Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Tuesday, 08 September 2015 at 10:30

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

AGENDA

The Committee will be invited to resolve:-

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

Note

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

8 Local Government Pension Scheme Pooled Investments - Exempt Appendix

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

9 Referral from Pensions Sub-Committee - Working Party Recommendations - Exempt Appendix

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

Notes

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

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

Customer Services Centre 0300 500 80 80

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

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

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

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

Nottinghamshire County Council

minutes

Meeting NOTTINGHAMSHIRE PENSION FUND COMMITTEE

Date Tuesday, 17 March 2015 (commencing at 10.30 am)

membership
Persons absent are marked with `A'

COUNCILLORS

Darren Langton (Chair)
Ken Rigby (Vice-Chairman)

A Reg Adair
Chris Barnfather
Ian Campbell
Mrs Kay Cutts
A Sheila Place
A Parry Tsimbiridis
John Wilkinson

OFFICERS IN ATTENDANCE

Simon Cunnington	(Environment & Resources)
Dave Forster	(Policy, Planning & Corporate Services)
Neil Robinson	(Environment & Resources)
Sarah Stevenson	(Environment & Resources)

MINUTES

The Minutes of the last meeting of the Committee held on 16 September 2014, having been previously circulated, were confirmed and signed by the Chair.

APOLOGY FOR ABSENCE

An apology for absence was received from Councillors Reg Adair Shelia Place and Parry Tsimbiridis

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

REFERAL FROM PENSIONS SUB-COMMITTEE – REVISED RISK MANAGEMENT AND RISK REGISTER

RESOLVED: 2015/001

That the Revised Risk Management Strategy and Risk Register be approved.

PENSIONS INVESTMENT SERVICE PLAN AND TRAINING

RESOLVED 2015/002

1) That the review of the 2014/15 Service Plan be noted.

2) That the 2015/16 Plan be noted.

3) That it be noted that attendance at key conferences and training is part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills.

4) That attendance at conferences and training during 2014/15 be noted and

5) That attendance at conferences and training as set out in paragraph 7 of the report be approved.

PENSIONS INVESTMENT SUB-COMMITTEE MEETING

A motion in terms of resolution number 2015/003 was moved by Councillor Mrs K Cutts seconded by Councillor Chris Barnfather

RESOLVED 2015/003

That approval be given for one Pensions Investment Sub-Committee meeting per year to be held outside of County Hall at the Offices of the Fund Main Investment managers.

REFERRAL FROM PENSIONS SUB-COMMITTEE – WORKING PARTY RECOMMENDATIONS

RESOLVED 2015/004

That the report be noted.

EXCLUSION OF THE PUBLIC

RESOLVED: 2015/005

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

EXEMPT INFORMATION ITEM

REFERRAL FROM PENSIONS SUB-COMMITTEE – WORKING PARTY RECOMMENDATIONS – APPENDIX

RESOLVED: 2015/006

1) That the recommendations listed at paragraph 26, points a) to f) of the exempt appendices are approved and

2) That the amendments are made to the Fund's Statement of Investment Principles as appropriate to take account of the recommendation set out in the exempt appendices.

The meeting closed at 11.10 am.

CHAIRMAN

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

08 September 2015

Agenda Item: 4

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

PENSION FUND ACCOUNTS 2014/15

Purpose of the Report

1. To present the Nottinghamshire Pension Fund accounts for 2014/15.

Information and Advice

2. The Nottinghamshire Pension Fund accounts for 2014/15 are attached. These show that the value of the fund as at 31 March 2015 was £4,079 million with net returns on investments for 2014/15 of £423 million and net withdrawals from dealings with members of £77 million. During the year an amount of £76 million was paid to the Greater Manchester Pension Fund in respect of the transfer out of liabilities relating to the Nottinghamshire Probation Trust as part of the transfer of services to the National Probation Service. Excluding this bulk transfer, the net withdrawal from dealings with members was £0.7 million.

3. The external auditors, KPMG, have substantially completed their audit work and anticipate issuing an unqualified audit opinion. No material misstatements or uncorrected audit differences were identified and only a small number of minor amendments focused on presentational improvements were made to the draft financial statements. The auditor's draft ISA260 report is also attached for information.

4. Two key areas of potential risk were identified by KPMG in advance of the audit – the new 2014 scheme and the change of pensions administration system. There were no significant matters to raise in relation to the new scheme and KPMG were satisfied that the change in pensions system has not had a material impact on the 2014/15 financial statements. An issue was identified with the reports used to extract data from the system to provide to the Fund actuaries and this will be rectified in time for the 2015/16 submissions.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

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

RECOMMENDATION/S

1) That the accounts and draft audit report for 2014/15 be noted.

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

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments

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

Financial Comments (SRC 18/08/2015)

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

Background Papers and Published Documents

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

- ‘None’

KPMG
cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Nottinghamshire County Council and Nottinghamshire Pension Fund

August 2015

DRAFT

Contents

The contacts at KPMG in connection with this report are:

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for both the Authority and its pension fund; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Nottinghamshire County Council ('the Authority') and Nottinghamshire Pension Fund in relation to the Authority's 2014/15 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2014/15*, presented to you in April 2015, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now substantially completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section two summarises the headline messages.
- Section three sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority and the fund.
- Section four outlines our key findings from our work on the VFM conclusion.

