Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Thursday, 29 July 2021 at 10:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

11	Work Programme	111 - 116

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 Jo Toomey (Tel. 0115 977 4506) 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	Thursday 24 June 2021 at 10.30 am

membership
Persons absent are marked with `A'

COUNCILLORS

Eric Kerry (Chairman)
André Camilleri (Vice Chairman)

Stephen Garner
Mike Introna
Sheila Place
Mike Pringle
Sam Smith
Lee Waters – **A**
Jonathan Wheeler – **A**

Substitute Members

Councillor Tom Hollis
Councillor Gordon Wheeler

NON-VOTING MEMBERS:

Nottingham City Council

Councillor Graham Chapman
Councillor Anne Peach – **A**
Councillor Sam Webster – **A**

District / Borough Council Representatives

Councillor David Lloyd, Newark and Sherwood District Council – **A**
Councillor Gordon Moore, Rushcliffe Borough Council – **A**

Trades Unions

Mr A Woodward – **A**
Mr C King

Scheduled Bodies

Mrs Sue Reader – **A**

Pensioners' Representatives

Vacancy x 2

Independent Adviser

William Bourne

Officers in Attendance

Nigel Stevenson	(Chief Executive's Department)
Keith Palframan	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Sarah Stevenson	(Chief Executive's Department)

Investment Managers in Attendance

Aberdeen Standard Investments (Agenda item 12a only)

Jon Holguin
Craig Thomson
Caroline Casson

LGPS Central (Agenda item 12b only)

Gordon Ross
Ann-Marie Patterson
Elizabeth Bebb
Cara Forrest

1. TO NOTE THE APPOINTMENT OF THE COUNTY COUNCIL ON 27 MAY 2021 OF COUNCILLOR ERIC KERRY AS CHAIRMAN OF THE COMMITTEE, AND COUNCILLOR ANDRE CAMILLERI AS VICE-CHAIRMAN

RESOLVED 2021/20

That the appointment by Council on 27 May 2021 of Councillor Eric Kerry as the Chairman of the Committee and Councillor André Camilleri as the Vice-Chairman of the Committee be noted.

2. TERMS OF REFERENCE AND MEMBERSHIP

During discussion on this item:

- A member asked about work that was underway to review the Pension Fund Committee and whether consideration could be given as part of this to extending voting rights on the Committee to include non-County Councillors

RESOLVED 2021/21

1. That the Committee's membership and terms of reference be noted.
2. That once the meeting calendar has been finalised, the item on the review of the Pension Fund Committee should be reviewed.

3. MINUTES OF THE MEETING HELD ON 22 APRIL 2021

The minutes of the last meeting held on 22 April 2021 were confirmed and signed by the Chair.

4. APOLOGIES FOR ABSENCE

- Councillor Jonathan Wheeler (other reasons) was substituted by Councillor Gordon Wheeler
- Councillor Lee Waters (other reasons) was substituted by Councillor Tom Hollis
- Sue Reader, scheduled bodies representative
- Councillor Anne Peach, Nottingham City Council
- Councillor Sam Webster, Nottingham City Council

5. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

No interests were disclosed.

6. LOCAL GOVERNMENT PENSION SCHEME – PENSION ADMINISTRATION PERFORMANCE REPORT

Members considered the report which informed the Nottinghamshire Pension Fund Committee of the work of the Pensions Administration Team for the period 1 April 2020 to 31 March 2021.

During consideration of the item, Committee members:

- Noted that a report would be brought to a future meeting of the Committee reviewing mortality and the impact of COVID-19 on the pension fund
- Referred to capacity within the Pensions Team, the low cost per member performance data, the approved digital improvement plan and whether an increase in the cost per member was required to improve progress on key performance indicators
- Noted an intention to bring a request for additional resources for specific projects and activities to a future meeting of the Committee

RESOLVED 2021/022

That the following items should be added to the Committee's work programme:

- Mortality and the Impact of COVID-19 on the pension fund
- Request for resources – projects and activities

7. WORK PROGRAMME

Members considered the report, appended to which was the Committee's current work programme.

During discussion:

- Members asked about opportunities to ensure that investments made on the Pension Fund's behalf were in accordance with its investment beliefs

RESOLVED 2021/023

To approve the Committee's work programme reflecting changes requested in the meeting, and also including:

- Climate risk metrics – autumn 2021
- Review of fund strategies to be moved to September 2021
- Review of Investment Strategy including investment criteria and priorities – consideration to be given to timing

8. <u>INDEPENDENT ADVISER'S REPORT</u>

The Committee considered the report of its Independent Adviser.

During discussion by Committee members:

- Reference was made to the level of funds in equities, which exceeded the target figure and how moving down towards the target figure could be accelerated

RESOLVED 2021/024

1. That the report of the Independent Adviser be noted.
2. That a working party meeting be held to consider short term alternative investments for funds held as equities.

9. <u>FUND VALUATION AND PERFORMANCE – QUARTER 4</u>

The report, which considered reducing the allocation to the UK of 35% of listed equities and report on the total value and performance of the Pension Fund to 31 March 2021, was considered by the Committee.

During discussion of the report:

- Members asked whether those benchmarks that were currently used could be reviewed to ensure the most appropriate comparators for measuring the fund's performance.

RESOLVED 2021/025

1. That a reduction in the allocation to the UK to 35% of listed equities be approved.
2. That consideration be given to updating benchmarks at the next Working Party.

10. EXCLUSION OF THE PUBLIC

RESOLVED 2021/026

That the public be excluded for the remainder of the meeting on the grounds that the discussions were likely to involve disclosure of exempt information described in Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

12:00 noon to 12:10pm – the meeting adjourned while members of the public left the meeting

In accordance with paragraph 9 of the Procedure Rules for Committee and Sub-Committee Meetings, the Chairman stated that he would vary the order of the agenda and consider agenda item 12a before agenda item 11

12. FUND MANAGERS' REPORTS

12a. Aberdeen Standard Investments

12.50pm – Councillor Hollis left the meeting and did not return

The committee noted the contents of the presentation delivered by Aberdeen Standard Investments.

11. FUND VALUATION AND PERFORMANCE – QUARTER 4 – EXEMPT APPENDIX

12:58pm – Councillor Chapman left the meeting and did not return

The Committee noted the exempt appendix of the Fund Valuation and Performance – Quarter 4 report.

12. FUND MANAGERS' REPORTS

12b. LGPS Central

1.09pm – Mr King left the meeting and did not return

The committee noted the contents of the presentation delivered by LGPS Central.

The meeting concluded at 1.24pm

CHAIR

Nottinghamshire County Council

Report to Pension Fund Committee

29 July 2021

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND EMPLOYEES.

LOCAL GOVERNMENT PENSION SCHEME – ADDITIONAL TEMPORARY RESOURCES FOR MCCLOUD PROJECT

Purpose of the Report

1. The purpose of the report is to seek approval for funding from Pension Committee on the additional temporary resources that are required to ensure that the Nottinghamshire Pension Fund is able to fulfil its statutory obligations under the McCloud project.

Information

Background

2. The case came about when R Sargeant , a firefighter employed by the London Fire Brigade, was 44 years old or more on April 1 2015, she would have been entitled to remain in the Firefighters' Pension Scheme – a final salary pension fund that has a normal pension age between 50 and 55, a deferred pension age of 60 and an accrual rate of 1/60.

3. Because she was younger, Ms Sargeant was moved to the new Firefighters' Pension Scheme 2015, which is a career average revalued earnings scheme.
4. After a legal battle that saw firefighters and judges joining forces to claim discrimination on the grounds of age, Ms Sargeant and her peers were granted their claim by the Court of Appeal in 2018. And in June 2019, the Supreme Court refused the government's application to appeal the court case, by then known as McCloud, which marked the end of the legal process.

5. The case through the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. However, in relation to the LGPS, this difference in treatment exists between two groups of LGPS members:

   • those who were in service on 31st March 2012 and were within ten years of Normal Pension Age on 1st April 2012, therefore benefiting from underpin protection and 'better off' than the second group; and,

   • those who were in service on 31st March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

Impact of the Proposals

6. The previous report presented to Pension Committee on 10 September 2020, detailed the impact of McCloud on members benefits, employers within the LGPS and the administration of the Fund.

7. The McCloud proposal will have a major impact on the Administration Team for various reasons:

    a. Pension processes will require to be reviewed and updated in line with the McCloud underpin protections.

    b. The Fund will be required to collect data regarding hours changes and service breaks to enable the calculations for qualifying members since the 1 April 2014 to be undertaken. Scheme employers will have a statutory obligation to provide this data to the Fund back to 2014. This will include not only additional members covered by the underpin, but those who were previously covered as well. Retired members may also be affected, and arrears may be payable, which may also bring several pension tax complications to consider and communicate.

    c. Retrospective calculations performed on all eligible pensioners which may result in backdated pension adjustments being determined and require putting into payment.

    d. McCloud underpin protections being determined and applied to eligible members.

8. Initially it had been estimated that 24,000 members records within the Nottinghamshire Pension Fund would be affected. Further work has been completed that indicate that this figure is higher at 29,000 records across all members who have a current underpin.

9. Communication to employers and members will be essential. The key focus for members will be for them to know that the underpin will be applied to them without the need for any action on their behalf, but also understand when their benefits will be reviewed. Employers will also need to understand the requirement to provide historic and ongoing data to enable the Scheme benefits to be calculated. The Scheme Advisory Board have an implementation group to help provide documents to pension funds.

Review of Resource Requirements

10. The resourcing requirements of the McCloud project have been considered against the wider work of the Pension Office, both currently underway and planned. Alongside the statutory requirements of McCloud, the Pension Office is supporting the delivery of -

    a. **GMP reconciliation project** - HMRC have identified errors in their systems and through no fault of its own the Fund is required to undertake work to reconcile and rectify the issues. The details of this ongoing project have been the subject of separate reports to Pensions Committee. At a high level the Fund has been required to undertake a financial reconciliation as well as to reconcile individual members details of the GMP held against a member's pension record with that held by HMRC.

    b. **Transforming Pension Administration through digital development and new ways of working programme –** the Nottinghamshire Pension Funds programme which is underway will deliver a range of digital services which include increased automation, significantly reduced manual inputting and amending of member data ensuring that employers fulfilling their responsibilities as a scheme employer within the Fund and for scheme members to be able to access their pension record 24/7.

    c. **National Pensions Dashboard –** the Nottinghamshire Fund will be required to input to the national pensions dashboard. The aim of which is to provide clear and simple information about an individual's multiple pension savings, including their state pension. this national initiative will also help individuals to reconnect with any lost pension.

    d. **Pensions Scheme Act 2021 –** the implementation of the Act will come via regulation changes which are due in the Autumn and will have implications on pension administration in a number of ways such as stronger Pension Regulator powers, pensions dashboards, transfer scam prevention and more.

11. At Pension Committee on 10 September 2020, Members approved the funding for a temporary McCloud Project Manager. The establishment of this post was approved by Personnel Committee on 16 September 2020.

12. A Project Manager was recruited and commenced in post on 4 May 2021.

13. As stated in the Pension Committee report of 10 September further work has been undertaken to determine the additional resources required to enable the Fund to meet its obligations as part of the McCloud judgement.

14. As detailed in the table below, approval is sought from Pension Committee to the funding of the following additional temporary resources. The additional resources are initially required for a period of 2 years from appointment and this will be kept under review –

Post Title	Number of posts required and grade	Cost per annum (shown at the top of grade) including oncosts	Total cost per annum
Practitioner Pension Administration	1 x Grade 5	£36,169	£36,169
Pension Administration Level 1	3 x Grade 4	£30,465	£91,395
Pension Administration Level 2	3 x Grade 3	£26,521	£79,563
Employer Support and Compliance Officer	1 x Grade 5	£36,169	£36,169
Pension System Team Functional Support Officer	1 x Grade 5	£36,169	£36,169
Data Officer	1 x up to Grade 5 – job to be evaluated	£36,169	£36,169
Total Cost including oncosts per annum			**£315,634**

15. The resourcing requirements are broken down as follows –

a. **Pension Administration** (including Practitioner Pension Administration and Pension Administration Level 1 and 2) – This team will lead the work on recalculating benefits for 29,000 members including putting revised benefits into payment and ensuring the correct underpin protection is applied to all other eligible members.

b. Employer Support and Compliance Officer – this key role will lead communications and provide support to all Scheme Employer and will work closing with the

c. **Data Officer –** following discussions with other LGPS Funds the project has determined that a Data Officer post is required, and work is underway to design the job description which will then submitted for evaluation. This role will monitor, chase, and reconcile all data returns from Scheme Employers which will be critical to enabling the Fund to meet its statutory obligations as part of the McCloud project. This post will also link into the Data Audit and improvement workstream of the Transformation Programme and work to support the Fund to meet the Pension Regulator requirement to improve the quality of data held by the Fund.

d. Pension System Officer – this post will be responsible for loading all McCloud data returns and ensuring that member records are updated accordingly, as well as ensuring that the

McCloud software modules are loaded, tested and operational with the Civica Universal Pension Administration system.

16. Following funding approval from Pension Committee, it is proposed to seek consent from Personnel Committee to the establishment of the temporary additional resources.

17. Recruitment to the temporary McCloud project team will be in line with the County Council's recruitment and selection process and would commence as soon as possible to ensure that resources complete their induction and extensive training programme prior to the requirement to commence McCloud activities.

18. Experienced staff from the Pension Administration Team will be eligible to apply for secondments to the project with appropriate back fill arrangements implemented ensuring that business as usual activities are not impacted.

