London Borough of Hammersmith & Fulham

Pension Fund Committee

Agenda

Tuesday 28 February 2023 at 7.00 pm
Room 9 (1st Floor)- 3 Shortlands, Hammersmith, W6 8DA

MEMBERSHIP

Administration	Opposition
Councillor Ross Melton (Chair) Councillor Florian Chevoppe-Verdier Councillor Laura Janes Councillor Adam Peter Lang	Councillor Adrian Pascu-Tulbure
Co-optees	
Michael Adam Iain Cassidy	

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Date Issued: 20 February 2023
Date Updated: 27 February 2023

London Borough of Hammersmith & Fulham

Pension Fund Committee
Agenda

Item		**Pages**
1.	**APOLOGIES FOR ABSENCE**	
2.	**DECLARATIONS OF INTEREST**	

If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.

At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken.

Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.

Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Standards Committee.

3.	**MINUTES OF THE PREVIOUS MEETING**	5 - 8

To approve the open and exempt minutes of the meeting held on 24 January 2023 as an accurate record.

Discussion of the contents of the exempt minutes will require passing the proposed resolution at the end of the agenda to exclude members of the public and press.

4.	**PENSION ADMINISTRATION – KEY PERFORMANCE INDICATORS**	9 - 28

This paper sets out a summary of the performance of the Local Pension Partnership Administration in providing a pension administration service to the Hammersmith & Fulham Fund.

5. PENSION ADMINISTRATION UPDATE 29 - 38

This paper provides a summary of activity in key areas of pension administration.

6. INVESTMENT STRATEGY STATEMENT 39 - 43

This paper introduces the draft Investment Strategy Statement for the London Borough of Hammersmith and Fulham Pension Fund.

This item includes an appendix that contains exempt information. Discussion of the appendix will require passing the proposed resolution at the end of the agenda to exclude members of the public and press.

7. TRIENNIAL VALUATION RESULTS AND FUNDING STRATEGY STATEMENT 44 - 74

This item presents the Triennial Valuation Results for information and the Funding Strategy Statement for approval.

NOTE: The triennial valuation papers were added to the supplementary agenda on 27/02/2023

8. PENSION FUND QUARTERLY UPDATE PACK 75 - 86

This paper provides a summary of:

- The pension fund's overall performance for the quarter ended 31 December 2022
- The pension fund's cashflow update and forecast
- Risks and actions taken to mitigate them

This item includes appendices that contain exempt information. Discussion of the appendices will require passing the proposed resolution at the end of the agenda to exclude members of the public and press.

9. DATE OF THE NEXT MEETING

To note the date of the next meeting on 13 June 2023.

10. EXCLUSION OF THE PUBLIC AND PRESS

The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

London Borough of Hammersmith & Fulham

Pension Fund Committee

Minutes

Tuesday 24 January 2023

PRESENT

Committee members: Councillors Ross Melton (Chair), Florian Chevoppe-Verdier, Laura Janes, Adam Peter Lang and Adrian Pascu-Tulbure

Co-opted members: Michael Adam (attended remotely) and Iain Cassidy

Officers: Eleanor Dennis (Head of Pensions)
Paul Moore (Pensions Specialist, attended remotely)

Clerk: Debbie Yau

Guest: Greg Smith (Director of Strategy, LPPA)

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED
The minutes of the meeting held on 15 November 2022 were approved as accurate records of meeting.

4. PENSION ADMINISTRATION KEY PERFORMANCE INDICATORS

Eleanor Dennis (Head of Pensions) introduced the report which set out a summary of performance of the Local Pension Partnership Administration (LPPA) in providing a pension administration service to the LBHF Pension Fund for Quarter 2 (Q2), i.e. for the period of July 2022 – September 2022.

Greg Smith (Director of Strategy, LPPA) outlined the casework performance against the Service Level Agreement (SLA) for all cases (page 23) and the performance standard (page 24). He also briefed members on the changes made to the processing of cases in order to improve the members' experience, including a thorough assessment of cases on the first day of receipt and a check in the last two days of the SLA period. Greg confirmed that although there was a low SLA for “Deaths”, payments to beneficiaries were given priority. Greg agreed to review if the Chair’s request for “payment to beneficiaries” and “other administrative processes” be listed separately under the performance standard of SLA for “Deaths”. He noted that similarly, that he would review if a payment category would be listed separately for cases of “Retirements”.

ACTION: Eleanor Dennis / Greg Smith

In this connection, Councillor Florian Chevoppe-Verdier highlighted the importance for the LPPA to provide the granular data with greater details of explanation to enhance the understanding of Committee members as well as members of the public. To enable members to see a bigger picture, Eleanor Dennis noted that more detailed information on the number of cases missing the SLA deadlines and the extent of delay, e.g. a day or a week, should be provided. Councillor Laura Janes considered it more comprehensive to set out the targets on the tables and indicate the number of cases or percentages that fell outside the limit. The Chair suggested including the explanations provided at the meeting for each category.

ACTION: Eleanor Dennis / Greg Smith

Eleanor Dennis pointed out that death cases had been incorrectly recorded in Q2 reporting. Greg Smith assured the Committee that he would look into this and it would be corrected going forward.

Iain Cassidy expressed concern about the 135 cases under “Other”, with 96.3% of them meeting the unspecified targets. Greg Smith undertook to clarify and provide the relevant information. He believed “Other” might be divorce claims and child benefits etc.

ACTION: Eleanor Dennis / Greg Smith

Noting that the LPPA reduced its SLA target from 95% to 90% of high priority cases (death and retirement cases) and to 70% for all other cases because of the migration to the UPM platform in Q3 of 2022/2023, Councillor Adrian Pascu-Tulbure asked how long this would last. Greg Smith explained that LPPA knew that migrating clients to a new platform would have an impact on the Fund’s Key Performance Indicators as LPPA’s resources were stretched and there would be periods of system outage. As it took time for the clients to go live, Greg estimated that the reduction of SLA target would last for about one or two quarters.

Councillor Florian Chevoppe-Verdier referred to the Helpdesk Calls Performance (pages 26 & 27) and asked about the possibility of setting up a call-back system. Greg Smith advised that call-back system was one of the options that LPAA might look into to enrich the members’ journey. LPPA also aimed to increase communications on its website to provide the support to members in advance of cyclical events such as with annual allowance information with a view to minimising the surging call demands. Greg highlighted the length of time required for staff to go through the training and induction to provide customer services over the phone.

Councillor Chevoppe-Verdier asked about the details of employers submitting monthly returns rather than members' data on an annual basis, noting this would allow members to see up to date information when logging on. Greg Smith noted that about half of the employers of other clients were uploading monthly returns after they had undergone the required 1 -2 months' training with the new system. The other half of the employers including those under LBHF would be engaged in a gradual process over several months to receive the training and get ready before switching to issuing monthly returns. Greg advised that the LBHF employers would be engaging the last year end process in April 2023 and individual employers would go through a gradual process to switching to monthly returns. At the request of the Chair, Greg agreed to provide a breakdown on the number of LBHF employers who had engaged with the monthly returns process.

ACTION: Eleanor Dennis / Greg Smith

RESOLVED
The Committee noted the contents of the report.

5. PENSION ADMINISTRATION UPDATE

Eleanor Dennis (Head of Pensions) gave a Pension Administration Update and outlined the log of recommendations.

Councillor Adam Peter Lang appreciated that 97% of annual benefit statements due for eligible members had been sent and hoped the good practice could be maintained.

Responding to the concerns of Councillors Adrian Pascu-Tulbure and Laura Janes about calls to the Helpdesk, Greg Smith (Director of Strategy, LPPA) noted that although the current average wait time of 5 to 6 minutes was not as low as 3 minutes in Q1 and Q2, it was significantly lower that the peaks in the past. Due to the need for members to re-register online and for some clients to go live pursuant to system migration, this had put significant strain on the Helpdesk. To ensure immediate assistance would be provided to those in need, priorities had been assigned for death and retirement cases. In reply to Councillor Florian Chevoppe-Verdier's enquiry about LPPA generating income through call waiting, Greg believed that the monies might be received by the phone companies rather than LPPA. He undertook to look into the matter and revert.

ACTION: Eleanor Dennis / Greg Smith

RESOLVED
The Committee noted the contents of the report.

6. EXCLUSION OF THE PUBLIC AND PRESS (IF REQUIRED)

RESOLVED
The Committee resolved, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

7. FUND EMPLOYER CESSATIONS

Eleanor Dennis (Head of Pensions) introduced the report which outlined the recommendations of the Actuary and Legal Advisor to pay exit credits or write off the deficits as detailed in the Exempt Appendix 1.

RESOLVED

1. The Committee resolved, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

2. The Committee agreed to pay exit credits and write off the deficits as detailed in the exempt Appendix 1.

8. DATE OF THE NEXT MEETING

The date of the next meeting was noted:

- 28 February 2023

Meeting started: 7.20 pm
Meeting ended: 8.25 pm

Chair ....

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LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 28/02/2023

Subject: Pension Administration – Key Performance Indicators

Report author: Eleanor Dennis, Head of Pensions

Responsible Director: Sukvinder Kalsi, Director of Finance

SUMMARY

This paper sets out a summary of the performance of the Local Pension Partnership Administration (LPPA) in providing a pension administration service to the Hammersmith & Fulham Fund. The Key Performance Indicators (KPIs) for the period October 2022 – December 2022, Quarter 3 (Q3), inclusive are shown in the Appendix 1 and 2 with additional data on cases that were processed outside of target.

RECOMMENDATIONS

The Pension Fund Committee is asked to consider and note the contents of this report.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer.

Finance Impact

There are no direct financial implications as a result of this report. Costs of the pensions administration service, including costs of additional commissioned work provided by LPPA are met from the Pension Fund.

Sukvinder Kalsi, Director of Finance, 14th February 2023

Legal Implications

Under Regulation 53 of the Local Government Pension Scheme Regulations 2013, the Council, as the administering authority of the Pension Fund "is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate administering authority under these Regulations". Therefore, it is responsible for ensuring that the Pension Fund is administered in accordance with the Regulations and wider pensions law and other legislation. It discharges this obligation under the terms of a contract with Lancashire County Council dated 26th January 2022 which, in turn, sub-contracts its obligations to the Local Pensions Partnership Limited under a separate contract of the same date. The Service Levels are set out in the Addendum to Schedule 1 of the contract with Lancashire County Council. This report asks that the Pension Fund Committee notes the performance against those Service levels.

Angela Hogan, Chief Solicitor (Contracts and Procurement) 14th February 2023

Background Papers Used in Preparing This Report

None.

DETAILED ANALYSIS

Analysis of Performance

1. The KPIs have been set out in the discharge agreement between the LPPA (Local Pension Partnership Administration) and the London Borough of Hammersmith & Fulham (LBHF). The Head of Pensions ensures performance measures are discussed and reviewed between both parties on a monthly basis in accordance with Code 14 of the Pension Regulator's Code of Practice that states that the scheme manager should hold regular meetings with their service providers to monitor performance.

2. This report is on the performance of our administration partner LPPA it covers Q3 of the pension fund scheme year. The KPI's detailed in Appendix 1 of the pension administration report cover the period 01 October 2022 to 31 December 2022 inclusive.

3. During the period October to December 2022, LPPA processed 958 SLA cases, a 224 decrease in the number cases processed from the previous quarter for the Hammersmith & Fulham Fund. The KPI performance target was reduced to 90% (from 95%), during quarter 3 for high priority cases (retirements and deaths) due to the final phase of migration of LPPA clients to their new UPM system. For transfer, refund and estimate cases the SLA was reduced to 70%. These reduced SLA measures will remain in place until the end of January 2023. Unfortunately, targets were not met for any of the high priority cases, however processing of aggregations and new joiners exceeded even the normal target with all cases with the exception of transfer out cases.

4. There is no KPI measure for the telephone Helpdesk, but the service provision continues to improve, with average call wait times around 6 minutes.