We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.
Audit adjustments	Our audit has not identified any material audit adjustments within the financial statements. Our audit has identified some minor presentational adjustments to the financial statements presented for audit.
Key financial statements audit risks for the Authority	We identified the following key financial statements audit risks in our 14/15 External audit plan issued in March 2015. ■ The accounting requirements for Local Authority maintained schools; and ■ The transfer of banking services from the Co-operative to Barclays. We have worked with officers throughout the year to discuss how the Authority has responded to these key risks. Our detailed findings are reported in section three of this report.
Key financial statements audit risks for the Pension Fund	Our initial risk assessment for the Pension Fund's financial statements audit has identified the following significant risks: ■ LGPS reform – From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in; and ■ Change in Pensions Database – During the year, the Authority has implemented a new Pensions database, migrating all member records from the previous Axise system to Civica. We have worked with officers throughout the year to discuss how the Fund has responded to these key risks. Our detailed findings are reported in section three of this report. We have raised a recommendation in relation to information provided to the Actuary, which are summarised in Appendix 1.
Accounts production and audit process	The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has yet to implement the recommendation made in our *ISA 260 Report 2013/14* relating to the financial statements, and so this has been re-iterated at Appendix 2.

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ Final review of non-pay expenditure ■ Assessing the completeness of the information sent to the actuary Before we can issue our opinion we also require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.

Financial Statements
Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

We anticipated issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following recommendation of the Statement of Accounts by the Audit Committee on 2 September 2015, for approval at the meeting of the full Council on 17 September.

Audit differences

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

The final materiality (see Appendix 5 for more information on materiality) level for this year's audit was set at £24 million. Audit differences below £1.2 million are not normally considered significant, however, may be reported should the issue be material by nature.

We did not identify any material misstatements.

Our audit identified one non-trivial audit difference relating to the classification of balances within notes to the Cash Flow Statement. It is our understanding that this will be adjusted in the final version of the financial statements. This amendment does not impact on the Cash Flow Statement itself.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2015.

There is no impact on the General Fund as a result of audit adjustments.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

Movements on the General Fund 2014/15

£m	Pre-audit	Post-audit
Deficit on the provision of services	41	41
Adjustments between accounting basis & funding basis under Regulations	(31)	(31)
Transfers earmarked reserves	(8)	(8)
Decrease in General Fund	**2**	**2**

Balance Sheet as at 31 March 2015

£m	Pre-audit	Post-audit
Property, plant and equipment	1,185	1,185
Other long term assets	31	31
Current assets	141	141
Current liabilities	(134)	(134)
Long term liabilities	(1,629)	(1629)
Net worth	**405**	**405**
General Fund	27	27
Other usable reserves	171	171
Unusable reserves	(603)	(603)
Total reserves	**(405)**	**(405)**

Financial Statements (cont.)
Proposed opinion and audit differences (cont.)

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

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the by 30 September 2015.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007

Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used a higher materiality level of £35m million. Audit differences below £1.7m are not considered significant.

Subject to all outstanding queries being resolved to our satisfaction, and final quality review, we anticipate issuing an unqualified audit opinion following recommendation of the Statement of Accounts by the Audit Committee on 2 September 2015, for approval at the meeting of the full Council on 17 September.

We have set out the significant audit differences in Appendix 3 and it is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom*. We understand that the Fund will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Annual Report

We have reviewed the Authority's annual report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Pension Fund Annual Report

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

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

We anticipate issuing an unqualified opinion on the Pension Fund Annual Financial Report at the same time as our opinion on the Statement of Accounts.

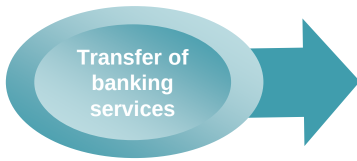
Financial Statements (cont.)
Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

In our *External Audit Plan 2014/15,* presented to you in April 2015, we identified the significant risks affecting the Authority and the Fund's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant audit risk	Issue	Findings
 **Audit areas affected** ■ Cash and Cash Equivalents	During the year, the Authority transferred the banking services from the Co-Operative Bank to Barclays. With a large number of accounts held for the main functions of the Authority, School bank accounts and the Pension Fund, there is risk relating to the transfer of balances and the recording of transactions post transfer.	We have reviewed the arrangements put in place for the transfer of the bank accounts and tested a sample of accounts to confirm they had closed by 31 March 2015. We have no concerns to report as a result of this testing.

Financial Statements (cont.)
Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

Significant audit risk	Issue	Findings
Accounting for Local Authority Maintained Schools **Audit areas affected** ■ Property Plant and equipment ■ CIES (Income /Expenditure)	LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet. Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. Authorities should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into their balance sheet.	As part of our audit we have reviewed the treatment for accounting for Local Authority maintained schools. We have: ■ Reviewed the Authority's application of LAAP Bulletin 101 and Appendix E of the Code to confirm the correct treatment of schools; ■ Had discussions with key members of the Authority's finance team to discuss the appropriate treatment and processes to achieve the treatment; ■ Reviewed the amendments made to the Fixed Asset Register and confirmed that they were in accordance with the guidance and processes agreed; ■ Carried out detailed testing on a sample of schools to ensure the changes made regarding these schools were materially correct; and ■ Ensure all valuations were in accordance with information from the valuer. There are no significant matters we wish to raise with you.

