Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Tuesday, 16 September 2014 at 10:30

County Hall, County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

1	Minutes of the last meeting held on 17 June 2014	3 - 4
2	Apologies for Absence	
3	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
4	Pension Fund Accounts 2013-14	5 - 36
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7	Referral from Pension Sub-Committee - Revised FSS and SIP Revised Funding Strategy Statement and Statement of Investment Principles	55 - 80
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9	LGPS Admission Body Status - Approval Process	83 - 86
10	LGPS - Application for Admission Body Status	87 - 94
11	LGPS - Update on Implementation of New Pensions Administration System	95 - 98

12 Exclusion of the Public

The Committee will be invited to resolve:-

"That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in paragraph 3 of the Local Government (Access to Information) (Variation) Order 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

Note

If this is agreed, the public will have to leave the meeting during consideration of the following item.

13 Exempt appendix to Referral from Pensions Sub-Committee – Working Party Recommendations

Notes

(1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.

(2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

(3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Paul Davies (Tel. 0115 977 3299) or a colleague in Democratic Services prior to the meeting.

(4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.

(5) This agenda and its associated reports are available to view online via an online calendar - http://www.nottinghamshire.gov.uk/dms/Meetings.aspx

Nottinghamshire County Council

minutes

Meeting NOTTINGHAMSHIRE PENSION FUND COMMITTEE

Date Tuesday, 17 June 2014 (commencing at 2.00 pm)

membership
Persons absent are marked with `A'

COUNCILLORS

A Stella Smedley MBE JP (Chair)
A Ken Rigby (Vice-Chairman)

Reg Adair
Chris Barnfather
Mrs Kay Cutts
Sheila Place
Darrell Pulk
Parry Tsimbiridis
John Wilkinson

OFFICERS IN ATTENDANCE

Jon Clews (Environment & Resources)
Simon Cunnington (Environment & Resources)
Christine Marson (Policy, Planning & Corporate Services)
Nigel Stevenson (Environment & Resources)

ELECTION OF CHAIR

In the absence of the Chair and Vice-Chair, Councillor Sheila Place took the Chair for this meeting only.

MINUTES

The Minutes of the last meeting of the Committee held on 25 March 2014, having been previously circulated, were confirmed and signed by the Chair.

APOLOGY FOR ABSENCE

Apologies for absence were received from Councillor Stella Smedley (medical) and Councillor Ken Rigby (holiday).

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATION

Simon Cunnington, Environment and Resources Department, introduced the report which informed members of the consultation issued by the Department for Communities and Local Government on Opportunities for collaboration, cost savings and efficiencies and sought members views on the content of the

Fund's response. After consultation it was agreed that the Fund's response would be circulated to all members of the Pension Fund before presenting it to the Department.

RESOLVED: 2014/001

That a response to the consultation incorporating the views of Members is agreed with the Chair of the Nottinghamshire Pension Fund Committee for submission by the consultation deadline.

LOCAL GOVERNMENT PENSION SCHEME APPLICATION FOR ADMISSION BODY STATUS

Jon Clews, Environment and Resources Department, presented the report to the Committee informing them of the proposed admission of four admission bodies into the Fund.

RESOLVED: 2014/002

That the Committee noted the contents of the report.

PENSIONS INVESTMENT SUB-COMMITTEE MEETINGS

The Committee were asked to seek approval for the Pensions Investment Sub-Committee meeting.

RESOLVED: 2014/003

(1) That the external meeting for 2014/15 be held on 5 March 2015.
(2) That the venue of external meetings continues to be determined by a rota of all of the Fund's main investment managers.

The meeting closed at 2.22 pm.

CHAIRMAN

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

16 September 2014

Agenda Item: 4

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

PENSION FUND ACCOUNTS 2013/14

Purpose of the Report

1. To present the Nottinghamshire Pension Fund accounts for 2013/14.

Information and Advice

2. The Nottinghamshire Pension Fund accounts for 2013/14 are attached. These show the value of the fund as at 31 March 2014 was £3,733 million with net payments from dealings with members during 2013/14 of £5 million and net returns on investments of £242 million.

3. The external auditors, KPMG, have substantially completed their audit work and anticipate issuing an unqualified audit opinion. No material adjustments were identified and only a small number of non-trivial adjustments, most of which were of a presentational nature. The auditor's ISA260 report is also attached for information.

Reason/s for Recommendation/s

4. Under the terms of the Council's constitution, the Nottinghamshire Pension Fund Committee is responsible for the administration of the Nottinghamshire Pension Fund and it is best practice to present the accounts to those charged with governance.

Statutory and Policy Implications

5. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That the accounts and audit report for 2013/14 be noted.

Report Author:

Simon Cunnington
Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments

6. Because this report is for noting only no Constitutional Comments are required.

Financial Comments (SRC 21/08/2014)

7. There are no direct financial implications arising from the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- ‘None’

Introduction

Nottinghamshire County Council is the Administering Authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire. The LGPS is a statutory scheme administered by individual pension funds. The benefits within the scheme are determined by regulation and are guaranteed by statute. The pension fund exists to help defray the cost of paying the pension benefits. Members make contributions to the Fund as specified in the regulations and employers make contributions as determined by the Fund's actuary as part of the triennial valuation of the Fund. All new employees are brought into the scheme automatically, unless a positive election not to participate is received from the employee.

The Authority administers the pension fund for over 300 participating employers and over 106,000 members. The employers include the County Council, the City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

The operation of the Fund is set out in a number of published policy statements. Under the Governance Compliance Statement, the functions as administering authority of the Fund are delegated to the Nottinghamshire Pension Fund Committee supported by two advisory sub-committees.

The Funding Strategy Statement sets out the aims and purpose of the Fund and details the responsibilities of the administering authority as regards funding the scheme.

The Statement of Investment Principles sets out more detailed responsibilities relating to the overall investment strategy of the Fund including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also states the Fund's approach to responsible investment and corporate governance issues.

The Communications Strategy Statement details the overall strategy for involving stakeholders in the Fund. A key part of this strategy is a dedicated Fund website (available at www.nottspf.org.uk).

A separate annual report for the Fund is also produced and this, along with previous years' reports, will be accessible via the the pension fund website. The annual report includes the accounts and the published policies as well as information on the investment performance of the fund.

The accounts of the fund are set out over the following pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires:

- a fund account showing the changes in net assets available for benefits
- a net assets statement showing the assets available at the year end to meet benefits
- supporting notes.

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

FUND ACCOUNT

	Notes	2012/13 £000	2013/14 £000
Contributions	4		
Employer contributions		(127,132)	(123,905)
Member contributions		(42,829)	(41,018)
		(169,961)	**(164,923)**
Transfers in from other pension funds		(11,535)	(6,638)
Benefits	5		
Pensions		127,078	132,832
Commutation of pensions and lump sum retirement benefits		28,187	23,115
Lump sum death benefits		3,714	3,793
		158,979	**159,740**
Payments to and on account of leavers		16,048	15,326
Administration Expenses	6	1,409	1,442
Net additions from dealings with members		**(5,060)**	**4,947**
Investment Income	7	(88,307)	(105,388)
Profits & losses on disposal of investments & changes in value		(334,869)	(141,271)
Taxes on income		580	644
Investment management expenses	8	3,506	4,369
Net Returns on Investments		**(419,090)**	**(241,646)**
Net (increase)/decrease in net assets available for benefits during the year		**(424,150)**	**(236,699)**
Opening net assets of the Fund		3,072,296	3,496,446
Net assets available to fund benefits		**3,496,446**	**3,733,145**

NET ASSETS STATEMENT FOR THE YEAR ENDED

	Notes	31 March 2013 £000	31 March 2014 £000
Investment Assets	9 & 14		
Fixed Interest Securities		323,555	360,883
Index Linked Securities		80,738	-
Equities		1,675,534	1,818,478
Pooled Investment Vehicles		1,028,119	1,091,132
Property		288,075	288,140
Forward Foreign Exchange		621	191
Cash deposits		81,269	153,469
Other Investment Balances	11	16,360	21,670
Investment liabilities	11	(3,157)	(2,650)
		3,491,114	**3,731,313**
Current assets	12	18,481	10,033
Current liabilities	12	(13,149)	(8,201)
		5,332	**1,832**
Net assets of the fund available to pay benefits at the year end		**3,496,446**	**3,733,145**

The actuarial present value of promised retirement benefits, as required by IAS 26, is shown at note 2c.

NOTES TO THE ACCOUNTS

1. Accounting Policies

(a) Basis of Preparation
The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code). On issues where there is no clear guidance in the Code, reference has been made under the hierarchy of standards to Financial Reports of Pension Schemes: a Statement of Recommended Practice 2007 (the Pensions SORP) or to individual International Acccounting Standards (IAS). Disclosures in the Pension Fund accounts have been limited to those required by the Code.

(b) Debtors and Creditors
The accruals concept is applied to these accounts in compliance with the Code.

(c) Investments
Pension fund investments are carried at fair value in accordance with the Code. Fair value is defined as 'the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction'. Where an active market exists, the quoted market price is used. Where there is no active market, fair value is established by using valuation techniques.

Specific details on the valuation methods for particular classess of assets are listed below:
- Equities traded through a stock exchange are valued at the latest quoted price. Where more than one price is quoted the 'bid' price is used.
- Unit Trusts and managed funds are valued at the closing single price or the bid price where applicable. These reflect the market value of the underlying investments.
- Unquoted securities and pooled private equity investments are valued at fair value by the fund managers at the year end in accordance with industry accepted guidelines.
- The market value of fixed interest investments is based on the 'clean price', i.e. excludes income accrued at 31 March but not yet due for payment.
- Property investments are stated at open market value based on a quarterly independent valuation at the Net Assets Statement date.

Acquisition costs are included in the purchase cost of investments.

The change in fair value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Forward foreign exchange contracts are "over the counter contracts" under which two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. These are used to manage the economic exposure to bond markets and hedge against foreign currency movements. These contracts are included at fair value by determining the gain or loss that would arise from closing out the contract at the Net Assets Statement date by entering into an equal and opposite contract at that date. The movements on these contracts during the year are shown in the reconciliation of opening and closing balances of investments at note 9(b).

(d) Investments Income
Income is accounted for on an accruals basis for the following:
- interest on cash deposits and fixed interest securities are accrued on a daily basis
- dividends from equities are accrued when the stock is quoted ex-dividend

(e) Taxes on Income
UK equity dividends are quoted and accounted for at the net rate. The tax credit, which the Fund is unable to recover, is not recognised (in accordance with the Pensions SORP). Overseas equity dividends are accounted for gross of withholding tax, where this is deducted at source. Partial reclaims of withholding tax, where allowed, are adjusted at the year end by outstanding claims.

(f) Foreign Currencies
Where forward exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at the rate ruling on the date of the transaction. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

(g) Contributions
Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from the employer are accounted for on an accruals basis.

(h) Benefits Payable
Under the rules of the Scheme, members can receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised. Other benefits are accounted for on the date the member leaves the Scheme or on death.

(i) Transfers to and from Other Schemes
Transfer values represent the capital sums either receivable (in respect of members from other pension schemes of previous employers) or payable (to the pension schemes of new employers for members who have left the Scheme). They take account of transfers where the trustees (or administering authority) of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

(j) Other Expenses
Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Nottinghamshire County Council charges the Fund with the costs it incurs in administering the scheme and the Fund.

2. Operation of the fund

(a) Contributions and Solvency

With effect from 1 April 2008 The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 were introduced. The principal changes from the 1997 regulations were: the replacement, for future service, of the existing benefits structure (based on a pension of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump sum of three times this amount) by one based on 1/60th of pensionable pay for each year of pensionable service and no automatic lump sum. Under the 2008 scheme, employees were required to make percentage contributions by deduction from earnings at a rate between 5.5% and 7.5% depending on salary.

From 1 April 2014 the new Local Government Pension Scheme was introduced for service accruing after that date. This is a career average revalued earnings (CARE) scheme with an accrual rate of 1/49th of pensionable pay and a retirement age linked to the state retirement age. Employee contribution rates in the new scheme range from 5.5% to 12.5% depending on salary.

Employers are required to make such balancing contributions, determined by the Actuary, as will maintain the fund in a state of solvency, having regard to existing and prospective liabilities.

(b) Actuarial Valuations

As required by the Regulations an Actuarial Valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £3,470 million. The Actuary has estimated that the value of the Fund was sufficient to meet 85% of its expected future liabilities in respect of service completed to 31 March 2013. The certified contribution rates are expected to improve this to 100% within a period of 20 years. The full actuarial valuation report is available on the Fund's website at www.nottspf.org.uk.

The Actuarial Valuation was carried out using the projected unit method and the assumptions used within the valuation are shown below along with the equivalent assumptions from the 2010 valuation.