Performance in key areas

5. Retirements – 138 cases were processed in Q3 (251 in Q2 and 228 in Q1) Performance on this task area has declined. For active retirements the 100% achieved in Q2 has fallen to 73.3% of cases processed within the 5 working day service level agreement (SLA). The processing of deferred retirements also declined with only 75.9% of cases processed on time compared to 97.2% in Q2 and 90.4% in Q1. Of the retirements that were not processed on time, 10 were retirements that were put into payment late. One case was processed 22 days late.

6. Deaths – In Q3 the processing of death cases has declined with only 59.2% of cases (up from Q1's 48.8% but down from Q2's 80%), processed within the 5 day SLA. Of the 30 death cases that were not processed on time, 29 cases were in respect of payments to beneficiaries.

7. Transfers – In Q3,154 cases (an increase of 19 cases from Q2 and 8 cases from Q1) were processed by LPPA. 54 transfer in's (down from 81 in Q2) were processed within the 6 working days SLA and 81 (up from 66 in Q2) transfer out's. Only 50.6 % of transfer ins and 76.6% of transfer outs were processed on time.

8. Refunds – There was an increased number of cases that were processed, 63 (44 in Q2 and 41 in Q1) in Q3 as well as a slight increase performance for this area with 79.4% of cases processed within the reduced KPI compared to 75% in Q2 of cases within the 6 day turnaround, and 97.6 % of cases in Q1.

9. During Q3 LPPA were entering the final phase of migrating 9 clients (300,000 members) to their new pension administration platform UPM in Q3, between October 2022 to January 2023 inclusive. This has clearly had a significant impact on the Fund's KPI's as LPPA resources are stretched and there have been periods of system outage. However even the reducing their SLA's from 95% to 90% of high priority cases, has led to a very disappointing quarter where LPPA have underestimated their ability to process cases for the Fund.

Summary

10. Period quarter 3 of LPPA providing an administration service to the Fund has seen a disappointing performance especially in key areas such as death and retirements. The Head of Pensions hopes to see a much needed improvement in the next quarter despite LPPA's internal migration project and further commitment from LPPA with a significant improvement in KPI in particular with deaths and retirements.

LIST OF APPENDICES

Appendix 1 – LPPA Pension Administration report October – December 2022

Appendix 1 – LPPA Pension Administration KPI additional data October – December 2022

LPP
Local Pensions Partnership
Administration

Hammersmith & Fulham Pension Fund

Quarterly Administration Report

1st October – 31st December 2022

lppapensions.co.uk

CONTENTS

DEFINITIONS

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Casework Performance Against SLA

Performance is measured once all information is made available to LPPA, to enable them to complete the process. All casework has a target timescale in which to complete the process, and performance is measured as the % of cases that have been completed within that timescale.

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Casework Performance Against SLA

The category of 'Other' on this page covers cases including, but not limited to:

- Benefit revisions
- Maternity/paternity cases
- Ill Health cases
- Scheme Opt-Out cases
- Cases raised to cover 'Member Online Portal' registration queries
- P60 queries
- 50/50 scheme changes
- APC / AVC queries

Please note the number of cases brought forward, does not match the corresponding number of outstanding cases reported in the previous quarter (due to reasons including the deletion of cases during the current reporting period).

Page 9 & 10

Helpdesk Performance

Average wait time measures the time taken from the caller being placed into the queue, to them speaking with a Helpdesk adviser.

The percentage of calls answered does not include calls that are abandoned by the caller where the wait time is less than 2 minutes.

All figures reported in this section are non-client specific, as not all member calls are dispositioned at client level. This means that call volumes and wait times are not at client level - however, as calls are answered (through our various IVR options) in relation to wait time, performance across all LPPA clients is broadly the same

As the needs of our business, Clients and Members change, we adapt our reporting to suit the current trends and ensure sight of common topics.

For this reason it is necessary to update and add new topics in the reason for calls. To accommodate the multitude of reasons we have created a "Other" category which includes (but not limited to) 'Information Only', 'Website', 'Resend Documents'.

OUR CORE VALUES

This administration report is produced in accordance with the Service Level Agreement (SLA) for the provision of pension administration services.

The report describes the performance of Local Pensions Partnership Administration (LPPA) against the standards set out in the SLA.

Within LPPA, our values play a fundamental role in guiding our behaviour as we grow our pensions services business and share the benefits with our Clients.

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Casework Performance Against SLA

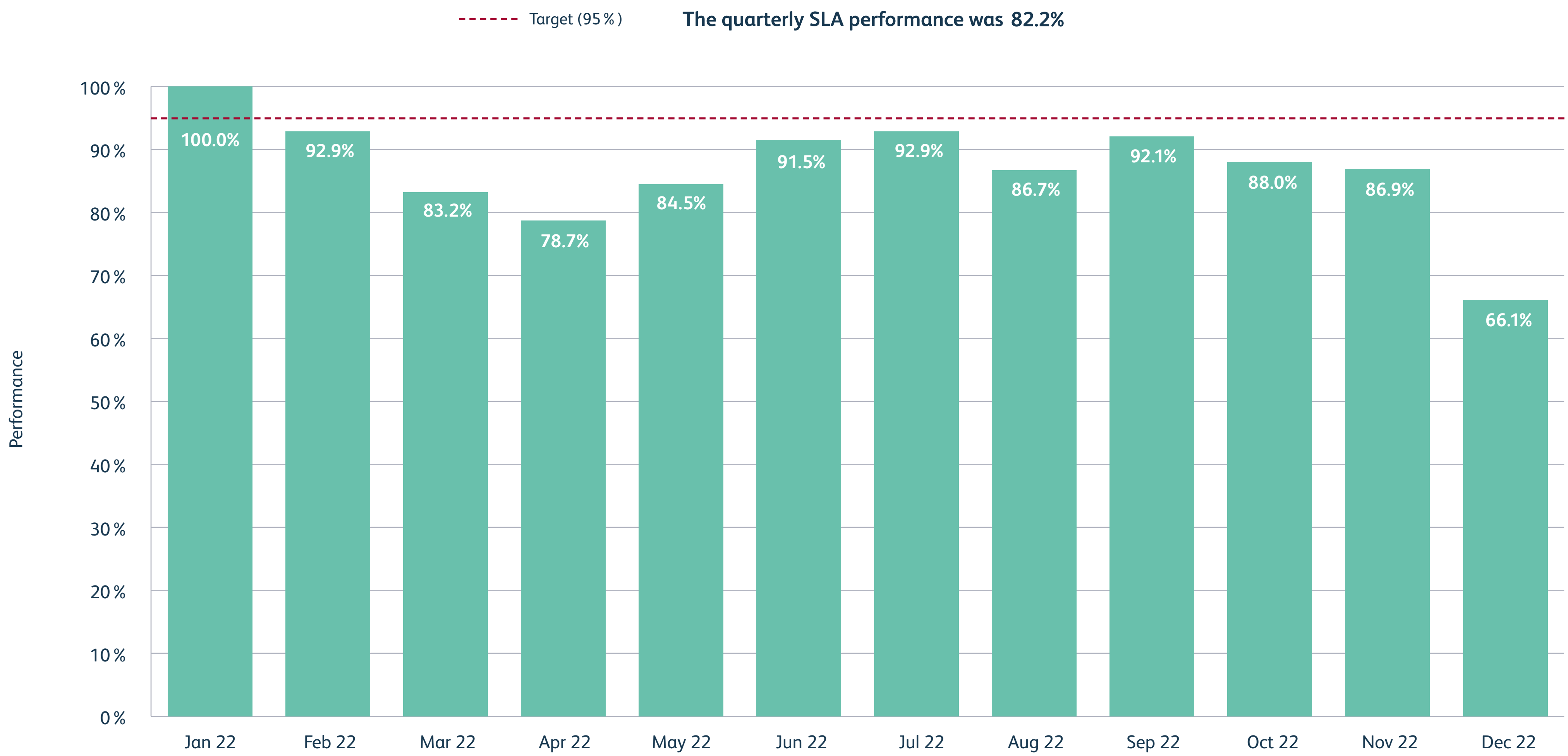
In this section…

- Performance – All cases
- Performance Standard

CASEWORK PERFORMANCE AGAINST SLA

PERFORMANCE – ALL CASES

CLIENT SPECIFIC



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CASEWORK PERFORMANCE AGAINST SLA

PERFORMANCE STANDARD

CLIENT SPECIFIC

Target (95 %)

	SLA target (working days)	Total Processed	%
New Starters	10	194	100.0%
Transfers In	10	77	50.6%
Transfers Out	10	77	76.6%
Estimates	10	39	87.2%
Deferred Benefits	15	65	96.9%
Retirements - Deferred	5	108	75.9%
Retirements - Active	5	30	73.3%
Refunds	5	63	79.4%
Deaths	5	61	44.3%
Correspondence	10	52	94.2%
Aggregation	10	21	100.0%
Other		171	86.0%

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Helpdesk Calls Performance

The Helpdesk deals with all online enquiries and calls from Members for all funds that LPPA provide administration services for.