Financial Statements (cont.)
Significant risks and key areas of audit focus (cont.)

In this section we set out our assessment of the significant risks to the audit of the Pension Fund's financial statements for 2014/15.

For the key risk area we have outlined the impact on our audit plan.

Significant audit risk	Issue	Findings
LGPS reform **Audit areas affected** - Contributions - Benefits	From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.	We have reviewed the controls and processes that the Pension Fund have put in place to capture the data required by LGPS 2014. Our work focused on reviewing the testing performed by the Authority systems team on the LGPS implementation within the Axise system. LGPS 2014 was already incorporated into the Civica system, and the review of this testing was completed as part of our new system implementation work. There are no significant matters we wish to raise with you.

Financial Statements (cont.)
Significant risks and key areas of audit focus (cont.)

In this section we set out our assessment of the significant risks to the audit of the Pension Fund's financial statements for 2014/15.

For the key risk area we have outlined the impact on our audit plan.

Significant audit risk	Issue	Findings
Change in Pensions Database **Audit areas affected** ▪ Contributions ▪ Benefits	During the year, the Authority has implemented a new Pensions database, migrating all member records from the previous Axise system to Civica. During any major system change, there is an inherent risk arising from this implementation in the following areas: ▪ Migration of data ▪ System parameters ▪ Reporting ▪ Operation of controls Our understanding from discussions with officers is that these areas have been reviewed internally, with the aid of software consultants, to mitigate the risk in order to gain assurance that the new system is fully operational, and supports the disclosures and working papers for the financial statements.	As part of our audit we have reviewed the change of the Pension Fund administration system from Axise to Civica. As part of this work we have: ▪ We have reviewed the controls and processes put in place to accurately migrate the data to the new system; and ▪ We also reviewed the controls implemented over the calculations performed within the Civica system. We are satisfied that the change in pensions database has not had a material impact on the 2014/15 financial statements.

Financial Statements (cont.)
Significant risks and key areas of audit focus (cont.)

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk		Summary of findings
Management override of controls	Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition	Audit areas affected ■ None	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2014/15 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Financial Statements (cont.)
Accounts production and audit process

The Authority has a well established and strong accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

The Authority has yet to implement the recommendation in our *ISA 260 Report 2013/14*.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate
Completeness of draft accounts	We received a complete set of draft accounts on 25 June 2015. The Authority have made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* including our required working papers for the audit on 16 April 2015. The quality of working papers provided was high and fully met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved all audit queries in a timely manner.

Element	Commentary
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Additional findings in respect of the control environment for key systems

We have raised a recommendation in relation to the information provided to the Actuary. We identified during the course of our audit that a report detailing scheme membership was omitting data from the final output. Although this does not have a direct impact on the 14/15 Statement of Accounts, the Authority will need to provide this data for the next triennial valuation, this data will be used for valuation purposes.

Appendix 1 provides further details.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has yet to implement the recommendation in our *ISA 260 Report 2013/14*.

Appendix 2 provides further details.

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire Pension Fund for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire Pension Fund , its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260. This includes on pages 19-20 our review of an engagement for tax services. We have concluded that our objectivity has not been compromised, and we have set out the background and reasoning.

Management representations

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

Other matters

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

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

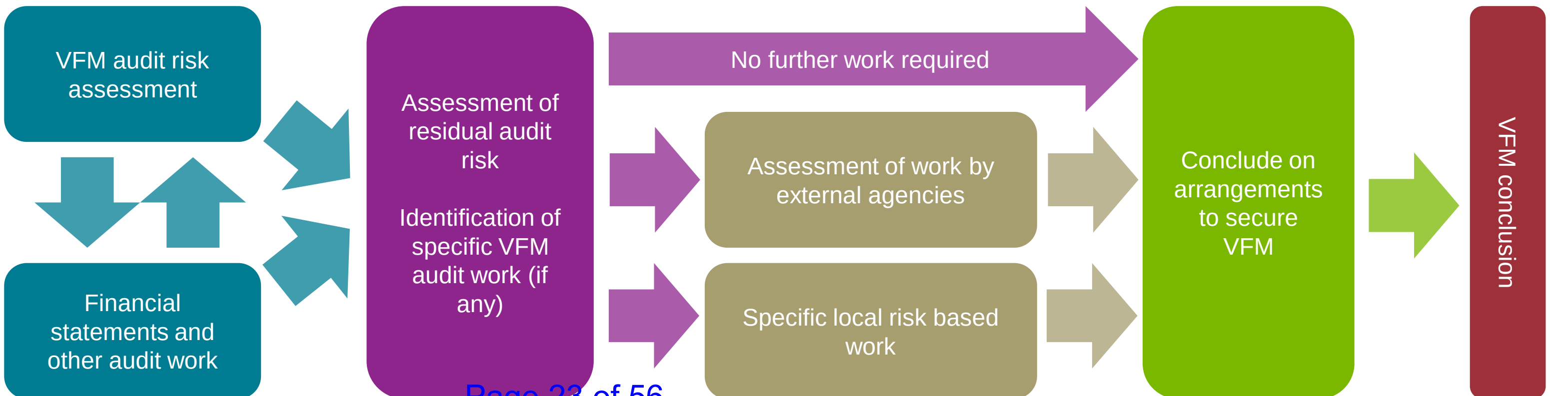
- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.