	31 March 2010 % pa	**31 March 2013 % pa**
Expected investment returns:		
Equities	7.5	6.7
Gilts	4.5	3.3
Property	5.6	5.8
Discount Rate	6.9	6.0
Retail price inflation (RPI)	3.5	3.5
Consumer price inflation (CPI)	3.0	2.7
Long term pay increases	5.0	4.5
Pension Increases	3.0	3.5

The 2013 valuation produced an average employer contribution rate of 18.8% (2010 18.0%). Employer contributions were certified by the actuaries for the years 2014/15 to 2016/17. For the majority of employers, the rate for future service accrual was certified as a percentage of salary with an additional cash amount specified for deficit recovery. The employers' contribution rates paid in 2013/14 were set by the 2010 valuation. The following list shows the contributions payable by the main employers:

Certified employer contributions		**2013/14**	**2014/15**	**2015/16**	**2016/17**
Nottinghamshire County Council		18.3%	13.2%	13.2%	13.2%
	Plus:		£12,638,000	£12,979,000	£13,330,000
Nottingham City Council		18.0%	12.5%	12.5%	12.5%
	Plus:		£8,031,000	£8,880,000	£9,356,000
Ashfield District Council		22.4%	12.3%	12.3%	12.3%
	Plus:		£1,021,000	£1,144,000	£1,272,000
Bassetlaw District Council		22.1%	13.5%	13.5%	13.5%
	Plus:		£1,890,000	£2,027,000	£2,127,000
Broxtowe Borough Council		18.7%	13.2%	13.2%	13.2%
	Plus:		£716,000	£735,000	£755,000
Gedling Borough Council		18.2%	12.3%	12.3%	12.3%
	Plus:		£555,000	£569,000	£585,000
Mansfield District Council		20.5%	13.9%	13.9%	13.9%
	Plus:		£1,075,000	£1,250,000	£1,433,000
Newark and Sherwood District Council		21.9%	12.5%	12.5%	12.5%
	Plus:		£946,000	£1,065,000	£1,189,000
Rushcliffe Borough Council		19.5%	13.0%	13.0%	13.0%
	Plus:		£478,000	£556,000	£638,000

(c) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits has been calculated by the Fund's actuaries in accordance with IAS 19. To do this, the actuaries rolled forward the value of the Employers' liabilities calculated for the Triennial valuation as at 31 March 2013 allowing for the different financial assumptions required under IAS19. The assumptions used for the purposes of the IAS 19 calculations are as follows:

	31 March 2012		31 March 2013		31 March 2014	
	% pa	Real % pa	% pa	Real % pa	% pa	Real % pa
RPI Increases	3.3	-	3.4	-	3.6	-
CPI increases	2.5	(0.8)	2.6	(0.8)	2.8	(0.8)
Salary Increases	4.7	1.4	4.8	1.4	4.6	1.0
Pension Increases	2.5	(0.8)	2.6	(0.8)	2.8	(0.8)
Discount Rate	4.6	1.3	4.5	1.1	4.5	0.9

The net liability under IAS 19 is shown below.

	31 March 2012 £000	31 March 2013 £000	31 March 2014 £000
Present value of funded obligation	4,966,881	5,476,127	5,733,792
Fair value of scheme assets	3,061,212	3,477,023	3,708,200
Net Liability	**1,905,669**	**1,999,104**	**2,025,592**

The present value of funded obligation consists of £5,434,513,000 in respect of Vested Obligation and £299,279,000 in respect of Non-Vested Obligation.

These figures are presented only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory puposes under UK pensions legislation.

(d) Investment Strategy

The investment strategy of the Fund is designed to maximise growth within acceptable risk parameters to help meet the future liabilities. The powers of investment are governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The investment policy is set out in the Fund's Statement of Investment Principles, a copy of which is available on the pension fund website (www.nottspf.org.uk).

The Nottinghamshire Pension Fund Committee, advised by the Pensions Sub-Committee, is responsible for determining the investment strategy of the Fund and the type of investment management to be used. The Pensions Sub-Committee consists of nine elected County Councillors, three representatives of Nottingham City Council, two representatives of the District Councils, two representatives of the Trade Unions, a representative elected by the other scheduled and admitted bodies and two appointed pensioner representatives. Meetings are also attended by an independent adviser and representatives of the Chief Financial Officer.

The investments are managed by officers of the Authority or by organisations specialising in the management of pension fund assets. The Investments Sub-Committee is responsible for monitoring performance of the fund and meets on a quarterly basis to review the Fund's main investment managers and their performance.

(e) External Audit

A separate fee is payable to KPMG LLP for audit of the pension fund. All fees have been included in the accounts for the period to which they relate. The fee for 2013/14 is £26,806 (£29,926 for 2012/13).

3. Contributors and Pensioners

	County Council	City Council	District Councils	Other	Total
	Members at 31 March 2014				
Contributors	15,244	8,210	3,286	12,411	39,151
Deferred Beneficiaries	16,932	7,850	3,456	8,073	36,311
Pensioners	14,702	6,114	4,479	5,529	30,824
					106,286

	County Council	City Council	District Councils	Other	Total
	Members at 31 March 2013				
Contributors	15,162	8,084	3,285	11,309	37,840
Deferred Beneficiaries	16,319	7,831	3,409	7,628	35,187
Pensioners	14,276	5,874	4,421	5,226	29,797
					102,824

4. Analysis of Contributions

	Employers		Members		Total	
	2012/13 £000	**2013/14 £000**	**2012/13 £000**	**2013/14 £000**	**2012/13 £000**	**2013/14 £000**
County Council	41,794	39,473	13,612	12,956	55,406	52,429
Scheduled Bodies	81,371	79,817	27,832	26,441	109,203	106,258
Admitted Bodies	3,967	4,615	1,385	1,621	5,352	6,236
	127,132	**123,905**	**42,829**	**41,018**	**169,961**	**164,923**

5. Analysis of Benefits

	2012/13 £000	2013/14 £000
Pensions	127,078	132,832
Commutation and lump sum	28,187	23,115
Lump sum death benefits	3,714	3,793
	158,979	**159,740**
Comprising of:		
County Council	64,206	65,160
Scheduled Bodies	90,511	89,657
Admitted Bodies	4,262	4,923
	158,979	**159,740**

6. Administration Expenses

	2012/13 £000	2013/14 £000
Printing and stationery	37	36
Subscriptions and membership fees	6	-
Actuarial fees	5	54
Audit fees	15	14
Other external fees	121	211
Administering Authority Costs	1,225	1,127
	1,409	**1,442**

7. Investment Income

Analysis by type of investment	2012/13 £000	2013/14 £000
Interest from fixed interest securities	(12,575)	(13,472)
Income from index-linked securities	(1,304)	(684)
Dividends from equities	(51,357)	(66,959)
Income from pooled investment vehicles	(5,099)	(5,401)
Income from property pooled vehicles	(1,531)	(3,055)
Net rents from property	(14,683)	(14,461)
Interest on cash deposits	(1,088)	(854)
Other	(670)	(502)
	(88,307)	**(105,388)**
Directly held property		
Rental income	(17,623)	(17,001)
Less operating expenses	2,940	2,540
Net rents from property	**(14,683)**	**(14,461)**

8. Investment Management Expenses

	2012/13 £000	2013/14 £000
Training and conferences	5	9
Subscriptions and membership fees	19	21
Actuarial fees	-	2
Audit fee	15	13
Custody fees	263	299
Investment management fees	2,589	3,420
Other external fees	249	232
Administering Authority Costs	366	373
	3,506	**4,369**

9. Investments

(a) Investment Analysis	31 March 2013 £000	31 March 2014 £000
Fixed Interest Securities		
UK Public Sector	118,757	89,020
UK Other	119,028	233,576
Overseas Public Sector	69,666	-
Overseas Other	16,104	38,287
Index Linked Securities		
Public Sector	50,140	-
Other	30,599	-
Equities		
UK	1,101,770	1,150,350
Overseas	571,770	665,788
Unlisted	1,994	2,340
Pooled Investment Vehicles		
Unit Trusts	324,988	400,043
Other Managed Funds	581,176	572,005
Pooled Vehicles Invested in Property		
Property Unit Trusts	26,551	32,743
Other Managed Funds	95,404	86,341
Property	288,075	288,140
Forward Foreign Exchange	250	191
Cash and Currency	81,269	153,469
Total Investments	**3,477,541**	**3,712,293**

The original values of investments are based on purchase cost plus expenses. If any investments have been held since 1 April 1974 (when the Authority was given the responsibility for the Fund) these are included at the market value as at that date.

	31 March 2013 £000	31 March 2014 £000
Market Value	3,477,541	3,712,293
Original Value	2,600,107	2,688,995
Excess/(Deficit) of Market Value over Original Value	**877,434**	**1,023,298**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 contain a number of restrictions on investments. The limits that are relevant to the Fund are specified in the Fund's Statement of Investment Principles as follows:

(a) Not more than 10% of the Fund to be invested in unlisted securities.
(b) Not more than 10% of the Fund to be invested in a single holding.
(c) Not more than 25% of the Fund to be invested in securities which are managed by any one body, i.e. in a unit trust type arrangement.
(d) Not more than 15% of the Fund to be invested in partnerships, with not more than 2% in any one partnership.

No investments have been made contrary to these limits.

(b) Reconciliation of Opening and Closing Values of Investments 2013/14

	Value at 1 April 2013 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2014 £000
Fixed Interest Securities	323,555	480,789	(420,813)	(22,648)	360,883
Index Linked Securities	80,739	7,219	(84,291)	(3,667)	-
Equities	1,675,534	246,295	(226,450)	123,099	1,818,478
Pooled Investment Vehicles	906,164	67,114	(26,579)	25,349	972,048
Property Pooled Vehicles	121,955	2,886	-	(5,757)	119,084
Property	288,075	12,354	(37,425)	25,136	288,140
	3,396,022	**816,657**	**(795,558)**	**141,512**	**3,558,633**
Forward Foreign Exchange	250	158,731	(158,549)	(241)	191
	3,396,272	**975,388**	**(954,107)**	**141,271**	**3,558,824**
Cash deposits	81,269				153,469
	3,477,541				**3,712,293**

Reconciliation of Opening and Closing Values of Investments 2012/13

	Value at 1 April 2012 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2013 £000
Fixed Interest Securities	288,011	272,909	(254,623)	17,258	323,555
Index Linked Securities	75,344	25,440	(27,402)	7,357	80,739
Equities	1,439,872	228,930	(196,257)	202,989	1,675,534
Pooled Investment Vehicles	733,096	64,318	(12,649)	121,399	906,164
Property Pooled Vehicles	121,393	1,284	-	(722)	121,955
Property	266,603	34,340	-	(12,868)	288,075
	2,924,319	**627,221**	**(490,931)**	**335,413**	**3,396,022**
Forward Foreign Exchange	-	158,842	(158,048)	(544)	250
	2,924,319	**786,063**	**(648,979)**	**334,869**	**3,396,272**
Cash deposits	137,382				81,269
	3,061,701				**3,477,541**

For Forward Foreign Exchange contracts, the purchase cost and sale proceeds represent the sterling value of the currency purchases and sales at the settlement dates specified in the contracts.

Transaction costs are included in the cost of purchases and sale proceeds. The costs charged directly to the fund, such as fees, commissions and stamp duty, amounted to £1,860,540 in 2013/14 (£1,844,156 in 2012/13). In addition, indirect costs are incurred through the bid-offer spread on investments. This amount is not separately provided.