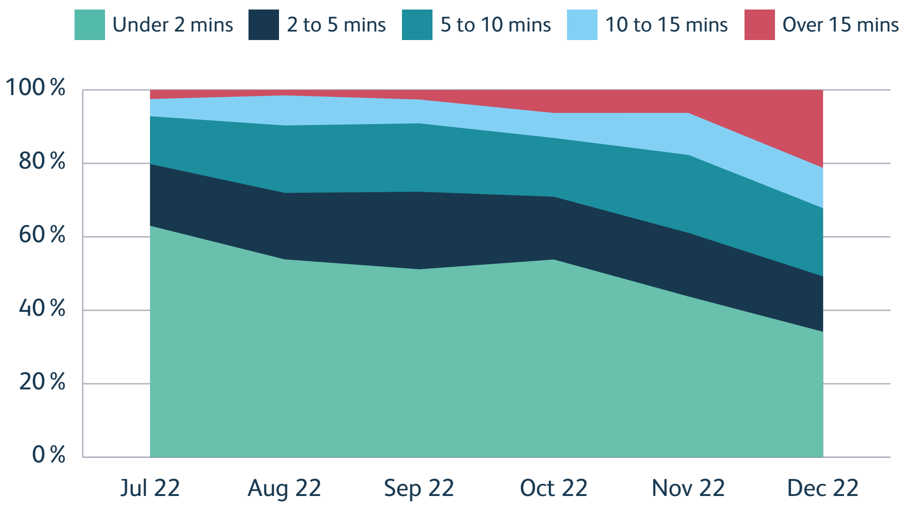
In this section…

- Wait time range
- Calls answered (%)
- Total calls

HELPDESK CALLS PERFORMANCE

WAIT TIME RANGE

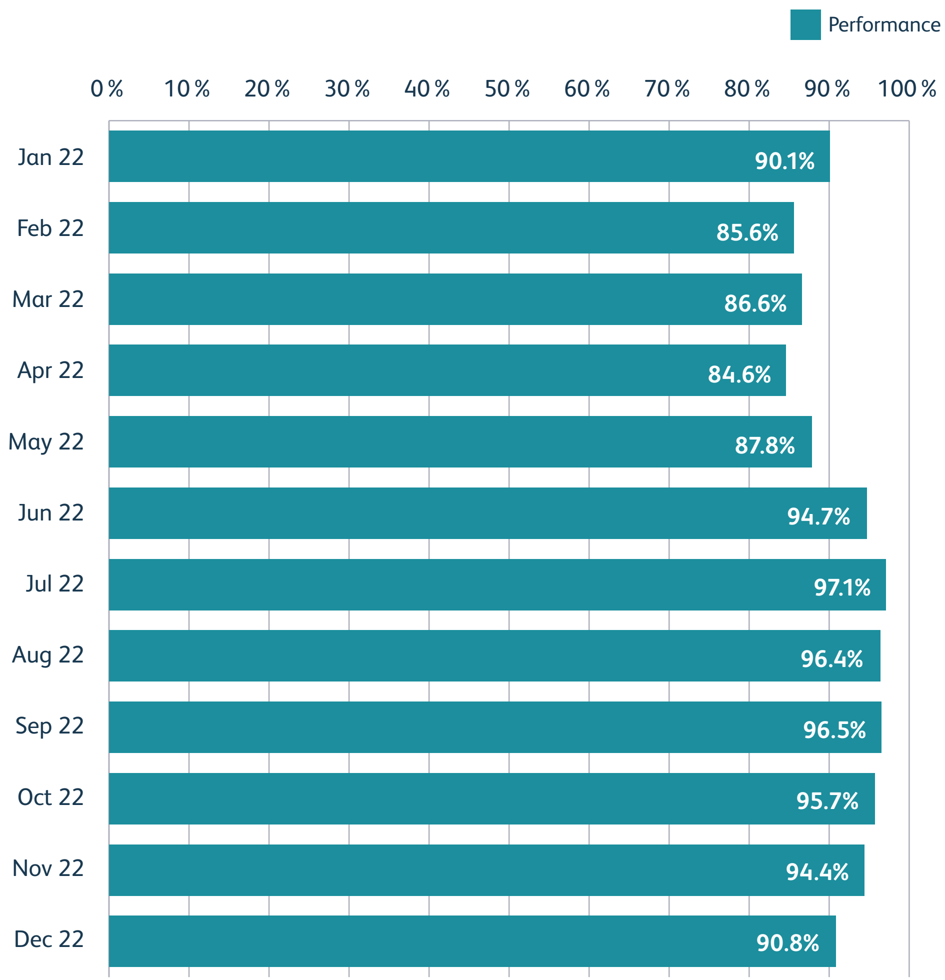
ALL LPPA



	Under 2 mins	2 to 5 mins	5 to 10 mins	10 to 15 mins	Over 15 mins
Jul 22	63.0 %	16.8 %	13.0 %	4.7 %	2.5 %
Aug 22	53.9 %	18.1 %	18.3 %	8.2 %	1.5 %
Sep 22	51.2 %	21.1 %	18.6 %	6.5 %	2.6 %
Oct 22	53.8 %	17.1 %	16.0 %	6.8 %	6.3 %
Nov 22	43.8 %	17.3 %	21.2 %	11.4 %	6.3 %
Dec 22	34.2 %	15.1 %	18.6 %	11.0 %	21.2 %

CALLS ANSWERED (%)

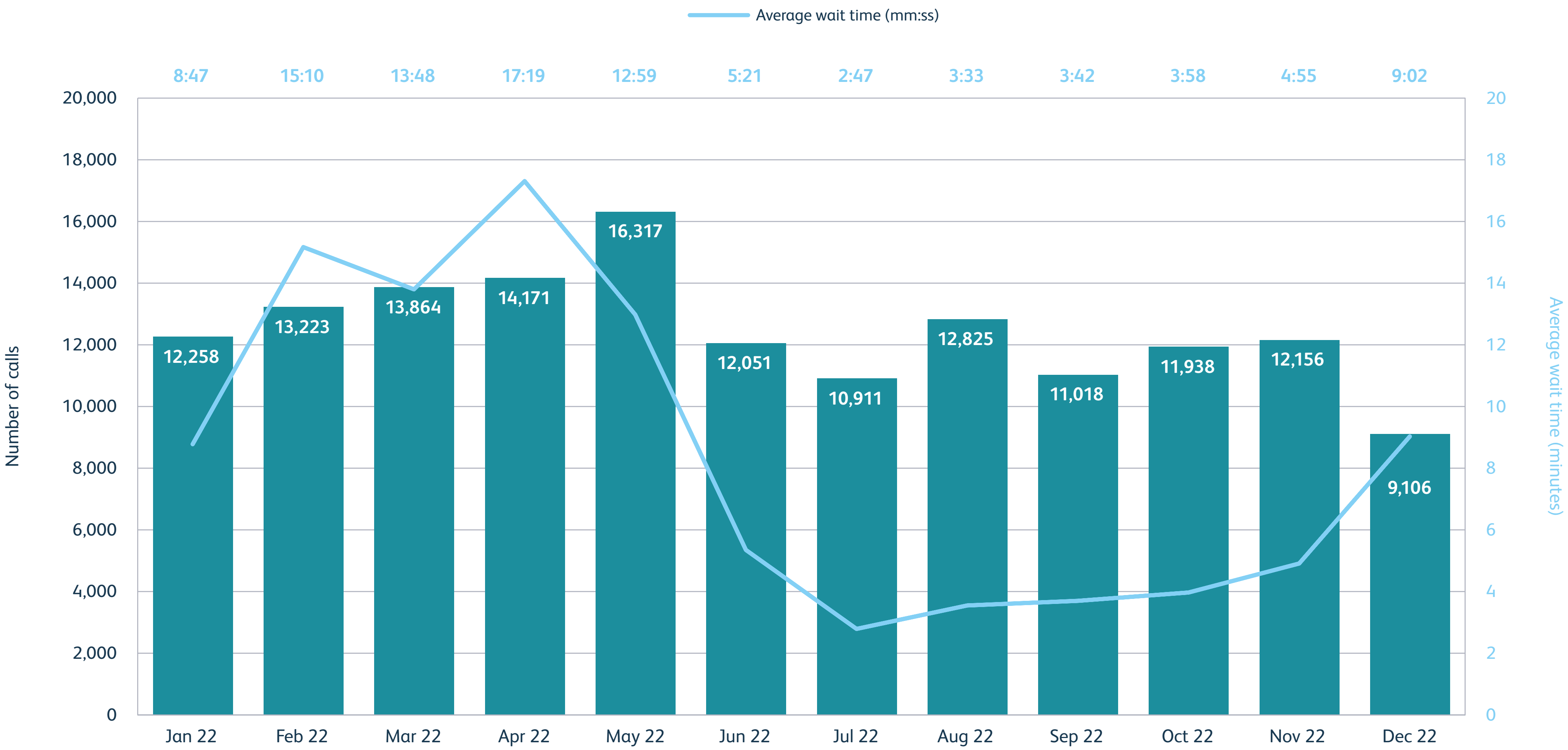
ALL LPPA



HELPDESK CALLS PERFORMANCE

TOTAL CALLS

ALL LPPA



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LPP

Local Pensions Partnership Administration

LPP

Local Pensions Partnership
Administration

H&F Committee
Q3 2022-23 supplementary data

Monday, 13 February 2023

By Greg Smith

WORKING TOGETHER

COMMITTED TO EXCELLENCE

FORWARD THINKING

DOING THE RIGHT THING

October 2022

Further detail on the reporting of the SLAs that allows the Committee to understand of the cases missed , what timescales such outstanding cases were completed by for each case type.

Oct-22							
Days Missed	1 Day	2 Days	3 Days	4 Days	5 Days	6 - 10 Days	11 Days+
Category	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By
Correspondence		1				3	
Deaths	2		1	1		4	4
Deferred Benefits							2
Estimates				1			1
Refunds			3			8	4
Retirements - Deferred				1		1	2
Retirements - Immediate					2		
Transfers In	1		2	1		2	8
Transfers Out							1
Other		3		1			4
Total	**3**	**4**	**6**	**5**	**2**	**18**	**26**

November 2022

Further detail on the reporting of the SLAs that allows the Committee to understand of the cases missed , what timescales such outstanding cases were completed by for each case type.

Dec-22							
Days Missed	1 Day	2 Days	3 Days	4 Days	5 Days	6 - 10 Days	11 Days+
Category	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By
Deaths	1			1		3	10
Deferred Benefits	1						
Estimates		1			2		2
Refunds	1				1		2
Retirements - Deferred	1			2	1	1	9
Retirements - Immediate						1	2
Transfers In		1				3	6
Transfers Out	3					5	4
Other	2	1			1		12
Total	**9**	**3**		**3**	**5**	**13**	**47**

December 2022

Further detail on the reporting of the SLAs that allows the Committee to understand of the cases missed , what timescales such outstanding cases were completed by for each case type.

Nov-22							
Days Missed	1 Day	2 Days	3 Days	4 Days	5 Days	6 - 10 Days	11 Days+
Category	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By	Count of Days Missed By
Correspondence				1		1	2
Deaths	1	2	1			2	1
Deferred Benefits		1					1
Estimates	1						
Refunds	1	1			2	3	
Retirements - Deferred	5		1	1		1	
Retirements - Immediate			1				1
Transfers In		3	1	1			11
Transfers Out			1			1	3
Other			1				4
Total	**8**	**7**	**6**	**3**	**2**	**8**	**23**

Additional Information on cases processed over 11 days

Missed SLA cases for Deaths

1. Of the missed cases for Deaths all of the cases except 1 related to a payment to next of kin
2. Of the cases that missed the SLA by more than 11 days

- October – 3 cases were completed between 11 and 14 days, 1 was completed 49 days late (this was a system error where the Trigger point is receipt of all information and this was incorrectly triggered)
- November – 1 case which was completed 33 days late – this was a result of working oldest case first and part of the backlog of cases
- December – 2 cases completed 11 days late, 7 cases completed 20 days late and 1 case completed 76 days late (this was a system error where the Trigger point is receipt of all Information and this was incorrectly triggered)

Missed SLA cases for Retirements

1. Of the missed cases for Retirements (Deferred and immediate) only 5 of them were payments to members (Oct x 1, Nov x 1, Dec x 3)
2. Of the cases missing SLA by more than 11 days – Oct – 1 payment by 12 days, Nov - 1 payment by 16 days, Dec – 2 payments by 16 days and 1 by 22 days
3. All of the other cases missing SLA by more than 11 days were pension option forms issued to members

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 28/02/2023

Subject: Pension Administration Update

Report author: Eleanor Dennis, Head of Pensions

Responsible Director: Sukvinder Kalsi, Director of Finance

SUMMARY

One of the key priorities for this LGPS Fund is to pay and administer the pensions of its members and their beneficiaries. The Hammersmith & Fulham Pension Fund (HFPF) delegates its administration duties to Local Pension Partnership Administration (LPPA). The Fund continues to strive to deliver an efficient and effective service to its stakeholders against a growing trend of an increasing numbers of tasks and challenges. Challenges include increasing complex legislation, data challenges, limited resources and difficulty in engaging with employers, which mean some issues will take months or years to resolve fully. This paper provides a summary of activity in key areas of pension administration for the HFPF.

RECOMMENDATIONS

The Pension Fund Committee is asked to consider and note the contents of this report and agree the increase pension administration providers increased budget.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for pension fund members, the Council and the council tax payer.

Finance Impact

The costs of the contract for the pensions administration service, including costs of additional work commissioned, provided by LPPA are met from the Pension Fund.

Sukvinder Kalsi, Director of Finance 14th February 2023

Legal Implications

Under Regulation 53 of the Local Government Pension Scheme Regulations 2013, the Council, as the administering authority of the Pension Fund "is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate administering authority under these Regulations". Therefore, it is responsible for ensuring that the Pension Fund is administered in accordance with the Regulations and wider pensions law and other legislation. It discharges this obligation under the terms of a contract with Lancashire County Council dated 26th January 2022 which, in turn, sub-contracts its obligations to the Local Pensions Partnership Limited under a separate contract of the same date. This report seeks approval for an increase in the budget for the LPPA for 22/23 from £384,000 to £399,000 because of increased IT and resourcing costs and to £399,000 in 23/24 for the additional work anticipated for regulatory change for the pensions dashboard and Mc Cloud judgement, as well as further investment in the training and development of staff.

Under the terms of the Discharge Agreement between H and F and Lancashire CC (clause 5), the budget is agreed annually. The decision which the Committee is being asked to make here in relation to the budget gives effect to the terms of the Discharge Agreement.

Angela Hogan, Chief Solicitor (Contracts and Procurement) 14th February 2023

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Analysis of Pension Administration

The Hammersmith & Fulham Pension Fund began its new partnership with the Local Pension Partnership Administration (LPPA) on 28 January 2022.

1. The service delivered by LPPA continues have challenges but is still monitored closely by the LBHF Head of Pensions. LPPA have acknowledged their unsatisfactory service and are committed to improving the service going

forward with initiatives such as the introduction of a relationship manager, a centralised mailbox and client forums in 2023.

Update on key areas

2. Employers – The LBHF in house team are working with fund employers to engage with the employers to ensure they have a discretions policy in place and provide a copy to the Fund. 2021/22. LPPA have offered online training sessions for employers regarding the monthly submission process which will be introduced in April 2023 and LGPS essentials, but attendance continues to be low.