We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	❷	**Pensions system reporting** We identified that the reporting from the system highlighted differences between what was originally sent to the actuary in April 2015, and rerunning the report in August 2015. Management investigated this issue, and determined that there was a coding issue on the original report run in April 2015 which omitted certain data from the output. Although this does not impact on the 2014/15 Statement of Accounts, the Authority will need to provide detailed information for triennial valuation purposes in 2016/17, and therefore will need to ensure that information is complete and accurate upon providing this to the actuary. **Recommendation** The Authority should ensure that the reporting from the system is reviewed and rectified to address any coding issues which may be embedded within the reports. This will aid the reporting during for triennial valuation purposes when required.	

Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2013/14.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	0
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2015
1	3	**Quality assurance procedures – Prior year follow up** In 2013/14 we raised a recommendation relating to the reclaimed VAT cash balances for school accounts. We highlighted there were quality assurance procedures which could be strengthened, in particular: ■ school bank reconciliations included amounts relating to reclaimed VAT in the cash balance even though the reclaimed VAT was not actually received late into the following month. **Recommendation** Although the financial impact of this recommendation is unlikely to be material, it is recommended that the Authority implement these additional quality assurance procedures regarding school bank accounts for completeness.	**Responsible officer** Group Manager -Financial Management **Due date** April 2015	Our work on school bank account reconciliations identified £683k VAT has been incorrectly included within the reported balances. We confirmed with officers that the recommendation has not yet been implemented. They have confirmed that the closedown procedures for 2015/16 will incorporate the additional review of school accounts balances.

Appendix 3: Audit differences

This appendix set out the audit differences. There are no audit differences to report.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Material misstatements

We are pleased to report that there are no material misstatements to report.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (cont.)

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

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Disclosure of action concerning tax engagement

KPMG member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics. In addition, the UK firm and our professionals are also required to comply with the requirements of the APB Ethical Standards. We also adhere to the Public Sector Audit Appointment's (PSAA) specific requirements regarding non-audit services.

These professional standards require that where the firm has determined that a breach of an audit independence standard has occurred, we discuss this and the actions we have taken or propose to take with you as soon as possible, communicate with you in writing all matters discussed and obtain your concurrence that action can be, or has been, taken to satisfactorily address the issue. This section of the report summarises such an instance requiring action.

In June 2006 the Authority engaged KPMG to provide services to assist you with the calculation and subsequent claims filed against the UK's HM Revenue & Customs for the recovery of tax credits in respect of dividend income for the years 1992 to 1997 for which it is argued (using European Law arguments), should have been available to the Pension Fund. The Authority was one of approximately 100 UK pension schemes to file such claims. The case has been taken by the Law Firm Pinsent Mason and has been progressing through the UK tax courts for several years. The fee agreed for these services was a success fee of 2% of any amounts recovered from HMRC if the claim was ultimately successful, capped at £150,000. Subsequently, in November 2012, KPMG LLP was appointed as auditor of the 2012/13 year of account and subsequent financial years. No work has been carried out in relation to this tax engagement in the period since KPMG LLP was appointed auditor.

Prior to 2010, the APB Ethical Standards did not prohibit such contingent fee arrangements, however in 2010 the standards were changed and paragraph 95 of APB Ethical Standard Number 5 now provides that an audit firm cannot provide services on a wholly or partly contingent basis where the outcome of those services is dependent upon the proposed application of tax law which is uncertain or has not been established. As the tax law applying to the subject matter of this engagement was and remains uncertain, following KPMG LLP's appointment as auditor the fee basis should have been revised to remove the contingent element in order to comply with this requirement. Action was therefore required to ensure compliance with the ethical standards.

This position was identified as our firm undertook a special exercise to ensure that any grandfathered tax contingent fee arrangements that were entered into with audit clients prior to the change in rules in 2010 had been correctly dealt with before 31 December 2014 which was the end of the grandfathering period provided for in the standard.

Appendix 4: Declaration of independence and objectivity (cont.)

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

This position was identified as our firm undertook a special exercise to ensure that any grandfathered tax contingent fee arrangements that were entered into with audit clients prior to the change in rules in 2010 had been correctly dealt with before 31 December 2014 which was the end of the grandfathering period provided for in the standard.

We have considered this matter, and given the following factors we have determined this to be a less than significant breach of the APB Ethical Standards because:

- no amounts are recognised in the Council's or Pension Fund's accounts for the potential recovery of this tax;
- the amount of tax that is potentially recoverable £5m is, in any event, not material to the Council or Pension Fund;
- KPMG has not received any contingent fee income in respect of this engagement and has not performed any work in relation to this engagement since the date of appointment as auditor; and
- the potential contingent fee that KPMG could have received in respect of this engagement of £102k is not material to our firm.

