Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Thursday, 09 September 2021 at 10:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

1	Minutes of the last meeting held on 29 July 2021	3 - 8
2	Apologies for Absence	
3	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
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8	Fund Valuation and Performance, Quarter 1	155 - 164

9 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

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

Note

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

EXEMPT INFORMATION ITEMS

10 Fund Valuation and Performance, Quarter 1 - Exempt Appendix

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

11 Fund Managers' Presentations

a) Aberdeen Standard Investments

b) Schroder

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 29 July 2021 at 10.30 am

membership
Persons absent are marked with `A'

COUNCILLORS

Eric Kerry (Chairman)
André Camilleri (Vice Chairman)

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

Substitute Members

Councillor Reg Adair

NON-VOTING MEMBERS:

Nottingham City Council

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

District / Borough Council Representatives

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

Trades Unions

Mr A Woodward – **A**
Mr C King

Scheduled Bodies

Mrs Sue Reader – **A**

Pensioners' Representatives

Vacancy x 2

Independent Adviser

William Bourne (in remote attendance)

Officers in Attendance

Nigel Stevenson	(Chief Executive's Department)
Keith Palframan	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department) (in remote attendance)
Jon Clewes	(Chief Executive's Department)
Sarah Stevenson	(Chief Executive's Department)
Jo Toomey	(Chief Executive's Department)

LGPS Central

Joanne Segars, Chair
Mike Weston, CEO
Patrick O'Hara, Director of Responsible Investment and Engagement (in remote attendance)
Cara Forrest, Client Relationship Manager (in remote attendance)

1. MINUTES OF THE LAST MEETING HELD ON 24 JUNE 2021

The minutes of the last meeting held on 24 June 2021 were confirmed and signed by the Chair.

2. APOLOGIES FOR ABSENCE

- Councillor Mike Introna (other reasons) was substituted by Councillor Reg Adair
- Mrs Sue Reader, scheduled bodies representative
- Councillor Sam Webster, Nottingham City Council
- Councillor Graham Chapman, Nottingham City Council

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

No interests were disclosed.

4. TO NOTE THE CHANGE IN MEMBERSHIP OF THE COMMITTEE WITH THE REPLACEMENT OF COUNCILLOR GORDON WHEELER WITH COUNCILLOR JONATHAN WHEELER

RESOLVED 2021/027

That the replacement of Councillor Jonathan Wheeler with Councillor Gordon Wheeler be noted.

5. LOCAL GOVERNMENT PENSION SCHEME – ADDITIONAL TEMPORARY RESOURCES FOR THE MCCLOUD PROJECT

10:34am to 10:42am – the meeting adjourned as a result of disturbance in the public gallery

The report sought approval for additional temporary resource to ensure Nottinghamshire Pension Fund was able to fulfil its statutory obligations falling from the McCloud judgement.

During discussion Members:

- Queried when the impact of the McCloud judgement would be known and asked that the total cost to the fund be captured in the programme update reports on a regular basis
- Considered the relationship between the work arising from McCloud and the wider transformation programme being undertaken by the Pensions Administration Team
- Sought reassurance about the speed it would be possible to recruit the required numbers of staff and asked about the other options for resourcing the project that had been considered

RESOLVED 2021/028

1) That the funding for the additional temporary project resources as detailed within the report be agreed.

2) That further update reports be presented to the Nottinghamshire Pension Fund Committee as the project progresses.

6. LOCAL GOVERNMENT PENSION SCHEME – PENSION SCAMS

The report updated committee members on pension scam activities and the requirements of the Pension Regulator and Pension Scheme Act 2021 on the Nottinghamshire Pension Administration Service.

During discussion Members:

- Highlighted the opportunity to reinforce awareness of pension scams through scheme employers' communication channels

RESOLVED 2021/029

1) That the following further action be taken to support the Fund to combat pension scams:

    a) Communications to raise awareness of pensions scams to be shared with scheme employers for distribution through their own channels.

2) To commit to the Pension Regulator's pledge to combat pension scams.

3) That the Nottinghamshire Pension Fund pension scam action plan shown in Appendix 1 to the report be approved.

4) That 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, be agreed.

5) That the inclusion of an update on pension scams within the Pension Administration annual performance report be agreed.

7. LOCAL GOVERNMENT PENSION SCHEME – FUNDING STRATEGY STATEMENT UPDATE

The report advised the Committee about amendments that were required arising from changes to the Local Government Pension Scheme Regulations in September 2020 and that the amended Funding Strategy Statement along with the Deferred Debt and Debt Spreading Agreement Police and the Contributions Review Police had been distributed to scheme employers for consultation.

RESOLVED 2021/030

1) That the consultation on the proposed Funding Strategy Statement be noted.

2) That no further actions were required in relation to the issues contained within the report.

8. PROXY VOTING

The report informed members of the voting of equity holdings in the first quarter of the 2021 calendar year as part of the ongoing commitment to the UK Stewardship Code.

During discussion, Members:

- Requested that information be included within update reports on the votes cast by Hermes EOS on behalf of the Fund

RESOLVED 2021/031

1) That future reports on proxy voting should include a summary of votes cast by Hermes EOS on behalf of the Fund.

9. LOCAL AUTHORITY PENSION FUND FORUM BUSINESS MEETING

The report updated members of the Nottinghamshire Pension Fund Committee on the Local Authority Pension Fund Forum business meeting that took place on 21 April 2021.

During discussion, Members:

- Considered the potential impact of positive engagement with companies versus disinvestment from them.

RESOLVED 2021/032

1) That no actions are required in relation to the issues contained within the report.

10. UPDATE FROM LGPS CENTRAL LIMITED

Committee members received an update from LGPS Central, which covered:

- The relationship between LGPS Central Limited and Nottinghamshire Pension Fund
- The development of LGPS Central Limited
- Delivery against priorities in the LGPS Central Limited 2021/22 business
- Product development activity
- Responsible investment and engagement

During discussion, Members:

- Asked about the metrics that were used to measure companies in which investments had been placed and how these varied between sectors
- Asked about the timelines for the fund becoming carbon neutral and the measures in place to support this move
- Considered alternative portfolios in which investment could be placed

RESOLVED 2021/033

1) That no further actions are required in relation to the issues raised in the presentation.

11. WORK PROGRAMME

RESOLVED 2021/034

That the work programme be agreed.

The meeting concluded at 12.35pm

CHAIR

Nottinghamshire County Council

Report to Pension Fund Committee

9 September 2021

Agenda Item: 4

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

WORKING PARTY

Purpose of the Report

1. The Pension Fund Working Party meets twice a year or additionally where circumstances require and is open to all Pension Committee Members to attend. The purpose of the Working Party is to discuss key issues in more detail and to make recommendations to Pension Fund Committee. This report sets out details of the items discussed at the most recent meeting on 9 August 2021 and makes recommendations as follows.

   1) Change the strategic benchmark to the following:

Outcome	Weight (%)	Strategic Benchmark
Growth	60%	65% FTSE World ex UK 35% FT Allshare
Inflation protection (income)	28%	CPI
Income	10%	FTSE UK All Stock
Liquidity	2%	SONIA

Information and Advice

2. The Working Party met on 9 August 2021. The agenda and attendees are listed in Appendices A and B, and details of the discussions and recommendations for each item are set out below.

Cash Options

3. The Working Party considered a report from William Bourne, independent adviser to the fund.

4. The paper explores options for investing the Fund's Liquidity assets, which are held either to provide cash to pay pensions, or on a short to medium-term awaiting investment in longer term assets in the private markets. The Fund is currently overweight equities and underweight in the less liquid asset classes. A rebalancing of our equity exposure would generate cash which would need to be held until required for other investments committed but not yet called by the managers.

5. Most cash investments held in money market funds or bank accounts generate almost zero interest so other options were considered to improve the return to the Fund.

6. The options were discussed by the working party and the indicative proposal made by the independent adviser was accepted. This gives a range of investments to deliver some return whilst minimising risk.

Table 1 - <u>Proposal</u>

Vehicle	**Indicative Allocation (£mn)**	**%**	**Estimated Income (bps)**
Short dated gilts (LGPS Central)	130	37%	8
Aegon corp bond mandate	130	37%	85
Listed Private Equity vehicles	40	11%	100
Listed Infrastructure vehicles	30	9%	400
Listed Real Estate vehicles	20	6%	400
TOTAL	**350**	**100%**	**1.00%**

7. The investment of assets within the Strategic Asset Allocation set by the committee is an operational decision delegated to officers so there is no recommendation for decision.

Benchmark Indices

8. The Working Party next considered a further paper from William Bourne. The paper reviewed the various benchmarks and targets used to monitor the Fund's asset performance over time to clarify for the Committee the different purposes they serve. A detailed discussion took place.

9. An update to the strategic benchmark was proposed to reflect recent changes in the equity allocation and suggested improvements in some constituents. Those asset classes which are mainly there to provide inflation protection will now be measured against CPI. Liquid assets will now be measured against SONIA (the Bank of England's Sterling Overnight Index Average) which is the recommended replacement to LIBOR (from which the previous index LIBID is derived).

Responsible Investment training

9. Responsible investment training was provided by LGPS Central and generated much Member discussion. The presentation looked at the evolution of responsible investment over more than a century and the possible different approaches to responsible investment which can be taken. There was a particular focus on engagement and voting and the responsible investment approach at LGPS Central and a section on the Climate Risk Monitoring Service.

Statutory and Policy Implications

10. 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.

RECOMMENDATIONS

It is recommended that Committee

1. Changes the strategic benchmark to the following:

Outcome	Weight (%)	Strategic Benchmark
Growth	60%	65% FTSE World ex UK 35% FT Allshare
Inflation protection (income)	28%	CPI
Income	10%	FTSE UK All Stock
Liquidity	2%	SONIA

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 12/08/2021)

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

Financial Comments (TMR 10/08/2021)

12. The financial implications are noted in the report.

Background Papers and Published Documents

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

- None

MEETING AGENDA

Nottinghamshire County Council

Meeting title: PENSION FUND WORKING PARTY MEETING

Date and time: Monday 9th August 2021, **10.30 a.m.**

Location: Teams meeting

1. Cash options (for investing proceeds from equity sales) – William Bourne
2. Benchmark Indices – William Bourne
3. Responsible Investment training – LGPS Central

NOTTINGHAMSHIRE PENSION FUND COMMITTEE
WORKING PARTY ATTENDANCE SHEET

VIRTUAL MEETING

MEETING HELD ON: MONDAY 9 AUGUST 2021

MEETING CLOSED AT: 13:36

COUNTY COUNCILLORS

Name	Signature	Name	Signature
Eric Kerry (Chairman)	Present	Andre Camilleri (Vice-Chairman)	Present
Gordon Wheeler	Apologies	Mike Introna	Apologies
Sheila Place	Present	Mike Pringle	Apologies
Sam Smith	Apologies	Lee Waters	Present for the discussions, not the RI training
Stephen Garner			

CITY COUNCILLORS

Name	Signature	Name	Signature
Sam Webster	Apologies	Anne Peach	Present
Graham Chapman	Present		

DISTRICT COUNCIL REPRESENTATIVES

Name	Signature	Name	Signature
Councillor David Lloyd – Newark & Sherwood District Council		Councillor Gordon Moore – Rushcliffe Borough Council	Present (left at 12.50 for another meeting)

TRADE UNIONS

Name	Signature	Name	Signature
Mr A Woodward		Mr C King	Present

SCHEDULED BODIES

Name	Signature	Name	Signature
Sue Reader	Apologies		

PENSIONERS REPS

Name	Signature	Name	Signature

OTHER COUNCILLORS

Name (Block Caps)	Signature	Name (Block Caps)	Signature

OFFICERS

Name (Block Caps)	Signature	Name (Block Caps)	Signature
Jo Toomey	Present	Nigel Stevenson	Apologies
Keith Palframan	Present	Tamsin Rabbitts	Present
Ciaran Guilfoyle		Sarah Stevenson	
Jon Clewes		Marj Toward	Attended for the RI training

OTHER ATTENDEES

Name (Block Caps)	Signature	Name (Block Caps)	Signature
William Bourne	Present		
Patrick O'Hara	For the RI presentation	Laura Mitchie	For the RI presentation

Nottinghamshire County Council

Report to Pension Fund Committee

9 September 2021

Agenda Item: 5

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

REVISION OF FUND STRATEGY DOCUMENTS

Purpose of the Report

1. To propose revised versions of the Administration Strategy, Climate Strategy, Communications Strategy, Funding Strategy Statement, Governance Compliance Statement, Investment Strategy Statement and the Risk Management Strategy and Risk Register documents.

Information

2. Under governing regulations, the Fund is required to 'prepare, maintain and publish' a number of strategy statements. These statements must then be kept under review and, if necessary, revised. Other strategies are produced by the Fund as best practice to confirm and clarify operations and to enable clear communication with employers and members in the scheme.

3. The Administration Strategy is seen as one of the tools which can help in delivering a high quality administration service to the scheme member and other interested parties. This strategy has been reviewed and no significant changes were required. The updated statement is attached as Appendix A.

4. The Climate Strategy was created in March this year. There are no changes. The strategy is attached as Appendix B.

5. The Communication Strategy provides an overview of how the Fund will communicate with its customers (members and employers) and stakeholders. An effective communication strategy is vital for the Fund to meet its objective of providing a high quality and consistent service. In addition to some minor updates for accuracy and consistency the Strategy now includes a reference to communications with the general public, especially around climate risk and responsible investment. The strategy is attached as Appendix C together with an updated Communications Plan.

6. According to Regulation 58 of the Local Government Pension Scheme Regulations 2013, an administering authority must publish a Funding Strategy Statement (FSS). This requires revision following the results of each triennial actuarial valuation. This statement is based on a version prepared by the Fund Actuary. The key changes relate to the inclusion of a policy for contribution review and the DSA (Debt Spreading Agreement) and DDA (Deferred Debt Agreement) policies explained at the last committee meeting. No changes to these were

required following the consultation process. The strategy is attached as Appendix D together with the new policies which are also unchanged since the previous committee meeting.

7. The Local Government Pension Scheme (Administration) Regulations 2013 require publication of a governance compliance statement. This statement has been reviewed and updated to explain how climate risks are governed as recommended in the Climate Risk Action Plan. The updated statement is attached as Appendix E.

8. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Investment Regulations”) govern the management of the pension fund and the investment of fund money. According to Regulation 7 of the Investment Regulations an administering authority must formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. It must publish a statement of its investment strategy and must review and if necessary revise its investment strategy at least every 3 years.

9. The main update relates to the changes to asset allocation which were discussed at the January Working Party and approved at the March committee meeting and to the strategic benchmark, discussed at the August Working Party and brought to this committee meeting for approval. Also of note is the reference to our new Climate Strategy. The updated Investment Strategy Statement is attached as Appendix F.

10. It is considered best practice for the Fund to have a Risk Management Strategy and Risk Register and to review these on a regular basis. The documents last went to Committee in October 2020. No new risks have been added to the risk register, but the risk of LGPS Central incurring net costs or decreased investment returns has decreased slightly reflecting lower ancitipated cost growth and improved returns. The documents have been revised to reflect recent and planned work, including work done to manage climate risk as recommended in the Climate Risk Action Plan. The updated Risk Strategy and Risk Register are attached as Appendix G.

Other Options Considered

11. It is a requirement that strategy statements are reviewed, so no other options were considered.

Reason/s for Recommendation/s

12. The revised documents reflect the current governance of the Pension Fund and agreed amendments.

Statutory and Policy Implications

13. 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 the revised Administration Strategy, Climate Strategy, Communications Strategy, Funding Strategy Statement, Governance Compliance Statement, Investment Strategy Statement and the Risk Management Strategy and Risk Register documents be approved by the Nottinghamshire Pension Fund Committee.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 12/08/2021)

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

Financial Comments (TMR 09/08/2021)

15. There are no direct financial implications arising 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.

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire Local Government Pension Fund

Joint Administration Strategy

and

Service Level Agreement

Amended : July 2021

administered by

Nottinghamshire County Council

Contents

1.0 Introduction

An administration strategy as allowed for by the Local Government Pension Scheme, is seen as one of the tools which can help in delivering a high quality administration service to the scheme member and other interested parties. Delivery of a high quality administration service is not the responsibility of one person or organisation but is the joint working of a number of different parties.

The following is the Pension Administration Strategy of the Nottinghamshire Fund, administered by Nottinghamshire County Council (the administering authority).

The aim of this strategy statement is to set out the quality and performance standards expected of:

1. Nottinghamshire County Council in its role of administering authority and scheme employer
2. All other scheme employers within the Nottinghamshire Pension Fund.

It seeks to promote good working relationships, improve efficiency and enforce quality amongst the scheme employers and the administering authority.

From 1 April 2015 the Pensions Regulator (TPR) took responsibility for setting the standards of administration and governance requirements on all administrative aspects of the Local Government Pension Scheme (LGPS).

In addition the Nottinghamshire Local Pension Board has now been established to provide an independent scrutiny role which will assist the Nottinghamshire Pension Fund to achieve regulatory compliance, effective and efficient administration and governance of the pension fund.

2.0 Background

The LGPS represents a significant benefit to scheme members. Much of the success in promoting the scheme to members and ensuring a high quality service depends upon the relationship between the administering authority and scheme employers in the day to day administration of the scheme.

The administering authority also reminds or alerts employers to the value of the LGPS, thereby helping with recruitment, retention and motivation of employees.

The fund comprises of over 485 scheme employers with active members, and approximately 145,373 (at March 2021) scheme members in relation to the Local Government Pension Scheme (LGPS).

The efficient delivery of the benefits of the LGPS is dependent on sound administrative procedures being in place between the administering authority and scheme employers.