3. Backlog – The processing of the backlog of over 740 cases inherited from the previous pension administrators commenced on 9th January 2023 with completion due by the end of March 2023. To date 198 cases have been processed. Further progress updates will be provided to the Committee by the Head of Pensions.

4. Communications – Calls to the Helpdesk continued to fall from a peak of 1006 in quarter 1(Q1), 978 in quarter 2(Q2) with 750 received in quarter 3. However, the helpdesk experience for the Fund declined as the average wait time increased to over 6 minutes (with wait times of over 9 minutes for callers in December 2022) compared around 3 minutes in Q2 and Q1.

5. Engagement – There continues to be a positive trend from all membership groups engaging with the online portal. As this has increased again to 3761 in Q3 (from Q1 by 2379 and 3502 in Q2) for the period October to December 2022.

6. Pension Administration services budget – LPPA have increased their forecast for 2022/23 budget from £384,000 to £399,000 because of increased IT and resourcing costs as detailed in appendix 1. In addition, they have issued their 23/24 budget which is proposed to be £399,000. This increase is due to increased resources costs in particular for the additional work anticipated for regulatory change for the pensions dashboard and Mc Cloud judgement, as well as further investment in the training and development of staff. This will move our current cost per member from £23.03 to £27.98.

   The recommendation is for the Committee to approve this increased budget.

7. Recommendations log – There is no new update to the recommendations log in appendix 2. The Head of Pensions will continue to update the Committee with progress on outstanding tasks.

Conclusion

8. The pension administration service delivered by LPPA despites the challenges continue to show signs of improvement. LPPA continue to work collaboratively with the Head of Pensions. The Head of Pensions continues to work with

LPPA to improve the service experienced by our stakeholders including members and beneficiaries.

LIST OF APPENDICES

Appendix 1 – LPPA Pension administration services budget

Appendix 2 – Log of recommendations

LOCAL PENSIONS PARTNERSHIP ADMINISTRATION

2023/24 Annual Budget Process

London Borough of Hammersmith & Fulham

JANUARY 2023

Local Pensions Partnership Administration

Background and Considerations

London Borough of Hammersmith & Fulham (LB Hammersmith & Fulham) is entering into a shared service agreement with Lancashire County Council (LCC) for pensions administration. LCC discharge the responsibility for this service to LPPA via a services agreement. LPPA's pensions administration fees are based on shared service principles of full cost recovery where LPPA recover the costs to run the service and do not make any profit.

LCC's obligations to LB Hammersmith & Fulham (fulfilled by LPPA) will be:

1. **Annual budget setting process** – each year we will supply an initial proposed budget for the next financial year.

2. **Quarterly reporting** – An update of the actual cost vs budgeted cost is provided quarterly. Any shortfall will be communicated; if a shortfall remains at the end of the year an adjustment is made.

3. **Year end adjustment** – Invoice for full year shortfall or pay refund for underspend, if applicable.

4. **Formal approval** - Once the Pension Fund agree the budget, it is presented to the LPPA Board and this approval is confirmed to the Fund.

- The latest published UK inflation rate puts CPI as 10.7% at November 2022, a significant increase from 5.1% in November 2021
- The increase in inflation has impacted our cost base which is mainly fixed costs and is driving the budget proposal for 2023/24
- A number of our third party IT costs including systems and licenses have increased by 12.5% inflation going into the new financial year
- Full benefits of system migration will be realised from 2024/25 onwards, with initial productivity benefits from 1 Jan 2024 as we deliver system enhancements during 2023/24 and deliver training to our administration staff
- We are currently undertaking a review of Transfer Pricing and early conclusion is that we will need to apply a transfer pricing mark up to our pricing at the end of the financial year to comply with UK tax legislation.

LPP
Local Pensions Partnership
Administration

Proposed 2023/24 Budget

Hammersmith & Fulham	Budget FY 22/23	Q2 Forecast FY 22/23	**Proposed 23/24 Budget**	23/24 Budget v Q2 Forecast 22/23 £	%	Provisional 2024/25	Provisional 2025/26
Budgeted Fee £'000	£384	£399	**£493**	£94	24%	£491	£484
Total Membership	16,676	16,676	**17,626**	950	6%	17,890	18,159
Cost per Member	£23.03	£23.91	**£27.98**	£4.07	17%	£27.45	£26.66
*CPM in real terms (exc inflation)			**£22.17**			£21.86	£21.33

**CPI real terms base line is Nov 21 when the 22/23 Budget was set and looks to show CPM movement excluding inflation*
22/23 Membership figures as at August 2021
23/24 Membership figures as at August 2022

Key drivers of the increase in proposed CPM for 2023/24:.

Regulatory changes for estimated costs of McCloud and Pensions Dashboard included within the proposed CPM account for £1.59 increase in 23/24. This is 5.7% of recoverable costs.

Resilience roles which we brought in to support with PACE in the 22/23 budget and originally assumed would drop out after December 2022 have been retained to support the business in improving productivity whilst UPM continues to be embedded in order to bring us back into agreed service levels. Additional resources have also been included in the 2023/24 proposal to support with this and ensure we are improving both quality as well as productivity. Impact of this on the proposal is £1.65 CPM. These roles we will look to drop out of the costs from Jan 2024 as we see the UPM benefits of further automation. Resilience roles account for 5.9% of recoverable costs.

Inflation is significantly higher with an average 11.1% supplier inflation reflected in the proposal compared to this time last which assumed 2.5% cost inflation which results in a CPM increase of £0.30. We are not proposing pay increases in line with current cost inflation, however, with the current cost of living increase this is proposed at 4% higher than we'd originally planned for 12 months ago which is an increase of £0.67 CPM

LPP
Local Pensions Partnership
Administration

Key Budget Assumptions

- Membership numbers as of 31 August 2022 increasing by 1.5% year on year
- Service demand (pension administration casework volumes) remaining consistent with current year
- In line with October 2022 ONS CPI figure of 11.1% on unknown renewal costs, or supplier advised rates where advised which range from 10.7% to 12.5%.
- Resilience roles retained to support returning to agreed service levels and improved quality
- Pay uplift of an average of 7% with consideration of impact on pension contributions following triennial review
- Investment in training and staff to support retention, improve understanding and quality as well as and attraction of experienced staff
- Productivity savings from January 2024
- Estimated headcount and system costs for McCloud and Dashboard regulatory changes (excluding McCloud system development costs)
- No costs have been included for regulator change outside of McCloud and Dashboard i.e. Exit Cap
- In 2023/24, if there is an underspend against the budget, a refund will be paid. If there is an overspend, we will recover this via a true-up at the end of the financial year. We propose to handle under or overspend against the budget at the end of the financial year.

LPP
Local Pensions Partnership
Administration

Summary

- As outlined due to a number of factors the budget for pension administrations services is increasing, which in turn will increase the cost per member to £27.98.
- LPPA are asking for the London Borough of Hammersmith & Fulham pension fund to agree the proposed budget for 2023/24
- The proposed Budget is subject to formal approval by the LPPA Board and this will be confirmed to the Fund
- LPPA will continue to drive service improvements, economies of scale and look for efficiencies to ensure that we provide a high quality, value for money, pensions administration service to you and your members and employers.
- Therefore , if there is an underspend against the budget, a refund will be paid to the pension Fund. If there is an overspend, LPPA will recover this via a true-up at the end of the financial year. We propose to handle under or overspend against the budget at the end of the financial year.