(c) Management Arrangements

The assets of the Fund are managed within five portfolios and a breakdown of these as at the Net Assets Statement date is shown below:

	31 March 2013 £000		31 March 2014 £000	
In-house	1,425,382	41.0%	1,557,437	42.1%
Schroder Investment Management	925,194	26.6%	1,011,414	27.2%
Kames Capital	404,544	11.6%	361,074	9.7%
Aberdeen Property Investors	291,456	8.4%	294,459	7.9%
Specialist	430,965	12.4%	487,909	13.1%
Total	**3,477,541**	**100.0%**	**3,712,293**	**100.0%**

A breakdown of material pooled holdings managed by external managers within the In-house and Specialist portfolios is shown below:

	31 March 2013 £000	31 March 2014 £000
In-house		
Legal & General	268,870	259,562
Specialist		
Kames Capital	467,034	102,543
RWC Capital	141,751	134,638
Standard Life	52,019	49,428

(d) Asset Allocation

The asset allocation of the Fund as at the Net Assets Statement date is shown below:

	31 March 2013 £000		31 March 2014 £000	
UK Fixed Interest	237,785	6.8%	322,597	8.7%
Overseas Fixed Interest	85,770	2.5%	38,287	1.0%
Index Linked Securities	80,738	2.3%	-	-
UK Equities	1,211,834	34.8%	1,287,335	34.7%
Overseas Equities:				
US	423,694	12.2%	488,001	13.2%
Europe	337,287	9.7%	397,607	10.7%
Japan	102,688	3.0%	117,074	3.2%
Pacific Basin	151,890	4.4%	134,542	3.6%
Emerging Markets	198,907	5.7%	169,878	4.6%
Global	17,450	0.5%	18,094	0.5%
UK Property	322,672	9.3%	327,785	8.8%
Overseas Property	87,358	2.5%	79,439	2.1%
Private Equity	75,209	2.2%	75,451	2.0%
Multi-Asset	62,740	1.8%	102,543	2.8%
Forward Foreign Exchange	250	-	191	-
Cash	81,269	2.3%	153,469	4.1%
Total	**3,477,541**	**100.0%**	**3,712,293**	**100.0%**

(e) Property

Direct property is shown at open market value (as defined by the International Valuation Standards Committee) as determined by Savills Commercial Limited. The analysis of property is:

	31 March 2013 £000	31 March 2014 £000
Freehold	268,375	288,140
Leasehold more than 50 years	19,700	-
	288,075	**288,140**
Original Value	313,798	285,068

(f) Analysis of Pooled Investment Vehicles

The underlying economic exposure of pooled investment vehicles is shown below:

	31 March 2013 £000	31 March 2014 £000
UK Equities	134,421	158,665
Overseas Equities:		
US	158,177	192,984
Japan	62,525	72,746
Europe	71,198	71,166
Pacific Basin	151,890	134,542
Emerging Markets	172,554	148,198
Global	17,450	18,094
UK Property	34,597	39,645
Overseas Property	87,358	79,439
Private Equity	75,209	73,110
Multi-Asset	62,740	102,543
Total	**1,028,119**	**1,091,132**

(g) Private Equity Funds

The Fund has made commitments to a number of private equity funds. The original commitment amounts are shown below in the fund currencies:

Funds	**Currency**	**Commitment** millions
Wilton Private Equity Fund LLC	USD	14
Pantheon Europe Fund III	EUR	10
East Midlands Regional Venture Capital Fund	GBP	5
Coller International Partners IV	USD	10
Schroders Private Equity Fund of Funds III	EUR	22
DCM Private Equity Fund II	USD	18
Pantheon Europe Fund V	EUR	15
Coller International Partners V	USD	18
Catapult Growth Fund LP	GBP	4
Altius Associates Private Equity Fund	USD	10
Partners Group Secondary 2008	EUR	13
DCM Private Equity Fund III	USD	16
Coller International Partners VI	USD	16
Altius Associates Private Equity Fund II	USD	15
Partners Group Global Infrastructure	EUR	12
Foresight Nottingham Fund LP	GBP	10
Altius Real Assets Fund I	USD	15
Altius Real Assets Fund - Infrastructure Opportunity	EUR	12
DCM Private Equity Fund IV	USD	16

These commitments are drawn by the funds over time as investments are made in underlying companies. The undrawn commitment as at 31 March 2014 was £79.3 million (£53.1 million at 31 March 2013). Of the funds above, the following were new commitments made during 2013/14:

	Currency	**Commitment**
		millions
Foresight Nottingham Fund LP	GBP	10
Altius Real Assets Fund I	USD	15
Altius Real Assets Fund - Infrastructure Opportunity	EUR	12
DCM Private Equity Fund IV	USD	16

(h) Analysis of derivatives

Open Forward Foreign Exchange contracts at 31 March 2014

Settlement	**Currency Bought**	**Local Value 000**	**Currency Sold**	**Local Value 000**	**Asset Value £000**	**Liability Value £000**
Up to 3 months	GBP	12,503	EUR	(15,000)	97	0
Up to 3 months	GBP	25,900	USD	(43,000)	94	0
					191	**0**
	Total net forward foreign exchange contracts				**191**	

Open Forward Foreign Exchange contracts at 31 March 2013

Settlement	**Currency Bought**	**Local Value 000**	**Currency Sold**	**Local Value 000**	**Asset Value £000**	**Liability Value £000**
Up to one month	GBP	10,500	USD	(15,946)	-	(2)
Up to one month	GBP	13,436	USD	(20,000)	263	-
Up to one month	GBP	9,661	EUR	(11,000)	358	-
Up to one month	USD	31,325	GBP	(21,000)	-	(368)
					621	**(371)**
	Total net forward foreign exchange contracts				**250**	

10. Contingent Liabilities

The fund has 19 private equity funds which have undrawn commitments as at 31 March 2014 of £79.3 million (£53.1 million at 31 March 2013).

11. Other Investment Balances and Liabilities

	31 March 2013 £000	31 March 2014 £000
Other investment balances		
Outstanding investment transactions	1,760	1,376
Investment income	14,600	20,294
	16,360	**21,670**
Investment Liabilities		
Outstanding investment transactions	(536)	-
Investment income	(2,621)	(2,650)
	(3,157)	**(2,650)**

12. Current Assets and Liabilities

	31 March 2013 £000	31 March 2014 £000
Current assets		
Contributions due from employers	17,297	8,865
Other	1,184	1,168
	18,481	**10,033**
Current Liabilities		
Payments in advance	(3,261)	(720)
Sundry creditors	(1,455)	(838)
Other	(8,433)	(6,643)
	(13,149)	**(8,201)**

13. Members Additional Voluntary Contributions

The Nottinghamshire Fund provides an additional voluntary contribution (AVC) scheme to enable members to purchase additional benefits. Contributions are paid over to, and invested separately by, the two scheme providers, Prudential and Scottish Widows. The contributions are not included in the Fund's accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The value of the separately invested AVCs is shown below:

	31 March 2013 £000	31 March 2014 £000
Prudential	32,337	33,667
Scottish Widows	3,254	3,282
	35,591	**36,949**

14. Financial Instruments

(a) The various financial instruments held by the Fund are valued at fair value. The following tables analyse the fair value of financial assets and liabilities by asset class.

	31 March 2014			
	Designated at Fair Value through profit and loss	**Loans and Receivables**	**Financial liabilities at amortised cost**	**Totals**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Fixed Interest Securities	360,883	-	-	360,883
Index Linked Securities	-	-	-	-
Equities	1,818,478	-	-	1,818,478
Pooled Investment Vehicles	972,048	-	-	972,048
Property Pooled Vehicles	119,084	-	-	119,084
Forward Foreign Exchange	191	-	-	191
Cash deposits	-	153,469	-	153,469
Other investment balances	-	21,670	-	21,670
Current Assets	-	10,033	-	10,033
	3,270,684	**185,172**	**-**	**3,455,856**
Financial Liabilities				
Investment Liabilities	-	-	(2,650)	(2,650)
Current Liabilities	-	-	(8,201)	(8,201)
	-	**-**	**(10,851)**	**(10,851)**
	3,270,684	**185,172**	**(10,851)**	**3,445,005**

	31 March 2013			
	Designated at Fair Value through profit and loss	**Loans and Receivables**	**Financial liabilities at amortised cost**	**Totals**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Fixed Interest Securities	323,555	-	-	323,555
Index Linked Securities	80,739	-	-	80,739
Equities	1,675,534	-	-	1,675,534
Pooled Investment Vehicles	906,164	-	-	906,164
Property Pooled Vehicles	121,955	-	-	121,955
Forward Foreign Exchange	621	-	-	621
Cash deposits	-	81,269	-	81,269
Other investment balances	-	16,360	-	16,360
Current Assets	-	18,481	-	18,481
	3,108,568	**116,110**	**-**	**3,224,678**
Financial Liabilities				
Investment Liabilities	-	-	(3,157)	(3,157)
Current Liabilities	-	-	(13,149)	(13,149)
	-	**-**	**(16,306)**	**(16,306)**
	3,108,568	**116,110**	**(16,306)**	**3,208,372**

No financial assets were reclassified during the accounting period.

(b) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values.

Level 1	Fair values derived from quoted market price. - this includes all quoted equity, fixed interest and index linked instruments.
Level 2	Fair values derived from valuation techniques based significantly on observable inputs. - this includes all pooled property investments.
Level 3	Fair values derived from valuation techniques where at least one significant input is not based on observable market data. - this includes unlisted shares and investments in private equity funds.

As at 31 March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	3,073,809	119,084	77,791	3,270,684
Loans and receivables	185,172			185,172
Total	**3,258,981**	**119,084**	**77,791**	**3,455,856**
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(10,851)	-	-	(10,851)
Total	**(10,851)**	**-**	**-**	**(10,851)**
Net	**3,248,130**	**119,084**	**77,791**	**3,445,005**

As at 31 March 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	2,909,408	121,955	77,205	3,108,568
Loans and receivables	116,110			116,110
Total	**3,025,518**	**121,955**	**77,205**	**3,224,678**
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(16,306)	-	-	(16,306)
Total	**(16,306)**	**-**	**-**	**(16,306)**
Net	**3,009,212**	**121,955**	**77,205**	**3,208,372**

(c) Nature and extent of risks arising from financial instruments

The aims of the Fund are to:

- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

The key risks to the achievement of these aims, as well as measures to mitigate those risks, are set out in the various Fund policies (available at www.nottspf.org.uk) including:

- Statement of Investment Principles
- Funding Strategy Statement
- Governance Compliance Statement
- Risk Management Strategy and Risk Register

The Risk Register identifies the highest risks as arising from:

- Significant variations from assumptions used in the actuarial valuation
- Fund assets assessed as insufficient to meet long term liabilities.

The Fund's primary risk is therefore that its assets fall short of its long term liabilities. The Funding Strategy Statement aims:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible
- to take a prudent longer-term view of funding those liabilities

The most significant effect on the funding level arises from changes in the discount rate used by the actuaries. The sensitivity analysis below shows the impact of a movement of 0.1% in the discount rate.

Adjustment to discount rate	0.1%	0.0%	(0.1%)
Present Value of Total Obligation (£000)	5,627,558	5,733,792	5,842,136

The Fund deficit at the last triennial valuation was £620 million. With no other change in assumptions, an increase in the discount rate of just under 0.6% would reduce the deficit to nil.

For the first time, contribution income for 2013/14 was insufficient to cover benefit payments but the Fund continues to receive significant investment income. It is therefore unlikely that assets will have to be realised in order to meet pension benefits. This allows the Fund to implement a long term investment strategy and minimise the impact of short term fluctuations in investment and currency markets. The strategy, and the assumptions that underpin it, are reviewed on a regular basis and cash flows are monitored closely to ensure there is sufficient liquidity to meet forecast cash flows.

The investment strategy is aimed at achieving best returns in line with the requirements of the triennial valuation whilst minimising risk and overall variability in future employers' contribution rates. A key part of managing the investment risk is by ensuring an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets. The level of risk in the equities block is managed by a balance between passive and active management.

Policies are reviewed regularly to reflect changes in activity and in market conditions. Responsibility for reviewing and revising the policies rests with the Nottinghamshire Pension Fund Committee.

15. Related Party Transactions

Under IAS 24, a party is related to an entity if:

- the party is a member of the key management personnel;
- the party is a post-employment benefit plan for the benefit of employees of the entity.

The purpose of related party disclosures is to provide information on transactions and balances that could have an effect on the operations or financial position of an entity. For example, related parties may enter into transactions that unrelated parties would not and transactions between related parties may not be made at the same amounts as between unrelated parties.

Disclosures are required for:

- the nature of the related party relationship
- key management personnel compensation
- information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Nottinghamshire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire and is one of the major employers within the scheme. Information regarding key management personnel is provided within the main accounts of Nottinghamshire County Council. Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Nottinghamshire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.

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Report to those charged with governance (ISA 260) 2013/14

Nottinghamshire Pension Fund

September 2014

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Bellamy, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Introduction

This document summarises the key issues identified during our audit of the Nottinghamshire Pension Fund's (the Fund's) financial statements for the year ended 31 March 2014.

Scope of this report

The Audit Commission's Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance. We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2014.

Financial statements

As with the main audit of Nottinghamshire County Council (the Authority), our audit of the Fund follows a four stage audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures.

Our on site work for these took place during February 2014 (interim audit) and July 2014 (year end audit).

Some of our responsibilities under ISA 260 relate to the Authority as administering authority as a whole and are discharged through our separate ISA 260 Report and Annual Audit Letter for the Authority.

This specifically includes our work in the completion stage:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest, including our audit fees.

Structure of this report

This report is structured as follows:

- Section two summarises the headline messages.
- Section three sets out the findings from our audit work on the Fund's financial statements in more detail.

Acknowledgements

We would like to take this opportunity to thank officers for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages.

Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report 30 September 2014. At the date of this report our audit of the Fund's financial statements is substantially complete and the document is due to be approved by the Audit Committee on 3 September 2014. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.
Audit adjustments	We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments. The Authority made a small number of non trivial adjustments, most of which were of a presentational nature.
Accounts production and audit process	The Authority continues to have good processes in place for the production of the Fund's financial statements and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have worked with officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.
Control environment	The Fund's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

-

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 3 September 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements. We identified a number of issues that have been adjusted by management .

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on local Authority Accounting in the United Kingdom 2013/14 (‘the Code’). We understand that the Authority will be addressing these where significant.

Completion

At the date of this report, our audit of the Fund’s financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority’s representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year’s audit of the Fund’s financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that:

- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2014. The Pension Fund Annual Report is currently due to be approved by the Pensions Committee in October 2014. We will also need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report .