3.0 Strategic aims

The aim of this strategy is to continue progress towards a seamless, automated pension service, employing appropriate technologies and best practice which both significantly improve the quality of information overall and the speed with which it is processed to provide better information for scheme employers and stakeholders and a more efficient service to members. It outlines, in conjunction with the Pension Administration Service Level Agreement as attached, the quality and required performance standards of all fund, scheme employers and admission bodies within the fund.

This strategy is designed to move towards the highest standards of administration through the most efficient and cost effective practices, thereby ensuring a consistent approach to pension administration across all scheme employers in partnership with the fund so that all scheme members ultimately receive the highest standard of service in the most efficient and effective way possible.

4.0 Regulatory framework

The development and implementation of an Administration Strategy is part of the regulatory frame work of the Local Government Pension Scheme Regulations 2013. These provide the conditions and regulatory guidance surrounding the production and implementation of an Administration Strategy.

Regulation 59 (1) enables an LGPS administering authority to prepare a document ("the Pension Administration Strategy") which contains the following:

- procedures for liaison and communication with their relevant employing authorities
- the establishment of levels of performance which the administering authority and the relevant employing authorities are expected to achieve in carrying out their functions under the LGPS by:
    - the setting of performance targets
    - the making of agreements about levels of performance and associated matters
    - such other means as the administering authority considers appropriate
- procedures which aim to secure that the administering authority and the relevant employers comply with the statutory requirements in respect of those functions and with any agreement about levels of performance
- procedures for improving the communication of information by the administering authority and the relevant employing authorities
- the circumstances in which the administering authority may consider giving written notice to a relevant employing authority on account of that employer's unsatisfactory performance in carrying out its functions under these regulations when measured against levels of performance
- such other matters as appear to the administering authority to be suitable for inclusion in that strategy.

In addition, Regulation 59(6) of the administration regulations also requires that where a Pension Administration Strategy is produced, a copy is issued to each of the relevant employing authorities as well as to the Secretary of State. Similarly, when the strategy is revised at any future time the administering authority (following a material change to any policies contained within the strategy) must notify all of its relevant employing authorities and also the Secretary of State.

It is a requirement that, in preparing or revising any Pension Administration Strategy, the administering authority must consult its relevant employing authorities and such other persons as it considers appropriate.

In addition, Regulation 70 of the Administration Regulations allows an administering authority to recover additional costs from a scheme employer where, in its opinion, the costs are directly related to the poor performance of that scheme employer. Where this situation arises the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that the additional costs should be recovered and, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

The following strategy statement and the Service Level Agreement, sets out the requirements of regulation 59(1). They form the basis of the day to day relationship between the Nottinghamshire Pension Fund and scheme employers. They also set out the circumstances under Regulation 70 where additional costs are incurred as a result of the poor performance of a scheme employer, together with the steps that would be followed before any such action were taken.

5.0 Nottinghamshire Local Pension Board

The Nottinghamshire Local Pension Board was appointed in April 2015 to assist Nottinghamshire County Council, as administering authority, in securing compliance with legislation and any requirements imposed by the Pensions Regulator. The Board also assists in ensuring effective and efficient governance and administration of the scheme are achieved.

6.0 Key objectives

The key objectives of this strategy are to ensure that:

- the Nottinghamshire Pension Fund and Scheme employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in the Pensions Administration Service Level Agreement attached to this document)
- the Nottinghamshire Pension Fund operates in accordance with LGPS Regulations and is aligned with the Pensions Regulator's requirements by demonstrating compliance and scheme governance
- communication processes are in place to enable both the fund and scheme employers to proactively and responsively engage with each other through the new website and the Employer Support and Compliance Team

- accurate records are maintained for the purpose of calculating pensions entitlements and scheme employer liabilities, ensuring all information and data is communicated accurately, on a timely basis and in a secure and compliant manner
- the fund and scheme employers have appropriate skills and that training is in place to deliver a quality service and advise scheme employers on the changing pensions agenda;
- standards are set and monitored for the delivery of specified activities in accordance with LGPS Regulations standards as set out in the Pension Administration Service Level Agreement attached to this document.

7.0 Establishing levels of performance.

Performance standards

The LGPS prescribes that certain decisions are taken by either the administering authority or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Nottinghamshire Pension Fund should agree levels of performance between itself and the scheme employers. These are set out in the Service Level Agreement which is appended to this strategy statement.

8.0 Quality

Legislation

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the administering authority and scheme employers will, as a minimum, comply with overriding legislation, including:

- Pension Act 1995 and associated disclosure legislation
- Freedom of information Act 2000
- Age Discrimination Act 2006
- Data Protection Act 1998
- Equality Act 2010
- Finance Act 2004
- Health and Safety legislation
- General Data Protection Regulations (GDPR) 2018

Where agreed, the administering authority and scheme employers will comply with local standards which go beyond the minimum requirements set out in overriding legislation. Such best practice standards are outlined in the following sections.

9.0 General Data Protection Regulations (GDPR)

On 25 May 2018 the EU's General Data Protection Regulation (GDPR) comes into force containing new standard of protection of individual's personal data in the

European Economic Area. The change will impact on the way pensions scheme can lawfully collect, use, retain and share information. GDPR applies to organisations that handle the personal data of EU residents and will replace the UK's Data Protection Act 1998 (DPA)

10.0 Administration standards

Both the administering authority and scheme employers will ensure that all tasks are carried out to agreed quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the information provided on the LGPS website
- work is to be completed in the required format, using the appropriate forms contained on the LGPS Website
- information to be legible, accurate and in the required format
- communications to be easy to read and understand
- information provided to be checked for accuracy
- information to be authorised by an agreed signatory in line with the scheme employers audit requirements
- actions are carried out, or information is provided, within the timescales set out in this strategy and Service Level Agreement document.

11.0 Performance standards

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. The scheme sets out a number of requirements for the administering authority and scheme employers to provide information to each other, regarding scheme members and prospective scheme members, their dependents, and/ or other regulatory bodies. Within the Service Level Agreement performance standards have been set which cover all aspects of the administration of the scheme, and where appropriate go beyond the overriding legislative requirements.

For the avoidance of doubt "accuracy" in this strategy is defined as when the administering authority has received a fully completed form with no gaps in mandatory areas and with no information which is either contradictory within the document or which requires clarification.

The timeliness relates to a date of event being either the date the member started or left the Nottinghamshire Pension Fund or any other material change that affects a scheme member's pension record.

12.0 Procedures for compliance

Compliance is the responsibility of the administering authority and scheme employers. The Nottinghamshire Pension Fund, Employer Support and Compliance Team will work closely with all scheme employers to ensure compliance with all statutory requirements, whether they are specifically referenced in the LGPS

Regulations, in overriding legislation, or in this administration strategy. The Pensions Administration Team will also work with employers to ensure that overall quality and timeliness is continually improved. Various methods will be employed, in order to ensure such compliance and service improvement, these will include:

- audit
- performance monitoring

In addition where there is a failure of statutory compliance the Pensions Manager is required to update and inform the Pensions Regulator.

13.0 Liaison and communication

13.1 Authorised contact for employers

Each employer will nominate a contact to administer the five main areas of employer responsibilities within the LGPS as follows:

- a strategic contact for valuation, scheme consultation and, discretionary statements
- an internal disputes resolution procedure lead officer for stage 1
- an administration contact for day to day administration of the Nottinghamshire Pension Fund, undertaking the completing of forms and responding to day to day queries
- a year end activities lead officer.
- a finance contact for completion and submission of the monthly postings and co-ordination of exception reports.

All nominated officers will have access to the employer's area of the Nottinghamshire Pension Fund website and as services change access to the employer's portal of the pension fund administration system once implemented (projected date April 2017).

It is the responsibility of the scheme employer to ensure that the nominated officers are trained appropriately in their responsibilities.

13.2 Liaison and communication with employers

Nottinghamshire Pension Fund will provide the following contact information for employers and their members:

- a contact point for regulatory advice, guidance and administration queries
- an Employer Support and Compliance Team for advice and guidance with monthly returns process
- a helpline for members at certain points in the year e.g. helpline for ABS queries
- an e-mail address (generic)
- pension fund access 8:00am to 5:00pm Monday to Thursday and 4:30pm Friday (face to face, telephone and e-mail for both – scheme members and employers)
- website availability with employers and members area

- employer and member information and forms available on the website
- annual year end briefing for year-end activities
- Pension Fund Annual General Meeting.

14.0 Improving employer performance

The Employer Support and Compliance Team will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance, provide the opportunity for necessary training and appropriate advice.

Where persistent and ongoing failure has been identified and no improvement is demonstrated by an employer, the following sets out the steps that will be taken to address the situation in the first instance:

- the Pensions Team will contact and/ or meet with the employer to discuss the area(s) of concern and how they can be addressed
- where no improvement has been demonstrated by the employer, or where there has been a failure to take agreed action by the employer, the Pensions Team will issue a formal written notice to the employer setting out area(s) of poor performance that has been identified and, the steps taken to resolve it. The letter will provide notice that the additional costs are now to be reclaimed.
- Nottinghamshire Pension Fund will clearly set out the calculations of any loss or additional costs, taking account of time and resources in resolving the specific area of poor performance
- Nottinghamshire Pension Fund will make a claim against the scheme employer, setting out the reasons for doing so, in accordance with the regulations.

15.0 Circumstances where the Administering Authority may levy costs associated with the Employing Authority's poor performance

Regulation 70 of the Local Government Pension Scheme Regulations 2013 provides that an administering authority may recover from an employing authority any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that employing authority. Where an administering authority wishes to recover any such additional costs they must give written notice stating:

- the reasons in their opinion why the scheme employer's poor performance has contributed to the additional cost
- the amount of the additional cost incurred
- the basis on how the additional cost was calculated and
- the provisions of the Pension Administration Strategy relevant to the decision to give notice.

16.0 Circumstances where costs might be recovered

Any additional costs to the Nottinghamshire Pension Fund in the administration of the LGPS that are incurred as a direct result of poor performance will be recovered from the scheme employer. The circumstances where such additional costs will be recovered from the scheme employer:

- persistent failure to provide relevant information to the administering authority, scheme member or other interested party in accordance with specified performance targets (either as a result of timeliness of delivery or quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets
- failure to deduct and pay over correct employee and employer contributions to the Nottinghamshire Pension fund within stated timescales
- instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pension Regulator, Pensions Ombudsman or other regulatory body.

17.0 Calculation of costs incurred

For a persistent failure to resolve an isolated case satisfactorily the Fund will recharge costs from the point in time at which a formal letter is issued to the scheme employer until the case is resolved, at a rate of £37 for each hour an officer spends trying to resolve the matter.

For persistent and ongoing failure to meet targets, following the intervention to assist the employer concerned, the Fund will recharge the additional costs due to the employer's poor performance at the rate of £37 for each hour, see appendix B the schedule of charges which identifies the main employer activities where a charge maybe made for poor performance.

Where the under performance of the scheme employer results in fines and/or additional costs being levied against the Fund, the Fund will recharge the full costs it has incurred to the relevant employer.

18.0 Disputes

The Nottinghamshire Pension Fund has a clear internal disputes resolution procedure (IDRP) set out for members of the LGPS which can be found on the pension fund's website. Scheme employers are, however, required to nominate an adjudicator to deal with disputes at stage 1 of the process. Scheme employers are asked to supply the details of their stage 1 adjudicators together with details of their stage 1 Adjudicators as identified in their Discretionary Policy Statements. They should advise the fund immediately of changes made in this regard.

19.0 Consultation

This document and associated SLA has been consulted upon with Nottinghamshire Pension Fund Employers.

20.0 Review process

The Nottinghamshire Pension Fund will review the Administration Strategy to ensure it remains up to date and meets the necessary regulatory requirements at least every two years.

Appendix A: Service Level Agreement

Administering Authority duties and responsibilities

The Nottinghamshire Pension Fund Administration Team will ensure the following functions are carried out:

- provide a helpdesk facility for enquiries, available during normal office hours providing a single point of access for information relating to the LGPS. Along with a helpline at certain times of the year e.g. Annual Benefit Statement time
- create a member record for all new starters admitted to the LGPS, based on the information provided by the scheme employer
- collect and reconcile employer and employee contributions
- maintain and update member's records for any changes received by the administration team
- at each actuarial valuation the fund will provide the required data in respect of each member and provide statistical information over the valuation period to the fund actuary so that he can determine the assets and liabilities for each employer
- communicate the results of the actuarial valuation to the fund to each employer
- provide every active, deferred and pension credit member with a benefit statement each year
- provide estimate of retirement benefits on request by the employer
- calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with LGPS rules, member's options and statutory limits on request by the employer
- comply with HMRC legislation.

Discretionary powers

The Nottinghamshire Pension Fund will ensure the appropriate Administration Authority policies are formulated, reviewed and publicised in accordance with scheme regulations.

Internal Disputes Resolution Procedure (IDRP)

The fund will nominate an adjudicator to deal with appeals at stage one where the appeal is against a decision the Pension Fund has made or is responsible for making.

Fund performance levels

A description of the performance activity and performance action and level of performance is identified in the table below:

Action	Timescale
Publish and review the administration strategy	Within one month of any agreed changes with employers, Pensions Committee and the Pensions Board
Website	Continual process of updating the members and employers information
Issue and keep up to date all current forms for completion by either scheme members, prospective scheme members or scheme employers	30 working days of any changes
Issue and update administering authority's discretions within the scheme	Within 30 working days of policy being agreed by the Pensions Committee and the Pensions Board
Notify scheme employers and scheme members of changes to the scheme rules	Within 30 working days of the change(s) coming into effect. Subject to receipt of statutory guidance
Notify scheme employer of issues relating to scheme employer's poor performance	Within 30 working days of performance issue becoming apparent
Notify scheme employer of the decision to recover additional costs associated with the scheme employer's poor performance	Within 10 working days of scheme employer failure to improve performance, as agreed
Issue annual benefit statements to active members as at 31 March each year	By the following 31 August subject to receipt of full and correct information from employers
Issue annual benefit statements to deferred benefit members as at 31 March each year	By the following 31 August. Subject to full and correct information from employers
Issue pension saving statements to active members who breach the Annual Allowance threshold as at 5 April and to members who request such	By the following 6 October
Provide a helpline and telephone service to support members enquiries and questions	Ongoing and additional specific helpline at certain times of the year

Fund administration task	**Timescale**
Make available formal valuation results (including individual employer details)	10 working days from receipt of final certified results from fund actuary
Carry out interim valuation exercise on cessation of admission agreements or scheme employer ceasing participation in the fund	Referral to the fund actuary within one month from receipt of all required data from the scheme employer
Arrange for the setting up of separate admission agreement, where required (including the allocation of assets and notification to the Secretary of State)	Within three months of agreement to set up such funds
All new admitted bodies to be required to undertake a risk assessment and to put in place a bond or alternative security to protect other scheme employers participating in the pension fund	To be completed before the body can be admitted to the Fund
All admitted bodies to undertake a review of the level of bond or indemnity required to protect the other scheme employers participating in the pension fund	Annually, or such other period as may be agreed with the administering authority

Scheme administration task	Timeline
New Starters – make all administration decisions in relation to a new scheme member	Within two months from receipt of all necessary information.
General enquiries - provide a response	10 days from receipt of all necessary information.
Provide transfer in quote to scheme member	Two months from receipt of all the necessary information
Confirm receipt of transfer in payment and update pension record	One month from receipt of all necessary information. Scheme member responsibility to chase the transfer.
Arrange for the transfer of scheme member additional voluntary contributions into in-house arrangement	Two months from receipt of all necessary information.
Provide requested estimates of benefits to employees/ employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency	Two months from receipt of all necessary information Subject to the demands of the service, prioritisation and statutory requirement to provide information’
Notify leavers of deferred benefit entitlements	Within two months of receipt of all necessary information.
Details of transfers out quotation	Within two months of receipt of all necessary information
Payment of transfers out	One Month from receipt of all necessary information
Notify retiring employees of options following request from member (as per retirement pack)	One month of receipt of all necessary information
Payment of retirement lump sum and pension	Lump sum paid within 30 days of retirement subject to receipt of necessary information. Pension to be paid in the next available pay run. Into the nominated bank account
Death notifications – issue initial information, requesting certificates	Within 10 working days following notification of death
Notification of survivor benefits	10 working days following receipt of all necessary information
Undertake Life Certificates checks with the DWP Operate the Tell us Once service	Periodic

Scheme employer duties and responsibilities

Employers are responsible for ensuring that member and employer contributions are deducted at the correct rate, including additional contributions.

The Nottinghamshire Pension Fund is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. That responsibility rests with the employer.

Any over-payment as a result of inaccurate information being supplied by the employer shall be recovered from that employer at the discretion of the Administering Authority.

In the event of the Nottinghamshire Pension Fund being fined by the Pensions Regulator, this fine will be passed onto the relevant employer where that employer’s actions or inaction caused the fine.

Discretionary powers

The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy in respect of the key discretions as required by the regulations to its employees and must provide a copy to the Administering Authority.

Member contribution bands

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member. The employer must also inform the member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

Payments and charges

Payments by employing authorities

Employing authorities will make all payments required under the LGPS regulations, and any related legislation, promptly to Nottinghamshire Pension Fund and/or its Additional Voluntary Contribution (AVC) providers (Prudential/Scottish Widows) as appropriate.

Paying contributions

Member and employer contributions can be paid over at any time and should be accompanied by a monthly postings submission, the latest date contributions can be paid is the 17th day of the month following the month in which the deductions were made.

AVC deductions

Employers will pay AVCs to the relevant provider by the 17th of the following month of them being deducted.

Payment method

Contributions (but not AVCs) should be paid to Nottinghamshire Pension Fund by BACS payment to Nottinghamshire Pension Fund bank account.