LPP
Local Pensions Partnership
Administration

Recommendations Log					
Recommendation number	**Recommendation**	**Timeline immediancy**	**Timeline date**	**Status**	**Comments**
1	The Council give consideration to the removal of all reference to the Pensions function from the Terms of Reference of the Audit and Pensions Committee and that this Committee be renamed the Audit Committee.	Immediate	03-Mar-21	Complete	Agreed at Annual Council on 28 April 2021
2	The Council give consideration to revising the Constitution to place all responsibility for the LGPS pensions function with the Pension Fund Sub-Committee and that this be renamed "The Pension Fund Committee" and that its elected member membership be 6 voting councillors.	Immediate	03-Mar-21	Complete	Agreed at Annual Council on 28 April 2021
3	To amend the Responsibilities of the Pension Fund Sub-Committee (The Pension Fund Committee) as set out in Appendix 2 of this report.	Immediate	03-Mar-21	Complete	Agreed at Annual Council on 28 April 2021
4	The Pension Fund Sub-Committee (The Pension Fund Committee) actively seek to co-opt one or two non-administering authority non-voting members in order that Employers beyond the LBHF may participate in the decision making forum of the LBHF Pension Fund.	not Immediate	2023/2024	Progress Started	The Head of Pensions has already actioned the appointment of employee representative, Peter Parkin. However it should be noted that it is notoriously difficult to get any employer representatives and therefore the Committee should be mindful that the exercise might not result in an appointment. It is hoped to commence the recruitment of an employer representative in the scheme year 23/24.
5	The Pension Fund Sub-Committee (The Pension Fund Committee) actively seek to co-opt a non-voting Employee representative.	closed and not to	2022/2023	Complete	This is a task that require extensive work representation for scruitany at Pension Board has visibility. In the future if the pfc require a greater numbers this option may be considered but is not a necessity given the committee representation numbers and attendance.
6	The Officers involved in preparing future LBHF Pension Fund Annual Reports specifically ensure both the inclusion and consideration of the Pension Administration Strategy as required by the LGPS Regulations and relevant Statutory Guidance.	Immediate		Complete	Included in 20/21 annual report
7	The Pensions Sub-Committee seek assurance from the Officers that the Annual Report and Statement of Accounts for 2019/20 have been prepared taking careful account of relevant Statutory Guidance (particularly that relating to preparing the Annual Report) and that in future years the Officers confirm this in the covering report presenting the draft Annual Report and Accounts.	Immediate		Complete	Included in 20/21 annual report
8	A Training Needs Assessment is urgently completed in respect of all Pension Board Members and that a comprehensive programme of training to address identified needs (including coverage of recent and current developments in the LGPS) be provided as soon as practical.	Immediate		Complete	Initial report was considered at the 21 July 2021 committee. Training needs schedule to be tabled for 28 Feb 22 meeting.
9	That consideration be given to paying an allowance to Local Pension Board Members for actual attendance at Board Meetings (including any training held before a Board meeting).	Immediate		Complete	Officers have reviewed this recommendation and decided not to implement it.
10	A report and procedure relating to reporting Breaches of the Law, which is in accordance with the relevant guidance in The Pension Regulator's Code of Practice No 14, is urgently prepared for consideration and approval by the Pension Fund Sub-Committee.	Not Immediate	31-Mar-22	Complete	Approved by committee on 21 July 2021
11	Training on reporting Breaches of the Law is provided jointly for both Members of the Pension Fund Sub-Committee and the Local Pension Board as a matter of urgency.	Not Immediate	31-Mar-22	Complete	This will be provided by Clifford Sims of Squire Patton Bogg prior to 23 November 2021 committee meeting.
12	A Breaches of the Law Log be maintained and is presented on a quarterly basis to the Pension Fund Sub-Committee and to each meeting of the Pension Board.	Immediate		Complete	Part of the quarterly update pack
13	The LBHF Knowledge and Skills Self-Assessment form (for Sub-Committee and Pension Board Members) be expanded to include a specific new section on Pensions Administration.	Not Immediate	31-Mar-22	Complete	Now included on the assessment form.
14	Appropriate training in respect of Pensions Administration be provided to both Sub-Committee and Local Pension Board Members as soon as practical.	Not Immediate	31-Mar-22	Complete	Training provided at 21 October 2021 session. Admin included as a category on knowledge assessment form. Admin to be provided as a regular training category.
15	That consideration is given to scheduling regular training sessions, immediately before Pension Fund Sub-Committee meetings.			Complete	Training prior to meetings is ongoing
16	A comprehensive LBHF Pension Fund Medium Term Business Plan incorporating an Annual Plan and a detailed Annual Budget, is developed and approved annually by the Pension Fund Sub-Committee and formally monitored on a quarterly basis.	Immediate	03-Mar-21	Complete	Business plan and budget for 21/22 approved
17	The LBHF Pension Fund annual budget should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and Employers.	Immediate	03-Mar-21	Complete	Budget conforms to required standards
18	That a Pensions risk policy be prepared for approval by the Pension Fund Sub-Committee which sets out the Pension Funds approach to risk. This should include a clear statement on the responsibilities of Officers in relation to Risk Management.	Not Immediate	31-Mar-22	Complete	Taken to February 2022 meeting
19	Officers review the Risk Management process to seek to ensure that any revised process results in the effective implementation and utilisation of a Risk Management Cycle.	Not Immediate	31-Mar-22	Complete	A risk register is provided to meeting packs
20	The Risk Register is redesigned with risks listed under each of the seven headings in the CIPFA Guidance on managing risks in the Local Government Pension Scheme, issued in 2018.	Not Immediate	31-Mar-22	Complete	Risk register complies with CIPFA layout
21	The LBHF Pension Fund have a separate and specific Annual Internal Audit Plan, approved by the Pension Fund Sub-Committee which includes a focus on Pension Administration issues in their broadest sense, both those carried out by the LBHF Pension Fund directly and those delegated to a third-party Pensions Administrator.	closed and not to be progressed		Complete	LBHF Council already have in place an audit programme which includes external auditors Grant Thornton reviewing pension administration , there is also an Audit Committee that considers the external auditors findings.
22	The Annual Internal Audit Plan should include Audits undertaken/Assurance reports commissioned by the LBHF Pension Fund from the Internal Audit service of the external Pensions Administration provider.	closed and not to be progressed		Complete	As above , there is a 3 year audit plan that includes will include focus on the new pension administrator.
23	A report to the Pension Fund Sub-Committee be prepared in respect of any "Community Admission Body" in the LBHF Pension Fund which specifically identifies the current position regarding their covenant with the Fund and which makes proposals for the ongoing monitoring and, as appropriate, strengthening of these covenant arrangements.	closed and not to be progressed		Complete	There has been no new regulations on admitted bodies, the Committee have received training in November 2021 on Fund employers and a robust monitoring process is in place since the onboarding of a Pension Specialist to the inhouse LBHF pension team. This appointment supercedes the situation for the Fund at the time this recommedation was made.
24	Given the Communications Policy has not been updated since 2016 it should be reviewed and updated as a matter of urgency and a new version presented to the Pension Fund Sub-Committee for their consideration and approval.	Not Immediate	2023/2024	Not Started	This policy will be updated in the scheme year 2023/24 to bring this up to date with LPPA and Fund communication methods.
25	As the Pensions Administration Strategy dates from 2016, it should be thoroughly and comprehensively reviewed as soon as practical including meaningful consultation with all Scheme Employers and Members of the Pension Board.	Not Immediate	2022/2023	Complete	This Strategy will be reviewed and updated after the Fund has completed its transfer of pension administration service to LPPA, as this is a priority for both the Fund and the employers. It will also allow full consideration to be given to the inhouse team function in its monitoring of employers compliance.
26	As a matter of urgency the Pension Fund Sub-Committee, and the Pension Board, receive a report and briefing from Officers on the requirements of The Pension Regulators Code of Practice No 14 "Governance and administration of public service pension schemes" of April 2015 and the implications and requirements of subsequent statements, surveys and reports issued by The Pensions Regulator applicable to the LGPS since 2015.	not Immediate	2024/2025	Not Started	The Fund continually works with all of its stakeholders to ensure the Fund is compliant and follow good practice. This code of practice contains 100 tasks so will be a signficant task for Officers to complete and compile for the Committee . The Fund is focusing on establishing a robust framework of processes and tasks and practices prior to commencing work on this in the 23/24 Scheme year. The embedding of the service is already making references to the requirements of the Code and after this is complete the Commitee will then be presented with such a report at the earliest in 2024/25
27	As a matter of urgency, a review of compliance with the requirements of Code of Practice No 14, and any subsequent requirements of The Pensions Regulator, be commissioned and recommendations agreed to address areas of limited or non-compliance.	closed and not to	31-Mar-22	Complete	This recommendation are one and the same as recommendation 23 and assumes there are areas of non compliance which will be shared with the Committee individually with any required actions once the report is completed.
28	That the Fund Actuary should be fully appraised of the situation relating to the state and quality of the data/records of LBHF Pension Fund members as held by the Pensions Administration service provided by Surrey County Council and be asked for their comments, observations and suggestions with regard to this issue.	Not Immediate	31-Mar-24	Complete	Since this recommendation was made the Fund has since changed actuary and the valuation is in progress. Once the valuation results are delivered by the actuary. It will be assessed whether there is any relevance in the need for such an exercise. Nevertheless the administrators are focused on working with the Fund to improve data quality as part of the Business as usual activity.
29	That appropriate expertise specifically relating to the LGPS, including as necessary, external support should be available in the formulation of the contract/tender documentation, actual contract award process and subsequent monitoring arrangements for the new external Pensions Administration service provider. Cognisance should also be taken of relevant CIPFA Guidance including "Administration in the LGPS A guide for pensions authorities" (November 2018) and "Managing Risk in the LGPS" (December 2018).	Immediate		Complete	The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, confirms that appropriate internal and external specialist advice and support have been engaged to support the implementation of a delegation agreement for the service to be provided by Local Pensions Partnership (LPP), an experienced LGPS pensions administration provider
30	The LBHF Pension Fund carefully and seriously consider combining all activity of the Fund under a single senior officer.	Closed and not to be progressed.		Complete	the whole Tri-borough pension arrangement and is not a decision that will be taken forward and in any caseis not a decision for the Pension Fund committee.
31	Should the scope of the role of an existing officer be expanded to cover all the activity of the Pension Fund proper consideration be given to reviewing and consequently enhancing their terms and conditions of service including remuneration.	Closed and not to be progressed.		Complete	This recommendation has implications for the structure of the whole Tri-borough pension arrangement and is not a decision that will be taken forward and in any caseis not a decision for the Pension Fund committee.
32	The Pension Fund Sub-Committee consider the appointment of an Independent Advisor with a remit across the Governance, Investment, Funding, Pensions Administration and Training activity of the LBHF Pension Fund.	Unassigned		Complete	Recruitment complete. Appointed advisor will attend meeting on 28 Feb 22.

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 28/02/2023

Subject: Investment Strategy Statement

Report author: Siân Cogley, Pension Fund Manager

Responsible Director: Phil Triggs, Director of Treasury and Pensions

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SUMMARY

As per the Local Government Pension Scheme (LPGS) Management and Investment of Funds Regulations 2016, the Fund is required to publish an Investment Strategy Statement (ISS). Attached is a draft ISS for 2023, which reviews the LBHF Fund's investment strategy in terms of the current asset allocation and funding position and highlights some key areas the Committee should consider for the short- and medium-term outlook of the Fund.

This paper introduces the draft Investment Strategy Statement for the London Borough of Hammersmith and Fulham (LBHF) Pension Fund prepared by the Fund's investment adviser, Deloitte, which is attached as Appendix 1 to this paper.

RECOMMENDATIONS

The Committee is recommended:

a. To comment on the Investment Strategy Statement (ISS) and delegate authority to the Director of Treasury and Pensions in consultation with the Chair to publish the final ISS.

b. To agree a rebalancing of the strategic benchmark asset allocation between two suggested proposals.

c. To consider an alternative investment to replace the Aviva Infrastructure Income mandate.

Wards Affected: None

Our Values	**Summary of how this report aligns to**

	the H&F Values
Being ruthlessly financially efficient	Part of the Pension Fund's fiduciary duty should be that its investments assist in making a positive financial contribution to the authority overall. Being an outperforming investor contributes to sharing prosperity and lessening the financial impact on council taxpayers.

Financial Impact

The financial implications of the introduction of this policy will be continually monitored to ensure that members' pensions are safeguarded.

Legal Implications

None.

DETAILED ANALYSIS

1. Investment Strategy Statement

1.1 The Fund's current benchmark asset allocations are as follows:

- 45% allocation to equities;
- 20% allocation to dynamic asset allocation;
- 20% allocation to secure income;
- 15% allocation to inflation protection.

1.2 In comparison with a funding level of 97% at 31 March 2019, the Fund's overall funding level improved by 8% to 105% at 31 March 2022.

1.3 The Fund's investment portfolio is very well diversified and well placed to withstand the impacts of extreme capital market volatility experienced in recent years. However, given the stronger funding position referenced above, the Fund now has the opportunity to further reduce investment risk within the portfolio.

1.4 The Fund is in a negative cashflow position. To mitigate further levels of negative cashflow, there are opportunities to increase the level of income from the Fund's investment portfolio in the form of cash distributions.

2. Proposed Updates to the Investment Strategy

2.1 As per the attached Deloitte investment strategy review, there is scope to reduce market risk from the investment portfolio.

2.2 There are two variations of proposed strategy outlined in Appendix 1.

2.3 The first would result in a strategic asset allocation of:

- 40.0% allocated to equities
- 25.0% allocated to low-risk growth
- 20.0% allocated to secure income
- 15.0% allocated to total inflation protection

2.4 The second would result in a strategic asset allocation of:

- 42.5% allocated to equities
- 22.5% allocated to low-risk growth
- 20.0% allocated to secure income
- 15.0% allocated to total inflation protection

Equity Allocation

2.5 As at 31 December 2022, the actual allocation to equities is 44.3% (underweight by 0.7%). Of this 44.3%, 14.1% is allocated to the LCIV

Global Equity Core Fund, which is actively managed, and 30.2% is allocated to the LGIM Low Carbon Index Fund, which is passively managed.

2.6 The equity allocation is the largest driver of expected fund returns. Performance has historically been very strong and has been a key driver in the increase of the total value of the fund since the previous actuarial valuation in 2019.

2.7 In order to reduce risk from the investment portfolio, it is recommended that the overall equity allocation is reduced. It is noted that this is expected to reduce expected returns, but still remain sufficient, given the lower target required return.

Dynamic Asset Allocation

2.8 As at 31 December 2022, the allocation to dynamic asset allocation is 25.9% (overweight by 5.9%). Of this 25.9%, 18.9% is allocated to LCIV Absolute Return Fund (Ruffer) and 7% is allocated to the LCIV Global Bond Fund (PIMCO)

2.9 Each of the funds is benchmarked at 10%, leaving PIMCO 3% underweight and Ruffer 8.9% overweight. However, it should be noted the Ruffer allocation includes 2.5% that is to be allocated to Inflation Protection in the future.

2.10 It is suggested in Appendix 1 that the classification of this sub-portfolio “Dynamic Asset Allocation” should be rebranded as “Low Risk Growth Allocation”.

Secure Income Allocation

2.11 As at 31 December 2022, the actual allocation to Secure Income is 18.5% (underweight by 1.5%). Of this 18.5%, the allocation is:

- Partners Group Multi Asset Credit 0.6% (overweight by 0.6%)
- Partners Group Direct Infrastructure 4.3% (underweight by 0.7%)
- Oak Hill Advisors (Diversified Credit) 5.0% (consistent with benchmark)
- Aviva (Infrastructure Income) 2.0% (to be redeemed and placed with a new fund manager)
- Abrdn (Multi Sector Private Credit) 3.8% (underweight by 1.2%)
- Darwin Alternatives (Leisure Development Fund) 2.7% (overweight by 0.2%)

2.12 It is suggested that Aviva should be replaced by an Infrastructure mandate with similar characteristics and an increased allocation to 3.5% considering the impact of recent and anticipated market movements. The benchmark would be adjusted for Abrdn and Darwin Alternatives to stay at 3.8% and 2.7% respectively.

Inflation Protection

2.13 As at 31 December 2022, the actual allocation to inflation protection was 10.5%. Of this, 4.6% was allocated to Abrdn Long Lease Property (underweight by 0.4%), 4.6% was allocated to Alpha Real Capital Ground Rents (underweight by 0.4%) and 1.4% was allocated to Man GPM Affordable Housing (underweight by 1.1%).

