and employer covenant review and other actuarial matters,
- specialist legal advice concerning investments and pension administration, and
- corporate governance and responsible investment issues.

Investment Pooling

In response to the 2015 revised LGPS Investment Regulations Hampshire is a member of the ACCESS (A Collaboration of Central Eastern and Southern Shires) pool. ACCESS is managed by a Joint Committee; whose members are the chairmen of the 11 Administering Authorities in the ACCESS pool. The ACCESS Joint Committee is responsible for appointing (via recommendation to the member authorities) and managing the Pool Operator and for recommending to the Administering Authorities the strategic plan for transition of assets that are to become Pool Assets.

Conflicts of interest

The Joint Panel and Board's Terms of Reference set out the process for managing conflicts interest for the committee members. All Panel and Board members must before becoming a member of the Panel and Board declare any potential conflict of Interest to the Monitoring Officer of the County Council and have an ongoing obligation to report any new potential conflicts. A Panel and Board member should disclose any Conflict of Interest in any business of the Panel and Board and may not participate in any discussion of, vote on or discharge any function in relation to the matter.

The County Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for Conflicts of Interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived Conflict of Interest arises and that all of the Fund's employers are treated fairly and equitably.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Joint Pension Panel and Board.
- The Fund also has an Admissions Policy which details its approach to admitting new employers to the Fund. This includes its approach to the use of guarantors, bonds and the setting of a fixed contribution rate for some employers. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted into the Fund.
- The Fund's Administration Strategy sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.

The administration of the scheme and investment management arrangements are delivered by Hampshire Pension Services, which also delivers pension administration services to other pension schemes. The appropriate service standards and budget/charges are agreed with each scheme to ensure that sufficient resources are available to meet the requirements of all customers and that they receive transparent reports on the service levels that they have received.

Sufficiency of resource

The Joint Pension Fund Panel and Board agrees an annual business plan which sets out the actions required in order to deliver all aspects of the management of the Fund. Delivery of the business plan drives the Fund's budget setting process, with decisions around recruitment, procurement and specialist support being made with reference to the requirements of the business plan. The Joint Panel and Board reviews the Fund's operational performance and approves the annual budget. Where necessary additional spend can be authorised by the Joint Panel and Board. Actual spend is monitored by officers and reported to the Committee and published in the annual report and accounts.

The County Council follows best practice as set out in the Local Government Pensions Committee circular *'Principles of Good Practice for the Management of Local Government Pension Schemes'*. The Fund recognises the importance of monitoring and reporting how it delivers its administration objectives. Performance against KPIs is reported to the Joint Panel and Board twice a year and in the

Fund's Annual Report. This reporting includes the extent of any backlogs that may develop over time as well as remedial action that is being taken to address them.

Engagement

In addition to the representation of scheme members and employers (described above) on the Joint Pension Fund Panel and Board, the Fund carries out a range of activities that are designed to engage employers and scheme members that are set out within the Fund's Communication Strategy and include:

Employers:
- An Annual Employer Meeting which provides an opportunity for employers to receive updates from the Hampshire Pension Fund and the LGPS and related issues.
- A regular electronic newsletter to keep employing authorities up to date with the latest regulation changes and proposals, as well as any changes in administration. Ad hoc email communication are also sent to advise employers of any changes or information they should be aware of or would find useful.
- The Fund's audited accounts and accompanying Annual Report are published on the website every year.
- Regular employer training days, and offer targeted training on request from employers, in addition to dealing with queries via phone or email.
- The Employer Services team, within Pension Services is available to provide pension support on issues such as outsourcing services or workforce restricting.

Scheme members
- The website is the prime source of information on the pension scheme and ensures timely, up-to-date and easy-to-access information for all our stakeholders.
- Scheme members can register to access the Member Portal, which is a secure area of the website in which they can view their annual benefit statements and update their personal information.
- A general query call centre is available during office hours and a general email address for all queries.
- Each year annual benefit statements are produced, showing scheme benefits at 31 March, and made available to all current and deferred members via the Member Portal.
- A newsletter is sent to pensioners each year in March and April.

Training

The Joint Pension Fund Panel and Board use the CIPFA *Pensions Finance Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector*, and the CIPFA *Technical Knowledge and Skills Framework for Local Pension Boards*, in order to ensure they meet the requirements set out in the guidance referenced in the regulations. Members individually complete a Training Needs Analysis each year based on this framework. The results are analysed and any gaps identified are addressed as part of the Panel and Board’s ongoing training plan. Details of the training sessions delivered to the Joint Pension Fund Panel and Board are reported in the Fund’s Annual Report

Pension Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision making responsibility placed upon them. Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual’s annual appraisal.

Hampshire Pension Fund - Governance Compliance Statement

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

Ref.	Principles	Compliance	Comments
A	**Structure**		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance.	Hampshire County Council’s constitution sets out the functions of the Joint Pension Fund Panel and Board.
b.	That representatives of participating LGPS employers, admission bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full compliance.	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Full compliance.	A Responsible Investment (RI) Sub-committee has been established that reports to the Joint Pension Fund Panel and Board
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is	Full compliance.	The RI sub-committee is made up of members of the Joint Pension Fund Panel and Board

Ref.	Principles	Compliance	Comments
	allocated for a member from the secondary committee or panel.		
B	**Representation**		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g. admission bodies) • scheme members (including deferred and pensioner scheme members) • where appropriate, independent professional observers, and • expert advisers (on an ad-hoc basis).	Full compliance.	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members. The Fund's independent adviser attends Joint Pension Fund Panel and Board meetings. Independent professional observers are not regarded as appropriate.
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance.	Equal access is provided to all members of the Joint Pension Fund Panel and Board.
C	**Selection and role of lay members**		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance.	
D	**Voting**		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance.	All representatives on the Joint Pension Fund Panel and Board have full voting rights, but the Panel and Board works by consensus without votes often being required.

Ref.	Principles	Compliance	Comments
E	**Training/facility time/expenses**		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance.	Full training and facilities are made available to all members of the Joint Pension Fund Panel and Board.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.	
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance.	A training plan has been prepared for the Joint Pension Fund Panel and Board, and training logs are maintained for individual Panel and Board members.
F	**Meetings (frequency/quorum)**		
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance.	
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Full compliance.	The RI sub-committee meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance.	The Joint Pension Fund Panel and Board includes lay members. An Annual Employers Meeting of the Pension Fund is held and road shows are arranged for employers.

Ref.	Principles	Compliance	Comments
G	**Access**		
a.	That, subject to any rules in the County Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance.	Equal access is provided to all members of the Joint Pension Fund Panel and Board.
H	**Scope**		
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance.	The Joint Pension Fund Panel and Board deals with Fund administration issues as well as Fund investment.
I	**Publicity**		
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance.	The County Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.