Early retirement and augmentation costs

Employers are required to pay the full early retirement costs within one month of request.

Interest on late payment

In accordance with the LGPS regulations, the Nottinghamshire Pension Fund reserves the right to charge interest on any amount overdue from an employer by more than one month depending on circumstances.

Employer contributions

Employer's contribution rates are not fixed and employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

Actuarial valuation

An actuarial valuation of the fund is undertaken every three years by the fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer and assesses the appropriate contribution rate and deficit payment if appropriate for each employer for the subsequent three years.

Administration charge

The cost of running the Nottinghamshire Pension Fund is charged directly to the fund, the actuary takes these costs into account in assessing employer's contribution rates.

Employer activities

Communication requirements – task	Timescale
Provide and publish policies in relation to all areas where the employing authority may exercise discretion within the scheme. A copy of the policy to be provided to the administrating authority	Within 30 working days of policy being formally agreed by the employer. To be reviewed annually
Provide details of employer and employee contributions	17th of the month following deduction
Respond to enquiries from administering authority	Within 10 working days
Provide year end information for the purposes of annual benefit statements, annual allowance, and lifetime allowance calculations	By 30 April following the year end in the required format (following the implementation of the employer portal information may be provided through the portal by April 2017)
Provide year end information in a valuation year	By 30 April following the year end
Distribute information provided by the Admin Authority to scheme members/potential scheme members which is provided either direct from Pensions Office or where notified through the website	Within 20 days of receipt or notification
Provide new scheme members with scheme information and new joiner forms	At appointment of employee or change in contractual conditions
Inform the Pension Fund of all cases where prospective new employer or admitted body may join the fund	Notify the Pension Fund at least three months before the date of transfer
Payment of additional fund payments in relation to early payment of benefits	Within 30 working days of receipt of invoice from the pension fund/ within timescales specified in each case

Employer responsibilities-task	Timescale
New starters must be notified to the Pensions Office.	10 working days of the scheme member joining.
Arrange for the correct deduction of employee contributions from scheme members pensionable pay on becoming a scheme member	Immediately upon commencing scheme membership either through auto enrolment opting in or change in circumstances.
Reassessment of employee contribution rate in line with employer's policy	Immediately following change of circumstances.
Ensure correct deduction of pension contributions during any period of child related leave, trade union dispute or other forms of leave of absence from duty	Immediately, following receipt of election from scheme member to make the necessary pension contributions.
Commence/amend/cease deductions of additional pension contributions	Commence/ amend in month following election to pay contributions or notification received from administering authority, cease immediately following receipt of election from scheme member.
Employers are responsible for assessing and reassessing the contribution band that is allocated to an employee	The employer must inform the employee of the band have been allocated on joining the scheme and when they have been reallocated to a different band
Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s)	Commence deduction of AVCs upon receipt of notification of provider. Pay over contributions to the AVC provider(s) by the 17th of the month following the month of election.
Refund any employee contributions when employees opts out of the pension scheme before three months	Month following month of opt out.
Cease deduction of employee contributions where a scheme member opts to leave the scheme	Month following month of election, or such later date specified by the scheme member.
Send a completed end of year contribution return to enable the production of annual benefit statements, annual allowance and lifetime allowance calculations	By 30th April each year (this process will change pending the implementation of an electronic employers' portal)
Provide the administering authority with all material (personal and contract) changes in employee's details	Within 10 days of the change
Provide scheme leavers details to administering authority	Within 10 days of leaving

Employer responsibilities-task	Timescale
Provide retirement notification and pay details. Following the issue of retirement pack to retiring member.	No later than 10 days prior to the date of retirement. In order that all information is in place to allow the processing of retirement benefits.
Provide member estimate details	At the point of request from the member
To have access to an independent medical practitioner qualified in Occupational health medicine, in order to consider all ill health retirement applications as an employer	Within one month of commencing participation in the scheme, and having arrangements in place on an ongoing basis
Appoint a nominated person for stage 1 of the pension dispute process and provide full details to the administering authority	Within 10 working days following the resignation of the current/ new employer to the fund “appointed person”

Measuring performance

Both employer and administering authority performance will be measured and reported to the Pensions Committee and the Pensions Board at regular intervals.

Unsatisfactory performance

Where an employer materially fails to operate in accordance with standards described in this service level agreement, which leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that these extra cost be met by the employer.

Appendix B – Schedule of Charges

Employer Activities	Reason for Charge	Basis of Charge
Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employee, if the total overpaid is more than £50.		Actual amount overpaid (could include Lump Sum and Pension) + admin charge based on the following: £37.00 Total per hour spent. This may also include the cost of other recovery actions (court and legal fees)
Contributions to be paid anytime but latest date by 17th month.(weekends and bank holidays on the last working day before 17th).	Due by 17th month-late receipt of funds, plus cost of additional time spent chasing payment	Number of day's late interest charged at base rate plus 1%.
Monthly scheme employer contribution return provided at the latest by 17th, errors on the return i.e. employer/employee rate deducted incorrectly, exception reporting errors to be resolved within 2 months	Due by 17th month, any additional work caused by late receipt of information, incorrect information, incorrect contributions.	Failure to provide appropriate information, resulting in significant work will result in an admin charged at £37.00 per hour + VAT.
Change in member details to be notified as per the administration strategy for example:- a. New Starters b. Leavers c. Material change in pension records		Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
Early leaver's information to be notified as per the administration strategy.		Failure to provide correct information on the appropriate pension admin form, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
Retirement notifications	Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + Vat

Employer Activities	Reason for Charge	Basis of Charge
Death in Service Payment	Due within 7 working days of the notification – additional work caused by late receipt of information from employer	Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
AVC deducted from pay to be paid anytime but latest date by 17th of the month.	Additional investigative work caused through lack of compliance by employer.	Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
Re-issue of invoices	Charge based on number of request	Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
Member requests estimate	The first estimate provided in each financial year is free, then subsequent estimates are chargeable	1st request in each financial year is free. Additional request is charged at a notional charge of £50 + VAT is made.
Pension sharing order	For pension sharing order work, each party will be charged according to the instruction in the court order	The charge is £607 incl VAT. Total payment to be received prior to work being completed.
Miscellaneous items: • Benefit recalculation. • Members file search and record prints. • Supplementary information requests.	Where information is requested by members that is in addition to routine	£37.00 per hour + VAT.

Nottinghamshire County Council Pension Fund Climate Strategy

1. Introduction

Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to the 2020 Global Risks Report from the World Economic Forum. If 'business as usual' continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damages and significant human harm. According to the Intergovernmental Panel on Climate Change (IPCC), greenhouse gas (GHG) emissions need to fall by 45% vs 2010 levels by 2030 in order to avoid the worst effects of climate change.

As a long-term asset owner, the Fund would like to see stable, well-functioning and sustainable markets which will foster long-term value creation and sustainable returns. Climate change cuts across industries, markets and economies and is a risk that cannot be fully diversified. How companies manage climate-related transition and physical risks and opportunities is highly likely to affect long-term profits and company returns. Policy makers response equally so. The Fund endeavours to take a holistic approach to managing climate change risk and to act in a manner that will enable broader transition towards a low-carbon economy through a combination of portfolio construction, engagement and policy advocacy.

2. Governance of Climate Change Risk

The Pension Fund Committee is responsible for approving the Fund's policies and procedures including the Fund's Climate Strategy. Responsibility for the implementation of the Strategy is held by the Service Director for Finance, Infrastructure and Improvement, the Group Manager Financial Services, and the Senior Accountant Pensions and Treasury Management. The Pension Fund Committee will review the strategy on an annual basis. This will be scheduled to coincide with the annual update of carbon risk metrics. Committee members receive training on climate change annually to help them discharge their responsibilities.

As a primarily externally managed Fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers, with oversight from the Fund Officers. Where appropriate, LGPS Central assists the Fund in assessing and managing climate-related risks.

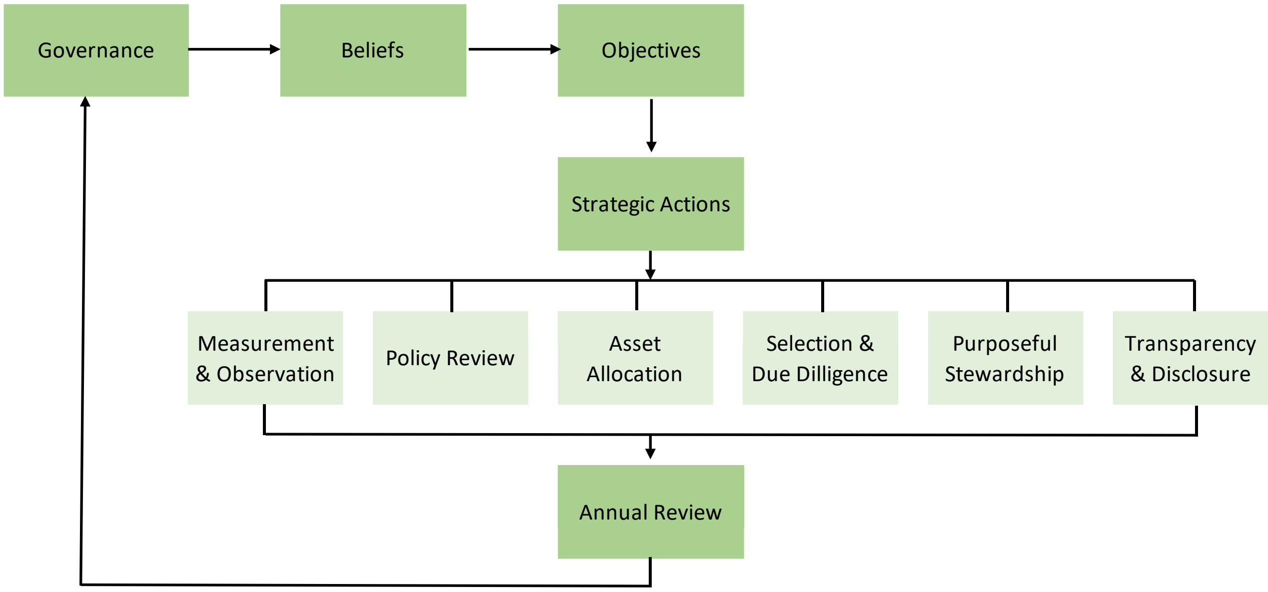


Figure 1: Depiction of the Climate Strategy

3. Evidence-based beliefs related to climate change

1. As a result of anthropogenic activities, the world is warming at an unsustainable rate. Already the world is approximately 1°C warmer than pre-industrial levels. Unabated, such change would be devasting for our way of life.

2. There is overwhelming evidence that climate change is impacting the environment. This will have long-term consequences for our financial system. We hold that the economic damages of climate change will outweigh the costs of precautionary mitigation.

3. Climate change is a financially material risk for the Fund. It has the potential to impact our members, employers and all our holdings across asset classes. Due consideration of climate risk falls within the scope of the Fund's fiduciary duty.

4. Climate change has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.

5. The Fund strongly supports the Paris Agreement on climate change.

6. A transition to a low-carbon economy is essential. This requires greenhouse gas emissions to decline to net-zero by 2050. This will happen not only by focussing on the suppliers of energy but the demand for energy must also undergo a major transformation.

7. All companies should align their business activities with the Paris Agreement on climate change. It is possible for a high-emitting company to undergo this transformation and thrive in the transition to a low-carbon future.

8. Investors have an important role to play in the transition to a low-carbon economy. We would be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.

9. A global co-ordinated response is needed to limit the rise in temperatures. No individual investor is influential enough to act alone. Governments, policy-makers, consumers, companies and investors all have a role to play. Acting in collaboration will increase the likelihood of an orderly transition to a low-carbon economy.

10. Climate-aware decisions are most effectively made with accurate, relevant, complete, and comparable data.

4. Climate-Related Objectives

Identify, understand and assess risks and opportunities

The Fund aims to utilise the best available information and tools to identify, understand and assess climate change risks and opportunities across regions and sectors that are material to the Fund. This includes both relevant climate-related transition and physical risks and opportunities likely to impact Investment Strategy and Funding Strategy.

Fund Resilience

The Fund aims to ensure the investment portfolio, Funding Strategy and employer covenant are resilient to climate change impacts.

To achieve climate change resilience, the Fund aims to ensure that material short, medium- and long-term climate change considerations play an integral part in the stewardship of the investment portfolio. This includes climate change integration in the selection and due diligence, and continuous monitoring of assets.

The Fund intends to influence investee companies and fund managers through routine engagement and voting on climate change issues.

Policy advocacy and transparency

The Fund works alongside like-minded organisations to support the ambitions of the Paris Agreement. This includes advocating for Paris-aligned regulations and policies with governments, policy makers, the investment industry and other stakeholders.

The Fund aims to be fully transparent with its stakeholders through regular public disclosure, aligned with best practice.

5. Strategic Actions

5.1 Measurement & Observation

The Fund will make regular measurements and observations on the climate-related risks and opportunities relating to our Fund. This includes:

- An annual carbon risk metrics assessment of the Fund's listed equities and fixed income assets.
- A triennial economic assessment of the Fund's asset allocation against plausible climate-related scenarios
- Monitoring the likelihood of different climate scenarios, drawing on the Fund's suppliers and advisers
- Identification of the greatest climate-related risks to the Fund.

The Fund aims to use the best available tools and techniques to analyse climate-related risks and opportunities the Fund is exposed to. It is recognised that certain methodologies are in the early stages of development, including measuring Fund alignment with the Paris Agreement. As such, efforts to develop credible methodologies will be supported.

5.2 Policy Review

The Fund will conduct a governance review to ensure the management of climate risk is fully embedded in the Fund's processes, committees, and reporting cycles. Specifically, the following will be considered:

- Integrating communications on climate risk into the communications strategy
- Clarifying the roles of key governance committees, especially the Pension Fund Committee, in approving and monitoring the Fund's approach to responsible investment and climate change in the Investment Strategy Statement
- Updating the Governance Policy Statement to explain how climate risks are governed
- Reviewing as part of the Funding Strategy Statement (FSS) the extent to which climate risks could affect other risks noted in the FSS
- Updating the Fund's "Approach to Responsible Investment" in the Investment Strategy Statement to include the six responsible investment beliefs.
- Exploring options to incorporate the 'Approach to Environmental Risks' disclosures into the Investment Strategy Statement.

5.3 Asset Allocation

Where permitted by a credible evidence base, climate change factors will be integrated into reviews of our asset allocation, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement. This includes exploring potential investments in sustainable private equity, green bonds and low-carbon passive equities. The Fund will also consider additional allocations to Global Sustainable Equities and Infrastructure.

That Members use the Climate Strategy as a means to consider divestment from fossil fuels.

The Fund will move towards its Long Term Target Strategic Asset Allocation weightings, as per the recommendations of its 2020 Climate Risk Report.

5.4 Selection and Due Diligence

In the selection and due diligence of new funds material climate-related risks and opportunities will be considered, alongside the manager's approach to managing climate risks.

The Fund's expectations on climate risk management will be specified in investment mandates, investment management agreements and other relevant documentation.

5.5 Purposeful Stewardship

The Fund will monitor engagement with its investee companies and portfolio managers through its Climate Stewardship Plan (Appendix 1). The Fund will report progress against its Climate Stewardship Plan on an annual basis. (It should be noted that although the Climate Stewardship Plan is new, some of the activity within it already takes place as part of the ongoing risk management of the Pension Fund.)

Appointed investment managers will be regularly monitored to ensure climate-related risk is fully integrated into the investment process. The Fund will make use of the IIGCC's "addressing climate risks and opportunities in the investment process" as an aid. In addition, the Fund will:

- Discuss with equity managers the influence of climate factors on their sector positioning
- Discuss with real asset managers their physical risk resilience and GRESB (Global Real Estate Sustainability Benchmark) participation
- Engage corporate bond managers on their approach to assessing climate risk within their portfolios in the absence of reported GHG emissions data

Through LGPS Central, the Fund will join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies.

The Fund will make will use of voting rights and will co-file or support climate-related shareholder resolutions where appropriate.

5.6 Transparency & Disclosure

The Fund will prepare and disclose a Taskforce for Climate-related Financial Disclosures (TCFD) report annually, which will include carbon risk metrics.

The Fund will report progress on the annual Climate Stewardship Plan to the Nottinghamshire Pension Fund Committee on an annual basis.

A summary of voting and engagement activities will be published in the Annual Report, along with a summary of the Fund's Climate Risk Report in a manner consistent with the TCFD Recommendations.

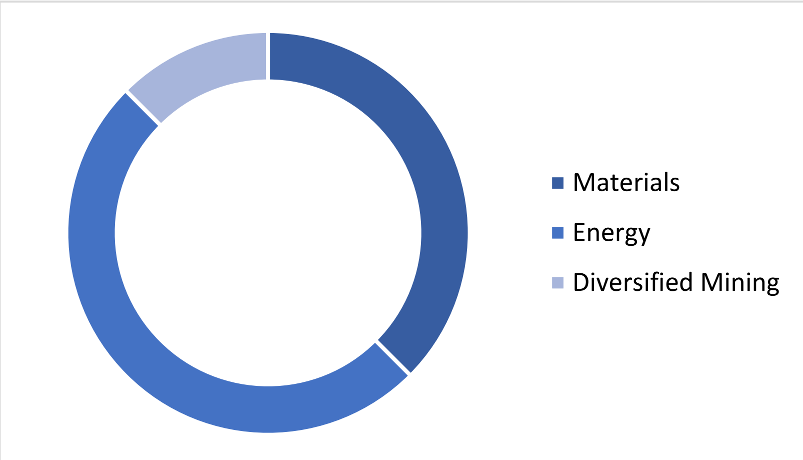
Appendix 1: Climate Stewardship Plan

The Climate Stewardship Plan identifies the areas in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the Fund. The Climate Stewardship Plan is based on the findings of the Fund's Climate Risk Report.