Other Options Considered

19. The Pension Fund has a legal requirement to ensure that the McCloud judgment is correctly applied to all eligible pensioners and members of the Nottinghamshire Pension Fund.

20. Absorb the McCloud project work into the existing work of the administration team. However, this is not considered to be a feasible option as this would have very significant implications and disruption for the delivery of the current business as usual, as well as the legal obligation to deliver the McCloud project.

21. Engage external resources to undertake the McCloud project on behalf of the Fund. However, the preferred option to setup a temporary project team is in line with the approach taken by other LGPS Funds.

Reasons for Recommendations

22. This is a significant project for the Pension Fund which requires additional resources to ensure that the Fund fulfils the requirements of the McCloud judgement. This work cannot be completed with the current resources in the Pension Administration Team, as this would significantly impact on the current service level, as well as progress on several other statutory required projects.

23. The Fund may take advice and guidance where necessary from the Scheme Actuary and their extensive knowledge and understanding of the LGPS regulations, as well as, the McCloud judgement as the project progresses.

Statutory and Policy Implications

24. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment

and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Data Protection and Information Governance

25. The project, by its very nature, involves reconciliation, sharing and processing of personal and sensitive data. This is covered by existing arrangements and agreements with scheme employers and scheme members.

Financial Implications

26. The financial implications for the additional temporary McCloud project resource are covered in paragraph 14.

Human Resources Implications

27. Appointment to the additional temporary McCloud project resources will be through the Council's agreed recruitment and selection procedures.

Recommendations

It is recommended that the Committee:

1) Agree to the funding for the additional temporary project resources as detailed within the report.

2) That Nottinghamshire Pension Fund Committee agrees to receive further update reports as the project progresses

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
Sarah Stevenson, Group Manager, Business Services Centre on 0115 9775470 or
sarah.stevenson@nottscc.gov.uk

Constitutional Comments (CEH 20.07.2021)

28. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (KP 20.07.2021)

29. The costs are a valid administration cost to be charged to the Fund.

HR Comments (JP 20.07.2021)

30. The staffing resources set out in this report will be established and recruited on a fixed term, temporary basis. Recruitment to the posts will be undertaken in line with the Councils HR procedures including recruitment and redeployment polices.

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.

- Report to Pension Committee 10 September 2020 – Implications of the McCloud Judgement

- Report to Pension Committee 10 September 2020 – McCloud Consultation cover Report

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to Pension Fund Committee

29 July 2021

Agenda Item: 6

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND EMPLOYEES.

LOCAL GOVERNMENT PENSION SCHEME – PENSION SCAMS

Purpose of the Report

1. The purpose of this report is to update Pension Committee on Pension Scam activities and the requirements of the Pension Regulator and Pension Scheme Act 2021 on the Nottinghamshire Pension Administration Service.

2. To seek approval from Members to the Nottinghamshire Pension Fund committing to the Pension Regulators pledge to combat pension scams.

3. To seek approval from Members to Nottinghamshire Pension Fund pension scam action plan as shown in Appendix 1.

4. To seek approval for funding from Pension Committee on the additional Technical and Regulations resource required to undertake pension scams due diligence checks.

Information

Background

5. Since April 2017, pension scam losses totalling £30,857,329 have been reported according to complaints filed with Action Fraud, says the Financial Conduct Authority (FCA) and The Pensions Regulator (tPR).

6. Scammers target pension pots big and small, with reported losses ranging from under £1,000 to as much as £500,000. However, the true number of victims is likely to be much higher as savers fail to spot the signs of a scam and don't know how much is in their pension pots. A 2019 survey by Action Fraud reported that individual loss is about £82,000. The Pension Regulator reports this figure being higher at £91,000.

7. Pension scams are on the increase in the UK. Every day fraudsters are using sophisticated ways to part savers from their money and the internet and advances in digital communications mean these kinds of scams are getting more common and harder to identify. A lifetime's savings can be lost in moments.

8. Scammers design attractive offers to persuade people to transfer their pension pot to them, often setting "time-limited" offers or deadlines to pressure individual's into releasing their money.

9. During the pandemic the Pension Regulator, the Financial Conduct Authority and the Money and Pension Service worked together and issued help and guidance to protect pensions savers from becoming the victims of scams.

10. At the start of the Pandemic, Charles Counsell, tPR's Chief Executive said "Pensions remain a safe long term investment for your retirement and it's important to avoid hasty decisions about cash that's taken a lifetime to build. We urge you not to transfer your pension into another arrangement now and regret the decision later. If you're worried about your pension savings, take the time to understand what options you have available. There is no need to rush.

"For those who have a final salary pension, staying in your existing scheme is still likely to be the best long-term arrangement. All savers should be very cautious about making changes at this time.

"More than ever before, you should visit The Pension Advisory Service website for impartial guidance before making any decision about your retirement or get financial advice from a Financial Conduct Authority authorised financial adviser."…

What is a pension scam

11. Since April 2015 members of pension schemes have had more choices about how they can access their pension pot than in the past. Scammers know this and will try to lure people with promises of upfront cash and one-off "deals" with guaranteed high returns.

12. Pension scammers have changed their modus operandi over time. A few years ago, it was about setting up a sham pension scheme and encouraging people to move from their bona fide scheme into a sham. More recently, it is about just encouraging people to come out of their pension scheme into a vehicle that is being used for investment fraud.

How to spot a pension scam

13. The importance of educating people so that they can spot the signs of a scam and they do not hand over their money in the first place is paramount.

14. There are some common tell-tale signs that mean is could be a scam, for example

    a. Unsolicited approaches by telephone, text message, email or in person. Since January 2019, there has been a ban on cold calling about pensions. This means individuals should not be contacted by any company about their pension unless they've asked them to contact them.

    b. When a firm does not allow you to call it back.

    c. Where individuals are forced to make a quick decision, are pressured into doing so, or are encouraged to transfer their pension quickly and send documents by courier.

d. Where contact details provided or published on a website are only mobile numbers or a PO box address.

e. When the company claim they can help you or a relative unlock a pension before the age of 55, sometimes known as pension liberation of pension loans. Only in very specific cases, such as ill health, is this possible.

f. When a company claims to know of tax loopholes or promise extra tax savings.

Pension Regulator – Pledge to Combat Pension Scams

15. Before transferring an individual's pension to another arrangement, the Pension Regulator expects Schemes to: "*Identity unusual or concerning patterns, such as spikes in CETV requests or the same adviser across a multitube of requests".*

16. As we know the freedom and choice reforms have exacerbated scams. Prior to 2015, pension liberation scams were prevalent, where savers were encouraged to access their pension prior to age 55. Since this time, freedom and choice has opened up new opportunities for scammers, in particular investment scams, typically using both defined benefit transfers and people accessing their defined contribution pension under the pension freedom rules, to convince people to pay a lump sum into a fraudulent fund or bank account.

17. Not every pension scam can be prevented. The Pension Regulator is asking trustees, providers, and administrators to pledge to do what they can to protect scheme members and follow the principles of the Pension Scams industry Group (PSIG) Code of Good Practice.

18. The Pension Regulator states "***Pledging to combat pension scams shows your intent to protect your members. It tells your members and the pensions industry that you are committed to stopping scammers in their tracks. Once you have taken the pledge it's up to you and your scheme or organisation to take action."***

19. It is proposed that the Nottinghamshire Pension Fund commit to the Pension Regulators Pledge to combat pension scams, thereby demonstrating its intent to protect its members.

20. To sign up to the Pledge the Fund will be required to commit to the 3 Steps as detailed below-

21. **Step 1** – Details the requirements of the Pledge and the action required by Nottinghamshire Pension Fund -

Requirement of the Pledge	Action required by Nottinghamshire Pension Fund
Regularly warn members about pension scams	Develop and deliver an annual pension scam communication plan to include - • **Annual Benefit Statements**- All Members to receive the ScamSmart leaflet with their Annual Benefit Statement

	• **Transfer Requests –** review due diligence checks
Website messaging	Nottinghamshire Pension Fund website – as part of the website review refresh pension scam section.
ScamSmart campaign	Support the TPR and FCA campaigns – through social media, emailing members and adding fresh content to website.
Encourage members asking for cash drawdown to get impartial guidance from Money Helper	Not available to the LGPS
Get to know the warning signs of a scam and best practice for transfers by completing the scams module in the Pension Regulator Trustee Toolkit.	All Nottinghamshire Pension Administration staff, Pension Committee and Pension Board members to complete the scams module
Studying and using the resources on the Financial Conduct Authority (FCA), ScamSmart website, tPR Scams information.	Review and use content to update website and member communications.
Considering becoming a member of the Pension Scams Industry Forum	Investigate the benefits to becoming a member.
Take appropriate due diligence measures by carrying out checks on pension transfers and documenting pension transfer procedures	See Appendix 1 – Action Plan
Clearly warning members if they insist on high risk transfers being paid	Ensure transfer process includes required "concerns" communication and audit trail for high risk transfers.
Report concerns about a scam to the authorities and communicate this to the scheme member	Agree and document the process for reporting scams to Action Fraud and other appropriate authorities. Update website with details

22. Step 2 - Once the Fund is able to demonstrate that it meets the requirements of Step 1 it can complete the "Self-Certify you meet the pledge to combat pension scams" form on the Pension Regulator website stating **"I self -certify that we raise awareness, educate ourselves and protect savers".**

23. **Step 3 -** Once the self-certification has been submitted the Fund will receive confirmation from the Pension Regulator together with details outlining next steps.

Pension Scheme Act 2021 – combat pension scams

24. The Pension Scheme Act 2021 received Royal Assent in February 2021. The Act is primarily aimed at strengthening the powers of the Pension Regulator in order to protect scheme members. The implementation of the Act will come via regulation in due course. There are a number of provisions within the Act. The details of which will be the subject of a further report to Pension Committee. The provision relevant to this report is "Transfer scam prevention".

25. The Scam prevention regulations are expected to be in place in early Autumn 2021 and will remove the statutory right of a scheme member to transfer their pension out where there is no genuine employment link between the member and the occupational pension scheme the transfer would be destined for.

26. The proposal is for there to be additional requirements which administrators must work through:

a. If the transfer is to a type of receiving scheme which presents a low scams risk (public service schemes, authorised Master Trusts, and personal pensions), then the transfer may proceed.
b. If not, then the transfer may proceed if certain evidence is provided, e.g. an employment link between the member and the occupational pension scheme, or residency in the same financial jurisdiction as the scheme for QROPS.
c. If neither of the above apply, the presence of any "red flags" will allow the transfer to be prevented, while if there are any "amber flags" the transfer may be paused whilst the member takes guidance about the possibility of scams.

27. The Work and Pensions Committee (WPC) published its report on the first part of their inquiry, Protecting pension savers — five years on from the pension freedoms: Pension scams. The WPC calls on the Government and regulators "to act quickly and decisively to protect pension savers". It warns that commonly cited figures of the scale of pension scamming are likely to substantially underestimate the problem, and says that the move online by pension scammers has been a recurring theme of its inquiry. It makes over 30 individual recommendations, under four main headings

a. Recording and reporting
b. Prevention,
c. Enforcement
d. Supporting pension scam victims.

28. The Pension Scams Industry Group (PSIG) has produced an update to their voluntary code of good practice on combating pension scams. The code is based around three principles:

a. They should raise awareness of pension scams for members and beneficiaries.

b. They should have robust, proportionate, and compliant processes for assessing whether a receiving scheme may be operating as part of a pension scam, and for responding to that risk.

c. They should generally be aware of the known current strategies of the perpetrators of pension scams in order to inform the due diligence they need to undertake and should refer to the warning flags set out in TPR guidance, FCA alerts and by Action Fraud. The code now comprises a framework document, practitioner guide (setting out the due diligence steps when schemes assess the scam risk of a requested transfer), resources pack and technical guide, plus a summary of the changes since the last version. The changes reflect developments from the Pensions Regulator (including its letter for members considering transferring from DB to DC schemes, and its guidance for trustees to highlight Pension Wise and encourage members to take regulated advice) and recent initiatives from the Financial Conduct Authority, along with Pensions Ombudsman determinations and court rulings. The code suggests that scheme administrators consider using the phone to better engage with the member during the due diligence process and reminds them to maintain appropriate records and management information. PSIG expects to produce a further update later in the year when the new regulations are published.

Review of Resource Requirements

29. The transfer scam prevention provision within the Pension Scheme Act 2021 builds on the already existing requirement for Pension Funds to carry out due diligence in relation to a transfer request.

30. An additional set of due diligence checks will be required to be undertaken by Pension Administration with transfers to be divided into four categories based on risk. For transfer to occupational pension schemes, Funds will need to confirm the members has demonstrated an employment link with the scheme before the transfer takes place.

31. Those wishing to transfer to a qualifying recognised overseas pension scheme (QROPS) will need to prove an employment link or demonstrate residency in the same financial jurisdiction as that of the scheme to which they wish to transfer.

32. All other schemes will be subject to a flag regime. Members will have to show they have taken guidance over the transfer in amber flag circumstances.

33. In order for the Nottinghamshire Pension Fund to ensure that it is able to implement the Regulations changes in respect of “Transfer Scam Prevention” in accordance with the Pensions Scheme Act 2021 and its obligations to protect its members from pension scams as detailed within the report, together with the delivery of the pension scam action plan at appendix 1 additional Technical and Regulations Office will be required.

