

# **JOHN RAISIN FINANCIAL SERVICES LIMITED**

## **The Nottinghamshire Local Pension Board**

### **Pension Board Review 1 April 2022 to 31 March 2023**

#### **A report by the Advisor the Board**

##### **Executive Summary**

This report reviews the activity of the Nottinghamshire Local Pension Board during the period 1 April 2022 to 31 March 2023.

This review has been prepared by the Advisor to the Board, in Consultation with the Chair, for consideration by the Board at its meeting on 30 November 2023. Following consideration by the Board an approved version of this review will be forwarded to the Pension Fund Committee for their consideration.

##### **Purpose and Terms of Reference of the Nottinghamshire Pension Board**

Under its Terms of Reference the purpose of the Nottinghamshire Local Pension Board is to assist the Pension Fund Committee in its role (delegated by Nottinghamshire County Council) as a Scheme Manager under the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations. The Board consists of eight members and comprises four Employer and four Employee representatives. The Chair is chosen by the Board members from amongst their number. The present Chair Thulani Molife an Employee representative became Chair on 30 September 2021 having served as a member of the Board since 2016. The Board provides a specific forum for both Employers and Employees to be actively involved in the Governance of the Fund on an ongoing basis.

The Board is supported by Officers of the Nottinghamshire Pension Fund. In addition the County Council has appointed an independent external Advisor to the Board, John Raisin Financial Service Limited.

##### **Board Meetings 1 April 2022 to 31 March 2023**

Nottinghamshire County Council requires that as a minimum the Pension Board meet twice a year. The Board Members (supported by Officers and the Advisor) expressed the view, at an informal Board Workshop in February 2021, that the Board should meet more regularly than the two occasions per (financial) year that had been the practice since 2015. There was a clear consensus that four meetings a year would be appropriate. The year 1 April 2021 to 31 March 2022 saw progress towards this with three meetings taking place for the first time in a year. In 2022-2023 the Board also met on three occasions. The three Board meetings during the financial year 2022-2023 were held on 23 June 2022, 29 September 2022, and 16 March 2023.

The Agenda Items considered at each Board meeting held during the financial year 2022-2023 are shown in the Table below:

|  | 23/6/22 | 29/9/22 | 16/3/23 |
|--|---------|---------|---------|
| Minutes of Previous Meeting                            | /       | /       | /       |
| Declarations of Interest                               | /       | /       | /       |
| Pension Fund Risk Register                             | /       | /       | /       |
| Work Programme   | /       | /       | /       |
| Pension Board Review 2021-2022                         | /       |         |         |
| Investments Policy and Governance                      | /       |         |         |
| Bank of England Gilt Market Intervention (oral update) |         | /       |         |
| Training   |         | /       | /       |
| LGPS Update by Advisor to the Board                    |         | /       | /       |
| Pensions Administration Performance Report             |         | /       |         |
| Proposed Pension Dashboard Programme                   |         | /       |         |
| LGPS Governance Conference report                      |         |         | /       |

Further comments on the above reports are included later in this review.

### **Members of the Pension Board**

The full Membership of the Nottinghamshire Pension Board is four Employee and four Employer representatives. This number, eight, is well in excess of the minimum number of Board members required under the LGPS Regulations 2013 which is only four (two Employee and two Employer). The establishment by the County Council in 2015 of a Board membership of eight was positive and proactive in terms of seeking to facilitate both Employee and Employer representation and involvement in the ongoing Governance of the Nottinghamshire Pension Fund. Unfortunately during 2022-2023 the membership of the Board was only five members despite clear attempts by the Fund Officers to fill all eight places. This situation was most unfortunate given the role of the Board under both the LGPS Regulations and its Terms of Reference as set out by the Nottinghamshire County Council.

Notwithstanding that there were only (at any one time) five Board members during 2022-2023 all were conscientious in attendance and all contributed positively to the deliberations of the Board. During the year David Smith a longstanding Board member who had contributed much to Board discussions back to 2016 stood down as an Employer representative and it is appropriate therefore to record, on behalf of the Board, thanks to David for his conscientious and active membership of the Board.