Part 1: Company Engagement

The Fund will monitor engagement with a focussed list of investee companies of particular significance to the Fund's portfolio. The plan sets stewardship objectives over several years, with annual updates following refreshes to the Fund's carbon risk metrics.

Figure 2 Sectors included in the Fund's Climate Stewardship Plan



Part 2: Manager Monitoring

The Fund will monitor major appointed investment managers to ensure climate-related risk is fully integrated into the investment process. The Fund will engage these managers on the following issues:

Asset Class	Topic
Equities	• The influence of climate factors on sector positioning • Stewardship activities with companies identified in the Climate Risk Report
Fixed Income	• Approach to assessing climate risk in the absence of reported GHG emissions data • Engagement with the most intensive carbon issuers • Extent of investment in green bonds
Real Assets	• Physical risk resilience • GRESB participation

Communications Strategy

Nottinghamshire Pension Fund

July 2021

Published by: Nottinghamshire Pension Fund

County Hall

West Bridgford

Nottingham NG2 7QP

www.nottspf.org.uk/members

Table of Contents

1. Introduction

This is the communication strategy of the Nottinghamshire Pension Fund, administered by Nottinghamshire County Council (the Administering Authority).

This statement provides an overview of how the Fund will communicate with its customers (members and employers) and stakeholders. An effective communication strategy is vital for the Fund to meet its objective of providing a high quality and consistent service.

Scheme communications are a critical activity; they are the external face of the Fund and provide a key link with its customers and stakeholders. The Fund has 292 active employers with contributing members and a total membership of over 145,373 scheme members, these members are split into the following categories and with the following numbers of members in each category at January 2020.

Types Of Pension Fund membership	Totals
Active members	43,957
Deferred	60,932
Pensioners	40,481
Total	145,373

The Fund continuously looks at ways to enhance its communications, and this policy statement will be reviewed regularly.

2. Regulatory Framework

This strategy has been produced in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013. This regulation states that:

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with-

(a) members;

(b) representatives of members;

(c) prospective members; and

(d) Scheme employers

(2) The statement must set out its policy on-

(a) the provision of information and publicity about the scheme to members, representatives of members and scheme employers;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the scheme to prospective members and their employers.

The strategy must be revised and published by the administering authority following a material change in their policy on any matters referred to in paragraph (2).

3. Minimum Standards

Under the Occupational Pension Schemes (Disclosure of Information Regulation) 1996, administrators of the Local Government Pension Scheme (LGPS) are required to provide the following:

- A copy of the scheme regulations and any overriding legislation, on request, - either through providing a personal copy, a copy for inspection or details of how to obtain a copy; members, employers, prospective members, their spouses, beneficiaries and recognised trade unions are entitled to this information.
- Basic information about the scheme must be given automatically to every prospective member before starting, or, if this is not practical, within two months of joining. This information must be provided on request – unless issued within the previous 12 months – to current members, prospective members, spouses, beneficiaries and recognised trade unions within two months of receipt of a written request.
- Details of any material changes to the LGPS notified to all members and beneficiaries (except excluded persons, that is, deferred pensioners whose present address is unknown) where possible before the change takes effect. Otherwise the change must be notified not later than three months after it has taken effect.
- An annual benefit statement to all active, deferred and pension credit members.

4. Key Objectives

The Nottinghamshire Pension Fund recognises that communicating with scheme stakeholders and customers is a critical activity for the fund and has established communication practices.

The Fund has identified the following key objectives of its communication strategy:

- Provide clear and timely communication to its customers and stakeholders.
- Recognise the requirement for different methods of communication for different customers and stakeholders.
- Seek continuous improvement in the way the Fund communicates.
- Inform customers and stakeholders to enable them to make the decisions regarding pension matters.
- Inform customers and stakeholders about the management and administration of the Fund.
- Consult major stakeholders about the management and administration of the fund.
- Promote the LGPS as an attractive benefit to scheme members and an important tool in recruitment to employers.
- Support employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the scheme.
- Treat information security with importance and in line with the current data protection legislation.

5. Stakeholders of the Fund

The strategy outlines the scope of communications and sets out the mechanisms which are to be used to meet those communication needs. The Fund will use the most appropriate communication medium for the audiences receiving information. This may involve using more than one method of communication.

There are several key stakeholder groups with whom the Fund needs to communicate. These are:

a) Active Scheme members
b) Prospective Scheme members
c) Deferred Scheme members
d) Pensioners and dependants
e) Scheme Employers
f) Pension Fund Staff
g) The Pension Fund Committee and the Pensions Board
h) External bodies
i) The general public

6. Active Scheme members

The Fund has a website containing extensive details of the scheme and the Pension Fund and from where scheme leaflets, forms and guides may be downloaded. There are links on the website to other organisations which are relevant to scheme members, such as contacts for Employers, AVC Providers and bodies that may provide independent help for members.

Communications with pensioners are being continually developed using the website to communicate on pertinent issues, the most current issues relate to such subjects as finances, Pension Regulator initiatives on Pension Scams, and news relating to AVC Provision by the Fund providers. The Pensions Office also liaises with the Fund's Scheme Employers to ensure that member's information is kept up to date.

The Pensions Office sends benefit statements to all active members on an annual basis, subject to the member's Scheme Employer providing timely year end information to the Pensions Administration Team. The statements are sent as soon as the year end data is reconciled but before the 31 August which is the statutory deadline.

A dedicated telephone help line has been established and is widely publicised in the Scheme literature.

There are other miscellaneous actions taken for scheme members, such as dealing with specific customer complaints and commendations, and using appropriate process in the tracking and contacting of deferred beneficiaries.

7. Prospective Scheme members

As part of the Government's aim to encourage the public to save for the future, the Pensions Office targets prospective members through scheme employers. This is done by ensuring that all new appointees receive the scheme booklet and are referred to the Fund's website for further information.

There are several factsheets on the website that provide more detail on topics such as increasing benefits and making nominations. These factsheets can be sent out to individual members and are also available to download from the website.

The Pension Fund has two Additional Voluntary Contribution (AVC) providers (Prudential and Scottish Widows) who provide a choice on AVC benefits.

8. Deferred members

A yearly summary of each member's details held including a current valuation of their deferred pension benefits is issued by 31 August each year and sent by post to their home address. This also acts as a prompt to notify the fund of any change of circumstances including current nominations. Undelivered statements which are returned to the fund allow us to trace missing members before their benefits are due for payment.

Deferred members can contact the fund helpline to discuss any issues or specific points regarding membership. The Pensions Office offer information on all aspects of scheme membership and benefits for all active, deferred and pensioner members.

9. Pensioners and Dependants

Pay advices are issued to pensioners 4 times a year March to June by the Pension Fund Payroll provider which is the County Council Payroll Services; this coincides with the annual pension increase and the annual HMRC tax notification changes. Throughout the rest of the year, a pay advice is only sent if the net pension changes by more than £5. Returned pay advice alerts the Fund to a change in circumstances, allowing the Fund to trace missing members. Each member also receives a P60 by post by the end of May each year.

There is a dedicated section on the Fund's website that is available for pensioner members. This provides detailed and informative links allowing members to be kept up to date with the latest news and changes. There is also a quick link which allows pensioners to contact the Fund using an electronic form.

Pensioners can also send correspondence including changes details, such as address or bank details to both the Fund and the pension payroll by e-mail and post.

10. Scheme Employers

The Pensions Office aims to work in partnership with Scheme Employers to assist them in the application of the Scheme. The Pension Fund attends regular quarterly meetings with District Councils and arranges meetings with other group Employers when required to pass across information and identify and resolve cases. An Administration Strategy is in place with Scheme Employers which includes a Service Level Agreement which outlines the requirements of employers and the Pensions Administration Team.

A password protected section on the Fund's website is available for our employers; this provides detailed and informative links allowing employers to be kept up to date with latest news and changes. Electronic copies of all relevant forms, scheme literature, policies and reports are also available to download, along with training documents and tools, plus links to other organisations e.g. Local Government Employers.

Administration forms are available with guidance notes to notify the Fund of key events affecting pension benefits.

Annual meetings are arranged inviting employers to enable the fund to update employers on the requirements of the year end activities.

We currently utilise the website to inform our Scheme Employers of their administration responsibilities. This is available on the employer's part of the website.

The Pensions Office uses the 'CIVICA UPM' database to hold member records. Future developments include achieving greater web compatibility and the transmission of data electronically. Following the success of a pilot project on the development of an Employer Portal, the employer Portal is now being rolled out to scheme employers. This development will allow employers to have access through the internet to the pension records of their employees, and will enable employers to undertake a number of tasks, and provide data to the Pension Fund electronically.

11. Pension Fund Staff

The Pensions Office currently ensures that all new staff receive induction and training, so that they can undertake their duties and responsibilities effectively. The Pensions Office has Team Meetings and Management Team Meetings to discuss issues ranging from planning to communications.

The Pension Fund website is also a resource centre for the Administration team as it has links to the National LGPS website, and all employer /member documents are available on the site.

12. The Pension Fund Committee and the Pensions Board

The Pension Fund website contains relevant information for Committee and Board Members and Scheme Employers with regards to information about their respective roles. The development of knowledge and training is also provided by the Fund's Investment & Administration Officers and this is also supplemented by attendance at relevant external training sessions, conferences, and seminars. In addition to the Pension Fund Committee, following the Public Service Pensions Act 2013 a local Pensions Board has been set up to support the governance and administration of the Nottinghamshire Pension Fund which helps to ensure effective and efficient governance and administration of the Local Government Pension Scheme. The respective Committee and Pensions Board members are provided with information and reports on all relevant pension matters as required.

13. External Bodies

The Fund communicates with additional external bodies including:

The Ministry of Housing, Communities and Local Government (MHCLG) who are responsible for drafting and laying the LGPS regulations before parliament.

The scheme also communicates with the Department for Work and Pensions (DWP) and communicates in relation to the contracting out details of scheme members and combined pension benefit forecasts.

The Fund ensures it pays all benefits in compliance with both the lifetime allowance and annual allowance.

The Fund is also represented at the East Midlands Pension Officers Group, which meets quarterly to discuss all aspects of the LGPS knowledge sharing and collaborative working are key features of this group's discussion.

The Pension Administration Manager also attends the Pension Managers Group within the Central Pool.

The Pensions Office is a member of the Pensions Administration Benchmarking Club which is run by the Chartered Institute of Public Finance and Accountancy (CIPFA). We provide information on membership numbers and administration costs and subsequently benchmark our costs and service with all members and specified members of the Club.

The Local Government Pension Scheme Advisory Board is a body set up under section 7 of the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 110-113. The purpose of the Board is to be both reactive and proactive. It seeks to encourage best practice, increase transparency and coordinate technical and standards issues across the Local Government Pension Scheme.

The Local Government Association

HM Revenue and Customs

The Government Actuaries Department works on behalf of the Government to provide actuarial skills that help decision makers take account of risk and uncertainty. Their mission is to improve the stewardship of Public Sector Finances by supporting effective decision making and robust financial reporting through actuarial analysis, modelling and advice.

LGPS Central Ltd, the Fund's pooling company

14. The General Public

Because the LGPS benefits are underwritten by employers, the good management of the LGPS is relevant to the local population. The primary method of communication with the general public is through the Fund's website. The Fund publishes information about the LGPS and how the scheme is governed.

The Fund's strategies are published on the website including the Fund's approach to the financial risks arising from climate change and responsible investment. An annual TCFD report is provided. The Fund publishes details of its investments and its voting record on a quarterly basis.

Reports to Pension Fund Committee are published on the County Council website. In response to enquiries from the public, the quarterly investment report now includes details of the Fund's investment in Oil & Gas companies, and in sustainable and renewable energy investments.

15. Unscheduled Communication

There will be times throughout the year when the Pension Fund will be required to communicate information to Fund stakeholders which is unscheduled and ad hoc. This could include changes to LGPS regulations, or other pension information which may have an impact on employers or members of the scheme.

16. Other Relevant Documentation

In addition to the communication documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers the Fund publishes several key documents relating to the administration and governance of the Fund. These are as follows: -

a. Funding Strategy Statement

LGPS Regulations require that all Administering Authorities publish a Funding Strategy Statement (FSS). The Fund's FSS sets out our commitment to meeting our liabilities while at the same time maintaining stable employer rates.

b. Governance Compliance Statement

LGPS Regulations require all Administering Authorities to publish a Governance Policy Statement. The fund's compliance statement sets out how it delegates its responsibilities including duties and terms of reference and stakeholder representation.

c. Administration Strategy

LGPS Regulations require the Administering Authority to have a Administration Strategy which details responsibilities, standards, levels of performance and policies required to deliver statutory requirements for the LGPS and comply with requirements of the Pension Regulator.

17. Equality

Our communications are tailored to the individual needs of our stakeholders. We will make every effort to provide communications to our stakeholders in their preferred language or format on request.

18. Freedom of Information

This communication strategy identifies the classes of information that the Fund publishes or intends to publish in compliance with the Freedom of Information Act. Anyone has a right under the Freedom of Information Act to request any information held by the Fund which is not already made available. Requests should be made in writing to the Pension Administration Manager at the address at the end of this document.

A fee may be charged, and the Fund reserves the right to refuse if the cost of providing the information is disproportionately high; if following prompting the request is unclear; and when the requests are vexatious or repeated.

Contact us:

Tel: 0115 9772727 Option 3

Or Email: lgpensions@nottscc.gov.uk

Or visit our website: http://www.nottinghamshire.gov.uk/npf

Or write to us at:

Nottinghamshire Pension Fund

Nottinghamshire County Council

County Hall

Wet Bridgford

Nottingham

NG2 7QP

Table Showing the Pension Fund Methods of Communication and Key messages			
Target Group	**Method of Communication**	**Frequency**	**Key Message**
Scheme Members **Prospective Scheme members** **Scheme Employers** **Administration Staff** **Other bodies** **General public**	**Pension Fund Website** • **Latest News** • **Annual Report** • **LGPS guides** • **Fact sheets** • **Pension administration forms** • **Links to National Websites and LGPS information** • **Fund investments** • **Fund voting record**	Continuous development of information to pension Fund Members	Keep members up to date with scheme details, and changes to legislation. Pension Scams Communications
Scheme Members	**Annual Allowance By letter to home address**	Annual by 6 October Each Year	Notification of Pensions Input for those members who exceed the standard Annual Allowance
Active and Deferred Pension Fund Members	**Benefit Statements** **Calculations and costings (e.g. Pension Estimates)**	1 Per Year by 31 August	Illustration of pension Benefits. Keep in touch
Scheme Pensioners	**Pension Payslips** **Annual Pensioners leaflet**	4 payslips issued: 31 March 30 April 31 May 30 June	Inform members of their pension benefit paid into their bank account each month. Pension Increase Notifications
Scheme Pensioners	**Pension P60**	31 May (statutory deadline)	Statutory requirement
Scheme Members benefits (AVC Providers)	**Prudential** • **Statements** • **Liaison meeting** • **Information on Website** **Scottish Widows** • **E mail communications**	**Prudential** • Account meeting with the Pension Fund. • Calculations and Information on members **Scottish Widows** • Secure E mail	Administering members AVC's

Table Showing the Pension Fund Methods of Communication and Key messages			
Target Group	**Method of Communication**	**Frequency**	**Key Message**
	• **Liaison meetings**	• Pension Portal • Written Communication	
Pension Board Meetings	**Agenda** **Meetings** **Reports** **Presentations**	moving to 4 per Year	Information on the Fund Administration
Committee Meetings	**Agenda** **Meetings** **Reports** **Presentations**	8 per year	Reports presented on the Administration of the Pension Fund for decisions by committee.
Pension Fund Annual General Meetings	**Agenda** **Reports** **Presentations**	1 Per Year	To update the Employers and members of the fund on the performance of investments and the administration of the fund.
Scheme Employers	**Ad hoc e-mail alerts** **Year- end briefings** **Meetings with employers when requested.**	1 set of briefings undertaken each year prior to starting year end activity. liaison meetings arranged with larger employers	Making employers aware of their responsibilities regarding the LGPS. Update on fund developments Involvement in Pension Scam Communications
HMRC	**HMRC Website** **HMRC Portal** **Completion of statutory Forms**	Continuous	Providing statutory information
The Pensions Regulator	**Pensions Regulator Portal** • **E mails** • **Consultations** • **Scheme Return** • **Annual questionnaire**	Required to provide the scheme return on an annual basis. Response to consultations as required Complete the Annual Questionnaire	Providing information as required.
LGA	**E mail Notifications** **LGA Website**	Monthly Bulletins Attend Pension Manager Meetings	Updating the Pension Team

Table Showing the Pension Fund Methods of Communication and Key messages			
Target Group	**Method of Communication**	**Frequency**	**Key Message**
	Meetings		
External Auditor	**Annual Audit**	Audit Meetings	Undertake the External Audit
East Midlands Pension Managers Meeting	**Agenda** **Meetings** **Reports** **Presentations**	4 Meetings a year	Meet to discuss developments and proposed within the LGPS regulations.
Governance Conference	**Conference**	Annual Conference	Inform members and Trustees of the main topics of development within the LGPS
Fund Staff	**Team Meetings** **Ad hoc Meetings** **Consultation** **Training & Development** **Website Information**	Regular activity	Ensure staff are kept up to date with important information regarding the Service, the employing authority and the world of pensions Feedback on developments
Pension Systems Development (System Provider)	**Attend System User Group Meetings**	4 per year	Pensions Team to keep up to date with system developments.
Pensions Team	**Account Meeting with CIVICA Account Manager**	12 Per Year	Monitor the performance of the Pensions Administration System.