34. This additional capacity within the Pension Technical and Regulations Team will ensure that the Nottinghamshire Pension Administration Team has sufficient resource

    a. To fulfil its requirements to the Pension Regulators pledge to combat pension scams
    b. Ensure that all due diligence checks are completed for all transfers. Enabling the production of transfer quotes and estimates to be undertaken by Pension Administration Team and all due diligence checks to be undertaken by the Technical and Regulations Team.

35. Funding approval is sought from Pension Committee for an additional 1 FTE Technical and Regulation Officer post at a Grade 5 up to £36,169 per annum including oncosts.

36. Following funding approval, it is proposed to seek consent from Personnel Committee to the establishment of the additional 1 FTE Technical and Regulations Officer .

Other Options Considered

37. Do nothing. This is not considered to be a viable option and may potentially expose the Nottinghamshire Pension Fund and its members to undue risk, reputational damage, and action by the Pension Regulator.

38. Absorb the work required to “pledge to combat pension scams”, pension scam action plan and additional due diligence transfer checks resulting from the Pension Scheme Act 2021 into

the Pension Administration Office. However, this is not considered to be a feasible option as it would have very significant implications for the time taken to complete a transfer.

Reason/s for Recommendation/s

39. Pension scams are an increasing issue and becoming ever more sophisticated.

40. The Nottinghamshire Pension Fund has a duty to protect its members and the reputation of the Fund

Statutory and Policy Implications

41. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public-sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Data Protection and Information Governance

42. A Data Privacy Impact Assessment is not required.

Financial Implications

43. The financial implications for the additional Technical and Regulations Officer is covered in paragraph 35.

Human Resources Implications

44. Appointment to the additional Technical and Regulations Office post will be through the Council's agreed recruitment and selection procedures.

RECOMMENDATION/S

It is recommended that the Members:

1) That the Nottinghamshire Pension Fund Committee consider if there are any further actions it requires to be taken to support the Fund to combat pension scams.

2) Approve the Nottinghamshire Pension Fund committing to the Pension Regulators pledge to combat pension scams.

3) Approve the Nottinghamshire Pension Fund pension scam action plan shown in Appendix 1.

4) Agree to the funding of an additional Technical and Regulations Officer, to support the delivery of the requirements of the Pension Regulator and Pension Scheme Act 2021 regarding combating pension scams

5) Agree to the inclusion of an update on pension scams within the Pension Administration annual performance report.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
Sarah Stevenson, Group Manager Business Services Centre on 0115 9775740 or sarah.stevenson@nottscc.gov.uk

Constitutional Comments (CEH 20/07/2021)

45. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (KRP 20/07/2021)

46. The financial implications are set out in the report. The additional costs are a valid charge to the Fund.

HR Comments (JP 20/07/2021)

47. The HR implications are set out in the body of the report including the establishment of an additional post identified at paragraph 33. Recruitment to the post will be undertaken in line with the Councils HR procedures including recruitment and redeployment polices

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

Electoral Division(s) and Member(s) Affected

- All

Appendix 1 – Nottinghamshire Pension Fund – Pension Scam Action Plan

	Action	Timeframe	Owner
1.	**End to end review of the current pension transfer process** including review of all due diligence measures and **develop a checklist process** for completion for each transfer. Note: an initial review was undertaken at the start of the pandemic (March 2020). A further review is intended to ensure the process and procedures are in line with the "pledge to combat pension scams" and the scam provision within the Pension Scheme Act 2021.	By the end of 2021	Pension Administration Office
2.	**Commit to the Pension Regulator Pledge to Combat Scams** Step 1 - Complete all the required actions Step 2 – Submit Self Certification to Pension Regulator Step 3 – Confirmed by the Pension Regulator once self-certification has been submitted.	Timeframe to be determined once additional Technical and Regulations Officer recruited.	Group Manager, Business Services Centre in conjunction with the BSC Pension Team Manager
3.	**Utilise the "Our Pledge to Combat Pension Scam" logo**	Linked to Action 2	Technical and Regulations Team supported by Pension Systems Team
3.	**Pension Scam online training module** via the Pension Regulator Trustee Toolkit is completed by • Pension Administration Staff • Pension Committee Members • Pension Board Members	By the end of October 2021	BSC Pension Team Manager in conjunction with Demonstrate Services for Pension Committee and Pension Board Members.
5.	Review and develop ongoing **Pension Scam communication plan**	Ongoing – links to action 1,2 and 3.	Technical and Regulations Team
6.	Pension Scam section to be added to the **Pension Administration Annual Performance Report**	Next Report Due June 2022	BSC Pension Team Manager

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

29 July 2021

Agenda Item: 7

REPORT OF THE SERVICE DIRECTOR FINANCE, INFRASTRUCTURE AND IMPROVEMENT

LOCAL GOVERNMENT PENSION SCHEME – FUNDING STRATEGY STATEMENT UPDATE

Purpose of the Report

1. The purpose of this report is to inform the committee following changes to the Local Government Pension Scheme (LGPS) regulations on 23 September 2020.

2. To advise the Committee that following the regulation amendments, the Pension Fund needs to make changes to its Funding Strategy Statement and has produced a contributions review policy, along with a deferred debt and debt spreading agreement policy.

3. To inform the Committee that the amended Funding Strategy Statement along with the Deferred debt and debt spreading agreement policy and the Contributions review policy have been distributed to scheme employers for consultation.

Background

4. Regulation 58 of the Local Government Pension Scheme Regulations 2013 ('the LGPS regulation') requires Local Government Pension Scheme (LGPS) administering authorities to prepare, maintain and publish a 'Funding Strategy Statement' (FSS). The FSS has been amended to reflect the approach recommended by the Actuary in respect of Ministry of Housing, Communities and Local Government's (MHCLG) partial response to its 'Changes to the Local Valuation Cycle and the Management of Employer Risk' consultation.

Information

5. The Fund is required to consult with relevant interested parties on changes to the FSS. In preparing the FSS, The Pension Fund must have regard to:

   - The guidance issued by the Chartered Institute of Public Finance (CIPFA) for this purpose; and
   - Their own Investment Strategy Statement (ISS)

6. The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the ISS.

7. On 8 May 2019 MHCLG launched its LGPS consultation ‘Changes to local valuation cycle and the management of employer risk’. To date there have been two partial responses to the consultation covering separately Exit Credits and Employer contributions and Exit Payments.

8. On 27 February 2020 the Local Government Pension Scheme (Amendment) Regulations 2020 were laid before parliament. They came into force on 20 March 2020, but have effect backdated to 18 May 2018. The amended rules give LGPS funds a discretion to determine the amount of exit credits when a participating employer leaves the fund in surplus. The Fund formulated an Exit Credit policy in response to the Amendment Regulations.

9. In August 2020 MHCLG issued a partial consultation response in respect of Employer contributions and Exit Payments. Statutory Guidance following MHCLG’s response will allow administering authorities, where appropriate, to revise scheme employer contributions between valuations, spreading of exit payments and deferred debt agreements.

Funding Strategy Statement

10. The Pension Fund Actuary has been closely involved in the preparation of draft revisions to the FSS, which reflects the funding approach taken to the latest triennial valuation, as at 31 March 2019. Significant changes from the previous version of the FSS are as follows:

    - Amending the wording of the FSS to allow for the revision of scheme employer contributions between valuations where appropriate, once finalised Statutory Guidance is issued

    - Amending the wording of the FSS to allow for spreading of Exit Payments where appropriate, once finalised Statutory Guidance is issued

    - Amending the wording of the FSS to allow for Deferred Debt Agreements where appropriate, once finalised Statutory Guidance is issued

11. A revised draft FSS is included in Appendix A.

Deferred Debt and Debt Spreading Policies Policy.

12. The Policy in Appendix B sets out the Nottinghamshire County Council Pension Fund’s policy on deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers.

13. The main points of the policy are:

    When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the exit payment due from the exiting employer to the Fund, or the excess of assets in the Fund relating to that employer. Where an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, if the employer provides evidence that this is not possible, there are two alternatives available: Regulation 64(7A) enables the administering authority to enter into a deferred debt agreement (DDA) with the employer while Regulation 64B enables the administering authority to enter into a debt spreading agreement (DSA).

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

The policy document sets out the administering authority's policy for entering into, monitoring, and terminating a DDA or DSA.

These policies have been prepared by the administering authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

14. The Policy sets out what would happen in the event that an employer becomes an exiting employer and an exit payment is identified. The fund should seek to receive a payment from the exiting employer equal to the exit payment in Full.

15. The policy sets out an approach that is most appropriate in each case and identifies specific scenarios in particular where an employer has temporarily no active members, or where a employer wants to minimise cost, or has affordability issues.

16. The administering Authority will have the right to refuse a DSA or DDA request if it is believed it is not in the best interest of the fund or other participating employers.

17. The Policy also confirms that whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. In the event of a dispute from an employer, this dispute will be referred to the Fund's internal dispute resolution procedure document.

Debt Spreading Agreements

18. Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund

Actuary and following discussion with the exiting employer. The Payments are fixed and are not reviewed at each actuarial valuation.

19. When making a request to enter a DSA, the exiting employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund. Examples of information the exiting employer may provide as evidence include the employer's

    - most recent annual report and accounts
    - latest management accounts
    - financial forecasts
    - details of position of other creditors

20. This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

21. The Policy goes on to how the administering authority will make a decision on whether to enter into a DSA and sets out how the decision will be made with a set of criteria.

22. The administering authority is not obliged to accept an existing employer's request for a DSA. For example, in the following circumstances the administering authority may consider a DSA not to be appropriate:

    - the exiting employer could reasonably be expected to settle their exit payment in a single amount.
    - there is doubt that the exiting employer can operate as a going concern during the spreading period; or
    - the exiting employer cannot afford the speeded payments over the maximum spreading period or is requesting a spreading period longer than the maximum.

23. The structure of the DSA is at the discretion of the administering authority having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of a DSA will take into consideration, periods that the payment will be spread, the interest rate, Regularity of payment, other costs payable, and to ensure that the employer notify the administering authority of a change in circumstances.

Contribution Review Policy

24. This document sets out Nottinghamshire County Council Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal funding valuations. This can be found in Appendix C.

25. It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority. This policy document sets out the administering authority's

approach to considering the appropriateness of a review and the process in which a review will be conducted.

26. The events that may trigger a review are set out in the Policy along with the general process for assessing and conducting a review. Timescales are also set out however these may vary in practice depending on each individual circumstance. The Policy sets out a timeline to provide a rough guide of the administering authority’s general expectation.

27. Following completion of the review process, the administering authority may continue to monitor the Scheme employer’s position in order to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer’s situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by the administering authority in order to allow effective monitoring.

28. The policy also sets out where the responsibility of costs incurred as part of the review in relation to gathering evidence to present to the scheme employer, and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the administering authority as part of the review. These exception costs would be recharged to the Scheme employer.

29. Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

30. The policy goes on to set out a number of processes and scenarios in relation to triggering a contribution review. Some of these are set out in Regulation 64(A)(1)(b), a review of an employer’s contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

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

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

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

31. Conditions (i) and (ii) are triggered by the administering authority and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

32. It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions where the trigger is due to a change in actuarial assumptions or asset values.

33. The policy goes onto describe:

- Changes which may trigger a review
- Changes in the ability of a scheme employer to meet its obligation
- How to deal with requests from the scheme employer for a contribution review

34. The policy also sets out the information that is required from the Scheme Employer in order for a review of the contribution rate to take place., assessing the appropriateness of a review, along with a methodology for reviewing contribution rates.

Consultation

35. The Fund issued a consultation document on 28 June to all scheme employers. The consultation will be incorporated into the final version of the Funding Strategy Statement which will be brought to the Committee at a later date.

Other Options Considered

36. The Pension Fund is required to have a Funding Strategy Statement, so no other options have been considered

Reason/s for Recommendation/s

37. This report has been compiled to inform the Nottinghamshire Pension Fund Committee of the update to the Funding Strategy Statement.

Statutory and Policy Implications

38. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment 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

39. There may be financial costs and benefits arising in the future from the changes in the Regulations. These are not possible to assess. However, the Fund is required to follow the Regulations.

RECOMMENDATION

It is recommended:

1. That the Nottinghamshire Pension Fund Committee note the consultation on the proposed Funding Strategy Statement and consider whether there are any other actions they require in relation to the issues contained within the report.

Nigel Stevenson
Service Director, Finance and Procurement, Environment and Resources

For any enquiries about this report, please contact:

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Constitutional Comments (KK14/072021)

The proposal in this report is within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (TMR 13/07/2021)

The financial implications are set out in paragraph 39

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

Electoral Division(s) and Member(s) Affected

- All

Appendix A

Nottinghamshire Pension Fund Funding Strategy Statement

Introduction

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").

This statement has regard to the guidance set out in the document "Preparing and Maintaining a Funding Strategy Statement" published by CIPFA in February 2016. The statement also has regard to the Investment Strategy Statement published by the Administering Authority.

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

The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:

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

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- Achieve and maintain Fund solvency and long-term cost efficiency at reasonable cost to taxpayers, scheduled, resolution and admitted bodies, and enable contribution rates to be kept as nearly constant as possible where practical

- Seek returns on investment within reasonable risk parameters

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

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.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the long-term solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures/approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations
- In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the fund and the long-term cost efficiency of the scheme so far as relating to the pension fund. The review also looks at compliance and consistency of the actuarial valuations.