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority's process for preparing the Fund's financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements over the Fund's financial statements in place. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 27 June 2013.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 23 March 2014 and discussed with Senior Pensions Accountant, set out our working paper requirements for the audit. The quality of working papers provided was variable but met the standards specified in our *Accounts Audit Protocol*.
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Control environment

The controls over all of the Fund's key financial systems are sound.

During February 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

Most of the controls we look at do not just relate to the Fund but the Authority as a whole.

We found that your organisational control environment is effective overall.

ISAE 3402 reports

The Fund used a total of three different fund managers during 2013/14. Most fund managers provide assurance reports under International Standard on Assurance Engagements (ISAE) 3402 or equivalents. ISAE 3402 reports provide assurance over the controls at a service organisation where these controls are likely to be relevant to user entities' internal control over financial reporting.

Assurance reports were available for all fund managers.

Work on behalf of admitted body auditors

The auditors of admitted bodies requested us to complete specific work on controls operated by the Fund on behalf of the admitted bodies over certain data provided to the actuaries in order to determine the pensions liabilities and related disclosures for the admitted bodies as part of the 31 March 2013 triennial valuation.

Our work did not identify any specific issues.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Nottinghamshire Pension Fund for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Nottinghamshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Authority's Group Manager for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Fund's 2013/14 financial statements.

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Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

16 September 2014

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

LGPS CONSULTATION RESPONSE

Purpose of the Report

1. To inform members of the Fund's response to the consultation issued by the Department for Communities and Local Government (DCLG) on *Opportunities for collaboration, cost savings and efficiencies*.

Information and Advice

2. At the meeting on 17 June 2014, Members of the Nottinghamshire Pension Fund Committee discussed the DCLG's consultation on *Opportunities for collaboration, cost savings and efficiencies*. As resolved at the meeting, a response to the consultation incorporating the views of Members was agreed with the Chair of the Nottinghamshire Pension Fund Committee and submitted by the consultation deadline (11 July 2014). This response is attached.

3. The government is currently analysing all the responses. For information, the original consultation documentation can be accessed online at: https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies.

Reason/s for Recommendation/s

4. The recommendation is in line with the Pension Fund Committee's responsibilities under the Council's constitution.

Statutory and Policy Implications

5. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That the Fund's response to DCLG's consultation on *Opportunities for collaboration, cost savings and efficiencies* be noted.

Report Author:
Simon Cunnington
Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments

6. Because this report is for noting only no Constitutional Comments are required.

Financial Comments (SRC 21/08/2014)

7. There are no direct financial implications arising from the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- 'None'

This matter is being dealt with by:
Simon Cunnington
Reference:
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Nottinghamshire County Council

Victoria Edwards
Department for Communities and Local Government
Zone 5/F5
Eland House
Bressenden Place
London, SW1E 5DU

10 July 2014

Dear Victoria,

Thank you for the opportunity to respond to the consultation on *Opportunities for collaboration, cost savings and efficiencies* within the Local Government Pension Scheme (LGPS). I am pleased to see that the Department has recognised that fund mergers should not be taken further at this stage.

The response to the consultation of the Nottinghamshire Pension Fund is attached. The key messages from our Fund are highlighted below.

- Common investment vehicles (CIVs) clearly have the capacity to enable fee reductions to be negotiated if sufficient funds are combined together
- However, the Nottinghamshire Fund is already low cost with an investment expense level of 0.1% of the Fund in 2012/13
- Part of the reason for this is in-house management which seems to have been overlooked in the consultation despite positive evidence within the Hymans report
- Oversight of the LGPS is currently very cost effective through the role of councillors
- CIVs will need to be resourced to an appropriate level to ensure effective governance
- Asset allocation should remain with local fund authorities
- Active management can add value, but only over the long term – for example Schroders have added at least £58 million to the Nottinghamshire Fund net of fees since 1999
- Returns net of fees are key – absolute fee levels are less relevant
- Other benefits flow from active management such as price discovery and effective engagement backed by the threat of disinvestment

The Nottinghamshire Fund would not be supportive of compulsion for all listed assets to be managed passively and would suggest that a “comply or explain” approach would be more appropriate. However, it would be far better to focus reform on analysis of the consistently high or poor performing funds and implement changes across the remaining funds to take advantage of any identified best practice. This would retain the outperformance from the better funds and help to improve the returns from the poor performers, thereby helping to reduce deficits across the LGPS.

Yours sincerely,

Councillor Stella Smedley
Chair, Nottinghamshire Pension Fund Committee

Proposal 1: Common investment vehicles

Q1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Common investment vehicles (CIVs) clearly have the capacity to enable fee reductions to be negotiated if sufficient funds are combined together. The level of saving depends on the type of investment placed within the CIV and the current level of fees being paid – this will differ markedly by asset class and from fund to fund. The Nottinghamshire Fund has maintained a relatively simple structure for its traditional asset classes and has developed long term relationships with a relatively small number of external managers. The main portfolios are consequently of a significant size and fee levels have been kept low.

Total investment management expenses for 2012/13 for the Nottinghamshire Fund were £3.5 million on assets valued at £3.5 billion, an expense level of 0.1%.

One of the other key elements to the low cost of the Nottinghamshire Fund is having a significant proportion of the Fund managed in-house. It is surprising that the consultation is silent on the benefits of in-house management both in terms of cost and performance. The Hymans Robertson report commissioned by DCLG, however, has several useful reminders of the benefits of managing funds in-house.

'Research carried out by CEM showed that the fee for an active EAFE (essentially global ex North America) equity mandate managed externally was over four times as much as an internally managed mandate (46bps v 10 bps)'.

(LGPS Structure Analysis, Hymans Robertson, 2013, p13)

'There is evidence that internally managed pension funds in the UK have outperformed those with no internal management even before fees are taken into account'.

(LGPS Structure Analysis, Hymans Robertson, 2013, p18)

Table 11: Performance of internally managed funds (%p.a.) to the end of 2011 (before fees)

	5yrs	10yrs	20yrs	25yrs
Internal	3.7	6.2	8.6	8.9
All Funds	3.5	5.9	8.3	8.6
Relative	0.2	0.3	0.3	0.3

As the cost savings from using internal management are significant, the differential performance after costs are taken into account will be even more substantial.

(LGPS Structure Analysis, Hymans Robertson, 2013, p21)

The Nottinghamshire Fund has not invested in the majority of alternative asset classes but does have a significant commitment to a number of private equity funds. These are mostly fund of funds and secondary funds and so will include an additional layer of fees. This approach has been taken to increase diversification and because the necessary expertise was not available in-house. A CIV structure for direct investment into private equity may be an attractive alternative. However, using a CIV may bring a number of potential difficulties.

- Acquiring the necessary expertise within the CIV at reasonable cost
- Retaining access to smaller opportunities within the market
- Avoiding over concentration of investment

The first point above will apply to any CIV to be set up. To operate successfully, the CIV must be resourced appropriately to attract and retain the right staff with sufficient knowledge and expertise. Additional costs will also be incurred in the procurement, monitoring and oversight of the external managers appointed by the CIVs. These costs will be partly dependent on the location of the CIVs and the consultation provides no information in this respect. It is worth pointing out that the current oversight of the majority of LGPS funds is incredibly cost effective, being carried out for the most part by councillor “volunteers”.

There may be opportunities to reduce fees and access bigger projects (such as housing or other infrastructure) through greater collaboration between existing funds without the need to set up CIVs. There are also already examples of investment managers offering fee scales which reduce in line with the level of funds managed across the LGPS as a whole.

Q2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Asset allocation depends largely on the required return for the fund and its cash flow position which, in turn, depends to a large extent on the funding position and membership profile of the employers within the fund. As the consultation states (p7), ‘each fund has its own funding level, cash-flow and balance of active, deferred and pensioner members, which it takes into account when adopting its investment strategy’. Clearly, therefore, asset allocation decisions should be retained by the local fund authorities.

Q3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

One of the main tenets of investment is diversification, spreading investment across multiple asset classes and managers to reduce the risk that all perform poorly at the same time. This would apply in the same sense to CIVs. It would be counter-intuitive to set up only one CIV as this would increase the impact if the CIV’s decisions turned out to be detrimental to performance. However, creating more than one CIV clearly increases the cost of implementation and ongoing operations.

The number of CIVs required may be partly dependent on the outcome of the consultation on proposal 2 regarding the passive investment of listed assets. If all listed assets are required to be managed on a passive basis, then one CIV may be able to place these assets with one or more of the major managers of passive mandates with relatively little increase in risk. However, if a significant proportion of assets remain actively managed, then funds will need to be spread over a number of managers to reduce the risk of concurrent underperformance. This may be better managed through more than one CIV.

Another issue may be capacity to trade. If only one CIV is used, then asset allocation changes by funds may result in sizeable trades which could distort the market. This would be reduced if more than one CIV were used. The difference in the quoted net present value of savings from assets pooled into two CIVs or ten is relatively small so the ideal number of CIVs would fall somewhere in between.

Q4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

It is difficult (if not impossible) to comment on which CIV would offer the most beneficial structure without having done in-depth analysis of costs, benefits and drawbacks of the different types available. It may be sensible to use the analysis presumably carried out by the London Councils when setting up the London CIV to determine what would be the most suitable structure.

Although Hymans Robertson were asked to focus on “hard” benefits such as cost reductions rather than “soft”, less easily quantifiable benefits, the consultation does recognise that there are benefits from improved governance (p14). It would be expected therefore that CIVs set up as part of any reform of the LGPS would strive to reflect best practice in governance. To do this they will need to be properly resourced and have officers and board members with sufficient expertise of both investment and governance matters. This may reduce the cost savings achievable as pointed out above.

A key role of the CIV will be monitoring and oversight of external fund managers. One of the strengths of the Nottinghamshire Fund is the long term relationships it has with its investment managers and this would be lost through a CIV as there would be no direct contact between the Fund and those managing its assets.

The Nottinghamshire Fund, along with many other LGPS funds, already strives for best practice in its governance by seeking to comply with guidance prescribed by the Secretary of State and issued by CIPFA. This is borne out by the performance of the Fund as the table below demonstrates.

Fund returns achieved over 1, 3, 5 and 10 years

To 31 March 2013	**1yr**	**3yrs**	**5yrs**	**10yrs**
	%	%pa	%pa	%pa
Total Fund	13.9	8.2	6.3	9.0

Particularly interesting to note are the 3 year returns (8.2% pa) which are comfortably ahead of the assumed returns (6.9% pa) at the 2010 triennial valuation, and the 10 year returns (9% pa) which are well ahead of the assumed returns at any of the last four triennial valuations. This demonstrates clearly that investment returns, far from causing an increase in deficits within the Nottinghamshire Fund, have actually helped to mitigate the increasing liabilities caused by reducing bond yields and increasing longevity. A full understanding by those in government of the nature of a funded scheme, including the triennial valuation process and the real causes of deficits, would be beneficial in framing proposals for reform.

Proposal 2: Passive fund management of listed assets

The Government wishes to explore how to secure value for money for taxpayers, Scheme members and employers through effective use of passive management, while not adversely affecting investment returns. There is a range of options open to Government and the funds to achieve this:

- Funds could be required to move all listed assets into passive management, in order to maximise the savings achieved by the Scheme.
- Alternatively, funds could be required to invest a specified percentage of their listed assets passively; or to progressively increase their passive investments.
- Fund authorities could be required to manage listed assets passively on a "comply or explain" basis.
- Funds could simply be expected to consider the benefits of passively managed listed assets, in the light of the evidence set out in this paper and the Hymans Robertson report.

Q5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers?

The LGPS, in common with the whole of local government, is constantly adapting to become more efficient and seeking ways to collaborate between funds. Having local councillors as "trustees", means that there are few additional costs involved resulting in a very cost effective system. The investment of funds and the approach to funding is done with a long term viewpoint in order to minimise the variability in employers' contribution rates. This all helps to secure value for money for taxpayers.

The consultation recognises that it is important not to adversely affect investment returns as returns contribute significantly to reducing the cost of the scheme to employers. However, there are a number of flaws with the information provided within the consultation and the supporting report from Hymans Robertson.

The consultation claims that the proposal to move the management of all listed assets to a passive basis will save £420 million, of which £190 million is in reduced transaction costs. However, transaction costs have the effect of increasing the purchase cost of assets and reducing the proceeds of sales and are therefore reflected fully in the returns quoted – the returns are in effect shown net of these costs. Care must be taken not to double count these "savings".

Returns net of fees should be, in fact, a key focus of the consultation. If returns after fees are ahead of benchmarks or performance targets, the absolute cost of investment management is less relevant. There is clearly no guarantee that managers will exceed their benchmarks and the Hymans report presents evidence that the LGPS in aggregate doesn't. However, the report also states that 'a number of LGPS funds have a good and consistent record of investment performance over long periods' (p20).

In order to improve the aggregate performance of the LPGS there should be a focus on both the consistently high performers and the consistently poor performers. The reasons why these funds consistently perform well or poorly should be examined and changes implemented across the remaining funds to take advantage of any identified best practice. This will enable the existing outperformance to be retained while helping other funds to improve their returns with a consequent effect of deficits. Bringing aggregate performance down to the average will only increase deficits.