Based on the above in our professional judgment we concluded that our objectivity has not been compromised and the firm and the engagement team are independent of the Council and the Pension Fund.

Auditor declaration

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire Pension Fund for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 5: Materiality and reporting of audit differences

For 2014/15 our materiality is £24 million for the Authority's accounts. For the Pension Fund it is £35 million.

We have reported all audit differences over £1.2 million for the Authority's accounts and £1.7 million for the Pension Fund, to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit following receipt of the 2014/15 accounts, which confirmed the actual gross expenditure incurred by the Authority.

Materiality for the Authority's accounts was set at £24m which equates to around 2% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £35 million which is approximately 1 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £1.7 million for 2014/15.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.2 m for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

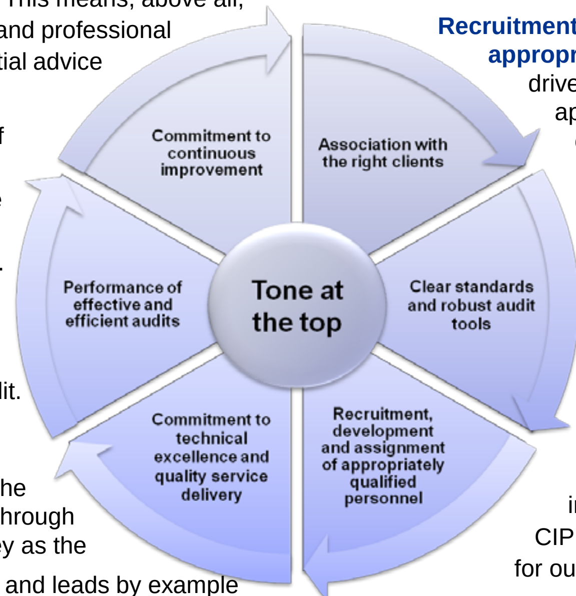
This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.



We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Tony Crawley as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 6: KPMG Audit Quality Framework (cont.)

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014/2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

KPMG

cutting through complexity™

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

Introduction

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

The Authority administers the pension fund for over 300 participating employers and over 110,000 members. The employers include the County Council, the City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

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

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

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

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

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

The accounts of the fund are set out over the following pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires:

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

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

FUND ACCOUNT

	Notes	2013/14 Restated £000	2014/15 £000
Contributions	4		
Employer contributions		(123,905)	(130,112)
Member contributions		(41,018)	(42,714)
		(164,923)	**(172,826)**
Transfers in from other pension funds		(6,638)	(6,124)
Benefits	5		
Pensions		132,832	137,495
Commutation of pensions and lump sum retirement benefits		23,115	25,991
Lump sum death benefits		3,793	3,324
		159,740	**166,810**
Payments to and on account of leavers		15,326	87,072
Administration expenses	6	1,291	1,764
Net (additions)/withdrawals from dealings with members		**4,796**	**76,696**
Oversight and governance expenses	7	**628**	**572**
Investment Income	9	(105,388)	(110,790)
Profits & losses on disposal of investments & changes in value		(141,271)	(316,474)
Taxes on income		644	703
Investment management expenses	8	3,892	3,838
Net Returns on Investments		**(242,123)**	**(422,723)**
Net (increase)/decrease in net assets available for benefits during the year		**(236,699)**	**(345,455)**
Opening net assets of the Fund		3,496,446	3,733,145
Net assets available to fund benefits		**3,733,145**	**4,078,600**

Payments to and on account of leavers in 2014/15 includes an amount of £76.0 million in respect of the transfer out of liabilities relating to the Nottinghamshire Probation Trust as part of the transfer of services to the National Probation Service. Excluding this bulk transfer, the net withdrawal from dealings with members was £0.7 million.

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

NET ASSETS STATEMENT FOR THE YEAR ENDED

	Notes	31 March 2014 £000	31 March 2015 £000
Investment Assets	10 & 14		
Fixed Interest Securities		360,883	412,853
Equities		1,818,478	1,983,371
Pooled Investment Vehicles		1,091,132	1,199,849
Property		288,140	321,700
Forward Foreign Exchange		191	-
Cash deposits		153,469	131,916
Other Investment Balances	12	21,670	21,568
Investment liabilities	12	(2,650)	(4,571)
		3,731,313	**4,066,686**
Current assets	13	10,033	14,198
Current liabilities	13	(8,201)	(2,284)
		1,832	**11,914**
Net assets of the fund available to pay benefits at the year end		**3,733,145**	**4,078,600**

The actuarial present value of promised retirement benefits, as required by the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15*, is shown at note 2c.

EXPLANATION OF PRIOR PERIOD ADJUSTMENTS

The management costs of the Fund have previously been split between administration expenses and investment management expenses. Following review by CIPFA, a range of costs have been identified that could be more accurately described as oversight and governance costs.

Management costs have been reported for 2014/15 in the three categories recommended by CIPFA and, as a consequence, the costs for 2013/14 have been reclassified. The impact on the Fund Account is shown in the table below. There is no impact on the Net Assets Statement arising from the reclassification.