Key Parties

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

The Administering Authority

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, while ensuring cash is available to meet liabilities as and when they fall due
- Pay the benefits due to Scheme members
- Take measures to safeguard the Fund against the consequences of employer default
- Manage the actuarial valuation process in conjunction with the Fund Actuary, and enable the Local Pensions Board to review the valuation process as they see fit

- Prepare and maintain this FSS and the Investment Strategy Statement (ISS) after consultation with other interested parties as appropriate
- Monitor all aspects of the Fund's performance and funding
- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme Employers

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 certified by the Fund Actuary to the Administering Authority within the statutory timescales, including any exit payments on ceasing participation in the Fund
- Notify the Administering Authority of any new Scheme members and any other membership changes promptly
- Develop a policy on certain discretions and exercise those discretions as 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; and

Fund Actuary

The Fund Actuary for the Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Solvency Issues, Target Funding Levels and Long-term Cost Efficiency

Funding Strategy

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.

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.

The last actuarial valuation was carried out as at 31 March 2019 with the assets of the Fund found to be 93% of the accrued liabilities of the Fund.

Funding Method

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.

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.

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 primary 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.

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.

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

The value of accrued or past service benefits (allowing for future salary and pension increases) are referred to as the past service liabilities, or simply the liabilities.

Using the valuation assumptions set out below, an estimate is made of the future cash flows which will be made to and from the Fund throughout the future lifetime of existing members. These projected cashflows are then discounted using the discount rate which is essentially a calculation of the amount of money which, if invested now, would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called the present value (or, more simply, the value) of members' benefits. Separate calculations are made in respect of benefits arising in relation to membership before the valuation date (past service) and for membership after the valuation date (future service).

To produce the future cashflows and therefore an estimate of the value of the liabilities, the fund actuary needs to make assumptions about the factors affecting the Fund's future finances such as inflation, salary increases, investment returns, life expectancy and retirements.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic 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. The base market statistics used for the financial assumptions are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the three months before and the three months after the valuation date.

A summary of the key assumptions is included in the following table and can be found in the actuarial valuation report as at 31 March 2019. Further details regarding the derivation of these assumptions can be found in the Fund Actuary's initial results and assumptions advice to the Fund dated 7 October 2019.

Assumption	Derivation	Value at 31 March 2019
Future Price Inflation (RPI)	Smoothed 20-year point on the Bank of England implied Retail Price Index inflation curve as at 31 March 2019	3.6% p.a.
Future Price Inflation (CPI)	RPI less 1.0% per annum to reflect the differences in the indices	2.6% p.a.
Salary increases	Assumed to be in line with CPI plus 1.0% p.a.	3.6% p.a.
Discount rate	Based on the long-term investment strategy of the Fund, with deductions for expenses and prudence	4.8% p.a.
Post-retirement mortality	S3PA tables with a multiplier of 110% for males and 105% for females, projected into the future with the 2018 CMI Model with a long-term rate of improvement of 1.25% p.a. and initial addition parameter of 0.5%	n/a

The assumption for RPI was reviewed following the Chancellor's November 2020 announcement on the reform of RPI. From 31 March 2021 RPI inflation is assumed to be 0.4% p.a. lower than the 20-year point on the inflation curve. This adjustment accounts for both the shape of the curve in comparison to the Fund's liability profile and the view that investors are willing to accept a lower return on investments to ensure inflation linked returns.

The assumption for CPI was also reviewed in light of the Chancellor's announcement on the reform of RPI mentioned above. From 31 March 2021 CPI inflation is assumed to be 0.4% p.a. lower than the RPI assumption (i.e. a total of 0.8% p.a. below the 20-year point on the Bank of England implied RPI inflation curve). This reflects the anticipated reform of RPI inflation from 2030 following the UK Statistics Authority's proposal to change how RPI is calculated to bring it in line with the Consumer Prices Index including Housing costs (CPIH). This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.

Future Investment Returns/Discount Rate

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.

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.

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 may incorporate such an adjustment after consultation with the Administering Authority.

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.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

Asset Valuation

- 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. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.
- The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received, and benefits paid).

McCloud/Sargeant judgement and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the Government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by Government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published, which are expected.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than the impact of reducing the discount rate assumption by 0.1% p.a.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a guaranteed minimum pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found at https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes.

On 22 January 2018, the Government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found athttps://www.gov.uk/government/publications/indexation-of-public-service-pensions.

On 7 October 2020, the government published its Public Service Pensions: Guaranteed Minimum Pension Indexation consultation. The consultation was published to seek views on a proposal to extend the current interim solution beyond 5 April 2021 for dealing with GMP indexation in public service pension schemes, including the LGPS. The consultation closed on 30 December 2020 and an outcome is awaited.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Deficit Recovery/Surplus Amortisation Periods

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.

Where the actuarial valuation reveals a deficit in respect to a particular employer then the levels of required employer contributions will include an adjustment to fund the deficit over a specified period. Each employer's recovery period is considered individually unless they are part of a pool (see Pooling of Individual Employers). Past service deficit contributions are generally paid as monetary amounts but may be paid as a percentage of payroll, subject to the Administering Authority agreeing this approach. The maximum deficit recovery period is 20 years.

Where an employer's funding position has improved in the inter-valuation period, but the employer is still in deficit, the employer may be required to maintain the previous total contribution level so that the expected deficit recovery period reduces.

Incremental phasing-in (stepping) of contribution increases may be considered for some employer types where proposed increases are large, with target rates to be achieved in no more than 3 years. Where stepping is agreed to, employers are instructed that the difference between the employer contributions with stepping and the employer contributions without stepping will need to be repaid later in the recovery period.

Employers in surplus on their funding method will generally pay the future service rate although the surplus may be released back to the employer through an adjustment to their contribution rate. The Fund Actuary will consider each employer separately when deciding whether surplus amortisation is appropriate.

Pooling of Individual Employers

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.

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.

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.

Currently, other than Scheme employers that are already legally connected, there are the following pools:

- Small Scheduled Bodies pool
- Grouped Admission Bodies pool
- Fund Academies pool

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative guarantee in a form satisfactory to the administering authority.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

The deficit is transferred to the Academy pool and the new academy will become part of the Academy pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academy pool at the 2019 valuation.

Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

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

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

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy which is attached. This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

Cessation Valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It is agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer will transfer within the Fund to another participating employer; or
- the employer's exit is deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Further details are given below.

Managing exit payments

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring, and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document attached. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the financial position on termination, the Fund Actuary may adopt a discount rate and adopt different assumptions from those used at the previous funding 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.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

The cessation valuation of the liabilities attempts to ensure there are sufficient assets to meet all the liabilities over time. In the event that the assets of a ceased employer are insufficient to meet all the employer's residual liabilities then these liabilities will fall to the ceding employer who originally awarded the contract.

Exit credits

MHCLG made an amendment to the 2018 Regulations which came into force on 20 March 2020, with effect from 14 May 2018. These regulations enable administering authorities to determine at their absolute discretion the amount of any exit credit payment due having regard to the following relevant considerations:-

- The extent to which the employer's assets are in excess of its liabilities
- The proportion of the excess of assets which has arisen because of the value of employer's contributions
- Any representations made by the exiting employer and its letting authority/guarantor

- Any other relevant factors.

Nottinghamshire County Council Pension Fund's approach aims to protect the interests of the members and employers as a whole and will apply the following approach to the payment of exit credits.

The extent to which the employer's assets are in excess of its liabilities

The Fund's Actuary will calculate the assets and liabilities relevant to the exiting employer. The approach will depend on the specific details surrounding the employer's cessation scenario. Further details of the most likely approach are given in the section "Cessation Valuations"

The proportion of the excess of assets which has arisen because of the value of employer's contributions

Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements. This is on the basis that these employers would not have been asked to pay an exit payment had a deficit existed at the time of exit, and therefore it is not appropriate to pay an exit credit if there is a surplus.

On the other hand, if an employer commenced fully funded and was liable for any deficits arising as a result of adverse experience (for example, investment returns less than anticipated) then this employer has borne risk and so an exit debt or credit would be payable on exit.

Any exit payment will be limited to the total contributions paid over the period of participation into the Fund.

Any representations made by the exiting employer and its letting authority/guarantor and any other relevant factors.

Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and will seek legal advice where appropriate.

The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. If the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.

Links to Investment Policy

The investment strategy and the funding strategy are linked by the strategic asset allocation of the Fund, which has been set following advice from the Fund's investment advisor and with regard, amongst other considerations, the maturity profile of the Fund.

The actuarial valuation involves a projection of future cashflows from the Fund and these cashflows are discounted to the current time, using the discount rate, to obtain 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 those payments in future provided that the assumptions made during the valuation were borne out in practice (in particular, if the future investment return was equal to the discount rate used).

The discount rate is based on the expected long-term future investment return, using the long-term strategic allocation set out in the Investment Strategy Statement, with a deduction for expenses and for prudence. This ensures consistency between the funding strategy and investment strategy.

Risks and Counter Measures

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.

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

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

The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the valuation of the liabilities by 2%, and decrease/increase the required employer contribution by around 0.6% of payroll p.a.

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

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

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%.

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

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

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the **Error! Reference source not found.** section below.

Regulatory Risks

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.

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

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

There are a number of general risks to the Fund and the LGPS, including:

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

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism, and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members, e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three-year (triennial) to a four-year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. So far, two partial responses to the consultation have been issued:

- On 27 February 2020, a partial response was issued relating to policy changes to exit credits
- On 26 August 2020, a partial response was issued relating to review of employer contributions and flexibility on exit payments

This FSS has been updated in light of these responses and will be revisited again once the outcomes are known for the remaining items.

Detail of the outstanding policy proposals are outlined below:

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are relatively few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

Employer Risks

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.

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.

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

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.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

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

Appendix B

Nottinghamshire County Council Pension Fund

Deferred debt and debt spreading agreement policies

June 2021

Contents

Introduction

This document sets out the Nottinghamshire County Council Pension Fund's policy on deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers.

Nottinghamshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the exit payment due from the exiting employer to the Fund, or the excess of assets in the Fund relating to that employer. Where an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, if the employer provides evidence that this is not possible, there are two alternatives available: Regulation 64(7A) enables the administering authority to enter into a deferred debt agreement with the employer while Regulation 64B enables the administering authority to enter into a debt spreading agreement.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

This policy document sets out the administering authority's policy for entering into, monitoring and terminating a DDA or DSA.

These policies have been prepared by the administering authority following advice from the Fund Actuary, and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Approach for exiting employers

In the event that an employer becomes an exiting employer and an exit payment is identified, the Fund should seek to receive a payment from the exiting employer equal to the exit payment in full.

The administering authority makes the exiting employer aware an exit payment is due by providing a cessation valuation report produced by the Fund Actuary. Details of the Fund's cessation policy can be found in the Fund's Funding Strategy Statement (FSS).

The default position is that the employer is required to make an exit payment in full immediately. However, if required, the exiting employer can inform the administering authority, along with evidence, that they are unable to do so and may request to enter either a DDA or DSA. If the administering authority is satisfied with the evidence provided, the DDA or DSA process may proceed.

Requests should be submitted within 28 days of receiving confirmation of the exit payment required, or otherwise the exit payment should be paid to the Fund in full within 28 days as per the Fund's Pension Administration Strategy.

Where possible, the administering authority encourages employers who are approaching exit and suspect they will have a deficit to engage with the administering authority in advance in order to understand the options that may be available. An indicative cessation report can be produced to form the basis of discussions.

Choosing a DDA or DSA

Consideration needs to be given as to which approach is the most appropriate in each case. A DDA may be appropriate if:

- the employer temporarily has no active members but expects it may return to active employer status in future. However, please note that if the plan is for active members to join within three years then perhaps a suspension notice may be more appropriate;
- the employer wants to minimise costs by potentially benefitting from the upside of the pensions risks it would remain exposed to and therefore does not want to crystallise its debt by becoming an exiting employer. In this case the administering authority may be willing to defer crystallisation of the cessation debt for an appropriately significant period of time, subject to the strength of the employer's covenant or security provided;
- initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future, or the payment can only be afforded over a long period and therefore a DDA enables the position to be updated over time in light of changing funding positions; and/or
- the employer has a weak covenant but is not faced with imminent insolvency and must rely on future investment returns to fully or partially fund the exit payment. The administering authority may agree that doing so over an appropriate long period is better for the Fund than risking immediate insolvency of the employer.

On the other hand, it may be more appropriate to enter a DSA if:

- the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;

- the employer wishes to crystallise its debt to the Fund and therefore not be subject to any of the pensions risks that could cause the amounts payable to the Fund increasing (or decreasing) in future;
- the employer has ample resources to make the payment within the near future but not immediately; and/or
- the employer is deemed to have a very weak covenant and so the administering authority will want to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The administering authority has the right to refuse a DSA or DDA request if they believe it is not in the best interests of the Fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to the other employers.

In considering each request for a DDA or DSA arrangement from an exiting employer the administering authority will take actuarial, covenant, legal and other advice as necessary. Proposed DDAs/DSAs will always be discussed with the employer, whether the arrangement was at the exiting employer's request or not.

Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

Managing of costs

On receiving a request the administering authority will make the employer aware that any costs associated with setting up the DDA or DSA will be the responsibility of the Scheme employer, regardless of whether the administering authority agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, administrative costs and any additional advice required in relation to a covenant assessment or any other specialist adviser costs. If costs deviate from those initially anticipated the administering authority will keep the exiting employer up-to-date with any increases. The administering authority will provide information on how and when payments should be made.

Internal dispute resolutions

Whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. In the event of any dispute from the employer, please refer to the Fund's internal dispute resolution procedures document.

Deferred Debt Agreements (DDAs)

Entering into a DDA

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit.