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 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.

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.

Nottinghamshire County Council

Pension Fund
Governance Compliance Statement

September 2021

1. Introduction

1.1 This is the governance compliance statement of the Nottinghamshire pension fund which is part of the Local Government Pension Scheme and administered by Nottinghamshire County Council (the council). The statement has been prepared as required by the Local Government Pension Scheme (Administration) Regulations 2013.

2. Governance Arrangements

2.1 Under the terms of the council's constitution, the functions of the council as administering authority of the pension fund are delegated to the Nottinghamshire Pension Fund Committee. This is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

2.2 The Nottinghamshire Pension Fund Committee meets eight times a year and its members act in a quasi-trustee capacity. Under the constitution, it is responsible for Administering the Nottinghamshire Pension Fund, including investments and management of pension funds.

2.3 The Committee also has responsibility for investment performance management of the Fund Managers. It may appoint a working party to consider future policy and development.

2.4 The Committee has the further responsibility for matters relating to the administration of the Pension Fund.

2.5 The number of voting members of the Nottinghamshire Pension Fund Committee is determined by the Council at its annual meeting.

2.6 The Committee have responsibility for the Fund's Responsible Investment approach, including climate risk management.

3. Functions and Responsibilities

3.1 The Nottinghamshire Pension Fund Committee separately approves the Pension Fund's Funding Strategy Statement, Investment Strategy Statement, Risk Management Strategy, Administration Strategy

Statement, Communications Strategy Statement, Approach to Responsible Investment and Climate Strategy.

3.2 The Funding Strategy Statement sets out the aims and purpose of the Pension Fund and the responsibilities of the administering authority as regards funding the scheme. Funding is the making of advance provision to meet the cost of accruing benefit promises and the long term objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee.

3.3 The Investment Strategy Statement sets out more detailed responsibilities relating to the overall investment strategy of the funds including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also covers the fund's policy on Member training and expenses and states the fund's approach to socially responsible investment and corporate governance issues. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee.

3.4 Financial Regulations specify that the Service Director (Finance, Infrastructure & Improvement) is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).

3.5 The 'Approach to Responsible Investment' sets out the Fund's responsible investment beliefs and its policy on engagement and the exercise of voting rights. Responsibility for the 'Approach to Responsible Investment' is delegated to the Nottinghamshire Pension Fund Committee.

3.6 The Climate Strategy describes the way climate-related risks are managed by the Fund and covers four main elements:

- Governance of climate risk
- Climate-related beliefs
- Objectives
- Strategic actions

3.7 Responsibility for the Climate Strategy is delegated to the Nottinghamshire Pension Fund Committee, who review the document on an annual basis

3.8 The Risk Management Strategy aims to reduce or eliminate risks which may jeopardise the achievement of the Fund's key objectives. It includes a risk register that identifies and prioritises the main risks to the operation of the fund. Responsibility for the Risk Management Strategy is delegated to the Nottinghamshire Pension Fund Committee.

3.9 The Communications Strategy Statement details the overall strategy for involving stakeholders in the pension funds. The stakeholders identified are:

- trustees
- current and prospective scheme members
- scheme employers
- administration staff
- other bodies.

Responsibility for the communications strategy is delegated to the Nottinghamshire Pension Fund Committee.

4. Representation

4.1 The Nottinghamshire Pension Fund Committee has 9 voting members all of whom are current county councillors. The political make-up of the committee is in line with the current council and the chair is normally appointed by Council. These members have full voting rights.

4.2 In addition the Committee also has 10 members consisting of the following representatives:

- Nottingham City Council (3)
- Nottinghamshire Local Authorities' Association (2)
- Scheduled and admitted bodies (1)
- Trade unions (2)
- Pensioner representatives (2)

4.3 Meetings of the Committee are also attended by officers of the County Council and an independent adviser. This ensures the Committee has access to "proper advice" as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Proper advice is defined as the advice of a person who is reasonably believed to be qualified by their ability in and practical experience of financial matters. This includes any such person who is an officer of the administering authority.

5. Stakeholder Engagement

5.1 An annual meeting of the Pension Fund is held in the autumn to which all employer representatives and scheme members are welcome. The purpose of the meeting is to report on investment performance and current issues of concern to the Pension Fund.

5.2 A number of other initiatives to involve stakeholders are currently in place including:

- Annual year end employer's meetings
- meetings between employers and actuaries as and when required
- Nottinghamshire Finance Officers meetings
- the annual report for the pension fund

- dedicated pension fund website.

6. Review and Compliance with Best Practice

6.1 This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Pension Fund.

6.2 The regulations required a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. The guidance contains best practice principles and so are shown below with the assessment of compliance.

Ref.	Principles	Compliance and Comments
A	**Structure**	
a.	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Fully compliant**
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**Fully compliant**
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**Not applicable**
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Not applicable**
B	**Representation**	
a.	That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :- i) employing authorities (including non-scheme employers, eg, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	**Fully compliant**
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Fully compliant**
C	**Selection and role of lay members**	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Fully compliant** All members of the Nottinghamshire Pension Fund Committee are aware of their responsibilities for the oversight of the funds.
D	**Voting**	
a.	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Fully compliant – a full review of voting has been undertaken and will be presented to Committee**

E	**Training/facility time/expenses**	
a.	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**Fully compliant** Members are encouraged to receive suitable training to help them discharge their responsibilities including attending training courses, conferences and meetings. Travel and subsistence arrangements are those which prevail for the County Council.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Fully compliant**
F	**Meetings (frequency/quorum)**	
a.	That an administering authority's main committee or committees meet at least quarterly.	**Fully compliant** The Nottinghamshire Pension Fund Committee meets 7 or 8 times a year.
b.	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**Not applicable**
c.	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	**Not applicable**
G	**Access**	
a.	That subject to any rules in the councils constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**Fully compliant**
H	**Scope**	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Fully compliant**
I	**Publicity**	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Fully compliant** The governance compliance statement is published on the pension fund website and is included with the relevant committee report (available on the County Council website).

INVESTMENT STRATEGY STATEMENT

Introduction

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

2. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Investment Regulations") govern the management of the Pension Fund and the investment of fund money. According to Regulation 7 of the Investment Regulations an administering authority must formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. It must publish a statement of its investment strategy and must review, and if necessary revise, its investment strategy at least every three years.

3. The investment strategy statement must include:
    a) A requirement to invest fund money in a wide variety of investments.
    b) The authority's assessment of the suitability of particular investments and types of investments.
    c) The authority's approach to risk, including the ways in which risks are to be assessed and managed.
    d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services.
    e) The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
    f) The authority's policy on the exercise of the rights (including voting rights) attaching to investments.

Purpose and Principles

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

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

Key Parties

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

The Administering Authority

7. The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council’s constitution, the functions of the Council as administering authority are delegated to the Nottinghamshire Pension Fund Committee. The full governance arrangements of the Fund are detailed in the Fund’s Governance Compliance Statement.

8. The members of the Committee are not trustees (as the LGPS is a statutory scheme) but do have fiduciary duties towards the scheme members and employers.

LGPS Central

9. LGPS Central (“the Pool”) is the asset pool which Nottinghamshire Pension Fund jointly owns with seven other LGPS funds in order to meet the government’s criteria for investment reform issued in November 2015. The Pool has obtained FCA authorisation and manages collective investment vehicles on behalf of the participating funds.

Committee Members

10. The Committee Members recognise their full responsibility for the oversight of the Fund and operate to a Code of Conduct. They shall:
    - Determine the overall asset allocation and investment strategy of the Fund.
    - Determine the type of investment management to be used and, until funds are transferred to the Pool, appoint and dismiss the main fund managers.
    - Receive regular reports on performance from the main fund managers and question them regularly on their performance.
    - Receive independent reports on the performance of fund managers on a regular basis.
    - Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.
    - Approve and monitor the Fund’s approach to responsible investment and the financial risks of climate change.

Chief Finance Officer

11. Under the Council’s constitution, the Service Director (Finance, Infrastructure & Improvement) is designated the Council’s Chief Finance Officer (also known as the Section 151 Officer). The Group Manager (Financial Services) is the deputy Section 151 Officer. Financial Regulations specify that the Section 151 Officer is responsible for arranging the investment of the Pension Fund. Day to day implementation of investment arrangements is delegated to the Senior Accountant (Pensions & Treasury Management).

12. Authorised signatories for execution of pension fund investments (including signing on behalf of Pension Fund investments) are:
    - Service Director (Finance, Infrastructure & Improvement)
    - Group Manager (Financial Services)
    - Senior Accountant (Pensions & Treasury Management)
    - Investments Officer

13. Representatives of the Service Director (Finance, Infrastructure & Improvement) provide advice to Committee members and attend meetings of the Nottinghamshire Pension Fund Committee as required.

Independent Adviser

14. The Fund has an Independent Adviser who attends meetings of the Nottinghamshire Pension Fund Committee and Pensions Working Party as required. This is considered best practice in accordance with the requirements for "proper advice" in the governing regulations. The Independent Adviser is appointed by the Administrating Authority following appropriate consultation with the Committee.

15. The independent adviser is engaged to provide advice on:
    - The objectives and policies of the Fund.
    - Investment strategy and asset allocation.
    - The Fund's approach to responsible investment.
    - Choice of benchmarks.
    - Investment management methods and structures.
    - Choice of managers and external specialists.
    - Activity and performance of investment managers including the Pool and the Fund.
    - The risks involved with existing or proposed investments.
    - The Fund's current property portfolio and any proposals for purchases, sales, improvement or development.
    - New developments and opportunities in investment theory and practice.
    - Amendment and review of statutory policy documents.

Asset Allocation

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

17. Employers contributions are determined as part of the regular actuarial valuation of the Fund. Historically these have taken place every three years and the last valuation took place as at March 2019. The actuarial valuation involves a projection of future cash flows to and from the Fund. Its main purpose is to determine the level of employers' contributions that should ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. This is the main funding objective as set out in the Funding Strategy Statement.

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

19. The discount rate is based on the expected long term future investment returns from various asset classes. Based on the March 2019 valuation, these are as follows:

Asset class	Expected return (p.a.)
Equities	6.7%
Gilts	1.7%
Other bonds	2.6%
Property & infrastructure	6.1%
Cash	0.8%
Inflation linked fund	5.6%
Discount rate	**4.8%**
Fund Target Return	**5.8%**

20. At the March 2019 valuation, the Fund was assessed to have a deficit of £405m and a funding level of 93%. Deficit recovery contributions have been certified for the majority of employers but any returns in excess of the discount rate will help to recover the Fund to a fully funded position. The Fund therefore sets its asset allocation to target an annual return rate of 5.8%.

21. The agreed asset allocation ranges for the Fund are shown below, along with the Fund's long term strategic target allocations.

Outcome	Asset class	Allocation ranges	Strategic benchmark	
Growth	Listed and Private Equity	55% to 65%	65% FTSE World ex UK. 35% FT Allshare	60%
Inflation protection (income)	Property, Infrastructure* and Index linked fund	18% to 35%	CPI	28%
Income only	Fixed income	5% to 15%	FTSE UK All Stock	10%
Liquidity	Cash, short term bonds	0% to 10%	SONIA	2%

*The target allocation to infrastructure is 8%.

22. This asset allocation is aimed at achieving appropriate returns to meet the Fund Target Return within acceptable risk parameters. The Fund's actual allocation may vary from this according to market circumstances, relative performance and cash flow requirements. The ranges will be kept under regular review and, if it appears likely that these limits might be breached because of market movements, reference will be made to a meeting of the Pensions Working Party for advice.

23. The asset allocation currently favours "growth" assets, primarily equities, as they are expected to deliver higher returns to help the Fund achieve the Fund Target Return. The Fund also invests in "income" assets to deliver secure and predictable income over the long term. These may include infrastructure, property and fixed income. Inflation is a long-term risk factor and the Fund explicitly seeks investments in this category which will help to mitigate that. Finally, the Fund allocates to liquid assets such as cash and short-term bonds in order to ensure cash is always available to pay benefits at any time. This allows the Fund to continue to implement a long-term investment strategy.

24. The asset allocation is regularly reviewed to consider whether it is appropriate to change the mix of assets. This was last done in January 2021.

Investment Strategy

Requirement to invest fund money in a wide variety of investments

25. In setting asset allocation to deliver the Fund Return Target the Fund will seek as far as possible to invest in a diversified range of uncorrelated assets in order to reduce the level of investment risk.

Types of investments

26. Subject to the LGPS regulations on allowable investments the Fund may invest in a wide range of assets and strategies including quoted equity, government and non-government bonds, currencies, money markets, commodities, traded options, financial futures and derivatives, alternative strategies, private equity and debt markets, infrastructure and property. Investment may be made either in-house, indirectly (via funds) in physical assets or using derivatives, or through external managers including the Pool. The fund may use external managers to carry out stock lending while ensuring suitable controls/risk parameters are put in place to prevent losses. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

Approach to investment

27. The Fund bases its approach to investment on the investment beliefs set out in Appendix A. As the Pool takes over implementation of the investments, some of them will become less relevant to the Nottinghamshire Pension Fund Committee's decisions but they should be seen as the fundamental core of how the Fund's assets are invested.

Approach to risk, including the ways in which risks are to be assessed and managed

28. The risk tolerance of the Fund is agreed with the Nottinghamshire Pension Fund Committee, the investment team and independent adviser through the setting of investment beliefs, funding and investment objectives. The Fund will only take sufficient risk in order to meet the Fund Target Return set out in paragraph 19, currently 5.8%.

29. The risks the Fund is exposed to include investment (including the financial risks of climate change), operational, governance, currency, demographic and funding risks. These risks are identified, measured, monitored and then managed. Plans are put in place to mitigate these risks so far as that is possible. Details are given in Appendix B.

Approach to pooling investments

30. The Fund is entering the Pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability, improved ability to act as a responsible investor and access to more uncorrelated asset classes. As a better resourced and FCA authorised and regulated investment manager, LGPS Central Ltd is expected to provide improved governance, transparency and reporting giving the Pension Fund assurance that its investment strategy is being carried out effectively.

31. It is expected that most of the Fund's assets will be transferred to the Pool over a period of time. The Pool is setting up sub-funds which the Fund and other partners expect to invest in. It is likely that this process will take place over a number of years, with the timing being

dependent on market conditions and operational circumstances. Where there are financial or other barriers to transfers, assets may remain in the Fund's ownership.

32. Governance of the Pool is primarily through the Shareholders Forum, governed by a Shareholders Agreement and operating under company law, which has formal decision making powers. Nottinghamshire Pension Fund has equal voting rights alongside the other participating funds and unanimous decisions are required on key strategic matters. These are specified in the Shareholders Agreement and Articles of Association, and include the appointment and dismissal of the company's senior executives, approval of the company's strategic plan and any significant financial transactions, such as major acquisitions, lending or borrowing.

33. The degree of control to be exercised by the Shareholders through their reserved powers is be greater than is generally the case, in order to satisfy the Teckal exemption criteria and allow the company to undertake services on behalf of the investor funds without a formal procurement process.

34. The Joint Committee, established by an Inter-Authority Agreement, is the forum for dealing with common investor issues and for collective monitoring of the performance of the pool against the agreed objectives of the Pool. However, it has no formal decision-making powers and recommendations require the approval of individual authorities, in accordance with their local constitutional arrangements.

35. The government has made clear their expectation that pooled entities should be regulated by the Financial Conduct Authority (FCA) to ensure appropriate safeguards over the management of client monies. As such LGPS Central Ltd will be subject to ongoing oversight by the FCA and those holding key management positions, including the company directors, need to be approved persons, able to demonstrate appropriate knowledge, expertise and track record in investment management. The Directors of LGPS Central Ltd will also be personally liable for their actions and decisions.

36. Comprehensive programme governance arrangements are in place to ensure that costs and savings are managed in accordance with the agreed business case. The Section 151 Officers, or their nominated representatives, of each of the participating funds sit on the Practitioners Advisory Forum and regular meetings are held with the Chair and Vice-Chair of the Pension Fund Committee to ensure effective member oversight of progress and delivery. The Nottinghamshire Pension Fund Committee and the Local Pension Board are also being updated regularly on key developments and decisions.

Assessment of the suitability of investments

37. The policy of the Fund will be to treat the equity allocation (both listed and private) as a block aimed at maximising the financial returns to the funds (and thus minimising employers' contributions) consistent with an acceptable level of risk. Other investments, such as property, fixed income, infrastructure or cash are aimed at mitigating risks which the Fund are exposed to, such as inflation, cashflow shortage, interest rate changes etc.

38. The Fund has a target allocation towards infrastructure, currently 8%, which is intended to deliver secure long term income and some level of inflation protection. These assets may be either equity-like or bond-like in their nature and either listed or unlisted. The Committee monitors this weighting on a quarterly basis.

39. The Fund allocates a maximum of 20% to a range of illiquid assets including infrastructure, equity and credit where there may be no exit until the end of a fund's life. The Fund expects these to provide superior returns or risk mitigation in order to compensate for the lack of liquidity. Allocation to these assets are based on committed amounts and, owing to the nature of these vehicles, the actual net investment level may be lower, perhaps significantly so.

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

41. Pension Fund cash is separately identified in a named account and specific investment decisions will be made on any surplus cash identified, based on the estimated cash flow requirements of the Fund. Part of the cash balance is allocated to individual investment managers and may be called by them for investment at short notice, so the majority of cash will be placed on call or on short-term fixed deposits. Unallocated balances may be placed directly with the Fund's custodian.