Impact on the Fund Account:	Fund Account 2013/14 Original Statement £000	Adjustment Made £000	Fund Account 2013/14 As Restated £000
Administration Expenses	1,442	(151)	1,291
Oversight and governance expenses	-	628	628
Investment management expenses	4,369	(477)	3,892
	5,811	**-**	**5,811**

NOTES TO THE ACCOUNTS

1. Accounting Policies

(a) Basis of Preparation
The Pension Fund accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* (the Code). On issues where there is no clear guidance in the Code, reference has been made under the hierarchy of standards to *Financial Reports of Pension Schemes: a Statement of Recommended Practice 2007* (the Pensions SORP) or to individual International Acccounting Standards (IAS). Disclosures in the Pension Fund accounts have been limited to those required by the Code.

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

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

Specific details on the valuation methods for particular classess of assets are listed below:

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

Transaction costs arising on all investment purchases and sales are charged to the Fund Account within ‘Profits & losses on disposal of investments & changes in value’ by adding to purchase costs and netting against sale proceeds, as appropriate, for all investment types. This achieves consistency between asset classes and ensures all transaction costs are charged to the Fund Account. It also ensures that the financial statements faithfully represent the economic substance of the transactions. The economic substance of purchases and sales of all asset types is to generate returns for the Fund to help mitigate the cost to employers of providing pensions. Transactions costs are ancillary to this purpose.

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

Forward foreign exchange contracts are "over the counter contracts" under which two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. These are used to manage the economic exposure to bond markets and hedge against foreign currency movements. These contracts are included at fair value by determining the gain or loss that would arise from closing out the contract at the Net Assets Statement date by entering into an equal and opposite contract at that date. The movements on these contracts during the year are shown in the reconciliation of opening and closing balances of investments at note 10(b).

Cash deposits includes all fixed term deposits, amounts held in call accounts or money market funds and amounts held by the Fund's custodian. These are classed as investment assets in accordance with the Code.

(d) Investments Income
Income is accounted for on an accruals basis for the following:

- interest on cash deposits and fixed interest securities is accrued on a daily basis
- dividends from equities are accrued when the stock is quoted ex-dividend
- rents from property are accrued in accordance with the terms of the lease.

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

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

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

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

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

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

(k) Additional Voluntary Contributions
The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential and Scottish Widows as its AVC providers. AVCs are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

The AVCs are not included in the Fund's accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The value of the separately invested AVCs is disclosed at note 15.

2. Operation of the fund

(a) Contributions and Solvency

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

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

Employers are required to make such balancing contributions, determined by the Actuary, as will maintain

(b) Actuarial Valuations

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

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

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

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

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

(c) Actuarial Present Value of Promised Retirement Benefits

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

	31 March 2013		**31 March 2014**		**31 March 2015**	
	% pa	**Real % pa**	**% pa**	**Real % pa**	**% pa**	**Real % pa**
RPI Increases	3.4	-	3.6	-	3.3	-
CPI increases	2.6	(0.8)	2.8	(0.8)	2.5	(0.8)
Salary Increases	4.8	1.4	4.6	1.0	4.3	1.0
Pension Increases	2.6	(0.8)	2.8	(0.8)	2.5	(0.8)
Discount Rate	4.5	1.1	4.5	0.9	3.4	0.1

The net liability under IAS 19 is shown below.

	31 March 2013 £000	**31 March 2014 £000**	**31 March 2015 £000**
Present value of funded obligation	5,476,127	5,733,792	6,886,812
Fair value of scheme assets	3,477,023	3,708,200	4,050,198
Net Liability	**1,999,104**	**2,025,592**	**2,836,614**

The present value of funded obligation consists of £6,560.7 million in respect of vested obligation and £326.1 million in respect of non-vested obligation.

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

(d) Investment Strategy

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

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

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

(e) External Audit

A separate fee is payable to KPMG LLP for audit of the pension fund. The fee for 2014/15 is £33,226 (£29,926 for 2013/14). All fees have been included in the accounts for the period to which they relate. Rebates were also received from the Audit Commission as part of their efficiency savings in advance of closure. The rebate for 2014/15 was £7,171 (£3,120 for 2013/14).

3. Contributors and Pensioners

	Members at 31 March 2015				
	County Council	**City Council**	**District Councils**	**Other**	**Total**
Contributors	15,653	9,225	3,457	14,336	42,671
Deferred Beneficiaries	17,987	8,963	3,631	9,130	39,711
Pensioners	15,187	6,339	4,594	5,895	32,015
					114,397

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

4. Analysis of Contributions

	Employers		**Members**		**Total**	
	2013/14 £000	**2014/15 £000**	**2013/14 £000**	**2014/15 £000**	**2013/14 £000**	**2014/15 £000**
County Council	39,473	42,324	12,956	12,845	52,429	55,169
Scheduled Bodies	79,817	83,306	26,441	28,300	106,258	111,606
Admitted Bodies	4,615	4,482	1,621	1,569	6,236	6,051
	123,905	**130,112**	**41,018**	**42,714**	**164,923**	**172,826**

5. Analysis of Benefits

	2013/14 £000	2014/15 £000
Pensions	132,832	137,495
Commutation and lump sum	23,115	25,991
Lump sum death benefits	3,793	3,324
	159,740	**166,810**
Comprising of:		
County Council	65,160	68,831
Scheduled Bodies	89,657	92,802
Admitted Bodies	4,923	5,177
	159,740	**166,810**