The explanations of performance are likely to include:

- Quality of governance and decision making
- Appropriateness of asset allocation and frequency of revision
- Whether funds adopt a genuine long term approach
- Number of managers and complexity of investments
- Frequency of manager changes

The Nottinghamshire Fund has a mixture of passive and active investments. The In-house portfolio includes mainly passive equities, managed both in-house and by external managers such as Legal & General. The Fund's two other main managers of listed assets are Schroder Investment Management (equities) and Kames Capital (bonds) – both manage assets on an active basis. The gross performance of these portfolios is shown below for periods up to 31 March 2014 and compared to both the benchmark set for the portfolio and the Fund's strategic benchmark for the asset class.

	3 months		**12 months**		**3 years**		**5 years**	
	Portfolio %	**B/mark %**	**Portfolio %**	**B/mark %**	**Portfolio %**	**B/mark %**	**Portfolio %**	**B/mark %**
In-house	0.1	0.0	7.3	6.5	7.7	7.3	15.3	14.9
Schroders	-1.3	-0.1	10.5	7.9	8.8	7.9	16.6	15.5
Strategic Equity B/mark		**0.5**		**6.8**		**7.7**		**14.9**
Kames	2.4	2.2	-2.5	-1.6	6.1	6.1	6.3	5.9
Strategic Bond B/mark		**2.1**		**-2.6**		**5.5**		**4.5**

This demonstrates two things:

- performance, particularly of the active managers, is volatile
- over the longer term, active managers can perform well in both absolute and relative terms.

There is no doubt that returns from active management are volatile and that hiring and firing of managers is often flawed. However, by taking a long term view of performance and closely monitoring managers' activities it is possible to ride out this volatility to achieve significant returns net of fees. For example, analysis of Schroders' performance since 1 April 1999 (the earliest data available) shows that they have added at least £58 million to the Nottinghamshire Fund in excess of fees. This has helped the funding position and is something the Fund would not wish to lose.

The Nottinghamshire Fund uses passive investment for equities because it believes that long term returns from equities will exceed returns from other mainstream assets. It therefore wants exposure to this asset class at reasonable cost and relatively low risk. This approach would not necessarily be suitable for bonds, however, where the role of the active manager is partly to avoid companies that may be at risk of default.

The Fund is also committed to long term responsible investment and recognises that engagement with companies in which it invests is important. However, on occasions, it will be the best course of action to reduce a holding or disinvest entirely from certain companies. This also helps "price discovery" which should ensure that a company's share price better reflects its future prospects. The direct impact on performance and the wider benefits to the market of this approach may be difficult to achieve if all investments are managed on a purely passive basis.

We would not, therefore, be in favour of compulsion in moving all listed assets to passive management and would suggest that a "comply or explain" approach would be more appropriate.

Respondents to this consultation are also invited to submit any feasible proposals for the reduction of fund deficits.

There are no proposals which will guarantee a reduction in fund deficits (which may explain why there were few suggestions submitted to the call for evidence). The important issue is to realise that the triennial valuation is about the long term funding of the scheme (and in this sense long term means 70 years or longer) not about trying to achieve full funding in 3 years. We therefore reiterate the points we made in our response to the call for evidence.

It is necessary to change the triennial valuation priorities to focus on a fund's real ability to pay pensions over the short, medium and long term. Focusing on one liability figure, affected hugely by the assumptions within the discount rate, is unhelpful and creates unnecessary concern.

The problems are compounded by the use of International Accounting Standard 19 (IAS19 Employee Benefits) for reporting pension liabilities. The treatment and reporting of an employer's pension liability as if it were a trade creditor due to be paid within 30 days is wholly inappropriate for pension benefits payable over decades.

It is also important to note that deficits are estimated and, because the cash flows involved are over a considerably long time, the biggest impact comes from the discount rate used by the actuaries. Sensitivity analysis carried out by the actuaries shows that, for Nottinghamshire, a movement of just 0.1% in the discount rate changes the fund's liabilities by over £100 million. As one of the main components of the discount rate, increasing bond yields could, at a stroke, wipe out the deficit. Across the LGPS as a whole, such movements in liabilities would far outweigh any cost savings that can be achieved through the proposals in the consultation.

As a long term investor, volatility of returns and funding levels should not be a problem as long as cash flows overall remain positive and attitudes to the long term funding of the scheme at each triennial valuation are pragmatic and reasonable. This unfortunately is often not the case as this consultation shows. A misunderstanding of what affects the valuation of liabilities, and the consequent deficits (or surpluses), runs the risk of implementing changes which reduce the long term returns achieved by the scheme as a whole. This will increase deficits rather than reduce them.

Nottinghamshire County Council, County Hall, West Bridgford, Nottingham NG2 7QP

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

16 September 2014

Agenda Item: 6

REPORT OF THE CHIEF EXECUTIVE

LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE REGULATIONS

Purpose of the Report

1. To update the Committee on a consultation response that has been submitted to the Department of Communities and Local Government, and to outline options for new governance arrangements for the Local Government Pension Scheme.

Information and Advice

2. As part of the Government's review of public sector pensions a consultation regarding governance arrangements was published in June 2014. The main proposals are for the establishment of two boards: -

   a. Each administering authority to have local pension board to undertake an oversight role in respect of local pension committees, and

   b. A national scheme advisory board

3. The consultation asked for views on a number of issues, most notably whether authorities should have the ability to set up joint local pension boards with other authorities, and whether a single committee could discharge the role of both local pension board and local pension committee. The Council's Section 151 Officer, in consultation with the Chairman and Vice Chairman of the Pension Fund Committee, submitted a response. A copy is attached at **Appendix A**.

4. It is expected that the draft regulations will be finalised in October 2014 and statutory guidance is also anticipated. Local authorities will have until April 2015 to put the necessary arrangements in place. A report will be taken to County Council as soon as possible after the regulations are published, but in the meantime the Committee's views are sought on options as set out in the report.

5. The Council currently has a Pension Fund Committee, this Pensions Investment Sub-Committee and a Pensions Sub-Committee. The terms of reference are attached at **Appendix B**. The Pensions Sub-Committee has a number of co-opted members; City Council Councillors, Councillors representing Nottinghamshire Local Authorities' Association, 2 Trades Unions representatives, 1 Scheduled Body representative and 2 Pensioner Representatives. Membership of the Pensions Investment Sub-Committee is the same with

the exception of the Pensioner Representatives. The Pension Fund Committee has a membership of County Councillors.

6. It is likely that the local pension board will require the following membership: -

    a. An equal number of employer and member representatives, but no less than 4 in total (none of these members can be elected Councillors)

    b. The total number of employer and member representatives must form the majority

7. This is best illustrated by an example. A pension board could have 2 scheme member representatives (for example an elected active member/pensioner representative and a trade union member), 2 employer representatives (for example a senior executive from a member authority and the head of HR from the administering authority), and 3 local authority members.

8. The role of the local pension board will be to assist the County Council as administering authority in securing compliance with the relevant legal requirements, and to ensure the effective and efficient governance and administration of the pension scheme. The representatives must have relevant experience and capacity to represent their stakeholders.

9. The local pension board will be a committee of Council rather than a sub-committee. Firm proposals regarding the size and composition of the board will be brought forward when the regulations are published. Committee Members' initial thoughts on the number of board members are invited however.

10. One option is to keep the current pension committee structure unchanged, and establish the local pension board as an additional body.

11. Another option is for the existing Pensions Sub-Committee to be disestablished and its responsibilities transferred to whichever is the most appropriate pensions committee under the new arrangements. The level of co-optee representation that the pension committee structure already has would be maintained by the establishment of the local pension board. The rationale for this option is that it would maintain the current number of pension-related committees rather than increasing the number of meetings, demands on officer time, and associated administration.

12. Committee Members' suggestions on any other options are invited.

13. Consideration will also need to be given to a number of other matters including the frequency of all pension committee meetings, training for committee members and officer support both for administering and advising meetings. These matters will be addressed in the report to County Council.

14. The Committee may also wish to take the opportunity to discuss the options for consultation with member bodies regarding proposed governance changes.

Other Options Considered

15. The options are set out in the report.

Reason/s for Recommendation/s

16. To comply with the provisions of new legislation in the most efficient and cost effective way.

Statutory and Policy Implications

17. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

The costs of the local pension board are to be regarded as administration costs and charged to the pension fund.

RECOMMENDATION/S

1) To note the consultation response submitted to the Department of Communities and Local Government on 8 September 2014 and

2) To note the options for revised pensions governance arrangements.

Mick Burrows
Chief Executive

For any enquiries about this report please contact:
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Nigel Stevenson, Group Manager, Chief Accountant, Financial Strategy & Compliance
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Constitutional Comments

18. As the report is for noting only constitutional comments are not required.

Financial Comments (SRC 05/09/2014)

19. The costs of the local pension board are expected to be a legitimate charge to the Fund in accordance with governing regulations.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- The Local Government Pension Scheme (Amendment) Regulations 2014; draft regulations on scheme governance (published)

Electoral Division(s) and Member(s) Affected

- All

APPENDIX A

Consultation on Draft LGPS Governance Regulations

This consultation response represents the views of Nottinghamshire County Council. The Chairman and Vice Chairman of the Pensions Committee have been consulted and approved the content.

The consultation asks for a preference in respect of Regulation 106(5). One option is for the local pension board to be established under the Local Government Act 1972. The alternative is for the local authority to determine arrangements itself. Nottinghamshire County Council's preference is, for simplicity, is to establish boards under the 1972 Act. However, consideration would need to be given to making the necessary exceptions to the 1972 Act provisions, for example in relation to voting rights and joint committees.

Regulation 107 contains provision about the membership of local pension boards, and stipulates that representatives have the relevant experience and capacity to perform their respective roles. The Council asks that consideration is given to elected members forming the majority membership of boards. It is established practice for elected members to carry out scrutiny functions and this might be a more comfortable arrangement than requiring officer involvement, when it is more usual for them to act in an advisory capacity.

It is noted that board costs are to be regarded as administration costs and charged to the pension fund. The Council would welcome guidance on the payment of allowances in addition to expenses.

Regulation 113 provides that the expenses of the scheme advisory board are to be treated as administration costs and recharged to administering authorities. The County Council has no objection on the basis costs will be rechargeable to the pension fund, and that the advice and assistance provided by the advisory board will be beneficial. It is suggested that administering authorities should have the ability to nominate members to the board.

Comments are invited on whether the regulations should allow for administering authorities to establish a single body to carry out the dual functions of managing and administering their scheme, and the local pension board duties. The County Council acknowledges there could be practical difficulties with this. However provided the necessary safeguards are included there is no objection to incorporating provision in the regulations for flexibility.

The County Council has no objection to the regulations allowing shared local pension boards for flexibility. However the Council would object if it was made subject to any requirement for a shared local pension board.

Nottinghamshire already facilitates an annual forum for employers and employees. It is not therefore considered necessary to include provision in the regulations.

All public bodies are already required to comply with the Equality Duty and it is not considered necessary to include specific provision in the regulations.

In respect of knowledge and understanding of pension committee members, it is impractical to stipulate specific knowledge and capacity of democratically elected councillors as a condition of nomination to a committee. However it is considered appropriate to set requirements in respect of essential training once a councillor becomes a committee member.

Early publication of statutory guidance would be welcome to assist with making arrangements in a relatively short timescale.

APPENDIX B

NOTTINGHAMSHIRE PENSION FUND COMMITTEE – TERMS OF REFERENCE

61. The exercise of the powers and functions set out below are delegated by the Full Council in relation to pensions:

    a. All decisions within the control of the Council including but not limited to those listed in the Table below

    b. Policy development in relation to pensions, subject to approval by the Policy Committee or the Full Council

    c. Review of performance in relation to the services provided on at least a quarterly basis

    d. Review of day to day operational decisions taken by officers

    e. Approval of consultation responses except for responses to day-to-day technical consultations which will be agreed with the Chairman and reported to the next available Committee following their submission.

    f. Approving all Councillor attendance at conferences, seminars and training events including any expenditure incurred, within the remit of this Committee and to receive quarterly reports from Corporate Directors on departmental officer travel outside the UK within the remit of this Committee.

62. If any report comes within the remit of more than one committee, to avoid the report being discussed at several committees, the report will be presented and determined at the most appropriate committee. If this is not clear, then the report will be discussed and determined by the Policy Committee.

63. As part of the detailed work programme the Committee will receive reports on the exercise of powers delegated to officers.

64. The Committee will be responsible for its own projects but, where it considers it appropriate, projects will be considered by a cross-committee project steering group that will report back to the most appropriate Committee.

Table
Administering the Nottinghamshire Pension Fund, including investments by and management of pension funds

NOTE: The County Council administers this Pension Fund on behalf of Nottinghamshire County Council, Nottingham City Council, the District and Borough Councils and other admitted bodies in Nottinghamshire.