Policy on social, environmental and corporate governance considerations

42. Social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments by both the Pension Fund and underlying managers on the Fund's behalf. Non-financial factors may be considered to the extent that they are not significantly detrimental to the investment return and the Committee is satisfied that members share their concerns.

43. It is recognised that Environmental, Social, and Governance ("ESG") factors including current and future impacts of climate change are important to long term investment performance and the ability to achieve long term sustainable returns. The Nottinghamshire Pension Fund Committee considers the Fund's approach to ESG in three key areas:
    a. Selection – considering the financial impact of ESG factors on its investments.
    b. Stewardship – acting as responsible and active owners, through considered voting of shares and engaging with investee company management as part of the investment process. The Committee supports the Stewardship Code.
    c. Transparency & Disclosure – commitment to reporting the outcomes of the Fund's stewardship activities.

44. In combination these three matters are often referred to as "Responsible Investment" or "RI" and this is the preferred terminology of the Fund. Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Committee bases its decisions in this area on its RI Investment Beliefs, which are set out within Appendix A.

45. The Fund has developed a Climate Strategy which was approved by the Committee in December 2020. The Climate Strategy describes the way climate-related risks are managed by the Fund and covers four main elements: governance of climate risk, climate-related beliefs, objectives and strategic actions. The Committee will review the Climate Strategy on an annual basis.

46. The Pool has a fully developed set of RI policies, which are in line with the Committee's own investment beliefs. This includes a *Responsible Investment & Engagement Framework*, a *Statement of Compliance with the UK Stewardship Code*, and *Voting Principles*. The Fund, through the Pool's Practitioners Advisory Forum, contributes to the development of these policies. LGPS Central Ltd is responsible for ensuring that underlying managers in the Pool

meet with the requirements of this policy. LGPS Central Ltd will also engage directly with investee companies to promote sustainable business practices that reward long-term investors. Voting rights will be instructed according to the Pool's agreed *Voting Principles*. LGPS Central Ltd will be required to report on its RI policy to the Committee on a regular basis in order to demonstrate the implementation of the agreed RI policies.

47. The Fund has articulated an investment belief on the relevance of climate change for financial markets (see Appendix A). In line with this belief, the Fund will actively look for investments which can be expected to benefit as a result of the long-term impacts of climate change.

Policy on the exercise of the rights (including voting rights) attaching to investments

48. Membership of the Local Authority Pension Fund Forum (LAPFF) helps Nottinghamshire Pension Fund to engage with companies to understand issues and to promote best practice. LAPFF was set up in 1990 and is a voluntary association of the majority of Local Authority pension funds based in the UK with combined assets of over £300bn. It exists to protect the long term investment interest of local authority pension funds, and to maximise their influence as shareholders by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

49. The Committee believes that voting is an integral part of the responsible investment and stewardship process. The Fund manages its ownership responsibilities through its partnership with LGPS Central Ltd, Hermes EOS and via its investment managers. Hermes EOS is a major independent corporate governance and shareholder advisory consultancy procured by LGPS Central Ltd. Hermes EOS exercises all the Fund's voting rights in line with the shared proxy voting guidelines.

50. The Pool is a Tier 1 signatory to the Stewardship Code.

51. Hermes EOS reports quarterly on its voting activity, and these reports are available to Committee Members and the membership through the website. The availability of this information is stated in the Annual Report.

Other Issues

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

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

54. This Investment Strategy Statement will be kept under review and will be revised following any material changes in policy.

APPENDIX A - Statement of Investment Beliefs

55. The Fund's investment beliefs outline key aspects of how it sets and manages its exposures to investment risk. They are as follows:

Financial market beliefs

- Return is related to risk but taking calculated risks does not guarantee returns. The actual outcome may be higher or lower than that expected.
- The Fund has a long term investment horizon and is able to invest in volatile and/or illiquid investment classes in order to generate higher returns.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.

Investment strategy/process beliefs

- Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy. Risk should be viewed both qualitatively and quantitatively. Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.
- Strategic asset allocation is a key determinant of risk and return, typically more important than manager or stock selection.
- Equities are expected to generate superior long-term returns relative to Government bonds.
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time, but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty and reputational risk need assessment and management, in addition to investment risk.
- Managing fees and costs matter, especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

Organisational beliefs

- Clear investment objectives are essential.
- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- The Nottinghamshire Pension Fund Committee's fiduciary duty is to the members of the Pension Fund. While they are not trustees, they have trustee-like responsibilities.

Responsible investment beliefs

- Responsible investment is supportive of risk-adjusted returns over the long term, across all asset classes. As a long-term investor, the Fund should seek to invest in assets with sustainable business models across all asset classes.
- Responsible investment should be integrated into the investment processes of the Fund, the Pool, and underlying investment managers.
- A strategy of engagement rather than exclusion is more compatible with fiduciary duty and is more supportive of responsible investment.
- Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There is risk but also opportunity in holding companies which have weak governance of financially material ESG issues. Opportunities can be captured so long as decisions are based on sufficient evidence and they are aligned with the Fund's objectives and strategy.
- Climate change and the response of policy makers has the potential to have a serious impact on financial markets. Engagement, using partnerships of like-minded investors where feasible, can mitigate this risk.

Appendix B - Risk Management

56. The Fund has adopted a Risk Management Strategy to:
    a) Identify key risks to the achievement of the Funds objectives.
    b) Assess the risks for likelihood and impact.
    c) Identify mitigating controls.
    d) Allocate responsibility for the mitigating controls.

57. Officers are responsible for maintaining a risk register detailing the risk features in a)-d) above, for reviewing and updating it on a regular basis, and reporting the outcome of the review to the Nottinghamshire Pension Fund Committee.

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

59. A key part of managing the investment risk is by ensuring that the Fund is invested through an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets. As the Pool takes over implementation of the assets, Nottinghamshire Pension Fund Committee's role will increasingly be to hold them to account.

60. The correlation between UK and overseas markets has increased significantly over recent time, reflecting the increasing globalisation of the market. The Fund will take into account exchange rate risks when deciding the balance between holding of UK and overseas equities. As a long term investor, the Fund does not undertake currency hedging itself. Individual managers may hedge currency risks but only with prior approval from the Fund.

61. In addition, the following advisory guidelines will apply. These guidelines will be reviewed from time to time and if changes are made these will be incorporated into a revised Investment Strategy Statement, and amendments will be published.
    - Not more than 20% of the Fund to be invested in unlisted securities (this excludes real estate).
    - No direct underwriting without prior approval.
    - No direct involvement in derivatives (including currency options) without prior approval.

RISK MANAGEMENT STRATEGY

Introduction

1. This is the Risk Management Strategy for the Nottinghamshire County Council Pension Fund. Risk Management is a key element in the Fund's overall framework of internal control and its approach to sound governance. However, it is not an end in itself, but a means of minimising the costs and disruption to the Fund caused by undesirable or unexpected events. The aim is to eliminate or reduce the frequency of risk events occurring (where possible and practicable) and minimise the severity of the consequences if they do occur.

2. Risk can be defined as any event or action which could adversely affect the Fund's ability to achieve its purpose and objectives. Risk management is the process by which:
    - risks are systematically identified
    - the potential consequences are evaluated
    - the element of risk is reduced where reasonably practicable
    - actions are taken to control the likelihood of the risk arising and reducing the impact if it does

Purpose and Objectives of the Fund

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

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

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

Key Parties

6. The key parties involved in the Fund and their responsibilities are as follows.

The Administering Authority

7. The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council's constitution, the functions of the Council as administering authority are delegated to the Nottinghamshire Pension Fund Committee. The full governance arrangements of the Fund are detailed in the Fund's Governance Compliance Statement. The main responsibilities of the Administering Authority are to:
   - Collect employee and employer contributions
   - Invest the Fund's assets
   - Pay the benefits due to Scheme members
   - Manage the actuarial valuation process in conjunction with the Fund Actuary
   - Prepare and maintain the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) after consultation with other interested parties as appropriate
   - Monitor all aspects of the Fund's performance.

Committee members

8. The members of the Committee are not trustees (as the LGPS is a statutory scheme) but do have fiduciary duties towards the scheme members and employers. The main responsibilities of the Committee are to:
   - Determine the overall investment strategy, and what restrictions, if any, are to be placed on particular types and market locations of investments
   - Determine the type of investment management to be used and appoint and dismiss fund managers
   - Receive quarterly reports on performance from the main fund managers and question them regularly on their performance
   - Receive independent reports on the performance of fund managers on a regular basis
   - Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.

Scheme Employers

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

Fund Actuary

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

Chief Finance Officer

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

12. Representatives of the Service Director Finance, Infrastructure & Improvement provide advice to the Committee on investment matters and attend meetings of the Nottinghamshire Pension Fund Committee as required.

Service Director Customers, Governance and Employees

13. The Service Director Customers, Governance and Employees is responsible for the Pensions Administration function, operated by the Pensions Office within the Business Support Centre. This function covers:
    - Pensions administration and employers support
    - Pensions administration systems
    - Communications
    - Technical/performance support

14. Representatives of the Service Director Customers, Governance and Employees provide advice to the Committee on pension administration matters and attend meetings of the Nottinghamshire Pension Fund Committee as required.

Independent Adviser

15. The Fund has an Independent Adviser who attends meetings of the Nottinghamshire Pension Fund Committee and Pensions Working Party as required.

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

Risk Management Strategy

17. The risk tolerance of the Fund is agreed with the Nottinghamshire Pension Fund Committee, the investment team and independent adviser through the setting of the investment beliefs, funding and investment objectives. The Fund will only take sufficient risk in order to achieve its long term funding objectives described in paragraph 4.

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

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

20. All staff involved in the Pension Fund and Members of the Nottinghamshire Pension Fund Committee need to have an appropriate level of understanding of risk and how risks affect the performance of the Fund. To consolidate the risk management process, the Nottinghamshire Pension Fund Committee will be asked to:-
    - agree the Risk Management Strategy
    - approve the Risk Register and agreed actions
    - receive and approve the Annual Governance Statement, which will comment upon the Fund's risk management process.

21. By adopting this approach, the Pension Fund will be able to demonstrate a clear commitment, at a strategic level, to the effective management of Pension Fund risks. The Risk Management Strategy and Risk Register will be kept under review and will be revised following any material changes in policy.

Objectives

1. The objectives of the Risk Register are to:
   - identify key risks to the achievement of the Fund's objectives
   - assess the significance of the risks
   - consider existing controls to mitigate the risks identified
   - Identify additional action required.

Risk Assessment

2. Identified risks are assessed separately and for each the following is determined:
   - the likelihood of the risk materialising
   - the severity of the impact/potential consequences if it does occur.

3. Each factor is evaluated on a sliding scale of 1 to 5 with 5 being the highest value i.e. highest likelihood/most severe impact/consequences. The risk evaluation tables below have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value.

LIKELIHOOD:		
1	Rare	0 to 5% chance
2	Unlikely	6 to 20% chance
3	Possible	21 to 50% chance
4	Likely	51 to 80% chance
5	Almost certain	81%+ chance

IMPACT:		
1	Insignificant	0 to 5% effect
2	Minor	6 to 20% effect
3	Moderate	21 to 50% effect
4	Significant	51 to 80% effect
5	Catastrophic	81%+ effect

4. Having scored each risk for likelihood and impact, the risk ratings can be plotted onto the following matrix to enable risks to be categorised into Low, Medium, High and Very High Risk.

Risk Rating Matrix

Relative Impact		(1) Rare	(2) Unlikely	(3) Possible	(4) Likely	(5) Almost Certain
Catastrophic	(5)	M	H	VH	VH	VH
Significant	(4)	M	H	VH	VH	VH
Moderate	(3)	M	M	H	H	H
Minor	(2)	L	L	M	M	M
Insignificant	(1)	L	L	L	L	L

Relative Likelihood

5. This initial assessment gives the inherent risk level. Existing controls are then identified and each risk is re-assessed to determine if the controls are effective at reducing the risk rating. This gives the current (or residual) risk level. The current risk rating scores and categories are then used to prioritise the risks shown in the register in order to determine where additional action is required in accordance with the following order of priority:

Red = Very High Priority
Take urgent action to mitigate the risk.
Orange = High Priority
Take action to mitigate the risk.
Yellow = Medium Priority
Check current controls and consider if others are required.
Green = Low Priority
No immediate action other than to set a review date to re-consider your assessment.

NOTTINGHAMSHIRE PENSION FUND
RISK REGISTER - SUMMARY

Key to risk rating change since previous version of Risk Register: ↑ Increase ↓ Decrease ↔ No Change ★ New

Risk Description	Inherent Risk			Current Risk		
	Rating		Change	Rating		Change
Risk Gov4 Inadequate resources are available to manage the pension fund.	20	VERY HIGH	↔	12	HIGH	↔
Risk Adm1 Standing data & permanent records are not accurate.	16	VERY HIGH	↔	9	HIGH	↔
Risk Inv3 Fund assets are assessed as insufficient to meet long term liabilities.	16	VERY HIGH	↔	9	HIGH	↔
Risk Inv6 LGPS Central incurs net costs or decreases investment returns	12	HIGH	↓	9	HIGH	↓
Risk Adm2 Inadequate controls to safeguard pension fund records	15	VERY HIGH	↔	6	MEDIUM	↔
Risk Adm4 Scheme employers may fail to administer the scheme efficiently, leading to disruption to the discharge of administering authority functions (employer Risk) Potential data quality issues.	15	VERY HIGH	↔	6	MEDIUM	↔
Risk Adm5 Serious breach of law regarding the management of data/information, including an unauthorised release requiring notification to ICO, leading to disruption to the discharge of administering authority functions (Administrative Risk).	15	VERY HIGH	↔	6	MEDIUM	↔
Risk Inv4 Significant variations from assumptions used in the actuarial valuation	12	HIGH	↔	9	HIGH	↔
Risk Inv7 Financial risk of climate change	12	HIGH	↔	8	MEDIUM	↔
Risk Inv1 Inappropriate investment strategy is adopted.	12	VERY HIGH	↔	6	MEDIUM	↔
Risk Inv5b Custody arrangements	12	VERY HIGH	↔	6	MEDIUM	↔
Risk Gov5 Failure to adhere to relevant legislation and guidance.	12	HIGH	↔	6	MEDIUM	↔
Risk Gov3 An effective performance management framework is not in place.	9	HIGH	↔	6	MEDIUM	↔
Risk Gov1 Pension Fund governance arrangements are not effective	9	HIGH	↔	6	MEDIUM	↔

Risk Gov2 Pension Fund objectives are not defined and agreed.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv2 Fund cash is insufficient to meet its current obligations.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv5a Fund manager mandates	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv5d Financial Administration	9	HIGH	⬌	6	MEDIUM	⬌
Risk Adm3 Failure to communicate adequately with all relevant stakeholders.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv5c Accounting arrangements	6	MEDIUM	⬌	4	LOW	⬌
Risk Inv5e Stewardship	6	MEDIUM	⬌	4	LOW	⬌

Governance

Risk description: Gov1 - Pension Fund governance arrangements are not effective

	Likelihood:	Impact:	Risk Rating:		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌

Current Controls:	• The Council's constitution clearly delegates the functions of administering authority of the pension fund to the Nottinghamshire Pension Fund Committee. • Under the LGPS Regulations the Administering Authority has established a Pension Board • The terms of reference of the Nottinghamshire Pension Fund Committee are agreed. • The terms of reference of the Nottinghamshire Pension Board are agreed. • The Fund publishes a Governance Compliance Statement which details the governance arrangements of the Fund and assesses compliance with best practice. This is kept regularly under review. • A training policy is in place which requires Members to receive continuing training and encourages all new Members to attend the Local Government Pension Scheme Fundamentals training course. • Nottinghamshire Pension Board Members are also required to undertake training • Officers of the Council attend meetings of the Nottinghamshire Pension Fund Committee and the Nottinghamshire Pension Board. • The Fund has a formal contract for an independent adviser to give advice on investment matters. They are contracted to attend each Nottinghamshire Pension Fund Committee meeting. • The Administering Authority has a formal contract for an independent adviser to give advice on LGPS regulations to the Nottinghamshire Pension Board		
Action Required:	• Continue to monitor via existing processes. • Confirmation of Pension Board meetings • Pension Board Vacancies to be filled		
Responsibility:	Group Manager (Financial Services) Group Manager (BSC) Group Manager (Legal Services) Pension Manager Senior Accountant - Pensions & TM	**Timescale:**	On-going

Governance						
Risk description: Gov2 - Pension Fund objectives are not defined and agreed						
	Likelihood:	**Impact:**	**Risk Rating:**			
Inherent Risk:	3	3	**9**	**HIGH**	⬌	
Current Risk:	2	3	**6**	**MEDIUM**	⬌	
Current Controls:	• Purpose and objectives are outlined in the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). Both documents are approved by the Nottinghamshire Pension Fund Committee and reviewed on a regular basis.					
Action Required:	• Continue to monitor via existing processes.					
Responsibility:	Nottinghamshire Pension Fund Committee; Group Manager (Financial Services)		**Timescale:**	On-going		

Governance						
Risk description: Gov3 - An effective performance management framework is not in place.						
	Likelihood:	**Impact:**	**Risk Rating:**			
Inherent Risk:	3	3	**9**	**HIGH**	⬌	
Current Risk:	2	3	**6**	**MEDIUM**	⬌	
Current Controls:	• Investment performance is reported quarterly to the Nottinghamshire Pension Fund Committee. The Fund's main investment managers attend each quarter and officers receive regular updates from the Fund's other investment managers.					
	• Poor investment performance is considered by the Nottinghamshire Pension Fund Committee. The Nottinghamshire Pension Fund Committee's actions are monitored by the Nottinghamshire Pension Board					
	• A Fund strategic benchmark has been implemented to improve monitoring of decisions regarding asset allocation and investment management arrangements. This was reviewed at a Working Party in August 2021.					
	• Performance of the administration function is managed through an Administration Strategy					
	• Performance of the Administration function is managed through a set of performance indicators and reported to Pension Committee and Pension Board					
Action Required:	• Continue to review the performance monitoring framework for Fund Administration.					
Responsibility:	Nottinghamshire Pension Fund Committee Group Manager (Financial Services); Group Manager (BSC) Pension Manager Senior Accountant - Pensions & TM		**Timescale:**	On-going		

Governance					
Risk description: Gov4 - Inadequate resources are available to manage the pension fund.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	5	4	**20**	**VERY HIGH**	⬌
Current Risk:	4	3	**12**	**HIGH**	⬌
Current Controls:	• The pension fund investments are managed by the Pensions & Treasury Management team.				
	• Pension administration is managed by the Pension Team Manager within the BSC				
	• Operating costs are recharged to the pension fund in accordance with regulations.				
	• Staffing levels and structures are kept under regular review. • Additional resources have been requested to meet new requirements across the LGPS • Pension Costs and resources monitored against the CIPFA Benchmarking club				
Action Required:	• Continue to monitor resource requirements via existing processes.				
Responsibility:	Group Manager (Financial Services); Group Manager (BSC) Pension Manager Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Governance					
Risk description: Gov5 - Failure to adhere to relevant legislation and guidance.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	3	**12**	**HIGH**	⬌
Current Risk:	3	2	**6**	**MEDIUM**	⬌
Current Controls:	• An established process exists to inform members and officers of statutory requirements and any changes to these.				
	• An Administration Strategy was introduced in 2017 to monitor the Administration of the Fund, along with monitoring Employer compliance.				
	• Sufficient resources are required to implement LGPS changes while continuing to administer the scheme.				
	• Membership of relevant professional groups ensures changes in statutory and other requirements are registered before the implementation dates.				
	• Any breaches in statutory regulations must be reported to the Pension Regulator.				
Action Required:	• Review Resources against statutory requirements • Continue to monitor requirements via appropriate sources.				