Information required from the employer

When making a request to enter a DDA, the employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund on a continuing basis. Examples of information the employer may provide as evidence include the exiting employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will make a decision on whether to enter into a DDA within 28 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exiting employer's residual liabilities relative to the size of the Fund;
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DDA. For example, in the following circumstances the administering authority may consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;

- it is known or likely that another active member will come into employment in the three years following the cessation date (in these cases a suspension notice would be considered more appropriate than a DDA); or
- the administering authority is concerned that where a DDA is entered, that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a debt spreading agreement would be considered more appropriate as the payments are fixed throughout the term of the agreement).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to enter into a DDA they will explain to the exiting employer their reasoning and any alternatives (e.g. a debt spreading agreement, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DDA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DDA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DDA

Once agreed that a DDA is permitted, the terms of the DDA will be agreed between the administering authority and the exiting employer and will be set out in a formal legal agreement.

The administering authority and the exiting employer (with the assistance of the Fund Actuary) will negotiate an appropriate duration of the agreement which will consider the exiting employer's affordability and anticipated strength of covenant over the agreement period. If the exiting employer has sufficient reserves, the administering authority may require an immediate cash payment so that the DDA can start from an acceptably stronger funding position.

The Fund Actuary will calculate secondary contributions on an appropriate basis as agreed with the administering authority and following consultation with the exiting employer, taking into account any cash payments made in advance. The secondary contributions will be reviewed at each actuarial valuation and certified as part of the Fund's Rates and Adjustments Certificate until the termination of the agreement. Therefore payments throughout the agreement are not known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 3 months, although there may be circumstances where timings may vary.

Once finalised, the employer will become a deferred employer in the Fund and will have an obligation to pay their secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as strain costs as a result of ill health retirements;
- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by the administering authority;

- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the administering authority and provided to the deferred employer;
- promptly provide all such information that the administering authority may reasonably request in order to administer and manage the agreement; and
- give notice to the administering authority, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

The deferred employer should consult with their auditors about any impacts the DDA is expected to have on their accounting requirements.

Monitoring a DDA

A deferred debt agreement is subject to the ongoing approval of the administering authority. The administering authority reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. Conversely, if there was an improvement in the employer's circumstance then the administering authority and employer may agree to amend the terms of the agreement.

The administering authority will monitor a DDA in the following ways:

Changing funding position

The administering authority will request regular, and at least annual, updates of the deferred employer's funding position in order to review the progress of the DDA. The costs of the regular reviews will fall to the deferred employer as part of the terms for putting in place a DDA.

If the funding position changes by more than 10% (in absolute terms) from the previous review, then the administering authority may engage with the deferred employer to discuss a possible review of the DDA.

Changing employer covenant

Once an employer enters into a DDA, the administering authority will review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant deteriorates, the administering authority may issue a notice to review and possibly terminate the agreements.

In addition, if a deferred employer requests an extension to the duration of the DDA the administering authority will consider an updated covenant review, amongst other factors, in assessing the proposal.

As a condition of entering into a DDA, the deferred employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

Timeliness of payments

The agreement will set out whether payments are made on a monthly or annual basis, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards a notice being issued to the deferred employer to review and possibly terminate the agreement.

Strength of guarantee or security

If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then the administering authority will check there has been no change to the security at agreed regular intervals and as a minimum at each valuation cycle. The Fund Actuary may change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

Notifiable events from the deferred employer

The deferred employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DDA

Events that may terminate a DDA

As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrols new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the administering authority serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity.

Termination clauses will be included in the formal DDA legal agreement.

Process of termination

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out the exit payment due from the exiting employer or the excess of assets in the Fund relating to the exiting employer (which would then be subject to the Fund's exit credit policy).

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required;

this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's FSS.

If the termination has been triggered because a review of the funding position of the deferred employer reveals that the secondary contributions paid to date by the deferred employer are sufficient to cover what would be due if the deferred employer terminated at the updated calculation date, then the deferred employer becomes an exiting employer and no further payments are required. The exiting employer has no further obligation to the Fund. Where there is a surplus, an exit credit may be payable as determined by the administering authority and in line with the Fund's exit credit policy.

Debt Spreading Agreements (DSAs)

Entering a DSA

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary and following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation.

Information required from the employer

When making a request to enter a DSA, the exiting employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund. Examples of information the exiting employer may provide as evidence include the employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will make a decision on whether to enter into a DSA within 28 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exit payment relative to the exiting employer's business cashflow;
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DSA. For example, in the following circumstances the administering authority may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- there is doubt that the exiting employer can operate as a going concern during the spreading period; or

- the exiting employer cannot afford the speeded payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

The structure of the DSA is at the discretion of the administering authority having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period that the payments will be spread. This is expected to be no more than 5 years. For longer periods it may be more appropriate to consider a deferred debt agreement but the administering authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer’s ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the exiting employer’s cessation valuation report;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the administering authority of a change in circumstances that could affect their ability to make payments).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to accept the exiting employer’s request to enter into a DSA they will explain their reasoning and any alternatives (e.g. a DDA, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DSA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DSA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DSA

The administering authority and the exiting employer, with the assistance of the Fund Actuary, will then negotiate the structure of the schedule of payments which takes into consideration the exiting employer’s affordability and an appropriate period of the spreading.

The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary. There may be circumstances where timings may vary, however, in general the certificate will be prepared and provided to the exiting employer within 28 days of agreeing the structure of the schedule of payments with the exiting employer.

Monitoring a DSA

Over the term that the cessation debt payment is spread, the administering authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments certificate. While it is expected the schedule of payments would be fixed for the spreading period, the administering authority may alter the structure of the schedule at any time if there is a change in the exiting employer’s circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case by case basis and set out in a side agreement as required.

The administering authority will be in regular contact with the exiting employer until their obligations to the Fund are removed when all payments set out in the schedule of payments are made.

Examples of factors which will be monitored are set out below. Should any of these raise any concerns with the administering authority then the DSA may be reviewed and/or terminated.

Changing employer covenant

The administering authority will monitor the ability of the exiting employer to make their set payments by monitoring publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

As a condition of entering into a DSA, the exiting employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

Timeliness of payments

The DSA will set out whether payments are made on a monthly or annual basis and how long for, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards further interest charges or the spreading agreement may be reviewed and/or terminated.

Strength of guarantee or security

If a particular schedule of payments has been agreed between the administering authority and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then the administering authority will check there has been no change to the security regularly. The frequency of these reviews may reduce as the level of outstanding debt reduces. The administering authority with advice from the Fund Actuary may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

Notifiable events from the exiting employer

The exiting employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance that affects their ability to make payments. Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DSA

Events that may terminate a DSA

On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the Fund.

In the event that the administering authority believes that the exiting employer may not be able to make any of their remaining payments, the administering authority reserves the right to review and/or terminate the DSA to ensure it is appropriate for the Fund and does not adversely impact the other participating employers.

The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the contribution schedule should be paid.

Process of termination

In the event of a DSA being amended or terminated the administering authority will communicate this to the exiting employer along with reasons for the decision. Before the decision is made the administering authority will consult with the exiting employer about their change in circumstances and also take advice from the Fund Actuary.

If the DSA has to be terminated prematurely the administering authority will seek to obtain from the exiting employer as much of the outstanding exit payments as possible or look at alternative arrangements such as a deferred debt agreement.

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

Appendix C

Nottinghamshire County Council Pension Fund

Contribution review policy

June 2021

Contents

Introduction

This document sets out Nottinghamshire County Council Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal funding valuations.

Nottinghamshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

Under Regulation 62, Nottinghamshire County Council, as the administering authority for the Fund, is required to obtain a formal actuarial valuation of the Fund and a rate and adjustments certificate setting out the contribution rates payable by each Scheme employer for three year period beginning 1 April following that in which the valuation date falls.

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority. This policy document sets out the administering authority's approach to considering the appropriateness of a review and the process in which a review will be conducted.

This policy has been prepared by the administering authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on drafting a contribution review policy which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

The review process

The events that may trigger a review are set out in the Triggering a contribution review section. The general process for assessing and conducting a review is set out below. Timescales may vary in practice depending on each individual circumstance, but the timeline below provides a rough guide of the administering authority's general expectation.

Following completion of the review process, the administering authority may continue to monitor the Scheme employer's position in order to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer's situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by the administering authority in order to allow effective monitoring.

Timeline where initiation is made by the administering authority

Where the review is initiated by the administering authority (i.e. under conditions (i) and (ii) in the Triggering a contribution review section), the first stage after the administering authority has conducted its analysis is to engage with the Scheme employer and provide written evidence for requiring the review.

The Scheme employer will be given 28 days from the later of the date of receipt of the evidence provided by the administering authority and the date of receipt of the results of the formal contribution review to respond to the administering authority on the proposal. Should no challenge be accepted within this period then the administering authority will treat the proposal as accepted and the revised contribution rates will come into effect from the proposed review date.

Should the Scheme employer challenge the administering authority's proposal, then the administering authority will continue to engage with the Scheme employer in order to reach an agreeable decision. If no decision has been agreed within 4 months of the initial proposal, then the administering authority may proceed with the revised contribution rates. Further details of the appeals process for the Scheme employer is set out in the Appeals process section.

Although the ultimate decision for review belongs to the administering authority, the administering authority is committed to engaging with any Scheme employer following the initial proposal to ensure that any change is agreeable to all relevant parties.

Timeline where initiation is made by the Scheme employer

Where the review is initiated by the Scheme employer, the process begins once the Scheme employer has provided all the relevant documents required as set out in the Triggering a contribution review section.

The administering authority will aim to provide an initial response to the Scheme employer within 28 days from the date of receipt. This will depend on the quality of the documents provided and any need from the administering authority to request further information from the Scheme employer. The administering authority will subsequently provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.

Responsibility of costs

Where the review of contributions has been initiated by the administering authority, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the administering authority as part of the review. These exception costs would be recharged to the Scheme employer.

Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

Triggering a contribution review

As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

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

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

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

Conditions (i) and (ii) are triggered by the administering authority and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions where the trigger is due to a change in actuarial assumptions or asset values.

(i) change in the amount of the liabilities arising or likely to arise

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Restructuring of a Multi Academy Trust
- A significant outsourcing or transfer of staff
- Any other restructuring or event which could materially affect the Scheme employer's membership
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the fund in future
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

As part of its participation in the Fund, Scheme employers are required to inform the administering authority of any notifiable events as set out in the Fund's Pensions Administration Strategy, service agreements and/or admission agreements. Through this notification process, the administering authority may identify events that merit a review of contributions.

In addition, the administering authority may initiate a review of contributions if they become aware of any events that they deem could potentially change the liabilities of the Scheme employer. This also applies to any employers for whom a review of contributions has already taken place as a further change in liabilities may merit another review.

(ii) change in the ability of the Scheme employer to meet its obligations

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Change in employer legal status or constitution

- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by a Scheme employer
- A change in a Scheme employer's immediate financial strength
- A change in a Scheme employer's longer-term financial outlook
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Concerns felt by the administering authority due to behaviour by a Scheme employer's, for example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the administering authority over a significant period of time.

The administering authority may monitor the level of covenant of its Scheme employers on an ongoing basis. In particular, the administering authority may commission an employer risk review report from the Fund Actuary on a regular basis. Through this analysis, the administering authority can identify any Scheme employers that might be considered as high risk and whether any Scheme employers have had a significant change in riskiness. This in turn may affect the administering authority's views on whether the ability of a Scheme employer to meet its obligations to the Fund has changed significantly and therefore whether this change may merit a contribution review. This also applies to any employers for whom a review of contributions has already taken place as a further change in an employer's ability to meet its obligations may merit another review.

(iii) request from the Scheme employer for a contribution review

A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This must be triggered by one of the following two conditions:

- There has been a significant change in the liabilities arising or likely to arise; and/or
- There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Any requests not arising from either of these conditions will not be considered by the administering authority.

Requests by a Scheme employer are limited to one review per calendar year.

With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the administering authority will not accept a request for a review of contributions with an effective date within the 12 months preceding the next Rates and Adjustments certificate. It is expected in these cases that any requests can be factored into the formal review and any benefits of carrying out a review just prior to the commencement of a new Rates and Adjustments certificate are outweighed by the costs and resource required. If a request is made with an effective date within the 12 months preceding the next Rates and Adjustments certificate, the administering authority will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

Information required from the Scheme employer

In order to submit a request for a review of contribution rates outside of the formal actuarial valuation process, a Scheme employer must provide the following to the Fund:

- Where a review is sought due to a potential change in the Scheme employer's liabilities:

    - Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change
- Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
    - The most recent annual report and accounts for the Scheme employer
    - The most recent management accounts
    - Financial forecasts for a minimum of three years
    - The change in security or guarantee to be provided in respect of the Scheme employer's liabilities

The administering authority may require further evidence to support the request and this will be requested from the Scheme employer on a case by case basis.

Assessing the appropriateness of a review

The following general considerations will be taken into account by the administering authority, regardless of the condition under which a review is requested:

- the expected term for which the Scheme employer will continue to participate in the Fund;
- the time remaining to the next formal funding valuation;
- the cost of the review relative to the anticipated change in contribution rates and the benefit to the Scheme employer, the Fund and/or the other Scheme employers; and
- the anticipated impact on the Fund and the other Fund employers, including the relative size of the change in liabilities and contributions and any change in the risk borne by other Fund employers.