At the September 2022 meeting the Board was pleased to welcome both Councillor Dr Nayab Patel and Becky Smeathers as Employer representatives. Mark Heppenstall and Thulani Molife both original Board members continued as Employee representatives throughout the year. Councillor Reg Adair (who brings to the Board extensive experience as both a former member and Chair of the Pension Fund Committee) also continued to serve throughout 2022-2023 as an Employer representative. Thulani Molife continued as Chair and in this role not only chaired Board meetings but was actively involved in discussions with Fund Officers and the Advisor to the Board between, and in preparation for Board meetings.

## **Support for the Board by the Fund Officers and Advisor to the Board**

The LGPS Regulations 2013 require each Administering Authority (Pension Fund) to establish a Pension Board comprised of equal numbers of Employer and Employee representatives to assist the Pension (Fund) Committee. This requirement provides LGPS Funds with a genuine opportunity to significantly enhance the involvement of stakeholders in LGPS Fund Governance.

The ability of a Pension Board to provide effective input and genuinely contribute to the ongoing development, activity, and monitoring of a LGPS Fund, is however, not guaranteed by the fact that there is a regulatory requirement to establish a Board. A fundamental requirement for a Board to be effective is genuine and extensive input and support by the Fund Officers. Throughout 2022-2023 the Board received, as it has since its creation, positive support, advice and guidance from the Officers of the Nottinghamshire Pension Fund with responsibility for the Governance, Administration and Investment aspects of the Fund. This support was clearly evidenced not only by the reports prepared by the Officers but also their briefings provided at Pension Board meetings (and pre Agenda meetings) and their positive and informative responses to the constructive questions and observations of the Board members and the Advisor to the Board.

When the Board was created in 2015 Nottinghamshire County Council took the unusual but very positive approach of appointing an independent external Advisor to the Fund to provide additional support and advice to the Board. John Raisin Financial Services Limited (JRFS) was appointed to this role after competitive tender in 2015, and reappointed following another tendering process in 2021. In 2022-2023, as in previous years, JRFS continued to provide reports for the Board and input at Board meetings and discussions with the Chair and Officers between Board meetings.

It is also appropriate to record the appreciation of the Board to William Bourne, of Linchpin, the Advisor to the Nottinghamshire Pension Fund Committee. William Bourne kindly attended the June 2022 Pension Board meeting to present a report he had prepared on the Investment Policy and Governance of the Nottinghamshire Pension Fund.

## **Training and Development, and LGPS Updates**

Sufficient and effective Training and Development are clearly essential for Board Members to properly discharge their responsibilities. Furthermore, knowledge and understanding are specifically required of Pension Board Members by the Public Service Pensions Act 2013.

At the September 2022 Board meeting a paper from the Advisor to the Board entitled **Pension Board Training Programme** was received. This provided an update on Training covering September 2021 to August 2022 and proposals for both the approach to and sources of Training from September 2022 onwards. At the March 2023 Board meeting a paper entitled **Pension Board Training Proposal Pensions Legislation and Pensions Governance** was received. This proposed that the Advisor to the Board provide a (two hour) training session covering Pensions Legislation and Pensions Governance (which are fundamental to understanding the LGPS) for

new Board members. This was agreed and the training was delivered in early June 2023.

At the June 2022 meeting the Board also received a very informative paper from the Advisor to the Nottinghamshire Pension Fund Committee (William Bourne of Linchpin) which provided Board members with an overview of investment strategy decision making and implementation by the Nottinghamshire Pension Fund. This included due references to the legislative and regulatory framework within which the Fund undertakes investment activity.

In addition during 2022-2023 the Board received two broad ranging **LGPS Updates** from the Advisor. These provided Board members with knowledge and understanding of Governance, Administration and Investment issues with a particular emphasis on national (England and Wales) developments within the LGPS. Issues covered included the Good Governance in the LGPS project, Investment Pooling, Climate Reporting, Age Discrimination in the LGPS (commonly referred to as “McCloud”) and Pension Fund Accounts.