6. Administration Expenses

	2013/14 Restated £000	2014/15 £000
Printing and stationery	36	11
Legal fees	-	39
Other external fees	212	541
Administering Authority Costs	1,043	1,173
	1,291	**1,764**

7. Oversight and Governance Expenses

	2013/14 Restated £000	2014/15 £000
Training and conferences	8	17
Printing and stationery	-	1
Subscriptions and membership fees	21	28
Actuarial fees	56	9
Audit fees	30	33
Audit Commission rebate	(3)	(7)
Other external fees	79	90
Administering Authority Costs	437	401
	628	**572**

8. Investment Management Expenses

	2013/14 Restated £000	2014/15 £000
Custody fees	299	326
Investment management fees	3,420	3,335
Other external fees	152	158
Administering Authority Costs	21	19
	3,892	**3,838**

9. Investment Income

Analysis by type of investment	2013/14 £000	2014/15 £000
Interest from fixed interest securities	(13,472)	(17,232)
Income from index-linked securities	(684)	-
Dividends from equities	(66,959)	(61,158)
Income from pooled investment vehicles	(5,401)	(12,876)
Income from property pooled vehicles	(3,055)	(3,557)
Net rents from property	(14,461)	(13,661)
Interest on cash deposits	(854)	(911)
Other	(502)	(1,395)
	(105,388)	**(110,790)**

	2013/14 £000	2014/15 £000
Directly held property		
Rental income	(17,001)	(15,723)
Less operating expenses	2,540	2,062
Net rents from property	**(14,461)**	**(13,661)**

10. Investments

(a) Investment Analysis	31 March 2014 £000	31 March 2015 £000
Fixed Interest Securities		
UK Public Sector	89,020	123,886
UK Other	233,576	272,302
Overseas Other	38,287	16,665
Equities		
UK	1,150,350	1,201,166
Overseas	665,788	779,595
Unlisted	2,340	2,610
Pooled Investment Vehicles		
Unit Trusts	400,043	472,802
Other Managed Funds	572,005	595,426
Pooled Vehicles Invested in Property		
Property Unit Trusts	32,743	39,545
Other Managed Funds	86,341	92,076
Property	288,140	321,700
Forward Foreign Exchange	191	-
Cash and Currency	153,469	131,916
Investment Liabilities	-	(210)
Total Investments	**3,712,293**	**4,049,479**

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

	31 March 2014 £000	31 March 2015 £000
Market Value	3,712,293	4,049,479
Original Value	2,688,995	2,771,543
Excess/(Deficit) of Market Value over Original Value	**1,023,298**	**1,277,936**

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

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

No investments have been made contrary to these limits.

(b) Reconciliation of Opening and Closing Values of Investments 2014/15

	Value at 1 April 2014 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2015 £000
Fixed Interest Securities	360,883	209,548	(192,162)	34,584	412,853
Equities	1,818,478	243,831	(227,821)	148,883	1,983,371
Pooled Investment Vehicles	972,048	227	(7,595)	103,548	1,068,228
Property Pooled Vehicles	119,084	20,369	(3,523)	(4,309)	131,621
Property	288,140	29,597	(30,760)	34,723	321,700
	3,558,633	**503,572**	**(461,861)**	**317,429**	**3,917,773**
Forward Foreign Exchange	191	113,640	(113,086)	(955)	(210)
	3,558,824	**617,212**	**(574,947)**	**316,474**	**3,917,563**
Cash deposits	153,469				131,916
	3,712,293				**4,049,479**

Reconciliation of Opening and Closing Values of Investments 2013/14

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

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

Transaction costs are included in the cost of purchases and sale proceeds. The costs charged directly to the fund, such as fees, commissions and stamp duty, amounted to £2.0 milion in 2014/15 (£1.9 million in 2013/14). In addition, indirect costs are incurred through the bid-offer spread on investments. This amount is not separately provided.

(c) Management Arrangements

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

	31 March 2014 £000		31 March 2015 £000	
In-house	1,557,437	42.1%	1,616,513	39.9%
Schroder Investment Management	1,011,414	27.2%	1,161,491	28.7%
Kames Capital	361,074	9.7%	417,018	10.3%
Aberdeen Property Investors	294,459	7.9%	329,340	8.1%
Specialist	487,909	13.1%	525,117	13.0%
Total	**3,712,293**	**100.0%**	**4,049,479**	**100.0%**

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

	31 March 2014 £000	31 March 2015 £000
In-house		
Legal & General	259,562	298,820
Specialist		
Kames Capital	102,543	118,769
RWC Capital	134,638	127,580
Standard Life	49,428	64,589