PENSIONS INVESTMENT SUB-COMMITTEE – TERMS OF REFERENCE

65. This is a sub-committee of the Nottinghamshire Pension Fund Committee

66. The exercise of the powers and functions set out below are delegated:
    a. Responsibility for investment performance management of the Fund Managers and making appropriate recommendations to the Nottinghamshire Pension Fund Committee.

PENSIONS SUB-COMMITTEE – TERMS OF REFERENCE

67. This is a sub-committee of the Nottinghamshire Pension Fund Committee

68. The exercise of the powers and functions set out below are delegated:
    a. Responsibility for making recommendations to the Nottinghamshire Pension Fund Committee on matters relating to the administration and investment of the Pensions Fund.

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

16 September 2014

Agenda Item: 7

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

REFERRAL FROM PENSIONS SUB-COMMITTEE – REVISED FUNDING STRATEGY STATEMENT AND STATEMENT OF INVESTMENT PRINCIPLES

Purpose of the Report

1. To seek approval of the Pension Fund Committee to items referred from the Pensions Sub-Committee regarding:
   - revised versions of the Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP)

Information and Advice

2. At its meeting on 22 July 2014, the Pensions Sub-Committee considered a report on proposed changes to the Fund's FSS and SIP. These revised statements are attached.

Reason/s for Recommendation/s

3. According to governing regulations, an administering authority is required to prepare, maintain and publish various statements and then keep them under review, making revisions as appropriate.

Statutory and Policy Implications

4. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That the revised FSS and SIP be approved.

Report Author:
Simon Cunnington

Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments (SLB 26/08/14)

5. Nottinghamshire Pension Fund Committee is the appropriate body to consider the content of this report.

Financial Comments (SRC 21/08/14)

6. There are no direct financial implications arising from the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- ‘None’

Nottinghamshire County Council

Nottinghamshire Pension Fund

July 2014

FUNDING STRATEGY STATEMENT

Introduction

1. This is the Funding Strategy Statement (FSS) for the Nottinghamshire County Council Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the Regulations") and describes Nottinghamshire County Council's strategy, in its capacity as Administering Authority, for the funding of the Nottinghamshire County Council Pension Fund ("the Fund").

2. The Statement describes a single strategy for the Fund as a whole. The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

Purpose of the Funding Strategy Statement

3. The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:
    - How the costs of the benefits provided under the Local Government Pension Scheme (the "Scheme") are met through the Fund
    - The objectives in setting employer contribution rates
    - The funding strategy that is adopted to meet these objectives.

Purpose of the Fund

4. The purpose of the Fund is to:
    - Pay pensions, lump sums and other benefits provided under the Regulations
    - Meet the costs associated in administering the Fund
    - Receive contributions, transfer values and investment income.

Funding Objectives

5. Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

6. The funding objectives are to:
    - Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund
    - Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

Key Parties

7. The key parties involved in the funding process and their responsibilities are as follows.

The Administering Authority

8. The Administering Authority for the Pension Fund is Nottinghamshire County Council. The main responsibilities of the Administering Authority are to:
    - Collect employee and employer contributions
    - Invest the Fund's assets
    - Pay the benefits due to Scheme members
    - Manage the actuarial valuation process in conjunction with the Fund Actuary
    - Prepare and maintain this FSS and also the Statement of Investment Principles (SIP) after consultation with other interested parties as appropriate
    - Monitor all aspects of the Fund's performance.

Scheme Employers

9. In addition to the Administering Authority, a number of other Scheme Employers, including Admission Bodies, participate in the Fund. The responsibilities of each Scheme Employer that participates in the Fund, including the Administering Authority, are to:
    - Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales
    - Notify the Administering Authority of any new Scheme members and any other membership changes promptly
    - Exercise any discretions permitted under the Regulations
    - Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures
    - Notify the Administering Authority of significant changes in the employer's structure or membership.

Fund Actuary

10. The Fund Actuary for the Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:
    - Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations
    - Advise on other actuarial matters affecting the financial position of the Fund.

Funding Strategy

11. The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

12. The actuarial valuation involves a projection of future cash flows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

Funding Method

13. The key objective in determining employer's contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.

14. The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new staff access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

15. For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:
    - The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit
    - The future service funding rate which is the level of contributions required from the individual employers which, in combination with employee contributions, is expected to support the cost of benefits accruing in future.

16. The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.

17. For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

Valuation Assumptions and Funding Model

18. In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover.

19. The assumptions adopted at the valuation can therefore be considered as:
    - The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid
    - The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

20. An explanation of these key assumptions is included in the following paragraphs but further details of all of the assumptions adopted can be found in the latest actuarial valuation report.

Future Price Inflation

21. The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or “RPI”).

Future Pay Inflation

22. As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term.

Future Pension Increases

23. Pension increases are linked to changes in the level of the Consumer Price Index (or “CPI”). Inflation as measured by the CPI has historically been less then RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Future Investment Returns/Discount Rate

24. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values. The discount rate that is adopted will depend on the funding target adopted for each employer.

25. For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate.

26. For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer becomes an exiting employer under Regulation 64. The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

27. The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

28. For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

29. The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Deficit Recovery/Surplus Amortisation Periods

30. Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different from the value of accrued liabilities, depending on how the actual experience of the Fund differs from the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

31. Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

32. The period that is adopted for any particular employer will depend on:
    - The significance of the surplus or deficit relative to that employer's liabilities
    - The covenant of the individual employer and any likely limited period of participation in the Fund
    - The implications in terms of stability of future levels of employers' contribution.

Pooling of Individual Employers

33. The general 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.

34. However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

35. The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Cessation Valuations

36. On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

37. In assessing the financial position on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions from those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

Links with the Statement of Investment Principles

38. The main link between the FSS and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the SIP.

39. As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and Counter Measures

40. Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

41. The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial Risks

42. 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.

43. The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5 per cent per annum in the real discount rate will decrease/increase the valuation of the liabilities by 10 per cent, and decrease/increase the required employer contribution by around 2.5 per cent of payroll.

44. However, the Pensions Investment Sub-Committee regularly monitors the investment returns achieved by the fund managers and receives advice from officers and independent advisers on investment strategy.

45. The Committee may also seek advice from the Fund Actuary on valuation related matters. In addition, the Fund Actuary may provide funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic Risks

46. 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. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.

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

48. The liabilities of the Fund can also increase by more than has been planned as a result of early 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.

Regulatory Risks

49. The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. Regulations also place certain limitations on how the assets can be invested. The tax status of the invested assets is also determined by the Government.

50. 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.

51. 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.

Employer Risks

52. Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:
    - Structural changes in an individual employer's membership
    - An individual employer deciding to close the Scheme to new employees
    - An employer ceasing to exist without having fully funded their pension liabilities.

53. The Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

54. In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Monitoring and Review

55. This FSS is reviewed formally, in consultation with the key parties as appropriate, at least every three years to tie in with the triennial actuarial valuation process.

56. The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Nottinghamshire County Council

Nottinghamshire Pension Fund

July 2014

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

1. The County Council is an administering authority of the Local Government Pension Scheme (the "Scheme") as specified by the Local Government Pension Scheme Regulations 2013 (the LGPS Regulations). It is required by Regulation 53 of the LGPS Regulations to maintain a pension fund for the Scheme.

2. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "Investment Regulations") govern the management of the pension fund and the investment of fund money. According to Regulation 12 of the Investment Regulations an administering authority is required to prepare, maintain and publish a Statement of Investment Principles (SIP).

3. The SIP must cover policy on:
    - the types of investment to be held
    - the balance between different types of investments
    - risk, including the ways in which risks are to be measured and managed
    - the expected return on investments
    - the realisation of investments
    - the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
    - the exercise of the rights (including voting rights) attaching to investments
    - stock lending.

4. The SIP must also state the extent to which the administering authority complies with relevant guidance given by the Secretary of State, and give reasons for any areas of non-compliance. The relevant guidance is published by CIPFA in the *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012*. This provides best practice for managing investments and includes a guide to the application of the 2008 *Investment Governance Group Principles* to LGPS funds.

Purpose of the Fund

5. The purpose of the Fund is to:
    - Pay pensions, lump sums and other benefits provided under the LGPS Regulations
    - Meet the costs associated in administering the Fund
    - Receive contributions, transfer values and investment income
    - Invest any Fund money not needed immediately to make payments.

Principles

6. The following principles underpin the Fund's investment activity:
   - The Fund will aim to be sufficient to meet all its obligations on a continuing basis.
   - The Fund will be invested in a diversified range of assets.
   - Proper advice on the suitability of types of investment will be obtained and considered at reasonable intervals.
   - The Fund will aim to conduct its business and to use its influence in a long term responsible way.

Key Parties

7. The key parties involved in the Fund's investments and their responsibilities are as follows.

The Administering Authority

8. The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council's constitution, the functions of the Council as administering authority are delegated to the Nottinghamshire Pension Fund Committee supported by two Sub-Committees. The full governance arrangements of the Fund are detailed in the Fund's Governance Compliance Statement.

9. The members of the Committees act in a quasi-trustee capacity and are hereafter referred to as "Trustees".

Trustees

10. The Trustees recognise their full responsibility for the oversight of the Fund, and operate to a Code of Conduct. The Trustees shall:
    - Determine the overall investment strategy, and what restrictions, if any, are to be placed on particular types and market locations of investments
    - Determine the type of investment management to be used and appoint and dismiss fund managers
    - Receive quarterly reports on performance from the main fund managers and question them regularly on their performance
    - Receive independent reports on the performance of fund managers on a regular basis
    - Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.

Chief Finance Officer

11. Under the Council's constitution, the Service Director (Finance & Procurement) is designated the Council's Chief Finance Officer (also known as the Section 151 Officer). The Group Manager (Financial Strategy & Compliance) is the deputy Section 151 Officer. Financial Regulations specify that the Section 151 Officer is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).

12. Authorised signatories for operational matters relating to pension fund investments are:
    - Service Director (Finance & Procurement)
    - Group Manager (Financial Strategy & Compliance)
    - Group Manager (Financial Management)
    - Senior Accountant (Pensions & Treasury Management)
    - Investments Officer

13. Representatives of the Service Director (Finance & Procurement) provide advice to the Trustees and attend meetings of the Pension Fund Committees as required.

Independent Adviser

14. The Fund has an Independent Adviser who attends meetings of the Pensions Investment Sub-Committee, Pensions Sub-Committee and Pensions Working Party as required.

15. The independent adviser is engaged to provide advice on:
    - the objectives and policies of the fund
    - investment strategy and asset allocation
    - the fund's approach to responsible investment
    - choice of benchmarks
    - investment management methods and structures
    - choice of managers and external specialists
    - activity and performance of investment managers and the fund
    - the risks involved with existing or proposed investments
    - the fund's current property portfolio and any proposals for purchases, sales, improvement or development
    - new developments and opportunities in investment theory and practice.

Asset Allocation

16. It is widely recognised that asset allocation is the most important factor in driving long term investment returns. The balance between different asset classes depends largely on the expected returns from each asset class and the target return for the Fund. It is also recognised that investment returns play a significant role in defraying the cost of providing pensions by mitigating the contributions required from employers.

17. Employers' contributions are determined as part of the triennial actuarial valuation of the Fund. The actuarial valuation involves a projection of future cash flows to and from the Fund and its main purpose is to determine the level of employers' contributions that should ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

18. The Fund Actuary estimates the future cash flows which will be paid from the Fund for the benefits relating to service up to the valuation date. They then discount these projected cash flows using the discount rate to get a single figure for the value of the past service liabilities. This figure is the amount of money which, if invested now, would be sufficient to make these payments in future provided that the future investment return was equal to at least the discount rate used.

19. The discount rate is based on the expected long term future investment returns from various asset classes. At the latest valuation, these were as follows:

Asset Class	**Expected Return (pa)**
Equities	6.7%
Gilts	3.3%
Corporate Bonds	3.9%
Property	5.8%
Cash	3.1%
Discount Rate	**6.0%**

20. At the latest valuation, the Fund was assessed to have a deficit of £620m and a funding level of 85%. Deficit recovery contributions have been certified for the majority of employers but any returns in excess of the discount rate will help to recover the Fund to a fully funded position.

21. The agreed asset allocation ranges for the Fund are shown below along with the Fund's strategic benchmark and liability based benchmark.

Asset Class	**Allocation Ranges**	**Strategic Benchmark**	
Equities	55% to 75%	FTSE All World	65.0%
Property	5% to 25%	IPD annual universe	15.0%
Bonds	10% to 25%	FTSE UK Gilt All Stock	17.5%
Cash	0% to 10%	LIBID 7 Day	2.5%

Liability Based Benchmark	FTSE UK Gilts IL > 5 Yrs	100.0%

22. These ranges will be kept under regular review. If it appears likely that these limits might be breached because of market movements, reference will be made to a meeting of the Pensions Working Party for advice. The proportions are those aimed at achieving best returns within acceptable risk parameters. The Fund will vary between the asset classes according to market circumstances, relative performance and cash flow requirements.