2.14 Each of the inflation protection allocation funds invest predominantly in property assets, where the underlying cashflows are linked to inflation. Recognising the importance of inflation protection in today's market, it is recommended that the 2.5% that is currently awaiting permanent reallocation in the LCIV Absolute Return Fund should be invested in Alpha Real Capital Ground Rents, taking that allocation to 7.5%

3. Summary of Proposals

3.1 Depending on which alternative allocation is chosen by the committee, there will be a disinvestment of 5.0% or 2.5% from equities and invested into bonds.

3.2 The Aviva Infrastructure mandate will be replaced by an alternative fund with similar characteristics and to increase the overall infrastructure allocation to 3.5%

3.3 There will be an additional 2.5% invested into ground rents funded from the LCIV Absolute Return Fund (Ruffer).

3.4 The above changes will result in reduced investment risk and increased CPI inflation linkage.

LIST OF APPENDICES

Appendix 1 – LBHF Investment Strategy Review Feb 2023 (EXEMPT)

Agenda Item 7

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 28/02/2023

Subject: Triennial Valuation Results and Funding Strategy Statement

Report author: Siân Cogley, Pension Fund Manager

Responsible Director: Phil Triggs, Director of Treasury and Pensions

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SUMMARY

Following the 2022 triennial actuarial valuation, the Fund's actuary (Hymans Robertson) has produced a draft Funding Strategy Statement (FSS). The purpose of the FSS is to establish a clear and transparent strategy on how to meet pension liabilities going forward.

The purpose of the FSS is as follows:

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

RECOMMENDATIONS

1. The Committee is requested to approve the draft Funding Strategy Statement and subject to any comments or amendments, delegate final approval to the Director of Treasury and Pensions in consultation with the Chair.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	The result of the triennial valuation shows an improved funding level, with the Council (as a single employer within the fund) now being 103% funded at the 2022 valuation.

Financial Impact

Due to the much-improved funding level the Council (as a single employer within the fund) will still pay reduced secondary contributions to the Fund. Higher inflation expectations at the 2022 valuation have led to higher primary contributions, leading to an expected additional cost to the Council of £3.6m per annum. The Council's primary employer contribution rate will rise to 20.6% from 17.1%. Therefore, on a net basis, total contributions payable in 2023/24 are expected to be £1.0m higher than those paid in 2022/23. Contributions are set for a three-year period from that date.

Legal Implications

None.

DETAILED ANALYSIS

1. Funding Strategy Statement

1.1 Regulation 58 of the LGPS Regulations 2013 sets out the requirement for every LGPS fund to maintain a Funding Strategy Statement. The regulation requires the Fund to have regard to the guidance published by CIPFA and to consult with parties it considers appropriate when updating it. The current version of the statement was approved by the Pension Fund Committee in February 2020. Attached at Appendix 1 is a draft Funding Strategy Statement for 2023, which reflect the results of the 2022 actuarial valuation.

1.2 The financial assumptions adopted for the 2022 valuation show a decrease in the discount rate applied and an increase in the inflation rate compared with 2019. It should also be noted that long-term salary increases have marginally increased from 2019. The actuarial analysis also suggests a long-term trend of 1.5% annual improvements in longevity, when adjusted for the LGPS this leads to a reduction in liability values. Alongside this, the COVID-19 pandemic has resulted in reduced longevity since 2020, although the reduction in liabilities attributable to the pandemic is estimated to be only circa 0.1% to 0.2%.

1.3 The FSS incorporates the funding approach of the admitted and scheduled bodies, including admissions, new academies, bulk transfers and cessations. The strategy also takes into consideration the impact which the McCloud case judgement may have on the pension liabilities. Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the

McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by the department (DLUHC).

1.4 The major risks to the funding strategy are financial, although there are other external factors including maturity risks, demographic risks, employer risks, regulatory risks and governance risks. Whilst the FSS attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that these risks may impact on the ability of the strategy to meet the funding objectives.

2. Reasons for Decision

2.1 The Fund is required to regularly review the FSS and to have regard to the CIPFA 2016 guidance, Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme (LGPS).

3. Equality Implications

3.1. None.

4. Risk Management Implications

4.1. None.

5. Other Implications

5.1. None.

6. Consultation

6.1. Consultation has been undertaken with all employer bodies of the Fund. No feedback / comments have yet been received.

LIST OF APPENDICES

Appendix 1 – Draft LBHF Funding Strategy Statement 2022

London Borough of Hammersmith and Fulham Pension Fund

Funding Strategy Statement

February 2023

Contents

1 Welcome to London Borough of Hammersmith and Fulham Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for the London Borough of Hammersmith and Fulham Pension Fund.

The London Borough of Hammersmith and Fulham Pension Fund is administered by the London Borough of Hammersmith and Fulham, known as the administering authority. The London Borough of Hammersmith and Fulham worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023.

There's a regulatory requirement for the London Borough of Hammersmith and Fulham to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact pensions@lbhf.gov.uk

1.1 What is the London Borough of Hammersmith and Fulham Pension Fund?

The London Borough of Hammersmith and Fulham Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies
Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers
Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at https://www.lbhfpensionfund.org/.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the London Borough of Hammersmith and Fulham Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution
- The primary rate also includes an allowance for the **fund's expenses**.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Local authority**	**Colleges & universities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	Ongoing	Ongoing	Ongoing (pooled)	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	67%	67%	67%	70%	70%	70%
Maximum time horizon	20 years	20 years	17 years	17 years	15 years or average future working	17 years

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Local authority**	**Colleges & universities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
					lifetime, if less	
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	Secondary contributions set to fund a deficit are usually set as a monetary amount, otherwise adjustments are set as a % of payroll					
Treatment of surplus	Total contribution rate set to achieve funding objective with associated likelihood of success over the time horizon			Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority		
Phasing of contribution changes	Phasing of contribution increases may be permitted at the discretion of the administering authority.					

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*

*** See Appendix D for further information on funding targets.*

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. After taking advice from the fund actuary, the administering authority believes a stabilised approach is currently not appropriate for any employers.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations that may lead to an increase or decrease in contributions after taking advice from the fund actuary.

2.5 What is pooling?

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

The exception to this is academy employers, who are pooled for the purpose of determining contribution rates to recognise the common characteristics of these employers.

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

Pooling of other individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and fund actuary.

2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer’s contributions if added security is provided.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non-ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer may be required to pay a funding strain, which may be a large sum.

The administering authority operates a cost-sharing arrangement to spread ill-heath early retirement strain costs across all employers.

The contribution rate payable by employers includes the expected cost of ill health retirements (the ill health 'premium'). A portion of this contribution is paid to the captive fund, a notional pot of assets held by the Fund to meet the expected cost of ill health strains. Any ill-health retirement strain costs emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner).

No additional contributions will be due immediately from the employer although an adjustment to the 'premium' payable may emerge following the subsequent actuarial valuations, depending on the overall experience of the captive fund.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as part of the Academies pool. Only active members of former council schools transfer to the academy pool. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (i.e., members with deferred or pensioner status) remain with the ceding council.

The academy pool will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities.

The new academies' contribution rate is set equal to the pooled rate payable.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

The new employer's contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, e.g., set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount

- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at the formal valuation

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*.

A3 How is the FSS published?

The FSS is emailed to participating employers and pensioner representatives. A full copy is included in the fund's annual report and accounts and published on the administering authority's website. Copies are also freely available on request and sent to investment managers and independent advisers.

The FSS is published at [Pension fund accounts and statements | LBHF]

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee, and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at [Pension fund accounts and statements | LBHF]

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares, and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the London Borough of Hammersmith and Fulham constitution available here : H&F Constitution (lbhf.gov.uk)

Details of the key fund-specific risks and controls are set out in the risk register included in the Annual Report, using the following link: Pension fund accounts and statements | LBHF

C2 Financial risks

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

The valuation results are most sensitive to the real discount rate (i.e., the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2%, and decrease/increase the required employer contribution by around 0.7% of payroll p.a.

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

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

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

C3 Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

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

C4 Regulatory risks

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

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

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

There are a number of general risks to the Fund and the LGPS, including:
- If the LGPS was to be discontinued in its current form, it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS, or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

C5 Governance risks

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

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authority	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	Currently no such employers in the fund	Review on application from a relevant body
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	In the case of TABs, the fund would put in place a guarantee or bond, but each case is individual and the fund judges on merit. CABs are usually government-backed in the event of failure	Review on application from a relevant body

C7 Climate risk and TCFD reporting

DLUHC has issued a consultation on how LGPS in England and Wales should assess and manage climate risks and opportunities, proposing to disclose information in line with the Taskforce on Climate Related Financial Disclosures (TCFD). The 12-week consultation ended on 24 November 2022.

The government intends to make TCFD-aligned disclosures mandatory in the UK across the economy by 2025. Under the proposals, funds will have to report on this annually, with the reports also summarised in an LGPS-wide report, including the overall carbon emissions of the scheme. The first reporting year will be the financial year 2023/24, with the regulations expected to be in force by April 2023 and the first reports required by December 2024.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions, and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns													
		Cash	UK Equity	Developed World ex UK Equity	Private Equity	Property	UK Infrastructure Debt	Unlisted Infrastructure Equity	Developed World Equity	Multi Asset Credit (sub inv grade)	Absolute Return Bonds (inv grade)	Direct Lending (private debt) GBP Hedged	CorpMedium A	Inflation (CPI)	17 year yield
5 years	16th %'ile	0.7%	-2.7%	-3.2%	-5.0%	-2.5%	-1.7%	-1.1%	-3.1%	0.3%	0.5%	0.8%	-1.5%	2.3%	1.1%
	50th %'ile	1.5%	5.5%	5.3%	9.5%	4.0%	2.0%	5.7%	5.4%	3.1%	2.0%	5.8%	1.5%	3.9%	2.1%
	84th %'ile	2.3%	13.9%	14.0%	24.1%	11.0%	5.6%	12.9%	13.9%	5.7%	3.4%	10.7%	4.2%	5.5%	3.3%
10 years	16th %'ile	0.8%	-0.4%	-0.7%	-1.2%	-0.6%	-0.3%	0.7%	-0.6%	1.7%	0.9%	2.7%	-0.1%	1.6%	1.1%
	50th %'ile	1.8%	5.7%	5.6%	9.4%	4.4%	2.2%	5.9%	5.6%	3.5%	2.3%	6.0%	1.6%	3.3%	2.5%
	84th %'ile	2.9%	11.6%	11.7%	20.1%	9.5%	4.3%	11.2%	11.6%	5.2%	3.7%	9.2%	3.2%	4.9%	4.3%
20 years	16th %'ile	1.0%	1.7%	1.5%	2.4%	1.4%	1.2%	2.6%	1.6%	2.8%	1.4%	4.3%	1.1%	1.2%	1.3%
	50th %'ile	2.4%	6.2%	6.1%	10.0%	5.0%	2.7%	6.5%	6.1%	4.4%	2.9%	6.8%	2.1%	2.7%	3.2%
	84th %'ile	4.0%	10.6%	10.8%	17.6%	8.9%	4.2%	10.6%	10.8%	6.0%	4.6%	9.2%	3.2%	4.3%	5.7%
	Volatility (Disp) (1 yr)	0%	20%	20%	31%	15%	9%	15%	20%	7%	3%	12%	8%	1%	

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.2%
Low risk exit basis	Community admission bodies closed to new entrants	0%
Contractor exit basis	Transferee admission bodies	Based on expected returns over 20 years with a 67% likelihood

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.4% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 71% likelihood that the fund's assets will future investment returns of 4.1% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	0% of members will choose the 50:50 option.

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Contractor exit basis

Where there is a guarantor (e.g., in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the expected returns over the period of 20 years based on a 67% probability.

Appendix E - London Borough of Hammersmith and Fulham Pension Fund Policy on contribution reviews

Effective date of policy	01/04/2023
Date approved	28/02/2023
Next review	01/04/2025

Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

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

E1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

E2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

E3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

Policy

E4 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g., a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

E5 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

E6 Other employers
When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

E7 Effect of market volatility
Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

E8 Documentation
Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

Related Policies

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 28/02/2023

Subject: Pension Fund Quarterly Update Pack

Report author: Siân Cogley, Pension Fund Manager

Responsible Director: Phil Triggs, Director of Treasury and Pensions

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SUMMARY

This paper provides the Pension Fund Committee with a summary of the Pension Fund's:

- overall performance for the quarter ended 31 December 2022;
- cashflow update and forecast;
- assessment of risks and actions taken to mitigate these.