Where the review has been requested by the Scheme employer, the administering authority will also consider the information and evidence put forward by the Scheme employer. This may be with advice from the Fund Actuary where required and will include an assessment of whether there is a reasonable likelihood that a review would result in a change in the Scheme employer's contribution rates. The administering authority will also consider whether it is necessary to consult with any other Scheme employer e.g. where a guarantee may have been provided by another Scheme employer.

Whether any changes require the administering authority to exercise its powers to carry out a contribution review will be assessed on a case by case basis and with advice from the Fund Actuary and may involve other considerations as deemed appropriate for the situation. The final decision of whether a review of contribution rates will be carried out rests with the administering authority after, if necessary, taking advice from the Fund Actuary. Should a Scheme employer disagree with the administering authority, then details of the Appeals process is set out later in this document.

Appropriateness of a review due to change in liabilities

This will be subject to the following considerations in addition to the general considerations set out above:

- the size of the Scheme employer's liabilities relative to the Fund and the extent to which they have changed;
- the size of the event in terms of membership and liabilities relative to the Scheme employer and/or the Fund; and
- the administering authority's assessment of the ability of the Scheme employer to meet its obligations.

Appropriateness of a review due to change in ability to meet its obligations to the Fund

In assessing whether or not an administering authority will exercise its powers to review a Scheme employer's contribution rates under this condition, the administering authority will take into account the general considerations set out earlier in this section and:

- The results of any employer risk analysis provided by the Fund Actuary or a covenant specialist
- The perceived change in the value of the indemnity to the administering authority, relative to the size of the Scheme employer's liabilities

It is acknowledged that each Scheme employer's situation may differ and therefore each decision will be made on a case by case basis. Further considerations to that set out above may be relevant and will be taken into account by the administering authority as required.

Method used for reviewing contribution rates

If a review of contribution rates is agreed, or if an indicative review is required to help inform the review process, the administering authority will take advice from the Fund Actuary on the calculation of the Scheme employer's revised contribution rates. This will take into account the events leading to the anticipated liability change and any impact of the changes in the Scheme employer's ability to meet its obligations to the Fund.

The starting point for reviewing a Scheme employer's contribution rates will in some cases be the most recent actuarial valuation. The table below sets out the general approach that will be used when carrying out this review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date.

	General approach
Member data	In some cases, where the review is happening during or shortly after the valuation, the most recent actuarial valuation data will be used as a starting point. In most cases, given the review is due to an anticipated change in membership, the administering authority and Scheme employer should work together to provide updated membership data for use in calculations. There may be instances where updated membership data is not required if it is deemed proportionate to use the most recent actuarial valuation data without adjustment. Where the cause for a review is due to a change in a Scheme employer's ability to meet its obligations to the Fund, updated membership data may not need to be used unless any significant membership movements since the previous Fund valuation are known.
Approach to setting assumptions	This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's Funding Strategy Statement.
Market conditions underlying financial assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those at the most recent actuarial valuation.
Conditions underlying demographic assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.
Funding target	The funding target adopted for a Scheme employer will be set in line with the Fund's Funding Strategy

	Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.
Surplus/deficit recovery period	The surplus/deficit recovery period adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.

The Fund Actuary will be consulted throughout the review process and will be responsible for providing revised rates and adjustments certificate. Any deviations from the general approaches set out above will be agreed by the administering authority and the Fund Actuary.

Appeals process

1. Any appeal will follow the existing Internal Dispute Resolution Process.

Nottinghamshire County Council

Report to Pension Fund Committee

29 July 2021

Agenda Item: 8

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

PROXY VOTING

Purpose of the Report

1. The Fund is committed to supporting best practice in corporate governance and has adopted the *UK Stewardship Code* as recommended by the CIPFA *Principles for investment decision making and disclosure*. This report is to inform members of the voting of equity holdings in the first quarter of 2021 (calendar year) as part of this ongoing commitment.

Information

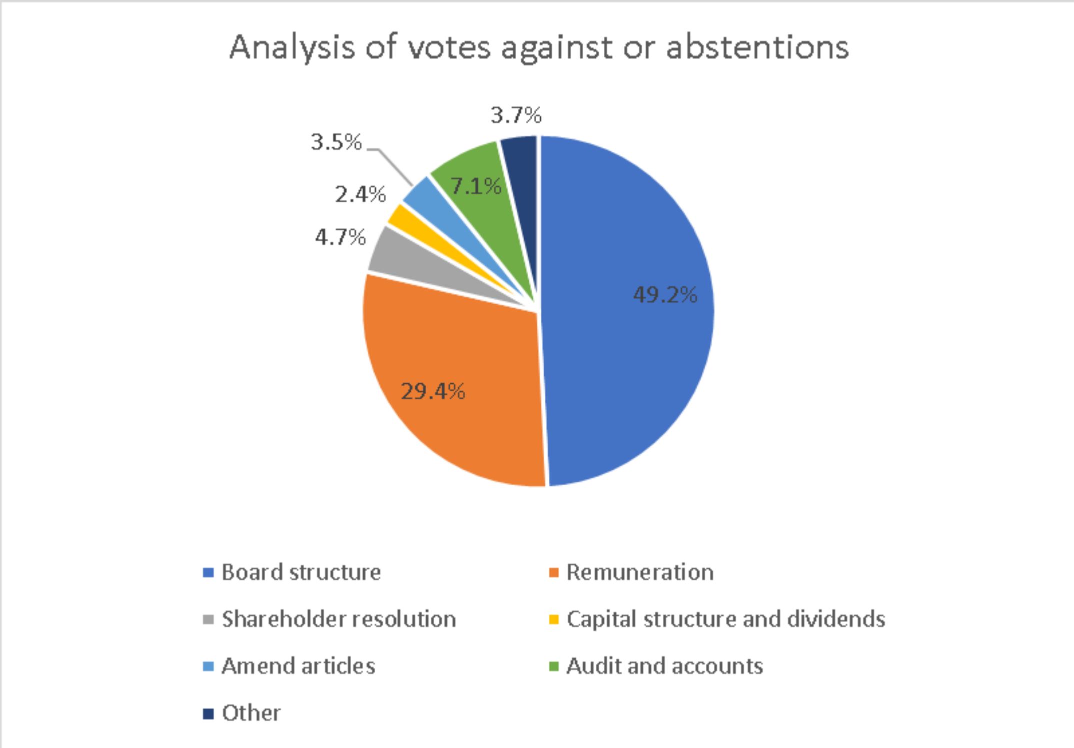
2. The *UK Stewardship Code*, issued in September 2012 by the Financial Reporting Council, and revised in 2020, highlights the responsibilities of institutional investors such as the Nottinghamshire Pension Fund. It defines stewardship as 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society'. Stewardship includes, among other things, having a clear policy on voting and on the disclosure of voting activity.

3. Alongside this the CIPFA *Principles for investment decision making and disclosure* require administering authorities to include a statement of their policy on responsible investment in the Investment Strategy Statement and report periodically on the discharge of such responsibilities. The Fund's statement on responsible investment states that 'the Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds'.

4. The Fund retains responsibility for voting any directly held shares (rather than delegating this to investment managers) and votes the majority of its equity holdings in the UK, Europe, US and Japan. Since 1 January 2020 voting has been undertaken by Hermes EOS in line with the voting principles of LGPS Central.

5. Over the quarter to March 2021 Hermes EOS voted Nottinghamshire Pension Fund shares at 482 meetings (a total of 5,013 resolutions). Hermes opposed one or more resolutions at 160 meetings, and voted with management by exception at 18 meetings and abstaining at one meeting. Hermes supported management on all resolutions at the remaining 262 meetings.

6. Hermes recommended voting against or abstaining on 510 resolutions over the last quarter. An analysis of the issues is shown below:



7. An overview of the Hermes EOS voting activity and detailed analysis of the key issues during the quarter will be published on the Fund website (http://www.nottspf.org.uk/about-the-fund/investments) and with the meeting papers on the Council Diary (http://www.nottinghamshire.gov.uk/dms/Meetings.aspx).

Statutory and Policy Implications

8. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, 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/S

9. That Nottinghamshire Pension Fund Committee members consider whether there are any actions they require in relation to the issues contained within the report.

Report Author:
Ciaran Guilfoyle
Investments Officer

For any enquiries about this report please contact Ciaran Guilfoyle

Constitutional Comments (KK 30/06/2021)

10. The proposal in this report is within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (TMR 01/07/2021)

11. There are no financial implications arising directly from this 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.

- Hermes EOS – Nottinghamshire Pension Fund, Voting Report, Q1 2021
- LGPS Central – Voting Principles (March 2019)
- Financial Reporting Council, *The UK Stewardship Code*, January 2020

Nottinghamshire County Council

Report to Pension Fund Committee

29 July 2021

Agenda Item: 9

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

LOCAL AUTHORITY PENSION FUND FORUM BUSINESS MEETING

Purpose of the Report

1. To report on the Local Authority Pension Fund Forum (LAPFF) business meeting held via Zoom on 21 April 2021.

Information and Advice

2. The Local Authority Pension Fund Forum was formed in 1990 to provide an opportunity for the UK's local authority pension funds to discuss investment and shareholder engagement issues. In 2018 membership was also extended to cover pension fund pools. LAPFF membership currently stands at 80 funds and 6 pools (shown at Appendix A) with combined assets of over £300 billion. It is consequently able to exert significant influence over companies in which funds are invested.

3. LAPFF exists 'to assist Administering Authorities discharge their statutory responsibilities and promote the long-term investment interests of UK local authority pension funds'. In particular, it seeks to maximise their influence as investors to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they hold an interest, commensurate with statutory regulations'. It also:
   a. provides a forum for information exchange and discussion about investment issues.
   b. facilitates the commissioning of research and policy analysis of issues in a more effective manner than individual Forum members could achieve.
   c. provides a forum for consultation on shareholder initiatives.
   d. provides a forum to consider issues of common interest to all pension fund boards, committees and their supporting administrative staff, as well as to other interested parties from national, local and regional governments.

4. The business meeting was attended on behalf of Nottinghamshire Pension Fund by an officer representative.

5. The agenda of the meeting included, among other things, a particular focus on climate. Many fossil fuel companies are now putting climate-related resolutions before shareholders at their AGMs as part of the 'Say on Climate' campaign, and LAPFF has cautiously welcomed this. However, LAPFF maintains that 'It isn't appropriate to give credit [to companies] for merely recognising climate change exists'. Further, it expressed a wariness about nature-based solutions to carbon capture (such as reforestation), citing that this strategy could be used by some companies to prolong their extraction of fossil fuels.

6. At the meeting an update on LAPFF's engagement work in the quarter to March 2021 was presented. The headline engagement story related to National Grid's promotion of a 'Say on Climate' resolution at its AGM, which permitted shareholders to vote on the company's climate change-related targets and action plan. LAPFF continues to engage with National Grid, particularly with regard to (a) its US electricity and gas distribution businesses, and (b) the carbon-intensity of heating UK homes.

7. Copies of the latest engagement reports are listed as background papers and all LAPFF engagement reports can be found on the LAPFF website: https://lapfforum.org/publications/category/quarterly-engagement-reports/

Statutory and Policy Implications

8. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, 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/S

1. That Nottinghamshire Pension Fund Committee members consider whether there are any actions they require in relation to the issues contained within the report.

Nigel Stevenson
Service Director – Finance, Infrastructure and Improvement

For any enquiries about this report please contact: Ciaran Guilfoyle

Constitutional Comments (KK 30/06/2021)

9. This is an updating information report and Nottinghamshire Pension Fund Committee is the correct body for considering that information and any further action which members may wish to take in light of that information.

Financial Comments (TMR 01/07/2021)

10. There are no direct financial implications arising from this report.

Background Papers

- LAPFF constitution
- LAPFF Quarterly Engagement Report January to March 2021

Membership of LAPFF as at December 2020

Funds

1) Avon Pension Fund
2) Barking and Dagenham (London Borough of)
3) Barnet LB
4) Bedfordshire Pension Fund
5) Bexley (London Borough of)
6) Brent (London Borough of)
7) Camden (London Borough of)
8) Cardiff and Vale of Glamorgan Pension Fund
9) Cambridgeshire Pension Fund
10) Cheshire Pension Fund
11) City and County of Swansea Pension Fund
12) City of London Corporation
13) Clwyd Pension Fund
14) Cornwall Pension Fund
15) Croydon LB
16) Cumbria Pension Scheme
17) Derbyshire County Council
18) Devon County Council
19) Dorset County Pension Fund
20) Durham Pension Fund
21) Dyfed Pension Fund
22) Ealing (London Borough of)
23) East Riding of Yorkshire Council
24) East Sussex Pension Fund
25) Enfield (London Borough of)
26) Environment Agency Pension Fund
27) Essex Pension Fund
28) Falkirk Council
29) Gloucestershire Pension Fund
30) Greater Gwent Fund
31) Greater Manchester Pension Fund
32) Greenwich Pension Fund
33) Gwynedd Pension Fund
34) Hackney (London Borough of)
35) Hammersmith and Fulham (London Borough of)
36) Haringey (London Borough of)
37) Harrow (London Borough of)
38) Havering LB
39) Hertfordshire
40) Hounslow (London Borough of)
41) Islington (London Borough of)
42) Kingston upon Thames Pension Fund
43) Lambeth (London Borough of)
44) Lancashire County Pension Fund
45) Leicestershire
46) Lewisham (London Borough of)
47) Lincolnshire County Council

48) London Pension Fund Authority
49) Lothian Pension Fund
50) Merseyside Pension Fund
51) Merton (London Borough of)
52) Newham (London Borough of)
53) North East Scotland Pension Fund
54) North Yorkshire County Council Pension Fund
55) Northamptonshire County Council
56) Nottinghamshire County Council
57) Oxfordshire Pension Fund
58) Powys County Council Pension Fund
59) Redbridge (London Borough of)
60) Rhondda Cynon Taf
61) Shropshire Council
62) Somerset County Council
63) South Yorkshire Pensions Authority
64) Southwark (London Borough of)
65) Staffordshire Pension Fund
66) Strathclyde Pension Fund
67) Suffolk County Council Pension Fund
68) Surrey County Council
69) Sutton (London Borough of)
70) Teesside Pension Fund
71) Tower Hamlets (London Borough of)
72) Tyne and Wear Pension Fund
73) Waltham Forest (London Borough of)
74) Wandsworth (London Borough of)
75) Warwickshire Pension Fund
76) West Midlands Pension Fund
77) West Yorkshire Pension Fund
78) Westminster CC
79) Wiltshire County Council
80) Worcestershire County Council

Pools

1) Border to Coast Pension Partnership
2) Brunel
3) LGPS Central
4) London CIV
5) Northern Pool
6) Wales Pension Partnership

Nottinghamshire County Council

Report to Pension Fund Committee

29 July 2021

Agenda Item: 10

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

UPDATE FROM LGPS CENTRAL LTD

Purpose of the Report

1. To inform Committee of a presentation to be delivered by LGPS Central Ltd.

2. The LGPS Regulations 2016 required administering authorities to pool investments from 2018. Eight LPGS funds chose to group together to create a jointly owned, FCA registered, limited company called LGPS Central to deliver pooling.