	• Continue to monitor resources to ensure adherence to legislation and guidance. • Update Breaches Policy		
Responsibility:	Group Manager (Financial Services); Group Manager (BSC); Senior Accountant - Pensions & TM Pension Manager	**Timescale:**	On-going

Investments					
Risk description: Inv1 - Inappropriate investment strategy is adopted.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	4	**12**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• The investment strategy is in accordance with LGPS investment regulations and is documented, reviewed and approved by the Nottinghamshire Pension Fund Committee.				
	• In setting asset allocation to deliver the Fund Return Target the Fund will seek as far as possible to invest in a diversified range of uncorrelated assets in order to reduce the level of investment risk.				
	• The Strategy takes into account the expected returns assumed by the actuary at the triennial valuation.				
	• Investment performance is monitored against the Fund's strategic benchmark.				
	• A regular review takes place of the Fund's asset allocation strategy by the Pension Fund Working Party.				
	• An Independent Adviser provides specialist guidance to the Nottinghamshire Pension Fund Committee on the investment strategy.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Investments					
Risk description: Inv2 - Fund cash is insufficient to meet its current obligations.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls	• Fund cash flow is monitored daily and a summary fund account is reported to the Nottinghamshire Pension Fund Committee each quarter				
	• Annual accounts are produced for the pension fund and these show the movements in net cash inflow				

	• Regular assessment of Fund assets and liabilities is carried out through actuarial valuations.
	• The Fund's Investment and Funding Strategies are regularly reviewed
Action Required:	• Continue to monitor via existing processes.

Responsibility:	Nottinghamshire Pension Fund Committee; Group Manager (Financial Services); Senior Accountant - Pensions & TM	**Timescale:**	On-going

Investments					
Risk description: Inv3 - Fund assets are assessed as insufficient to meet long term liabilities.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	4	**16**	**VERY HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• Fund assets are kept under review as part of the Fund's performance management framework.				
	• Regular assessment of Fund assets and liabilities is carried out through Actuarial valuations.				
	• The Fund's Investment and Funding Strategies are regularly reviewed.				
	• An external adviser provides specialist guidance to the Pension Fund Committee on the investment strategy.				
	• Strength of covenant of new employers carefully assessed				
	• Risks relating to existing employers are reviewed periodically				
Action Required:	• Continue to monitor via existing processes. • Review cash flow projections prepared by actuaries on a regular basis.				
Responsibility:	Nottinghamshire Pension Fund Committee Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Investments					
Risk description: Inv4 - Significant variations from assumptions used in the actuarial valuation occur					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	3	**12**	**HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• Actuarial assumptions are reviewed by officers and discussed with the actuaries				
	• Sensitivity analysis is undertaken on assumptions to measure impact				
	• Valuation are undertaken every 3 years				
	• Monitoring of cash flow position.				

	• Contributions made by employers vary according to their member profile.		
Action Required:	• Continue to monitor via existing processes. • Review cash flow projections prepared by actuaries on a regular basis.		
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM	**Timescale:**	On-going

Investments					
Risk description: Inv5 - Inadequate controls to safeguard pension fund assets.					
Inv5a - Investment managers					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Complete and authorised client agreements are in place. This includes requirement for fund managers to report regularly on their performance. The main managers attend Nottinghamshire Pension Fund Committee on a regular basis.				
	• Investment objectives are set, and portfolios must be managed in accordance with these				
	• AAF 01/06 (or equivalent) reports on internal controls of service organisations are reviewed for main managers.				
	• Internal decisions have a robust framework in place which is tested by internal audit				
	• Fund Managers maintain an appropriate risk management framework to minimise the level of risk to Pension Fund assets.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5b - Custody arrangements					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	4	**12**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Complete and authorised agreements are in place with the external custodian.				
	• AAF 01/06 (or equivalent) report on internal controls is reviewed for external custodian.				
	• Regular reconciliations carried out to check external custodian records.				
	• Where assets are custodied in-house, physical stock certificates are held in a secure cabinet to which access is limited.				
Action Required:	• Continue to monitor via existing processes.				

Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5c - Accounting arrangements					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	2	**6**	**MEDIUM**	⬌
Current Risk:	2	2	**4**	**LOW**	⬌
Current Controls:	• Pension Fund accounting arrangements conform to the Local Authority Accounting Code, relevant IFRS/IAS and the Pensions' SORP.				
	• The Pension Fund subscribes to the CIPFA Pensions Network and Technical Information Service and officers attend courses as appropriate.				
	• Regular reconciliations are carried out between in-house records and those maintained by the external custodian and investment managers.				
	• Internal Audits are carried out regularly.				
	• External Audit review the Pension Fund's accounts annually.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5d - Financial Administration					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• The Pension Fund adheres to the County Council's financial regulations with appropriate separation of duties and authorisation limits for transactions.				
	• Daily cash settlements are made with the external custodian to maximise returns on cash.				
	• Investment transactions are properly authorised, executed and monitored.				
	• Contributions due to the fund are governed by Scheme rules which are overseen by Pensions Administration Contributions checked at the beginning of the year and the end of the year, and reconciled and balanced at the year-end.				
	• The Pension Fund maintains a bank account which is operated within regulatory guidelines.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5e – Stewardship -					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	2	**6**	**MEDIUM**	⬌

Current Risk:	2	2	**4**	**LOW**	⬌
Current Controls:	• The Pension Fund aims to be a long term responsible investor.				
	• Effective management of financially material social, environmental and corporate governance (ESG) risks should support the requirement to protect investment returns over the long term. ESG considerations are taken into account in the selection, non-selection, retention and realisation of investments by both the Pension Fund and underlying managers on the Fund's behalf				
	• The Fund has a Climate Stewardship Plan which is implemented and reported on with the support of LGPS Central				
	• The Fund is a member of Local Authority Pension Fund Forum (LAPFF) and supports their work on shareholder engagement.				
	• The pension fund has a contract in place for a proxy voting services. Voting is reported to the Nottinghamshire Pension Fund Committee each quarter and published on the Fund website.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv6 - LGPS Central incurs net costs or decreases investment returns					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	3	**12**	**HIGH**	⬇
Current Risk:	3	3	**9**	**HIGH**	⬇
Current Controls:	• We are shareholders in LGPS Central and have significant influence on them through involvement in Shareholders Forum, Joint Committee and PAF				
	• Costs and performance will be monitored				
Action Required:	• Continue to attend meetings relevant meetings • Continue to monitor via existing processes.				
Responsibility:	Nottinghamshire Pension Fund Committee Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv7 – Climate change affects the financial returns of the Fund.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	3	**12**	**HIGH**	⬌
Current Risk:	4	2	**8**	**MEDIUM**	⬌
Current Controls:	• The financial impact of climate change on the fund can be mitigated. Businesses and individuals will have to change their behaviour and consumption to reduce their carbon footprint and this presents both opportunities and threats as investors.				

	• We engage with management of the companies we own through LGPS Central, LAPFF and Hermes EOS to influence them to consider climate change and their sustainability.		
	• Climate change risks are already considered as part of the purchasing and holding decision		
	• Climate risk analysis undertaken on an annual basis with the assistance of LGPS Central.		
	• The Fund has a Climate Risk strategy and a Climate Stewardship plan		
Action Required:	• The current impacts of climate change are affecting particular industries and regions and the Pension Fund will look to reduce exposure to these. • Continued move towards our long term asset allocation.		
Responsibility:	Nottinghamshire Pension Fund Committee Group Manager (Financial Services); Senior Accountant - Pensions & TM	**Timescale:**	On-going

Administration

Risk description: Adm1 - Standing data and permanent records are not accurate.

	Likelihood:	Impact:	Risk Rating:		
Inherent Risk:	4	4	**16**	**VERY HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• Business processes are in place to identify changes to standing data.				
	• Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input.				
	• Documentation is maintained in line with agreed policies. • The Administration Strategy supports the monitoring of employer compliance.				
	• A change of details form is sent out to members alongside their annual statement.				
	• Data matching exercises (National Fraud Initiative) help to identify discrepancies.				
	• Mortality Screening is being performed				
	• The Data Improvement Plan is being implemented as reported to committee.				
	• The GMP Reconciliation Project including Payroll and Pensions Data matching exercise with HMRC is continuing				
	• Employer annual returns are reviewed and monitored. Breaches are reported to committee.				

Action Required:	• Continue to monitor via existing processes. • Improve monitoring of returns from major fund employers • Implementation of Data Improvement plan • Update Breaches Policy. • Progress GMP rectification • Progress Mc Cloud project		
Responsibility:	Group Manager (BSC) Pension Manager	**Timescale:**	On-going

Administration					
Risk description: Adm2 - Inadequate controls to safeguard pension fund records.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	5	**15**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• ICT Disaster Recovery Plan and Security Plan are agreed and in place				
	• The Administration Authority has an Operational Security and Risk Team, a Security Architect providing strategic direction, an Information Governance Team headed by the Data Protection Officer and an Information Governance Board, chaired by the SIRO, providing oversight. The network has been certified as PSN Code of Connection compliant for the last decade and comprises internal and perimeter firewalls, anti-virus software, intrusion detection and response platforms, secure baseline operating system builds, annual penetration tests, multi-factor authenticated remote access and offline backups, aligning with National Cyber Security Centre best practice at all points.				
	• New back up arrangements are in place				
	• Software is regularly updated to meet LGPS requirements.				
	• Audit trails and reconciliations are in place. • GDPR awareness training and documentation is in place				
	• Pension Administration Documentation is maintained in line with agreed policies.				
	• Physical records are held securely in the Pension Office. • Pensions and other related administration staff undertake data management training as required.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (BSC) Pension Manager		**Timescale:**	On-going	

Administration					
Risk description: Adm3 - Failure to communicate adequately with all relevant stakeholders.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• A communications strategy is in place and is regularly reviewed.				
	• The Fund website is periodically updated. • Member information guides are reviewed.				
	• The Fund has an annual meeting aimed at all participating employers.				
	• The Nottinghamshire Pension Fund Committee has representatives of the County Council, City Council, Nottinghamshire Local Authorities, Trade Unions, Scheduled and Admitted Bodies.				
	• Meetings are held regularly with employers within the Fund. • District and City Council employers and other adhoc employer meetings take place as required • A briefing for employers takes place in February or March each year in preparation for year end				
	• Benefit Illustrations are sent annually to contributing and deferred Fund members.				
	• Annual report, prepared in accordance with statutory guidelines, is published on the website.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (BSC) Pension Manager		**Timescale:**	On-going	

Administration					
Risk description: Adm4 Scheme employers may fail to administer the scheme efficiently, leading to disruption to the discharge of administering authority functions (employer risk) Potential data quality issues.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	5	**15**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Clear communication of requirements to scheme employers.				
	• Employer data is being reviewed as part of the data improvement plan.				
	• Planned roll out of the employer portal to improve the transfer of data to the Pension Fund.				
	• Actuary makes prudent assumptions at valuation.				
Action Required:	• Continue to monitor via existing processes.				

Responsibility:	Group Manager (BSC) Pension Manager	**Timescale:**	On-going

Administration					
Risk description: Adm5 Serious breach of law regarding the management of data/information, including an unauthorised release requiring notification to ICO, leading to disruption to the discharge of administering authority functions.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	5	**15**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Information Governance oversee policies and procedures				
	• Data breach procedure in place				
	• Assurance obtained from third party providers and contractors on compliance with relevant legislation.				
	• Identified Data Protection Officer				
	• Appropriate access levels in the Pension Administration system.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (BSC) Pension Manager		**Timescale:**	On-going	

Nottinghamshire County Council

Report to Pension Fund Committee

9 September 2021

Agenda Item: 6

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 31 August 2021)

Report Title	Brief summary of agenda item	Report Author
4 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
Pension Administration Transformation Programme Update	Update report	Sarah Stevenson
9 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
27 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
10 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
Strategic Asset Allocation Working party report	Report on the discussions and any decisions arising from the January working party meeting on our Strategic Asset Allocation and Investment Strategy and any other issues discussed	Tamsin Rabbitts
28 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
9 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
14 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
Mortality and the impact of COVID-19 on the pension fund		Jon Clewes

Nottinghamshire Pension Fund Annual General Meeting

A date for the Nottinghamshire Pension Fund Annual General Meeting will be set once the accounts have been signed off. Please note, this is the AGM for the Fund and not a meeting of the Nottinghamshire Pension Fund Committee.

Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne — 25th August 2021

Market commentary

1. When I last wrote in June, I suggested that a global recovery was now in place, but that was not necessarily a good environment for financial markets. I said there was a growing likelihood that the long bull market in equities (by some measures since 1981) would end over the next twelve months.

2. Recent headline economic numbers show a sharp recovery in most parts of the world, as might be expected after the unprecedented plunge in 2020. For example, both the U.S and the U.K. are forecast to grow by around 6 to 7% in 2021, though this is still not sufficient to take them back to 2019 levels of activity.

3. The one large economy on a different path is China. They took tougher countermeasures against the pandemic early on and their economy recovered sooner. However, in recent months there has been a slowdown and the Peoples' Bank of China has in fact eased policy in recent weeks. **China's actions over the next few months are likely to be a more important determinant of the course of the global economic recovery than the U.S.**

4. New variants of COVID-19 continue to put pressure on the world's ability to move on. Despite successful vaccination programmes in many countries, new strains have caused a third wave of infections, even in hitherto relatively unaffected countries such as China and Japan. While this has not, at least in the West, resulted in many deaths, it has knocked back confidence in the world's ability to return to normal. The travel and entertainment industries in particular have been affected.

5. The authorities continue to provide substantial monetary and fiscal support, but the level is decreasing in the West. There were some fears of a repeat of the 'taper tantrum' in 2013 when bond yields soared as the Fed tried to taper their support for the market. **In fact, against investors' expectations, government bond yields have fallen.** The U.S. 10-year bond has fallen from a 2021 high of 1.6% to 1.3%, and the U.K. equivalent from 1.0% to 0.6%. In my view the major reason for this is some 'stealth' tightening by the U.S. authorities - i.e. beginning to taper support without making it obvious. But it may also be down to investors' reduced appetite for risk as the recovery weakens.

6. Lower bond yields have resulted in a partial return to the 2020 investing environment. Tech and quality stocks have generally done well, buoyed yet again by good earnings figures. As a result, the U.S market has continued to rise, while other equity markets – and value stocks in particular - have gone sideways or moved down.

7. **Inflation is at the centre of investors' concerns**. It is not surprising that continuing easy money policies have led to asset prices, housing in particular, rising even further. But for the first time in twelve years a combination of supply side bottlenecks and Chinese demand for commodities, have led to a rise in high street inflation. U.S. consumer inflation rose by 5.4% in July, for the third month running the highest level since before the Global Financial Crisis in 2008/9.

8. The consensus view, at least among commentators, seems to be that this is the start of a period of higher consumer inflation. I am not so sure. Bond yields would normally rise to anticipate inflation but have been going in the other direction. There also remain many powerful disinflationary trends, such as technology, in place. That said, higher inflation is clearly the major risk which the Fund faces, because of its impact on our liabilities, and it is sensible to invest to mitigate it.

9. There are several possible scenarios from here. In a more optimistic one, the Chinese authorities will ease policy further and provide an engine for continued global economic growth. The Federal Reserve will continue to 'stealth' tighten and may even raise rates slightly. Inflation will return to the 2 to 2.5% level and investor confidence will provide some support for equities. In a less positive one, confidence and global economic growth tail off and investors are faced with either 'stagflation' if inflation rates remain high or Japanese-style disinflation if they fall back.

10. **Neither of the latter are comfortable places for equity investors**, which is why I believe the long bull market may be nearly over. Equities rarely do well in disinflationary periods, as it ratchets up the real value of debt. Today the West has high levels of private sector and increasingly government indebtedness. A squeeze on both investment and spending would be the likely consequence, with a negative impact on earnings.