RECOMMENDATIONS

1. The Pension Fund Committee is recommended to note the update.

Wards Affected: None

Our Values	**Summary of how this report aligns to the H&F Values**
Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council taxpayer.

Financial Impact

None.

Legal Implications

None.

DETAILED ANALYSIS

LBHF Pension Fund Quarterly Update: Q3 2022/23

1. This report and attached appendices make up the pack for the quarter three (Q3) ended 31 December 2022. An overview of the Pension Fund's performance is provided in Appendix 1. This includes administrative, investment, and cash management performance for the quarter.

2. Appendix 2 provides information about the Pension Fund's investments and performance. The highlights from the quarter are shown below:

   - Global markets investment performance was positive over the quarter, with global equity indices returning a 2.4% in local currency terms over the quarter.

   - Overall, the investment performance report shows that over the quarter to 31 December 2022, the market value of the assets increased by £4.3m to £1,253.4m.

   - The Fund has underperformed its benchmark net of fees by 0.6%, delivering a return of 0.8% over the quarter.

   - Over the year to 31 December 2022, the fund outperformed its benchmark by 1.6%, returning -5.0% overall. A well-diversified portfolio has made a positive impact.

3. The Pension Fund's cashflow monitor is provided in Appendix 3. This shows both the current account and invested cash movements for the last quarter, as well as cashflow forecasts to 30 September 2023. An analysis of the differences between the actuals and the forecast for the quarter is also included.

4. Appendix 4 contains the Pension Fund's risk registers.

5. The breaches of the law log has not been included this quarter as there have been no breaches to report.

6. The ESG dashboard can be found at:

   https://app.powerbi.com/view?r=eyJrIjoiYjc2ZTEyZjItODI0Yi00NzY2LWJkNTMtODAwYjNlNWNjYTQ5IiwidCI6IjUwZDhjMTE1LWI3N2YtNDM5NS1hM2JhLTNiNDA3Y2FmMGQ4OCIsImMiOjh9

7. Aviva has calculated an indicative net asset value as of 31 December 2022 for the redemption from the Aviva Investors Infrastructure Income Unit Trust as £25.8m. The actual proceeds payable will however be calculated using the unit price at the quarter end immediately before the date of redemption which is expected to be the quarter ending 31 March 2023 with the payment due after this date in the new financial year.

Risk Management Implications

1. These are included in the risk registers.
2. There have been no new risks identified on the risk register.
3. There have been no changes in the risk scores on the risk register.
4. The below risks have had a change in trend:
    i. Risk 19 – CPI inflation. This has been amended from trending up to trending neutral. This is because the triennial valuation has now been completed.
    ii. Risk 28 – liabilities. Now also neutral following the completion of the actuarial valuation.
    iii. Risk 31 – strain on smaller employers. This has changed from trending up to trending neutral. This is because the actuarial valuation results have resulted in relative stability for most employers.

LIST OF APPENDICES

Appendix 1: Scorecard as at 31 December 2022

Appendix 2a: Deloitte Quarterly Report for Quarter Ended 31 December 2022 (EXEMPT)

Appendix 2b: Deloitte Quarterly Report for Quarter Ended 31 December 2022 (EXEMPT)

Appendix 3: Cashflow Monitoring Report

Appendix 4: Pension Fund Risk Registers

Appendix 1

Scorecard at 31 December 2022

London Borough of Hammersmith and Fulham Pension Fund Quarterly

Monitoring Report

	Mar 22 £000	Oct 22 £000	Nov 22 £000	Dec 22 £000	Report reference/Comments
Value (£m)	1,288	1,260	1,295	1,253	IRAS reports.
% return quarter	-0.81%	-1.2%	1.39%	0.82%	
% return one year	9.83%	-2.68%	-0.58%	-5.04%	
LIABILITIES					
Value (£m)	1,322			1,257	Hymans Robertson LLP Estimated Funding Update
Surplus/(Deficit) (£m)	(36)			303	
Funding Level	97%			132%	
CASHFLOW					
Cash balance	2,841	6,427	6,115	5,871	Appendix 3
Variance from forecast	(9,695)	1,043	238	1,500	
MEMBERSHIP					
Active members	4,856			5,198	Reports from Pension Fund Administrator
Deferred beneficiaries	6,232			6,140	
Pensioners	5,804			5,931	
RISK					
No. of new risks				0	Appendix 4: Risk Register
No. of ratings changed				0	
LGPS REGULATIONS					
New consultations	None	None	None	None	
New sets of regulations	None	None	None	None	

Pension Fund Current Account Cashflow Actuals and Forecast for period Oct - Dec-22

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	F'cast	F'cast
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	Annual	Monthly
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	Total	Total
Balance b/f	**6,894**	**6,427**	**6,115**	**5,871**	**4,306**	**4,741**	**3,195**	**1,331**	**473**	**(1,217)**	**(954)**	**(650)**	**£000s**	**£000s**
Contributions	2,618	2,693	2,992	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	31,702	2,642
Pensions	(3,062)	(3,122)	(3,009)	(3,064)	(3,065)	(3,046)	(3,364)	(3,158)	(3,190)	(3,237)	(3,195)	(3,207)	(37,720)	(3,143)
Lump Sums	(848)	(446)	(577)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(7,271)	(606)
Net TVs in/(out)	128	(198)	49	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(2,720)	(227)
Net Expenses/other transactions	(301)	(486)	(202)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(2,790)	(232)
Net Cash Surplus/(Deficit)	**(1,466)**	**(1,560)**	**(747)**	**(1,564)**	**(1,565)**	**(1,546)**	**(1,864)**	**(1,658)**	**(1,690)**	**(1,737)**	**(1,695)**	**(1,707)**	**(18,800)**	**(1,567)**
Distributions	998	1,248	503		2,000			800			2,000		7,549	839
Net Cash Surplus/(Deficit) including investment income	**(467)**	**(312)**	**(244)**	**(1,564)**	**435**	**(1,546)**	**(1,864)**	**(858)**	**(1,690)**	**(1,737)**	**305**	**(1,707)**	**(11,251)**	**(938)**
Transfers (to)/from Custody Cash										2,000			2,000	333
Balance c/f	**6,427**	**6,115**	**5,871**	**4,306**	**4,741**	**3,195**	**1,331**	**473**	**(1,217)**	**(954)**	**(650)**	**(2,357)**	**27,281**	**(604)**

Current account cashflow actuals compared to forecast in Oct - Dec-22

	Oct-22		Nov-22		Dec-22		Oct - Dec-22
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Variance
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Contributions	2,600	2,618	2,600	2,693	2,600	2,992	502
Pensions	(2,930)	(3,062)	(2,930)	(3,122)	(2,930)	(3,009)	(403)
Lump Sums	(600)	(848)	(600)	(446)	(600)	(577)	(71)
Net TVs in/(out)	(300)	128	(300)	(198)	(300)	49	880
Expenses/other transactions	(200)	(301)	(200)	(486)	(200)	(202)	(390)
Distributions			2,000	1,248	500	503	(750)
Transfers (to)/from Custody Cash							
Total	**(1,430)**	**(1,466)**	**570**	**(312)**	**(930)**	**(244)**	**(232)**

Notes on variances

- Contributions are paid one month in arrears.
- Transfers in and lump sum benefits cannot be reliably forecast given they relate to individual member decisions and take time to process

Pension Fund Custody Invested Cashflow Actuals and Forecast for period Oct - Dec-22

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	F'cast	F'cast
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	Annual	Monthly
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	Total	Total
Balance b/f	**4,166**	**4,014**	**2,153**	**10,183**	**10,183**	**8,683**	**8,683**	**8,683**	**8,683**	**10,683**	**8,683**	**8,683**	**£000s**	**£000s**
Sale of Assets														
Purchase of Assets	(5)	(1,867)	(35,000)		(1,500)								(38,373)	(9,593)
Net Capital Cashflows	**(5)**	**(1,867)**	**(35,000)**		**(1,500)**								**(38,373)**	**(3,198)**
Distributions			8,024						2,000			1,000	11,024	1,002
Interest	(146)	7	7										(132)	(44)
Management Expenses														
Foreign Exchange Gains/Losses	(1)	()											(1)	()
Class Actions														
Other Transactions														#DIV/0!
Net Revenue Cashflows	**(147)**	**7**	**8,030**						**2,000**			**1,000**	**10,890**	**908**
Net Cash Surplus/(Deficit) excluding withdrawals	**(152)**	**(1,861)**	**(26,970)**		**(1,500)**				**2,000**			**1,000**	**(27,483)**	**(2,290)**
Contributions to Custody Cash			35,000											
Withdrawals from Custody Cash										(2,000)			(2,000)	(167)
Balance c/f	**4,014**	**2,153**	**10,183**	**10,183**	**8,683**	**8,683**	**8,683**	**8,683**	**10,683**	**8,683**	**8,683**	**9,683**	**(29,483)**	**(2,457)**

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London Borough of Hammersmith and Fulham Pension Fund Risk Register														Appendix 4
Risk Group	Risk Ref.	Risk Description	Impact				Likelihood	Previous risk score	Current risk score	Trending	Mitigation actions	Revised likelihood	Total risk score	Reviewed on
			Fund	Employers	Reputation	Total								
Asset and Investment Risk	1	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty. Within this consideration is given to Covid-19, Brexit, and the invasion of Ukraine.	5	4	1	10	4	40	40		**TREAT** 1) Continued dialogue with investment managers regarding management of political risk in global developed markets. 2) Investment strategy integrates portfolio diversification and risk management. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes.	3	30	31/12/2022
Liability Risk	2	There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations.	5	4	3	12	3	36	36		**TREAT** 1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. 2) The Fund receives quarterly income distributions from some of its investments to help meet its short term pensions obligations. 3) The fund will review the income it receives from underlying investments and make suitable investments to meet its target income requirements.	2	24	31/12/2022
Asset and Investment Risk	3	The London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	4	3	3	10	2	20	20		**TORELATE** 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. 2) Monitor the ongoing fund and pool proposals are comprehensive and meet government objectives. 3)Fund representation on key officer groups. 4) Ongoing Shareholder Issue remains a threat 5) LCIV new CEO Dean Bowden has now started as of January 2023.	2	20	31/12/2022
Asset and Investment Risk	4	Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.25m.	5	3	2	10	4	40	40		**TREAT** 1) The Investment Management Agreements (IMAs)clearly state LBHF's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. Outperformance for the year is 3% 3) The Pension Fund Committee is positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	20	31/12/2022
Asset and Investment Risk	5	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	3	30	30		**TREAT** 1) Proportion of total asset allocation made up of equities, fixed income, property funds and other alternative asset funds, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	2	20	31/12/2022
Asset and Investment Risk	6	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	3	2	1	6	3	18	18		**TOLERATE** 1) Officers consult and engage with DLUHC, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new DLUHC guidance	3	18	31/12/2022
Asset and Investment Risk	7	London CIV has inadequate resources to monitor the implementation of investment strategy and as	3	3	2	8	2	16	16		**TREAT** 1) Tri-Borough Director of Treasury & Pensions is a member of the officer	2	16	31/12/2022