23. The asset allocation currently favours "growth assets" (equities and property) over "defensive assets" (bonds and cash) as the former are expected to outperform the latter over the long term. Although net additions from members (contributions received less benefits paid) are now expected to be negative for the foreseeable future, the Fund receives significant investment income and a recent report by the Fund Actuary shows that the Fund is unlikely to need to sell assets to pay benefits for at least 20 years. This allows the Fund to continue to implement a long term investment strategy.

24. As the funding level approaches 100%, the asset allocation will be reviewed to consider whether it is appropriate to change the mix of growth versus defensive assets.

Investment Policy

25. The policy of the Fund will be to treat the equity allocation as a block aimed at maximising the financial returns to the funds (and thus minimising employers' contributions) consistent with an acceptable level of risk. The block of Bonds, Property and Cash is aimed at lowering overall risk (at the cost of anticipated lower return).

26. The Trustees have agreed an allocation to private equity and infrastructure. This will be effected principally through fund of funds arrangements to increase diversification and reduce risk. The allocation is based on *committed* amounts and, owing to the nature of these funds, the actual net investment level will be significantly lower. New investments will be made over time to target a commitment level of 10% of the Fund (within an allocation range up to 15% to allow for movements in market value).

27. Investments, such as private equity and infrastructure, that fall outside the high level asset classes will be included within the most appropriate class for reporting purposes and assessed against the relevant part of the strategic benchmark.

28. Cash will be managed and invested on the Fund's behalf by the County Council in line with its treasury management policy. The policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield. If losses occur, however, the Fund will bear its share of those losses.

29. Pension fund cash is separately identified each day and specific investment decisions will be made on any surplus cash identified, based on the estimated cash flow requirements of the Fund. As the majority of cash is allocated to individual investment managers and may be called by them for investment at short notice, it is expected that the majority of cash will be placed on call or on short-term fixed deposits. Unallocated balances may be placed directly with the Fund's custodian.

30. Joint investments using a combination of Fund cash and County Council cash may be made where this is in the best interests of the Fund. In considering such investments, guidance issued by the Department for Communities and Local Government will be followed and the Fund will receive its fair share of interest in proportion to the share of cash invested.

31. Other asset classes, such as hedge funds and currency, will be reviewed as part of the regular asset allocation strategy review and, if a decision to invest in other assets is made, the Statement of Investment Principles will be revised accordingly.

Risk Management

32. The Fund has adopted a Risk Management Strategy to:
    a) identify key risks to the achievement of the Fund's objectives
    b) assess the risks for likelihood and impact
    c) identify mitigating controls
    d) allocate responsibility for the mitigating controls
    e) maintain a risk register detailing the risk features in a)-d) above
    f) review and update the risk register on a regular basis
    g) report the outcome of the review to the Nottinghamshire Pension Fund Committee.

33. The Risk Register is a key part of the strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.

34. A key part of managing the investment risk is by ensuring an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets, which will be reviewed regularly by the Pensions Investment Sub-committee. The level of risk in the equities block will be managed by a balance between passive and active management that may be varied from time to time, according to performance and emerging knowledge and experience of the market.

35. It is believed that active management can add value to the Fund but only over the long term, and decisions to appoint or dismiss fund managers will be given careful consideration. It is accepted that investment performance (particularly from equities) can be volatile but, as a long term investor, the Fund can ride out this volatility as long as projected net cash flow continues to be positive.

36. The correlation between UK and overseas markets has increased significantly over recent time, reflecting the increasing globalisation of the market. The Fund will therefore make no distinction between the relative holdings of UK and overseas equities, but will take into account exchange rate risks when deciding the balance. As a long term investor, the Fund does not undertake currency hedging. Individual managers may hedge currency risks but only with prior approval from the Fund.

37. In addition, the following constraints will apply. These constraints will be reviewed from time to time, and if changes are made, these will be incorporated into a revised Statement of Investment Principles, and amendments will be published.
    - Not more than 10% of the Fund to be invested in unlisted securities.
    - Not more than 10% of the Fund to be invested in a single holding.
    - Not more than 25% of the Fund to be invested in securities which are managed by any one body, i.e. in a unit trust type arrangement.
    - Not more than 15% of the Fund to be invested in partnerships, with not more than 2% in any one partnership.
    - Not to enter into any stock lending arrangements.
    - No underwriting without prior approval.
    - No involvement in derivatives (including currency options) without prior approval.

Other Issues

38. The Fund's assets are held in custody by a combination of an independent custodian, investment managers and in-house. The performance of fund managers will be measured against individual benchmarks, and the overall fund, including cash returns, against the strategic benchmark. Performance will be measured by an independent agency. The statement of accounts will be audited by the County Council's external auditors.

39. The Fund has an independent adviser who will be present at meetings of the Sub-Committee along with appropriate officers of the administering authority. This is considered best practice in accordance with the requirements for "proper advice" in the governing regulations.

40. The investment management arrangements of the Fund can be found in the latest annual report (available on the Fund's website, www.nottspf.org.uk). The Fund also publishes details of its holdings on the website on a quarterly basis.

41. This Statement of Investment Principles will be kept under review and will be revised following any material changes in policy.

42. The following appendices are attached:
    - Appendix A – the Fund's Statement on Responsible Investment
    - Appendix B – compliance with the *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012*.

Nottinghamshire County Council Pension Funds
Statement on Responsible Investment

1. Statement of Principles

1.1 The Nottinghamshire Fund adopts a long term approach to responsible investment. The Trustees recognise their full responsibility for the oversight of the Funds and are charged with determining the overall investment strategy and the type of investment management used. The investment strategy is aimed at achieving best returns whilst minimising risk and overall variability in future employers' contribution rates. Environmental, social and governance (ESG) issues will be taken into account where these are considered likely to impact on returns.

1.2 The Fund supports best practice in corporate governance and adopts the Stewardship Code as recommended by the *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012*. The Code states that institutional investors should:

- Publicly disclose their policy on how they will discharge their stewardship responsibilities.
- Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
- Monitor their investee companies.
- Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- Be willing to act collectively with other investors where appropriate.
- Have a clear policy on voting and disclosure of voting activity.
- Report periodically on their stewardship and voting activities.

1.3 The Fund has adopted a number of specific policies to implement its approach to long term responsible investment and its responsibilities under the Stewardship Code.

2. Policies Adopted

2.1 The Fund adopts a policy of positive engagement with the companies in which it invests in order to promote high standards of corporate governance. It believes that this will help to raise standards across all markets and that this is in the best long term interests of the Fund, its beneficiaries and other stakeholders.

2.2 Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance. The Fund also holds a number of investments that specifically focus on engaging with the management of under-performing companies in order to generate superior returns.

2.3 The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Fund actively supports the work of LAPFF and sees this as an important element of its stewardship responsibilities.

2.4 The Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds. The Fund retains responsibility for voting (rather than delegating this to investment managers) and proxy votes are submitted for the majority of its global equity holdings.

2.5 Voting is in line with corporate governance best practice and the Fund subscribes to independent research services for voting advice. Voting activity is reported to the Pensions Sub-Committee and disclosed on the Fund website. In exceptional circumstances the Fund will combine with others on a specific issue but only after appropriate consultation.

2.6 In order to ensure ownership rights can be exercised, the Fund holds and will continue to hold, investments in its own name where possible, rather than in the name of investment managers. It will continue to oppose those processes, such as stock lending, which also deprive the Fund of the ability to meet its corporate governance objectives.

Summary of Compliance with the Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
1. Effective Decision Making a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation. b) Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	• Separate Committee responsible for the Pension Fund. • Governance Compliance Statement published. • Roles of Members, officers, external advisors and managers defined. • Committee has specified appropriate skills. • Skills and knowledge audit of Committee's membership occur. • Committee has sub committees or a panel to progress significant areas between meetings of the Committee. • Committee obtains proper advice from officers and external investment managers. • Training plan for Members in place. • Papers and reports should be clear and comprehensive and circulated in advance of meetings. • A medium term business plan for the Pension Fund should be in place.	Generally compliant	1. A training needs assessment will be carried out with members of the Committees.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
2. Clear Objectives An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	• In setting objectives, the Committee has considered: ▪ the fund's liabilities ▪ the adequacy of assets ▪ the maturity of the Fund's liabilities ▪ its cashflow and has sought proper advice. • Risk is considered as part of the asset allocation strategy. • Funding levels and employer contribution rates are considered and the advice of the Actuaries sought. • The Committee considers whether to request an Asset Liability Study. • The Committee states the range of investments it is prepared to include in its asset allocation and say why some asset classes may have been excluded. • The Committee takes proper advice, including from specialist independent advisors where appropriate. • Advisors are appointed in open competition and are set performance objectives. • The Committee understands transaction related costs incurred, including commission, and has a strategy for ensuring these costs are properly controlled.	Generally compliant	2. A report is provided to a future Sub-Committee on transaction related costs.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
3. Risk and Liabilities a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. b) These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	• The Committee sets an overall investment objective for the fund that represents its best judgement of what is necessary to meet the fund's liabilities and takes account of the Committee's attitude to risk. • Appropriate performance benchmarks have been set. • The Statement of Investment Principles includes a description of the risk assessment framework used for potential and existing investments. • The triennial valuation includes a risk assessment in relation to the valuation of its liabilities/assets and factors affecting long term performance. • The Committee uses internal and external audit reports to satisfy itself on the fund's internal controls. • The Investment Strategy is suitable for the fund's objectives and takes account of the ability to pay of the employers in the fund. • The Annual Report includes an overall risk assessment in relation to each of the fund's activities.	Generally compliant	3. The triennial valuation report is presented to the Pensions Investment Sub-Committee highlighting key factors such as the need for risk assessments in relation to the Fund's liabilities and assets. 4. Relevant Audit reports be presented to future Sub-Committees as appropriate. 5. Undertake employer risk analysis and consider actions arising to mitigate risks to the Fund.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
4. Performance Assessment a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	• The Committee should consider whether existing index benchmarks are appropriate and consider whether active or passive management are appropriate for managing the Fund's assets. • Performance targets in relation to a benchmark should specify clear time periods and risk limits, and monitoring arrangements should include reports on tracking errors. • In addition to overall Fund returns, the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed. • Although returns will be measured quarterly, a longer timeframe (typically 3–7 years) should be used to assess the effectiveness of Fund management arrangements. • Returns should be obtained from specialist performance measurement agencies independent of the fund managers. • Actuarial services should be market tested periodically. • When assessing managers and advisors, the extent to which decisions have been delegated should be considered. • The Committee should set out its expectations of its own performance in its business plan which should be assessed and reported in the fund's Annual Report.	Generally compliant	6. Reports on Fund performance from the Fund's performance measurement agency are presented to the Pensions Sub-Committee. 7. The Fund's strategic and portfolio benchmarks to are kept under regular review. 8. The Sub Committees to consider setting a performance framework to help assess their own performance.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
5. Responsible Ownership Administering Authorities should:- a) adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents b) include a statement of their policy on responsible ownership in the Statement of Investment Principles c) report periodically on the discharge of such responsibilities.	• Policies regarding responsible ownership must be disclosed in the statement of Investment Principles. • The Committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the Committee's policy. • Funds should be aware of the ISC Code on the Responsibilities of Institutional Investors and the United Nations Environment Programme Finance Initiative. • Authorities may wish to consider seeking alliances with other pension funds to enhance its influence on environmental, social and governance issues e.g. LAPFF.	Compliant	9. The Statement on Responsible Investment within the Statement of Investment Principles to be updated as necessary to reflect guidance available and presented to the Pensions Sub-Committee as appropriate.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
6. Transparency and Reporting Administering Authorities should:- a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives. b) provide regular communication to scheme members in the form they consider most appropriate.	• The Governance Compliance Statement should be maintained regularly. • The Communication Statement should contain sufficient information. • The Annual Report should be compared to the regulations setting out the required content. • The content of the Statement of Investment Principles, the Funding Strategy Statement and the Governance Compliance Statement should comply with the relevant guidance and requirements.	Compliant	10. The core source documents namely the Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement and the Communication Statement continue to be updated as necessary to reflect guidance available and presented to the Pensions Sub-Committee as appropriate.

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

16 September 2014

Agenda Item: 8

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

REFERRAL FROM PENSIONS SUB-COMMITTEE – WORKING PARTY RECOMMENDATIONS

Purpose of the Report

1. To seek approval of the Pension Fund Committee to items referred from the Pensions Sub-Committee regarding:
   - recommendations of the Pensions Working Party in respect of additional investments in property.

Information and Advice

2. At its meeting on 22 July 2014, the Pensions Sub-Committee considered a report on additional investments in property recommended by the Pensions Working Party. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the attached exempt appendix to the Pensions Sub-Committee report.

Reason/s for Recommendation/s

3. Under the terms of the Council's constitution, the Nottinghamshire Pension Fund Committee is responsible for all decisions in relation to administering the Nottinghamshire Pension Fund, including investments by and management of pension funds. This report makes recommendations regarding the investments of the Fund.

Statutory and Policy Implications

4. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That the recommendations detailed in the exempt appendix be approved as follows:
   a) An allocation to direct property investment in Nottinghamshire
   b) An additional allocation to the Fund's main property portfolio
   c) That cash is transferred from the In-house portfolio to cover lump sum payments required for additional pooled fund investments.