3. The presentation will inform Committee of progress to date and future plans.

4. The presentation is attached as appendix A.

Other Options Considered

5. None

Reason/s for Recommendation/s

6. None

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment 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 Committee considers whether there are any actions they require in relation to the issues raised in the presentation.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (CEH 19/07/21)

8. Pension Fund Committee is the appropriate body to consider the contents of the report.

Financial Comments (TMR 19/07/21)

9. There are no financial implications.

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

Electoral Division(s) and Member(s) Affected

- All

LGPS Central Limited

Nottinghamshire Pension Fund

LGPS Central Limited Update on Pooling

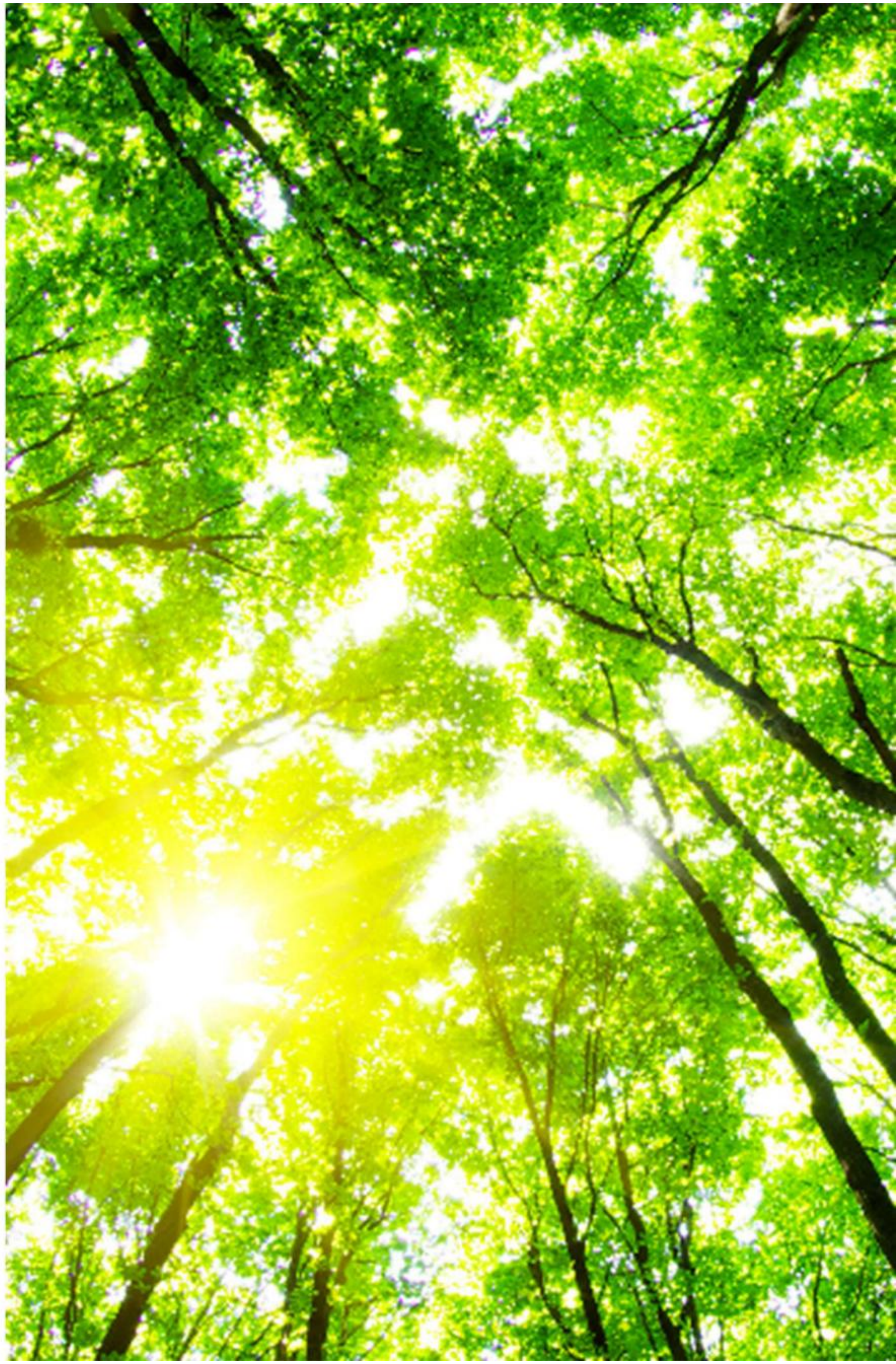
PRESENTED BY

JOANNE SEGARS
CHAIR

MIKE WESTON
CEO

PATRICK O'HARA
DIRECTOR OF RESPONSIBLE INVESTMENT & ENGAGEMENT

29th July 2021

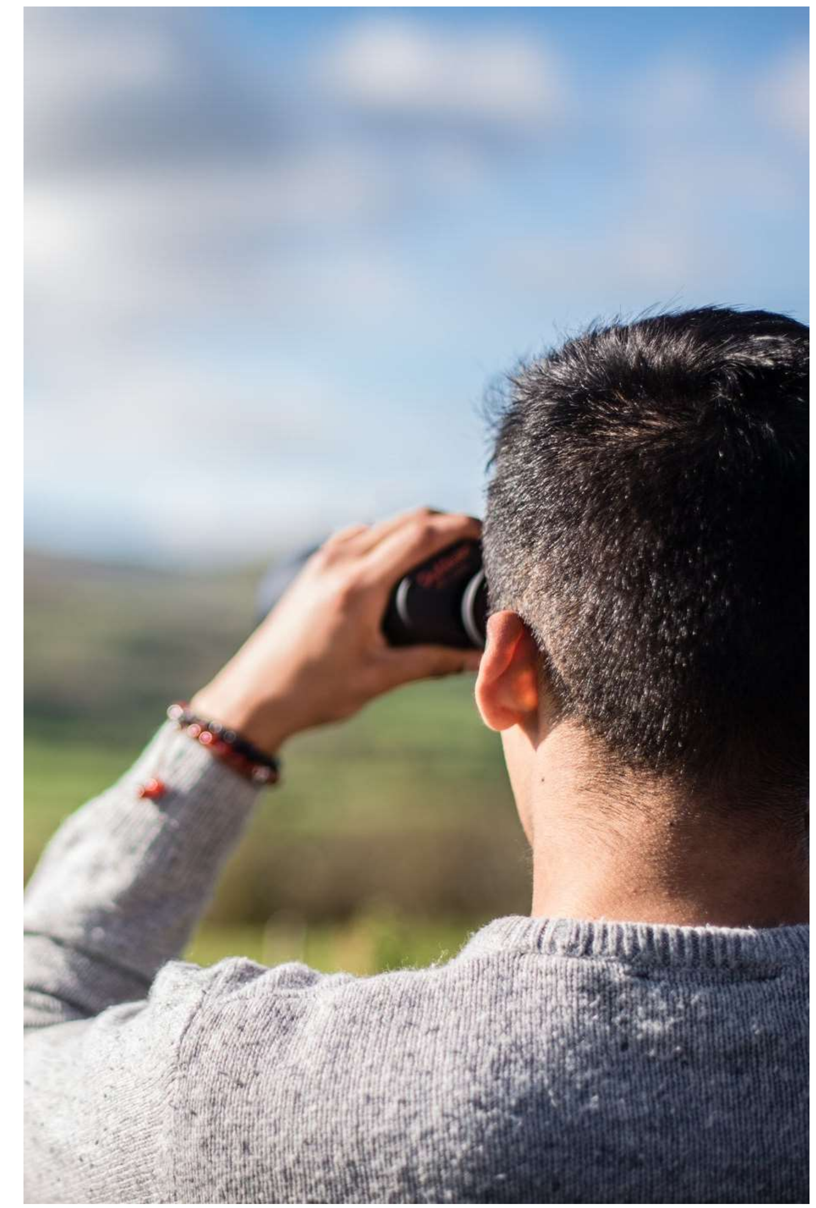


Agenda

LGPS Central Limited

AREAS FOR DISCUSSION

- LPGS Central Update
- Looking Forward
- Responsible Investment and Engagement
- Summary



LGPS Central Update

Joanne Segars

LGPS Central and NPF

LGPS Central Limited

NPF'S POOLING COMPANY: LGPS CENTRAL

- LGPS Central works closely with NPF and Partner Funds to provide **access** to a **wide range of asset classes tailored** to meet the **needs of NPF**
- Using **combined purchasing power** enables LGPSC to negotiate discounts to investment manager fees on behalf of NPF
- Ability to **reduce any governance burden** on NPF with LGPS Central taking on vital role of manager monitoring

- **Product Development** a priority with a further 4 funds to be launched over 2021/22:
  - Private Equity
  - Targeted Return
  - Sustainable Equity
  - Property

- The team continues to grow with **dedicated staff** to meet the needs of NPF
- Working in **partnership with our shareholders** to drive the success of LGPS Central

LGPS Central: Timeline

LGPS Central Limited

MOVING OUT OF START UP TOWARDS MATURITY

Pre-2018	2018 - 2020	2020 - 2022	2023 onwards
Phase 1: Establishment	Phase 2: Initial Assets Transitioned and Funds Launched	Phase 3: Additional Transitions and Launch of “Niche” products	Phase 4: Business as Usual

LGPS Central: Achievements to Date

LGPS Central Limited

DELIVERING ON THE SIX PRIORITIES IN THE 2021/22 BUSINESS PLAN

- Work closely with NPF and Partner Funds to develop and monitor LGPSC products
- Incorporate Partner Fund feedback into all aspects of our work

1. Partner Fund Relationships

- RI Integrated Status established and maintained for all LGPSC products
- Additional services provided to Partner Funds e.g. Climate Risk Reports

2. RI Focus

- Ongoing monitoring of external managers
- Strong performance delivered to date across LGPSC funds
- Adapting and developing existing products to ensure remain suitable to meet investor needs

3. Management of Existing Assets

LGPS Central: Achievements to Date

LGPS Central Limited

DELIVERING ON THE SIX PRIORITIES IN THE 2021/22 BUSINESS PLAN

- Additional three funds launched over 2021
- Further four funds to be launched over course 2021/22

4. Transitioning New Assets

- Recruitment efforts focussed on strengthening both the Operations and Responsible Investment Teams
- Enhancing the internal organisational structure

5. The "One Central" Team

- Unqualified AAF report for full 12 months of 2020 (as was the report for the first three months of 2021)
- Only Pool Company to have completed AAF Type 2 report for its Clients

6. Operational Resilience

Looking Forward

Mike Weston

What’s Next For LGPS Central?

LGPS Central Limited

MULTIPLE PRODUCT DEVELOPMENT

Private Debt	First Close completed in June 2021, with further two closes expected over the course of 2021
Private Equity	Targeting end July / early August for first close
Sustainable Equity	Procurement is underway to appoint external managers to run our upcoming c.£1bn Global Sustainable Equities Fund. The Fund is expected to be launched over H2 2021.
Targeted Return	Procurement is underway to appoint external managers run our upcoming c.£700m Targeted Return Fund. The Fund is expected to be launched in early 2022.
Property	Work continues with the Partner Funds to design the product with launch expected for the latter half of H2 2021.

Next Steps LGPS Central

LGPS Central Limited

A CLEAR ORGANISATIONAL FOCUS LOOKING FORWARD

Our Funds

- Transitioning away from multiple new product launches to continuing to **deliver efficient portfolio management and investment performance**

Our Philosophy

- Achieving our fiduciary objectives without compromising societal responsibilities – focussing on engagement rather than divestment
- Maintain **100% RI Integrated Status** across all our investment products and extending our support for **Net Zero alignments, off-setting and carbon pricing**

Our People

- Continued **investment in our people** to ensure we have **the right people with the right capabilities in the right roles.**
- Strengthening the **Responsible Investment & Engagement team** to support increased Partner Fund needs – **one of the main advantages of pooling**

Responsible Investment and Engagement

Patrick O'Hara

The LGPS and ESG

LGPS Central Limited

LGPS CENTRAL IS AN INTEGRAL PART OF THE BROAD UK ESG EFFORT

- Consideration of Environmental, Social and Governance issues is not new to LGPS funds, particularly NPF.
- NPF is also a member of the Local Authority Pension Fund Forum (LAPFF), formed in 1990, the leading collaborative shareholder's engagement group.