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Liability Risk	8	Impact of economic and political decisions on the Pension Fund’s employer workforce.	5	2	1	8	2	**16**	**16**		**TOLERATE** 1) The Fund Actuary uses prudent assumptions on future of employees within workforce. 2) Employer responsibility to flag up potential for major bulk transfers outside of the LBHF Fund. 3) Officers to monitor the potential for a significant reduction in the workforce as a result of the public sector financial pressures.	2	**16**	31/12/2022
Asset and Investment Risk	9	Failure to keep up with the pace of change regarding economic, policy, market and technology trends relating to climate change	3	2	1	6	3	**18**	**18**		**TREAT** 1) Officers regularly receive updates on the latest ESG policy developments from the fund managers. 2) The Pensions Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which engages with companies on a variety of ESG issues including climate change.	2	**12**	31/12/2022
Asset and Investment Risk	10	Increased scrutiny on environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in July 2019, the full impact of this decision is uncertain. TCFD regulations impact on LGPS schemes currently under consultation and expected to come into force during 2023. Reporting expected to come into effect from December 2024.	3	2	4	9	3	**27**	**27**		**TREAT** 1) Review ISS in relation to published best practice (e.g. Stewardship Code, Responsible Investment Statement) 2) The Fund currently holds investments all it passive equities in a low carbon tracker fund, and is invested in renewable infrastructure. 3) The Fund's actively invests in companies that are contributing to global sustainability through its Global Core Equity investment 4) The Fund has updated its ESG Policy and continues to review its Responsible Investment Policy 5) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 6) Officers attend training sessions on ESG and TCFD requirements.	2	**18**	31/12/2022
Asset and Investment Risk	11	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	5	3	3	11	2	**22**	**22**		**TREAT** 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities. 3) Fund manager targets set and based on market benchmarks or absolute return measures.	1	**11**	31/12/2022
Asset and Investment Risk	12	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	**20**	**20**		**TREAT** 1) At time of appointment, the Fund ensures advisers have appropriate professional qualifications and quality assurance procedures in place. 2) Committee and officers scrutinise, and challenge advice provided routinely.	1	**10**	31/12/2022
Asset and Investment Risk	13	Financial failure of third party supplier results in service impairment and financial loss.	5	4	1	10	2	**20**	**20**		**TREAT** 1) Performance of third party suppliers regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	**10**	31/12/2022
Asset and Investment Risk	14	Failure of global custodian or counterparty.	5	3	2	10	2	**20**	**20**		**TREAT** 1)At time of appointment, ensure assets are separately registered and segregated by owner. 2)Review of internal control reports on an annual basis. 3)Credit rating kept under review.	1	**10**	31/12/2022
Asset and Investment Risk	15	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	**20**	**20**		**TREAT** 1) Adequate contract management and review activities are in place. 2) Fund has processes in place to appoint alternative suppliers at similar price, in the event of a failure. 3) Fund commissions the services of Legal & General Investment Management (LGIM) as transition manager. 4) Fund has the services of the London CIV.	1	**10**	31/12/2022
Liability Risk	16	Failure to identify GMP liability leads to ongoing costs for the pension fund.	3	2	1	6	1	**6**	**6**		**TREAT** 1) GMP to be identified as a Project as part of the Service Specification between the Fund and LPPA.	1	**6**	31/12/2022

Liability Risk	17	Rise in ill health retirements impact employer organisations.	2	2	1	5	2	10	10	↔	**TREAT** 1) Engage with actuary re assumptions in contribution rates.	1	5	31/12/2022
Liability Risk	18	Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	10	10	↔	**TREAT** 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	5	31/12/2022
Liability Risk	19	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%. Inflation continues to rise in the UK and globally due to labour shortages, supply chain issues, and high energy prices.	5	3	2	10	5	50	50	↔	**TREAT** 1) The fund holds investments in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. 2) Officers continue to monitor the increases in CPI inflation on an ongoing basis. 3) Short term inflation is expected due to a number of reasons on current course.	3	30	31/12/2022
Liability Risk	20	Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	22	22	↔	**TOLERATE** 1)The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. 2)The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	22	31/12/2022
Liability Risk	21	Employee pay increases are significantly more than anticipated for employers within the Fund. Persistently high inflation will potentially lead to unexpectedly high pay awards.	4	4	2	10	3	30	30	↑	**TOLERATE** 1) Fund employers continue to monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014). 4) Pay rises generally remain below inflation.	2	20	31/12/2022
Liability Risk	22	Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	14	14	↔	**TOLERATE** 1) Review "budgets" at each triennial valuation and challenge actuary as required. 2) Charge capital cost of ill health retirements to admitted bodies at the time of occurring. 3) Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	14	31/12/2022
Liability Risk	23	Impact of increases to employer contributions following the actuarial valuation.	5	5	3	13	2	26	26	↔	**TREAT** 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will stabilise employer rates when valuation concludes March 2023.	1	13	31/12/2022
Regulatory and Compliance Risk	24	Changes to LGPS Regulations	3	2	1	6	3	18	18	↔	**TREAT** 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2019 actuarial valuation process. 3) Fund will respond to several ongoing consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12	31/12/2022
Liability Risk	25	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	1	10	10	↔	**TOLERATE** 1) Political power required to effect the change.	1	10	31/12/2022
Liability Risk	26	Transfers out of the scheme increase significantly due to members transferring their pensions to DC funds to access cash through new pension freedoms.	4	4	2	10	1	10	10	↔	**TOLERATE** 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rates.	1	10	31/12/2022

Liability Risk	27	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	**18**	**18**	↔	**TREAT** 1) Review maturity of scheme at each triennial valuation. 2)Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 3) Cashflow position monitored monthly.	1	**9**	31/12/2022
Liability Risk	28	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	4	**28**	**28**	↔	**TREAT** 1) Review at each triennial valuation and challenge actuary as required. 2) Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	2	**14**	31/12/2022
Regulatory and Compliance Risk	29	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	**14**	**14**	↑	**TREAT** 1) Maintain links with central government and national bodies to keep abreast of national issues. 2)Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**7**	31/12/2022
Employer Risk	30	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	**27**	**27**	↔	**TREAT** 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	**18**	31/12/2022
Employer Risk	31	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. Current economic conditions will cause strain on smaller employers.	5	3	3	11	2	**22**	**22**	↔	**TREAT** 1) Transferee admission bodies required to have bonds in place at time of signing the admission agreement. 2) Regular monitoring of employers and follow up of expiring bonds.	1	**11**	31/12/2022
Resource and Skill Risk	32	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	3	3	7	2	**14**	**14**	↔	**TREAT** 1) Change to LPPA has increased resilience in the administration service 2) Ongoing monitoring of contract and KPIs	2	**14**	31/12/2022
Resource and Skill Risk	33	Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	**12**	**12**	↔	**TREAT** 1) Reconciliation is undertaken by the pension fund team. Officers to ensure that reconciliation process notes are understood and applied correctly the team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process.	2	**8**	31/12/2022
Resource and Skill Risk	34	Failure to detect material errors in bank reconciliation process.	2	2	2	6	2	**12**	**12**	↔	**TREAT** 1) Pensions team to continue to work closely with staff at HCC to smooth over any teething problems relating to the newly agreed reconciliation process.	1	**6**	31/12/2022
Resource and Skill Risk	35	Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	**12**	**12**	↔	**TREAT** 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted, and the pension corrected in the next month. Repayment is requested and sometimes this is collected over several months.	1	**6**	31/12/2022
Resource and Skill Risk	36	Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	**12**	**12**	↔	**TREAT** 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and LPPA. 2) Officers regularly attend training seminars and conferences 3) Designated officer in place to record and organise training sessions for officers and members	1	**6**	31/12/2022

Resource and Skill Risk	37	Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	**10**	**10**	↔	**TREAT** 1) The team will continue to ensure process notes are updated and circulated amongst colleagues in the Pension Fund and Administration teams.	1	**5**	31/12/2022
Resource and Skill Risk	38	Lack of productivity leads to impaired performance.	2	2	1	5	2	**10**	**10**	↔	**TREAT** 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	**5**	31/12/2022
Resource and Skill Risk	39	Failure by the audit committee to perform its governance, assurance and risk management duties	3	2	1	6	3	**18**	**18**	↔	TREAT 1) Audit Committee performs a statutory requirement for the Pension Fund with the Pension Fund Committee being a sub-committee of the audit committee. 2) Audit Committee meets regularly where governance issues are regularly tabled.	2	**12**	31/12/2022
Resource and Skill Risk	40	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	**20**	**20**	↔	**TREAT** 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	**10**	31/12/2022
Resource and Skill Risk	41	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	3	**27**	**27**	↓	**TREAT** 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval) 2) Comprehensive training packages will be offered to members. 3) Co-opted members boost resilience.	2	**18**	31/12/2022
Resource and Skill Risk	42	Loss of 'Elective Professional Status' with any Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options and ongoing engagement with the Fund managers.	4	2	2	8	2	**16**	**16**	↔	**TREAT** 1)Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. 2)Training programme and log are in place to ensure knowledge and understanding is kept up to date. Two half day events have taken place in 22/23 and a third will take place before the end of March 2023. 3)Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	**8**	31/12/2022
Resource and Skill Risk	43	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	**20**	**20**	↓	**TREAT** 1) Succession planning processes are in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	1	**5**	31/12/2022
Administrative and Communicative Risk	44	The Pension Fund is recruiting for a brand new retained HR and Pensions administration team, with finding candidates for all positions likely to be a challenge.	4	3	3	10	2	**20**	**20**	↔	**TREAT** 1) A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team 2) Recruitment is almost complete for the retained team 3) Officers have received handover pack from the departing RBKC retained pensions team. 4) Members have chosen the new service provider as the London Pensions Partnership, with a project team established to manage the transition, which has almost fully completed. 5) A number of staff have been recruited with few posts unfilled.	2	**20**	31/12/2022

Administrative and Communicative Risk	45	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	3	3	8	1	**8**	**8**	↔	**TOLERATE** 1) The Pensions Administration team have shifted to working from home 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 4) Since the original outbreak the administator has been able to return to business as usual	1	**8**	31/12/2022
Administrative and Communicative Risk	46	Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	5	2	2	9	2	**18**	**18**	↔	**TREAT** 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3). Officers to take advice from the investment advisor on fund manager ratings and monitoring investment	2	**18**	31/12/2022
Administrative and Communicative Risk	47	Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	**21**	**21**	↔	**TREAT** 1) Process notes are in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	**14**	31/12/2022
Administrative and Communicative Risk	48	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	**22**	**22**	↔	**TREAT** 1) Update and enforce admin strategy to assure employer reporting compliance. **TOLERATE** 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members can interrogate data to ensure accuracy.	1	**11**	31/12/2022
Administrative and Communicative Risk	49	Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	**16**	**16**	↔	**TREAT** 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for LPPA to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	**8**	31/12/2022
Administrative and Communicative Risk	50	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	**16**	**16**	↔	**TREAT** 1) Disaster recovery plan in place as part of the service specification between the Fund and new provider LPPA 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	**8**	31/12/2022
Administrative and Communicative Risk	51	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	**14**	**14**	↔	**TREAT** 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	**7**	31/12/2022

Administrative and Communicative Risk	52	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	9	9	↔	**TREAT** 1) Pension administration records are stored on the LPPA servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue. 2) All files are backed up daily.	2	6	31/12/2022
Regulatory and Compliance Risk	53	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	22	22	↔	**TREAT** 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) LBHF IT data security policy adhered to. 3) Implementation of GDPR 4) Project team in place to ensure smooth transition	1	11	31/12/2022
Regulatory and Compliance Risk	54	Failure to comply with recommendations from the Local Pensions Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	18	18	↔	**TREAT** 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9	31/12/2022
Reputational Risk	55	Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	20	20	↔	**TREAT** 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams.	1	10	31/12/2022
Reputational Risk	56	Financial loss of cash investments from fraudulent activity	3	3	5	11	2	22	22	↔	**TREAT** 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. 2) Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal audit assist in the implementation of strong internal controls. Processes recently firmed up 3)Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	11	31/12/2022
Reputational Risk	57	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	22	22	↔	**TREAT** 1) Officers maintain knowledge of legal framework for routine decisions. 2)Eversheds retained for consultation on non-routine matters.	1	11	31/12/2022
Reputational Risk	58	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	3	5	3	15	15	↔	**TREAT** 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed.	2	10	31/12/2022
Reputational Risk	59	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non-compliant process	2	2	3	7	2	14	14	↔	**TREAT** 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. 2) Pooled funds are not subject to OJEU rules.	1	7	31/12/2022
Regulatory and Compliance Risk	60	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	16	16	↔	**TREAT** 1) The Fund has generally good internal controls regarding the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.	1	8	31/12/2022
Regulatory and Compliance Risk	61	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	3	3	4	10	2	20	20	↔	**TREAT** 1) Publication of all documents on external website. 2) Officers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10	31/12/2022