In January 2023 the Board Chair attended the two day annual **LGPS Governance Conference** which covered a broad range of issues including keynote addresses from the Pensions Ombudsman and the Pensions Regulator, as well as an update from the Scheme Advisory Board. There were also number of sessions on a wide range of issues including the 2022 Actuarial Valuation, challenges within Pensions Administration and Responsible Investment. A detailed report on the Conference was prepared and presented to the March 2023 Board meeting by the Pensions (Administration) Manager who also attended the conference.

### **Review of the Pension Fund Risk Register**

The management of Risk is clearly a key responsibility of those charged with the Governance and management of an LGPS Fund. While the ultimate responsibility at the Nottinghamshire Fund lies with the Pension Fund Committee the Pension Board clearly also has a role in Risk Management. The Foreword to the CIPFA publication on Managing Risk in the LGPS (2018) states *“As part of their governance processes funds should be regularly reporting all risks to committee and the local pension board, embedding a robust risk management approach and processes which link to all key strategic documents as well as recording risks and progress on an active risk register.”*

Therefore it was, as in the previous year (2021-2022), appropriate and indeed necessary that the **Pension Fund Risk Register** together with an informative covering report explaining the Purpose and Objectives of the Fund, the Risk Management Strategy of the Fund, the Key Parties involved in the Fund and their responsibilities, was presented to, and actively considered by the Board at each of its three meetings during 2022-2023. As in 2021-2022, the resourcing of the Pension Fund remained the highest Current Risk on the Risk Register with a score of “12” and a rating of “HIGH”

A crucial element of Risk Management is examination, active consideration, and as appropriate constructive questioning of the Risk Register by the Pension Board. This was a clear activity of the Board throughout 2022-2023. The Board raised constructive questions and helpful observations in respect of a number of issues including the review of the Pension Fund's approach to Risk Management itself, cyber security and recruitment.

The issue of recruitment was rightly a matter of concern to the Board. Fund Officers stated that while further funding had been agreed to support additional posts (particularly time limited appointments for McCloud and GMP reconciliation) there had been difficulties in recruiting. These difficulties were, however, common across the LGPS. Board Members raised constructive questions and observations in relation to these recruitment difficulties including seeking reasons for the level of staff vacancies. Given the concerns of the Board regarding the resourcing of the Pension Fund going forward the Board resolved at its meeting held on 23 June 2022 *"That the Board requests the Nottinghamshire Pension Fund Committee considers commissioning a review into the resourcing of the Pension Fund on the staff side."*

### **Pension Administration Issues**

Effective Pensions Administration is absolutely fundamental to the Nottinghamshire Pension Fund. Ultimately the Pension Fund only exists to provide pension benefits to those entitled to them as determined by the LGPS Regulations. There was a particular focus on Pensions Administration at the meeting held on 29 September 2022 which received a detailed **Pension Administration Performance Report** from the Pensions (Administration) Manager. This covered the work and performance of the Pensions Administration Team for the period 1 April 2021 to 31 March 2022.

The report included coverage of - the extensive range of the Team's functions and responsibilities; its structure including an extensive narrative and analysis of resourcing; recruitment and retention issues; Data Quality; Pension Fund Member Statistics; Complaints and Internal Dispute Resolution Procedure Appeals; Performance Data including statistics, commentary, and explanations/analysis. In his presentation of the above report to the Board the Pensions (Administration) Manager highlighted that the Team had faced another challenging year with both the ongoing accuracy and further improvements in data quality continuing areas of focus.

The Pensions Administration Team was also facing clear challenges in terms of the recruitment/retention of staff which is an issue nationally. The Nottinghamshire Fund is seeking to address this challenge including introducing an apprenticeship programme within the Pensions Administration Team. However, resolving on a long term basis, the challenges around the resourcing of the staff element of the Pensions Administration function will not be straightforward.

The September 2022 meeting also received a report and briefing on the **National Pensions Dashboard** including its implications for the Nottinghamshire Pension Fund. In response to the **Pension Administration Performance Report** and the **National Pensions Dashboard** Board members raised a number of constructive questions and observations.