Local Authority Pension Fund Forum

Engagements include:

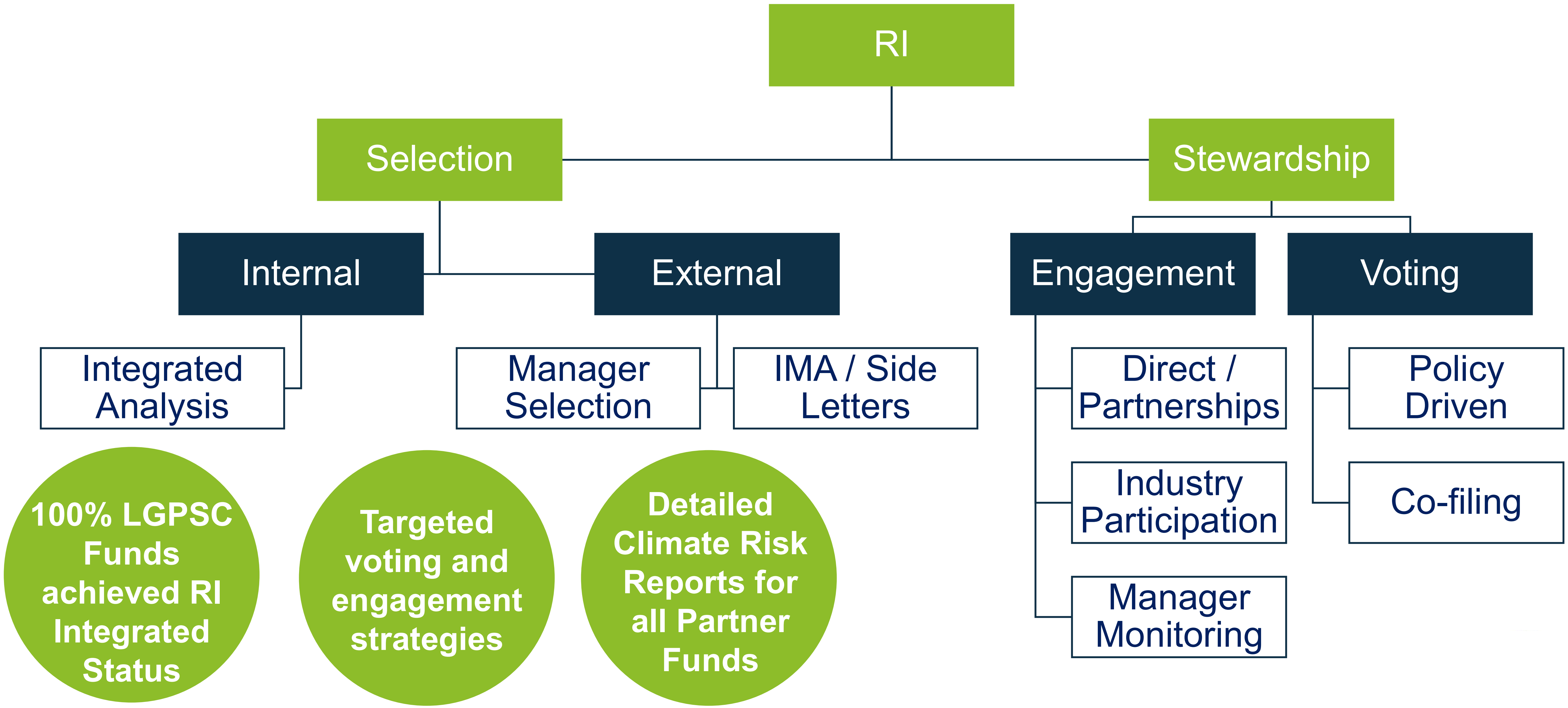
- Climate change
- Single-use plastics
- Tax
- Technology

- LGPS Central Pool Member of LAPFF (along with wide ranging list of partnerships)
- Significant experience with LGPS Central RI&E team in engaging with companies on variety of ESG issues
- Provide additional support to NPF on RI&E issues, including provision of climate risk reports

LGPS Central and RI&E

LGPS Central Limited

MULTIPLE INTEGRATION ROUTES TO TAKE RI&E INTO ACCOUNT



Does Engagement Work

LGPS Central Limited

RESPONSIBLE INVESTORS TAKING THE LEAD

- Engagement works but it can be a long game
- As an owner, you have a voice
- Corporations need responsible long-term investors

Disclosure is Key

Voting and Engagement needs to be joined up

Share the heavy lifting

Collaboration increases impact

Small Investors can be influential

GLENCORE

TotalEnergies

ExxonMobil

BARCLAYS

Chevron

RioTinto

LGPS Central and RI&E

LGPS Central Limited

LGPS CENTRAL'S PARTNERSHIPS

PRI Principles for Responsible Investment

IIGCC The Institutional Investors Group on Climate Change

Local Authority Pension Fund Forum

FRC

Transition Pathway Initiative

Climate Action 100+ Global Investors Driving Business Transition

ShareAction»

30% Club GROWTH THROUGH DIVERSITY

BVCA British Private Equity & Venture Capital Association

THE INVESTOR FORUM

Summary

Mike Weston

Summary

PARTNERSHIP IS THE FOUNDATION FOR EVERYTHING WE DO

Strong relationship with NPF

Nottinghamshire County Council

Continue to develop LGPS Central's Products to meet NPF's needs

RI integration with targeted engagement throughout the life of LGPSC's products

DISCLAIMER:

LGPS Central Disclaimer

IMPORTANT INFORMATION

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Share Class and Benchmark performance displayed in GBP.

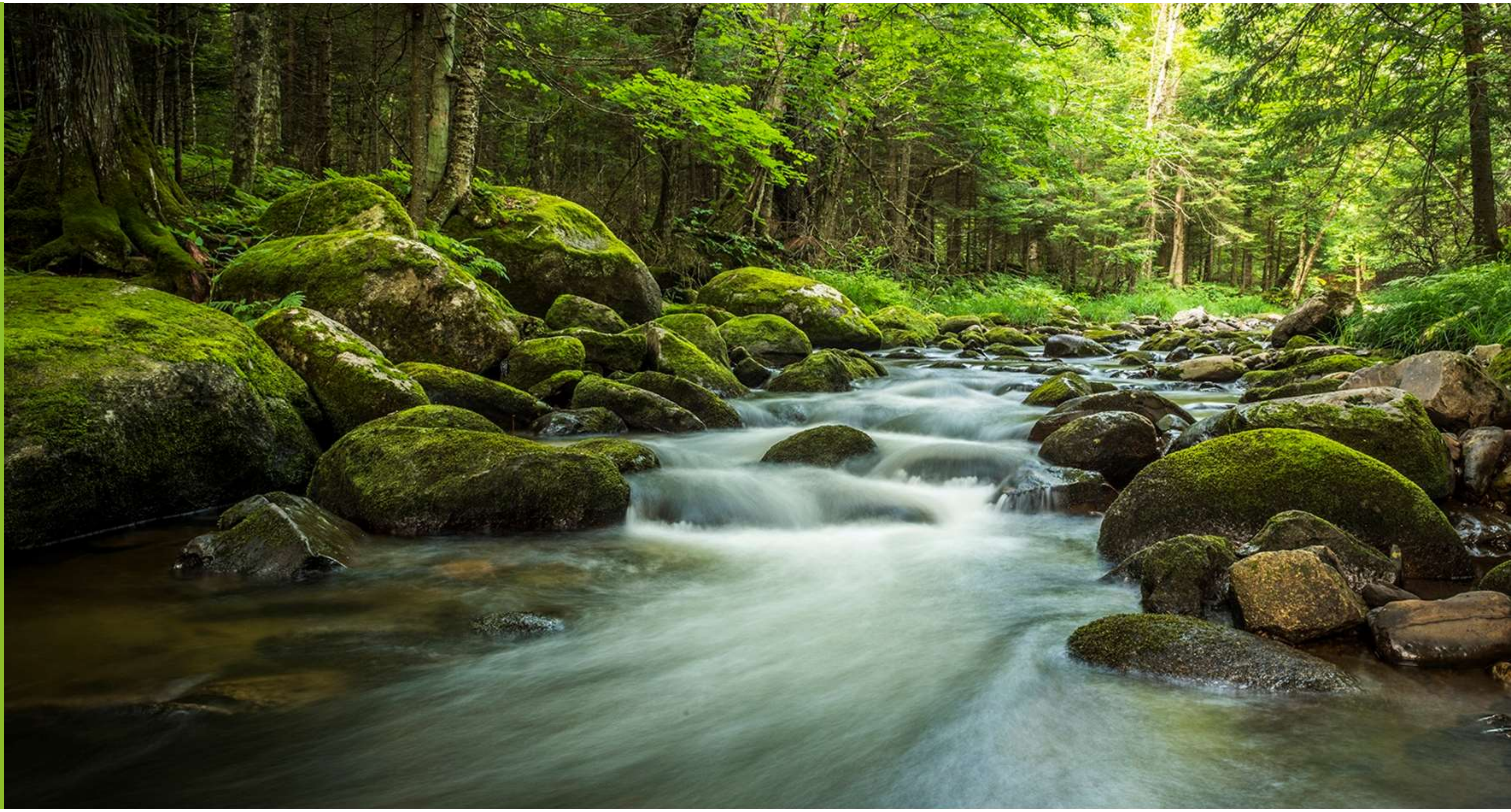
Performance is shown on a Net Asset Value (NAV) basis, with gross income reinvested where applicable.

All information is prepared as of **2 July 2021**

This document is intended for **PROFESSIONAL CLIENTS** only.

LGPS Central Limited

"One Central team, working in partnership to invest with purpose and deliver superior returns"



Nottinghamshire County Council

Report to Pension Fund Committee

29 July 2021

Agenda Item: 11

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme.

Information

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.

3. The attached work programme has been drafted in consultation with the Chair and Vice-Chairs, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the committee in preparing its work programme.

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 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

That the Committee considers whether any amendments are required to the Work Programme.

Marjorie Toward
Customers, Governance and Employees

For any enquiries about this report please contact:
Jo Toomey, Advanced Democratic Services Officer
E-mail: jo.toomey@nottscc.gov.uk
Tel: 0115 977 4506

Constitutional Comments (HD)

8. The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (NS)

9. There are no direct financial implications arising from the contents of this report. Any future reports to Committee on operational activities and officer working groups, will contain relevant financial information and comments.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

PENSION FUND COMMITTEE – WORK PROGRAMME (updated 21 July 2021)

Report Title	Brief summary of agenda item	Report Author
September 2021		
Review of fund strategies	Review of Fund Strategies including considering changes suggested in the Climate Risk Report.	Tamsin Rabbitts Jon Clewes
Fund Valuation & Performance – Qtr 1	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	Schroder & Aberdeen
Working party report	Report on the discussions and any decisions arising from the August working party meeting	Tamsin Rabbitts
November 2021		
Climate risk metrics	Analysis from Central on position as at 31/3/20 and 31/3/21	Tamsin Rabbitts
Climate Stewardship plan	Report on the Climate Stewardship plan	Tamsin Rabbitts
Review of progress on the Climate Risk Action plan	6 monthly report	Tamsin Rabbitts
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Treasury Management mid-year report 21/22	Summary of TM activity to 31 September	Ciaran Guilfoyle
Presentation of the Pension Fund accounts	Formal presentation of the Pension Fund accounts to Committee before the AGM	Tamsin Rabbitts

Breaches Policy	Policy setting out the Funds policy and procedures on identifying, managing and where necessary reporting breaches of the law as per the Pension Regulators code of practice.	Jon Clewes
December 2021		
Pension Fund TCFD report	Taskforce for Climate-related Financial Disclosure reporting	Tamsin Rabbitts
Review of Investment Strategy	To include consideration of investment criteria and priorities	Tamsin Rabbitts
Fund Valuation & Performance – Qtr 2	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central and LGIM
January 2022		
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Treasury Management Strategy 22/23	Strategy for forthcoming financial year	Ciaran Guilfoyle
Conferences and training report	Planned training and conferences for 22/23	Tamsin Rabbitts
Report on the LAPFF conference	Report on the presentations attended at the LAPFF conference in December	Keith Palframan
March 2022		
Fund Valuation & Performance – Qtr 3	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser

Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	Schroder & Aberdeen
Working party report	Report on the discussions and any decisions arising from the January working party meeting	Tamsin Rabbitts
April 2022		
Review of progress on the Climate Risk Action plan	6 monthly report	Tamsin Rabbitts
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
May/June 2022		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central and guest manager
July 2022		
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Treasury Management outturn 21/22	Summary of TM activity for year ended 31 March 2022	Ciaran Guilfoyle
Update on LGPS Central Ltd	Presentation from LGPS Central Ltd on developments in pooling and in the company	Keith Palframan

To be placed		
Monitoring of the Member Death Process	Update report	Jon Clewes
Review of Work of the Pension Fund Committee and Pension Board		Marjorie Toward
Pension Administration Transformation Programme Update	Update report	Sarah Stevenson
Mortality and the impact of COVID-19 on the pension fund		Jon Clewes