Report Author:
Simon Cunnington
Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments (SLB 26/08/14)

5. Nottinghamshire Pension Fund Committee is the appropriate body to consider the content of this report.

Financial Comments (SRC 21/08/14)

6. The additional investments can be made from cash accruing to the Fund or from cash being transferred from the In-house equity portfolio as specified.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- 'None'

Nottinghamshire County Council

Report to Nottinghamshire Pensions Fund Committee

16 September 2014

Agenda Item: 9

REPORT OF THE SERVICE DIRECTOR – HR & CUSTOMER SERVICE

LOCAL GOVERNMENT PENSION SCHEME
ADMISSION BODY STATUS – APPROVAL PROCESS

Purpose of the Report

1. The purpose of this report is to seek approval to modify the access process relating to the admittance of certain types of admission bodies.

Information and Advice

2. Admission bodies broadly fit into two categories – those which provide a public service otherwise than for the purposes of gain (generally referred to as community admission bodies) and those which provide a service or assets in connection with the exercise of a function of a scheme employer as a result of a transfer of the service or assets by means of a contract or other arrangement (generally referred to as transferee admission bodies).

3. Admission of community type bodies is subject to the discretion of Pensions Committee and therefore the process of approval to formalise admission for this type of body should remain unchanged.

4. However, for the later type of body commonly seeking admission following a transfer of service by means of a contract, experience had highlighted a need to undertake a procedural review in accordance with the Business Support Centre's continuous improvement philosophy in order to become more responsive to the needs of current employers, potential employers and scheme members. Recent experience has demonstrated that discussions in relation to service contracts and timescales of outsourcing arrangements, which can often be protracted, do not dovetail with scheme access processes and the committee diary. This can leads to delays in formalising the admission and uncertainty for all parties involved.

5. Such applicant bodies seek admission to the Nottinghamshire Pension Fund under Schedule 2, part 3 (1d) of the Local Government Pension Scheme Regulations 2013. Applications are brought to this committee for noting purposes – one such report features on today's agenda. Under Schedule 2 (part 3) (13), the administering authority must admit to the scheme the eligible designated employees of the admission body, provided the admission body undertakes to meet the relevant requirements of the regulations through an admission agreement. Therefore, unlike the community type bodies, as long as the applicant admission body agrees to fulfil its employer obligations, there is no discretion on admission to the fund.

6. In light of this, advice has been sought from Legal Services on modifying the admission process of such bodies in accordance with the County Council constitution. Advice received has indicated that admission of such bodies may be deemed an officer decision which does not require the deliberation of committee to reach a decision in that there is only one possible outcome and that is to admit the body in accordance with the pension regulations.

7. It is therefore proposed that a modified access process is implemented in accordance with advice from Legal Services to include an approval requirement at group manager level to formalise the application of such admission bodies. Further, it is proposed that a paper be presented on a quarterly basis to ensure committee is fully informed of new employers admitted to the fund on this basis.

8. The contents of this report were presented at the meeting of the Pensions Sub-Committee on 22 July 2014.

Other options considered

9. The Authority wants to improve and modernise its approach as part of “Redefining your Council”. Various options were considered however the selected option provides the most cost effective and timely solution.

Reasons for Recommendation

10. The modified access procedure will enable the Pensions Office to support interested parties - including current employers, potential employers and scheme members - proactively in dealing with pension protection arrangements.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

12. There are no financial costs associated with the proposal.

Human Resources Implications

13. As outlined within the body of the report, admission body status will allow transferring staff continued membership eligibility of the LGPS.

RECOMMENDATION

1. The Pensions Committee is recommended to approve the proposal to implement a modified access procedure in respect of admission body applications under Schedule 2, part 3 (1d) of

the Local Government Pension Scheme Regulations 2013 and to note a report of any new employers will be presented on a quarterly basis.

Marjorie Toward
Service Director - HR & Customer Service

For any enquiries about this report please contact:
Andy Durrant, Technical & Performance Officer on 0115 9775690 or
andy.durrant@nottscc.gov.uk

Constitutional Comments (KK)

14. The proposal in this report is within the remit of the Pensions Committee.

Financial Comments (SC)

15. There are no financial implications arising directly from this report.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

Nottinghamshire County Council

Report to Pensions Committee

16 September 2014

Agenda Item: 10

REPORT OF THE SERVICE DIRECTOR – HUMAN RESOURCES & CUSTOMER SERVICE

LOCAL GOVERNMENT PENSION SCHEME APPLICATION FOR ADMISSION BODY STATUS

Purpose of the Report

1. The purpose of this report is to inform the Pensions Committee of the proposed admission of four admission bodies (as detailed on the attached appendices) into the Nottinghamshire Pension Fund under the provisions of Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013.

Information and Advice

1. The scheme regulations require LGPS Pension Funds to allow an admission to its scheme if the organisation is one that is providing or which will provide a service or assets in connection with the exercise of a function of a scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement

2. Where an admission body and the scheme employer undertake to meet the relevant requirements of Schedule 2 (part 3), an administering authority must admit to the LGPS the eligible employees of the admission body, and where it does so, the terms on which it does are noted in the admission agreement for the purposes of these Regulations.

3. Investigations have been made and it can be confirmed that each body named in the attached appendices falls within the definition contained in Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013 and as such will be eligible to become an admission body. Under Schedule 2 (part 3) (13), the administering authority must admit to the scheme the eligible designated employees of the admission body, provided the admission body undertakes to meet the relevant requirements of the regulations through an admission agreement.

4. The County Council will seek to sign an appropriate admission agreement to allow the bodies listed in Appendix A to D to be admitted to the Nottinghamshire Pension Fund.

Other options considered

5. It is a matter for the scheme employer to consider how best to deliver its functions. In each case the scheme employer has determined that the best way to deliver the service function is by a contract agreement with the applicant admission body.

Reasons for Recommendation

6. To formalise admission body status and thereby allow staff employed in connection with the service transfers to continue to be eligible of join the Local Government Pension Scheme.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

8. When the admission agreement is formed the admission bodies will be required to pay contribution rates as determined by the Fund Actuary.

Human Resources Implications

9. As outlined within the body of the report, admission body status will allow transferring staff continued membership eligibility of the LGPS.

RECOMMENDATION

1. The Pensions Committee is recommended to note the contents of the report.

Marjorie Toward
Service Director HR & Customer Service)

For any enquiries about this report please contact:
Andy Durrant, Technical & Performance Officer on 0115 9775690 or
andy.durrant@nottscc.gov.uk

Constitutional Comments (KK)

The proposal in this report is within the remit of the Pensions Committee.

Financial Comments (SC)

There are no financial implications arising directly from this report.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

Appendix A

Nottinghamshire County Council

Proposed admission of ABM Catering limited into the Nottinghamshire Pension Fund, as an admission body under the provisions of Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013.

ABM Catering Limited has a contractual agreement with The Rushcliffe School Academy Trust, proprietor of The Rushcliffe School, to undertake the academy's catering function. The service transfer took place on 1st August 2014. The contract period is three years.

This arrangement involved the TUPE transfer of eight employees engaged in delivery of the service, only one of whom is an active LGPS member.

ABM Catering Limited intends to allow continuity of LGPS membership through an admission agreement with the Nottinghamshire Pension Fund. The option to join the LGPS will not be available to existing employees of the company.

Appendix B

Nottinghamshire County Council

Proposed admission of Taylor Shaw Limited into the Nottinghamshire Pension Fund, as an admission body under the provisions of Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013.

Taylor Shaw Limited has a contractual agreement with Garibaldi College, a school maintained by Nottinghamshire County Council, to undertake the school's catering function. The service transfer took place on 1st September 2014. The contract period is three years.

This arrangement involved the TUPE transfer of 10 employees (of which 6 were active LGPS members) of Nottinghamshire County Council's Catering and Facilities Management Group who were engaged in the delivery of the service.

Taylor Shaw Limited intends to allow continuity of LGPS membership through an admission agreement with the Nottinghamshire Pension Fund. The option to join the LGPS will not be available to existing employees of the company.

Appendix C

Nottinghamshire County Council

Proposed admission of Innovate Services Limited into the Nottinghamshire Pension Fund, as an admission body under the provisions of Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013.

Innovate Services Limited has a contractual agreement with Carlton le Willows Academy to undertake the academy's catering function. The service transfer took place on 2nd June 2014. The contract period is three years.

This arrangement involved the TUPE transfer of 6 employees (all of whom were active LGPS members) of Nottinghamshire County Council's Catering and Facilities Management Group who were engaged in the delivery of the service.

Innovate Services Limited intends to allow continuity of LGPS membership through an admission agreement with the Nottinghamshire Pension Fund. The option to join the LGPS will not be available to existing employees of the company.

Appendix D

Proposed admission of Civica UK Limited into the Nottinghamshire Pension Fund, as an admission body under the provisions of Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013.

Civica UK Limited has a contractual agreement with Big Wood School, a school maintained by Nottingham City Council, to carry out the school's ICT managed service. The service transfer took place on 1st September 2014. The contract period is three years.

This arrangement involved the TUPE transfer of 1 employee who is an active LGPS member engaged in the delivery of the service.

Civica UK Limited intends to allow continuity of LGPS membership through an admission agreement with the Nottinghamshire Pension Fund. The option to join the LGPS will not be available to existing employees of the company.

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

16 September 2014

Agenda Item: 11

REPORT OF THE SERVICE DIRECTOR – HR AND CUSTOMER SERVICE

LOCAL GOVERNMENT PENSION SCHEME
UPDATE ON THE IMPLEMENTATION OF THE NEW PENSIONS ADMINISTRATION SYSTEM

Purpose of the Report

1. The purpose of this report is to provide the committee with an update on the implementation of the UPM Pension Administration system into the BSC Pension Office.

Information and Advice

Background

2. Nottinghamshire County Council (NCC) is the lead Authority within the Nottinghamshire Local Government Pension Scheme. NCC's pensions Office administers the LGPS scheme on behalf of over 230 scheme employers, with a total membership over 104,000 (active members, deferred members and pensioners).

3. In 1975, 11 Local Authorities grouped together to form the Consortium of Local Authority Superannuation Schemes (Class) to provide an ICT solution for the administration and calculation of Local Government Pension Scheme (LGPS) benefits..

4. The Developed system, then known as CLASS was owned and controlled by the CLASS group and replaced Nottinghamshire County Council's paper based pension administration system in 1978-1979. Ownership of the CLASS system transferred into the private ownership of Heywood Limited in the 1980's Subsequently, the CLASS group became an advisory body to Heywood, for the interpretation of new rules and regulations and the prioritisation of development of the system.

5. Heywood Limited, have continued to develop their pensions administration system over the years in Line with LGPS regulations and scheme changes.

6. Members will be aware that a report was brought to this committee in December 2013 explaining the need to procure a new Administration system. Following a procurement process Civica UPM system was chosen, and an implementation programme started to implement the new system by December 2014.

Current Implementation Position

7. Following the procurement process a Project Team was established along with an extensive project plan, and project governance arrangements to manage and monitor the implementation process. The agreed go live date for the system is 10 November 2014.

8. One of the first decisions taken as part of the implementation process was to agree that Nottinghamshire would host the system internally and that it would be managed by NCC ICT Services.

9. The new system was installed in June 2014, and in preparation for a full testing programme, along with data cleansing activities, the Project Team have undertaken comprehensive training. The testing programme is well under way and is scheduled to be completed by October ready for go live.

10. A full training plan has been developed for the NCC Pensions Administration Team, and also includes colleagues from Nottingham City Council administration function. The training is scheduled to take place in September to October, ensuring the staff group are ready for the go live on 10 November.

11. In order to prepare other LGPS employers a communication plan has been put together to inform them of the new system, and what the arrangements will be for go live of the system including what to expect in respect of changes to pension administration processes.

12. In the final weeks up until go live a cut over plan has been prepared to move away from the current AXISe administration system to UPM, and the actions identified will begin and be completed from 3 November to 7 November.

13. In addition planning is also underway for Phase two of the project to complete the full implementation of a web Portal for LGPS employers who will be able to undertake some of their administration duties on line.

14. The initial purchase costs of the application software are £127,775.00. There will be additional implementation costs and these are yet to be finalised. The cost of procuring, implementing and maintaining the pension administration system is a legitimate charge to the pension fund under governing regulations.

Statutory and Policy Implications

15. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

16. That the report is noted for information

MARJORIE TOWARD
SERVICE DIRECTOR – HR AND CUSTOMER SERVICE

For any enquiries about this report please contact:
Jonathan Clewes, Payroll and Pensions Manager on 0115 9773434 or
Jon.Clewes@nottscc.gov.uk

Constitutional Comments (KK 08.09.2014)

The proposal in this report is for noting only and is within the remit of the Nottinghamshire Pension Fund Committee

Financial Comments ()

To follow.

Background Papers

Further information on the Procurement of the system can be found in the report to Pensions Committee 17 December 2013.

Project Plan is available from the Project Team.

Electoral Division(s) and Member(s) Affected

All