## **Investment Issues**

While the Pension Board has no role in Investment decision making the Pension Board does have, in accordance with both the LGPS Regulations and its Terms of Reference (as determined by Nottinghamshire County Council), a role in reviewing Governance and operational arrangements relating to any activity including the Investment activity of the Fund. Therefore it was extremely relevant and helpful to the Board that at its meeting on 23 June 2022, the Advisor to the Nottinghamshire Pension Fund Committee (William Bourne of Linchpin) prepared and presented a paper with the title **Investments Policy and Governance**.

The Advisor to the Pension Fund Committee began his presentation by stating that the purpose of the report was to provide the Board with some assurance that the way the Fund is invested will result in pensions being paid on time and in full. In this paper, and his oral presentation to the Pension Board, the Advisor to the Pension Fund Committee provided a wide range of information and explanation relating to the investment activity of the Nottinghamshire Pension Fund. This included the overall legal framework within which investment decision making and activity is undertaken, the requirement to take “*proper advice*,” the fiduciary duty, the objectives that underpin investment activity, the discount rate and the Fund’s investment target, the concept of diversification, the strategic asset allocation, an explanation of each of the asset classes utilised by the Nottinghamshire Pension Fund, the requirement to invest in a responsible and sustainable way, the process of implementing the investment strategy (through third party managers and utilisation of asset Pooling).

In his oral presentation William Bourne emphasised the importance of investment strategy compared to the choice of investment manager, and that the fiduciary duty is to deliver a financial return to pay pensions which is of fundamental (and primary) importance. The Advisor to the Pension Fund Committee reminded the Pension Board that the ultimate responsibility for investment lies with the Pension Fund Committee (supported by the Fund Officers). The paper included (at paragraph 25) the statement *that “... **the demands on the Scheme Manager are increasingly complex** and there is stakeholder pressure, particularly over climate change, to take actions which may not be in the long-term interests of members. Against this background the Board may like to consider both whether the resource provided is adequate and at the right grade, and whether key person risk is sufficiently mitigated.”* William Bourne specifically referred to and highlighted this paragraph during his presentation to the Pension Board.

In the final paragraph of his paper (paragraph 30) William Bourne stated “*In summary, the Fund has a very long-term investment horizon and even a sustained period of poor returns will not affect its ability to pay pensions. I can offer an assurance that its assets are appropriately invested, though by the nature of investment markets this cannot be a guarantee. The greatest risks to the Fund come from governance, either a possible failure at the pool, or inadequate resources and key person risk at the Fund level.*” This paper and its presentation raised a number of questions and observations from Board members in relation to asset Pooling, allocations to Listed Equities and Employer contributions.

## **Work Programme**

At each of the three meetings held during 2022-2023 an updated Work Programme was presented to the Board for its consideration. The Work Programme presented to each Board meeting had previously been reviewed by the Board Chair, Advisor to the Board, and Fund Officers at the pre-agenda meeting held to agree the Agenda and reports for the next Board meeting. At each Board meeting members were actively encouraged to identify any additional issues for inclusion in the Work Programme.

## **Conclusion and Going Forward**

The Nottinghamshire Pension Fund operates within the overall regulatory/guidance framework as defined by the LGPS Regulations, associated Statutory Guidance and other overriding legislation and recommended principles of best practice. Reports and presentations made to the Pension Board in 2022-2023 gave assurance to the Board that the Nottinghamshire LGPS Fund is clearly seeking, through its approach to Risk Management and the operation of the Pensions Administration and Investment functions, to properly comply with its obligations.

As was, however, clearly evidenced in reports received by the Board in 2022-2023 the LGPS is becoming ever more complex in terms of its Governance, Administration, and Investment functions. The reports and oral presentations received by the Board (across Risk Management, Pensions Administration and Investment) also clearly demonstrated that resourcing, particularly staff resourcing, is an area that the Nottinghamshire LGPS Fund needs to keep under careful consideration and review. Indeed the issue of appropriate resourcing and in particular in relation to recruitment and retention was an area of particular focus for the Board in 2022-23. This will, in support of the Pension Fund Committee, all Employers, and individual Scheme members, continue to be so going forward.

**John Raisin**

**Advisor to the Nottinghamshire LGPS Local Pension Board**

In consultation with

**Thulani Molife**

**Chair of the Nottinghamshire LGPS Local Pension Board**

**8 November 2023**