11. If inflation remains high, the pressure will come on equity valuations rather than earnings, especially on the long-term growth tech stocks which dominate the US index. They are also under threat from governments' attempts to extract more money from them, whether through anti-trust actions (e.g. EU vs Apple, China vs Tencent and Alibaba) or higher taxation (the introduction of a sales-based minimum tax rate).

12. I said last time that it is hard to see a painless exit in the longer term from where we are today. The world badly needs higher interest rates so that money has a cost and borrowers' decision-making is rational. With 'free' money they fall into the same trap as Japan did in the 1990s where the level of indebtedness rises without generating a return from their borrowing. However, higher interest rates would cause an immense political cost at least in the West, which politicians do not yet wish to pay. **The best hope is probably that China engineers enough global growth to allow the West to raise interest rates.**

13. The Fund has a long-term investing horizon and is invested in a diversified manner in order to mitigate the risks of an extended decline in equity markets. There is a substantial cushion of prudence built into the Strategic Asset Allocation by the actuary, and we have been building up assets which provide some inflation protection for a number of years. **However, the Committee should be aware that in the more adverse scenarios the funding level might well fall.**

Nottinghamshire County Council

Report to Pension Fund Committee

9 September 2021

Agenda Item: 8

REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

FUND VALUATION AND PERFORMANCE

Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 30 June 2021.

Information and Advice

2. This report is to inform the Nottinghamshire Pension Fund Committee of the value of the Pension Fund at the end of the latest quarter and give information on the performance of the Fund. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendices.

3. The table below shows a summary of the total value of the investment assets of the Fund as at 30 June 2021 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark is a long-term target which the fund will move towards over the next year.

	Latest Quarter		**Long term**	**Previous Quarter**		**Previous Year**	
	30 June 2021		**Benchmark**	**31 March 2021**		**30 June 2020**	
	£m	%		£m	%	£m	%
Growth	4,208	65.9%	60%	3,953	64.8%	3,653	66.7%
Income & inflation protection	1,001	15.7%	23%	954	15.6%	721	13.2%
Income only	632	9.9%	10%	588	9.6%	571	10.4%
Inflation only	306	4.8%	5%	295	4.8%	206	3.8%
Liquidity	241	3.8%	2%	313	5.1%	327	6.0%
	6,388	100.0%	**100%**	**6,102**	**100.0%**	**5,478**	**100%**

4. Within Income & inflation protection are investments in Infrastructure assets amounting to £346.2m or 5.4% of the fund. Including infrastructure commitments made but not drawn down

gives a total amount of 6.9% of the fund. There is a long term target for investments in infrastructure to be 8% of the fund.

5. The table below shows the detailed breakdown by portfolio of the Fund as at 30 June 2021 together with the total value of each portfolio at the previous quarter end.

	Core Index		Schroders		LGPS Central		Kames S		Aberdeen		Specialist		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
UK Bonds														
Gilts					209.0	27%	0.0	0%					209.0	3%
Corporate Bonds							80.7	100%					80.7	1%
					209.0	27%	**80.7**	100%					**289.7**	**5%**
Overseas Bonds														
Corporate Bonds					322.6	41%	0.0	0%					322.6	5%
					322.6	41%	**0.0**	0%					**322.6**	**5%**
Inflation Linked											306.0	20%	306.0	**5%**
UK Equities	591.5	39%	950.1	49%	10.1	1%					33.1	2%	1,584.8	**25%**
Overseas Equities														
North America	362.2	24%	566.4	29%							0.8	0%	929.4	15%
Europe	228.3	15%	146.9	8%							162.4	11%	537.6	8%
Japan	123.5	8%	81.0	4%							110.3	7%	314.8	5%
Pacific	132.6	9%	59.1	3%									191.7	3%
Emerging Markets	90.3	6%	90.4	5%	135.8	17%					0.0	0%	316.5	5%
Global	0.0	0%	36.1	2%	40.2	5%					0.0	0%	76.3	1%
	936.9	61%	**979.9**	50%	**176.0**	22%					**273.5**	18%	**2,366.3**	**37%**
Private Equity					12.8	2%					244.3	16%	257.1	**4%**
Infrastructure					.5	0%					344.8	23%	346.3	**5%**
Credit					50.3	6%					50.5	3%	100.8	**2%**
Property														
UK mandatel									351.4	68%			351.4	6%
UK - Local									21.6	4%			21.6	0%
UK Strategic Land									3.9	1%			3.9	0%
Pooled - UK									28.1	5%	137.6	9%	165.7	3%
Pooled - Overseas									111.1	22%	0.8	0%	111.9	2%
									516.1		**138.4**	9%	**654.5**	**10%**
Cash/Currency	0.0	0%	19.0	1%	0.1	0%	0.0	0%	0.0		141.0	9%	160.1	**3%**
Total	**1,528.4**	24%	**1,949.0**	31%	**782.4**	12%	**80.7**	1%	**516.1**	8%	**1,531.6**	24%	**6,388.2**	
Previous Qtr	1,445.6	24%	1,840.5	30%	713.1	12%	102.8	2%	487.9	8%	1,512.7	25%	6,102.6	

6. The Fund investments have increased by £285.6 million (4.7%) since the previous quarter as the market has continued to recover. Fund investments have increased by £910.0 million (16.6%) over the last 12 months. Valuations at 30 June 2020 were only just starting to recover from the market impact of the Covid-19 pandemic.

7. The table below shows the first quarter Fund Account for 2021/22 with the unaudited full year figures for 2020/21.

Summary Fund Account	**Q1 2021/22 £000**	**Full Year 2020/21 £000**
Employer contributions	(37,018)	(201,395)
Member contributions	(8,708)	(49,638)

Transfers in from other pension funds	(1,266)	(5,580)
Pensions	46,215	179,425
Commutation of pensions and lump sums	9,351	31,607
Lump sum death benefits	2,520	5,237
Payments to and on account of leavers	2,660	13,086
Net (additions)/withdrawals from dealings with members	**13,754**	**(27,258)**
Administration Expenses	**674**	**2,692**
Oversight & governance expenses	**(256)**	**1,804**
Investment Income	(1,435)	(84,822)
Profits & losses on disposals & changes in value	(968,164)	(988,631)
Taxes on income	110	172
Investment management expenses	91	4,370
Net Returns on Investments	**(969,398)**	**(1,073,281)**
Net (increase)/decrease in net assets	**(955,226)**	**(1,091,672)**

Sustainable investments and fossil fuels

8. The Pension Fund has been asked to publish figures showing the Fund's direct and indirect holdings of fossil fuel companies together with the Fund's investments in Sustainable equities and renewable energy.

9. This data is published together with detailed caveats below. It is anticipated that these figures will show a gradual increase in investment in Sustainable equities and renewable energy. It is further anticipated that investments in fossil fuels will decrease as a proportion of the Fund over time. However fossil fuel holdings will vary from quarter to quarter in Schroders (direct) portfolio as investments are made based on Schroders assessments of market opportunities. Valuations will also change from quarter to quarter in both categories due to changes in share prices which are highly correlated to the oil price. Consequently this trend will be much less smooth.

	Latest Quarter		**Previous Quarter**		**Previous Year**	
	30 June 2021		**31 March 2021**		**30 June 2020**	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	71.4	1.12%	56.4	0.92%	50.0	0.91%
Other Fossil fuel	84.4	1.32%	78.6	1.29%	68.9	1.26%
Total Fossil fuel	155.7	2.44%	135.0	2.21%	118.9	2.17%
Sustainable & Renewable	257.0	4.02%	160.3	2.63%	155.1	2.83%

10. In the most recent quarter the value of Fossil Fuel investments increased in absolute terms and as a proportion of the fund in both the Schroders portfolio and elsewhere in the fund. Schroders increased their sector holdings in the quarter and delivered a gain of £8.01m on these holdings.

11. Schroders hold a number of Oil and Gas companies within the Active Equity portfolio. Sustainability forms part of their criteria in assessing companies for investment. For example one of their holdings, Neste has a strong line-up of low carbon energy products, including

recycled biofuels. European countries are introducing tighter blending requirements for sustainable aviation fuel, of which Neste is the largest European producer.

12. The ‘Other Fossil fuel’ category is almost entirely the Energy sector in our passive portfolio and will reflect the share of the index relating to Energy. It increased because of the increase in share prices of oil and gas companies in this quarter. There was no change to the amount invested in these holdings. It should be noted that the Energy sector includes any renewable energy companies within the index, and that some oil and gas producers are also involved in the production of biofuels, hydrogen, wind power and solar energy, so have a renewables element. As a result of these two factors the figure for fossil fuels is likely to be overstated, and the figure for renewables understated.

13. Equally there will be some companies such as those in the mining sector which do not fall within this category but may produce e.g. coal which would not be included in these figures.

14. For this reason, this indicator does not provide the full picture of our exposure to fossil fuels, but forms only part of our risk monitoring. However as an indicator it should show a reducing trend in exposure over time.

15. A more thorough assessment of our equity investments is provided by LGPS Central’s carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves. The metric for exposure to clean technology is less informative as most of our investment in this area is through infrastructure funds which are not covered by the analysis. This analysis confirmed that our carbon footprint and fossil fuel and coal reserves are lower than the benchmark and provided a starting point against which we can monitor progress. The projection is that as we implement our long term investment strategy that these figures will reduce reflecting a reduction of risk.

16. The ’sustainable and renewable energy’ investment figure contains more estimates. The figure includes five specific investments – the Renewables Infrastructure Group, Impax Environmental, and three renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank’s Offshore Wind Fund and Langar Lane Solar Farm.

17. An estimate of the renewable energy investments within the Fund’s other infrastructure funds was added to these identified investments. Not all funds identified this as a sector in their reporting so this data is incomplete. Furthermore because of the longer reporting cycle for unlisted investments the estimate was based on both valuations and percentages from earlier in the year, so this figure can only be considered indicative, but is likely to be an underestimate.

18. It can be seen that the Fund’s investments in Sustainable Equities and Renewable Energy exceed those in Fossil Fuel investments. A gradual increase in the amount invested in this area has been demonstrated over the last year and this will increase as our Strategic Asset allocation is implemented.

19. Because of the way they are calculated, these numbers will only ever be indicative, but are helpful for the pension fund in identifying risk and progress.

Core Index Portfolio

20. Below are detailed reports showing the valuation of the Core Index portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation and compares it to the portfolio benchmark (and a comparison with the previous quarter). The benchmark changed at the last Pension Fund Committee to reduce UK equities to 35% of the

fund which will be reflected in the Core Index portfolio. This will be a gradual change over the rest of the year.

	30 June 2021 Portfolio		B/Mark	31 March 2021 Portfolio	
	£000	%	%	£000	%
UK Equities	591,537	38.7%	35%	560,099	38.8%
Overseas Equities:	936,835	61.3%	65%	880,637	60.9%
North America	362,183	23.7%	20%	333,348	23.0%
Europe	228,291	14.9%	20%	210,820	14.6%
Japan	123,542	8.1%	10%	124,182	8.6%
Pacific Basin	132,567	8.7%	10%	126,345	8.7%
Emerging Markets	90,252	5.9%	5%	85,942	6.0%
Cash	0	0.0%	0%	4,817	0.3%
Total	**1,528,372**			**1,445,553**	

21. The table below summarises transactions during the quarter.

Sector	**Purchases £000**	**Sales £000**	**Net Purchases £000**
UK Equities	0	0	0
Overseas Equities			
North America	0	0	0
Europe	0	0	0
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
Totals	**0**	**0**	**0**

There were no purchases and sales in the quarter.

Schroder Investment Management Portfolio

22. The table below summarises the valuation and compares it to Schroders' benchmark. The position at the end of the previous quarter is also shown.

	30 June 2021 Portfolio		B/Mark	31 March 2021 Portfolio	
	£000	%	%	£000	%
UK Equities	950,088	48.7%	49.1%	902,850	49.1%
Overseas Equities	979,934	50.3%	50.4%	904,563	49.1%
North America	566,401	29.1%	28.4%	516,819	28.1%
Europe	146,870	7.5%	8.1%	127,417	6.9%
Japan	81,014	4.2%	4.6%	81,501	4.4%
Pacific Basin	59,117	3.0%	2.9%	56,976	3.1%
Emerging Markets	90,437	4.6%	4.5%	87,457	4.8%
Global Small Cap	36,095	1.9%	1.9%	34,393	1.9%
Cash	18,952	1.0%	0.5%	33,084	1.8%
Total	**1,948,974**			**1,840,497**	

23. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	32,931	17,426	15,505
Overseas Equities			
North America	29,051	28,460	591
Europe	34,632	23,243	11,389
Japan	3,552	3,228	324
Pacific Basin	201	70	131
Emerging Markets	0	0	0
Global Small Cap	0		0
Totals	**100,367**	**72,427**	**27,940**

LGPS Central

24. The table below summarises the valuation by asset class of investments managed by LGPS Central. The proportional holdings are also shown. However allocation to each LGPS Central fund is at the discretion of the Pension Fund in line with the overall Pension Fund approved asset allocation and as such there is no benchmark for this portfolio.

	30 June 2021 Portfolio		31 March 2021 Portfolio	
	£000	%	£000	%
UK Passive	10,091	1%	9,576	1%
Global equity	40,238	5%	37,718	5%
EM equity active	135,753	17%	116,098	16%
Corporate bonds	322,589	41%	315,508	44%
Gilts	208,989	27%	205,032	29%
Private Equity	12,839	2%	9,885	1%
Infrastructure	1,459	0%		
Credit	50,320	6%	19,205	3%
Cash	52	0%	46	0%
Total	**782,330**		**713,068**	

25. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	36,706	35,985	721
Corporate Bonds	0		0
Equities			
UK	0	0	0
Emerging Markets	15,000		15,000
Global	0		0
Private Equity	567		567
Infrastructure	1,459		1,459
Credit	30,000		30,000
Totals	**83,732**	**35,985**	**47,747**

During the quarter the Fund invested an additional £15m in Emerging Market Equities and £30m to the new MAC (Multi-Asset Credit) fund. £60m was committed to LGPS Central's new

Infrastructure fund during the quarter. £15m of this has already been committed by LGPS Central to a renewable energy fund. The committed capital will be drawn over the next few years.

Aberdeen Standard Investments (ASI)

26. The Committee is asked to note that approval was given in the last quarter to the following, after consultation with Members where appropriate, as operational matters falling under the responsibility of the Service Director, Finance, Infrastructure & Improvement exercised by the Senior Accountant (Pensions & Treasury Management):

Date	Property	Transaction
27/04/2021	Unit 3B Isabella Court, Mansfield	Lease agreement
04/05/2021	Unit 4, Brooke Park, Handforth, Cheshire	Lease
10/05/2021	Motorline Dealership Site, The Drive, Gatwick Road, Crawley	Rent Review
02/06/2021	Land on the North Side of Woodthorpe Road, Ashford	Promotion Agreement
08/06/2021	Bridlesmith House, Bridlesmith Gate, Nottingham	Wayleave Agreement

Specialist Portfolio

27. Below are tables showing the composition and the valuation of the Specialist portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation at quarter end. The position at the end of the previous quarter is also shown.

	30 June 2021		31 March 2021	
	£000	%	£000	%
Private Equity	244,300	17.6%	233,400	17.4%
Infrastructure	344,800	24.8%	330,100	24.6%
Credit	50,500	3.6%	48,200	3.6%
Property Funds	138,400	10.0%	135,500	10.1%
Aegon DGF	306,000	22.0%	295,300	22.0%
Equity Funds	306,600	22.0%	298,000	22.2%
Total	**1,390,600**		**1,340,500**	

28. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-4,517	1,696	-6,213
Infrastructure	7,943		7,943
Credit			0
Property Funds		0	0
Aegon DGF			0
Equity Funds			0
Totals	**3,426**	**1,696**	**1,730**

29. There were increased investments in listed infrastructure and the Capital Dynamics Clean Energy Fund.

Responsible Investment Activity

30. The Pension Fund believes that Responsible Investment is supportive of risk-adjusted returns over the long term. As a long-term investor, the Fund seeks to invest in assets with sustainable business models across all asset classes.

31. During the quarter the Fund's investment managers have continued with their usual stewardship activities through considered voting of shares and engaging with investee company management as part of the investment process. Quarterly reports on Responsible Investment issues have been received from Legal and General, Schroders and LGPS Central. Full reports and other responsible investment information can be found on the Pension Fund website here https://www.nottspf.org.uk/about-the-fund/responsible-investment .

32. Hermes EOS has exercised the Fund's voting responsibilities as our Proxy voting service. A quarterly report on voting activity can be found on our website here https://www.nottspf.org.uk/about-the-fund/investments .

33. LAPFF (Local Authority Pension Fund Forum) have engaged with a number of companies during the quarter (principally Shell, Exxon, ArcelorMittal, National Grid, Tesco and Hanwha). More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. An officer attended the LAPFF business meeting on 14th July 2021. This will be reported to committee in the November 2021 meeting.

34. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. Officers attended the PLSA (Pensions & Lifetime Savings Association) ESG conference. A number of officer meetings have been held to discuss the LGPS Central Infrastructure Fund which will include some investment in renewable energy generation. Other meetings were held to develop a Sustainable Equities Fund. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised. The Climate Stewardship Plan was approved by Committee in April and the Climate Action Plan was reviewed.

Statutory and Policy Implications

35. 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

1) It is recommended that Members consider whether there are any actions they require in relation to the issues contained within the report.

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Title of Report Author: Senior Accountant – Pensions & Treasury Management

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Constitutional Comments

36. This is an updating information report and the 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 17/08/2021)

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