(d) Asset Allocation

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

	31 March 2014 £000		31 March 2015 £000	
UK Fixed Interest	322,597	8.7%	396,188	9.8%
Overseas Fixed Interest	38,287	1.0%	16,665	0.4%
UK Equities	1,287,335	34.7%	1,336,470	33.0%
Overseas Equities:				
US	488,001	13.2%	586,559	14.5%
Europe	397,607	10.7%	417,433	10.3%
Japan	117,074	3.2%	161,430	4.0%
Pacific Basin	134,542	3.6%	147,863	3.6%
Emerging Markets	169,878	4.6%	192,149	4.7%
Global	18,094	0.5%	21,394	0.5%
UK Property	327,785	8.8%	368,885	9.1%
Overseas Property	79,439	2.1%	84,436	2.1%
Private Equity	75,451	2.0%	72,441	1.8%
Multi-Asset	102,543	2.8%	115,860	2.9%
Forward Foreign Exchange	191	-	(210)	-
Cash	153,469	4.1%	131,916	3.3%
Total	**3,712,293**	**100.0%**	**4,049,479**	**100.0%**

(e) Property

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

	31 March 2014 £000	31 March 2015 £000
Freehold	288,140	321,700
Leasehold more than 50 years	-	-
	288,140	**321,700**
Original Value	285,068	273,485

(f) Analysis of Pooled Investment Vehicles

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

	31 March 2014 £000	31 March 2015 £000
UK Equities	158,665	158,248
Overseas Equities:		
US	192,984	226,251
Japan	72,746	67,597
Europe	71,166	91,980
Pacific Basin	134,542	147,863
Emerging Markets	148,198	169,204
Global	18,094	21,394
UK Property	39,645	47,185
Overseas Property	79,439	84,436
Private Equity	73,110	69,831
Multi-Asset	102,543	115,860
Total	**1,091,132**	**1,199,849**

(g) Private Equity Funds

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

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

These commitments are drawn by the funds over time as investments are made in underlying companies. The undrawn commitment as at 31 March 2015 was £75.7 million (£79.3 million at 31 March 2014). Of the fund above, the following was a new commitment made during 2014/15:

	Currency	**Commitment** millions
Aberdeen SVG Private Equity	USD	15

(h) Analysis of derivatives

Open Forward Foreign Exchange contracts at 31 March 2015

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to 3 months	GBP	1,065	EUR	(1,490)	-	(15)
Up to 3 months	GBP	13,621	USD	(20,500)	-	(195)
					-	**(210)**
		Total net forward foreign exchange contracts			**(210)**	

Open Forward Foreign Exchange contracts at 31 March 2014

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

11. Contingent Liabilities

The fund has 19 private equity funds which have undrawn commitments as at 31 March 2015 of £75.7 million (£79.3 million at 31 March 2014).

12. Other Investment Balances and Liabilities

	31 March 2014 £000	31 March 2015 £000
Other investment balances		
Outstanding investment transactions	1,376	1,364
Investment income	20,294	20,204
	21,670	**21,568**
Investment Liabilities		
Outstanding investment transactions	-	(1,728)
Investment income	(2,650)	(2,843)
	(2,650)	**(4,571)**

13. Current Assets and Liabilities

	31 March 2014 £000	31 March 2015 £000
Current assets		
Contributions due from employers	8,865	8,951
Other	1,168	5,247
	10,033	**14,198**
Current Liabilities		
Payments in advance	(720)	-
Sundry creditors	(838)	(794)
Other	(6,643)	(1,490)
	(8,201)	**(2,284)**

14. Financial Instruments

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

	31 March 2015			
	Designated at Fair Value through profit and loss £000	**Loans and Receivables £000**	**Financial liabilities at amortised cost £000**	**Totals £000**
Financial Assets				
Fixed Interest Securities	412,853	-	-	412,853
Equities	1,983,371	-	-	1,983,371
Pooled Investment Vehicles	1,068,228	-	-	1,068,228
Property Pooled Vehicles	131,621	-	-	131,621
Forward Foreign Exchange	-	-	-	-
Cash deposits	-	131,916	-	131,916
Other investment balances	-	21,568	-	21,568
Current Assets	-	14,198	-	14,198
	3,596,073	**167,682**	**-**	**3,763,755**
Financial Liabilities				
Investment Liabilities	-	-	(4,571)	(4,571)
Current Liabilities	-	-	(2,284)	(2,284)
	-	**-**	**(6,855)**	**(6,855)**
	3,596,073	**167,682**	**(6,855)**	**3,756,900**

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

No financial assets were reclassified during the accounting period.

(b) Valuation of financial instruments carried at fair value

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

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

As at 31 March 2015	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Fair value through profit and loss	3,389,401	131,621	75,051	3,596,073
Loans and receivables	167,682	-	-	167,682
Total	**3,557,083**	**131,621**	**75,051**	**3,763,755**
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(6,855)	-	-	(6,855)
Total	**(6,855)**	**-**	**-**	**(6,855)**
Net	**3,550,228**	**131,621**	**75,051**	**3,756,900**

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

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

The aims of the Fund are to:

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

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

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

The Risk Register identifies the highest risks as arising from:

- Fund assets are assessed as insufficient to meet long term liabilities
- Standing data and permanent records are not accurate
- Significant variations from assumptions used in the actuarial valuation

Actions have been agreed to mitigate these risks.

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

The most significant effect on the funding level arises from changes in the discount rate used by the actuaries. The sensitivity analysis below (prepared by the Fund's actuaries) shows the impact of a

Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present Value of Total Obligation (£000)	6,757,872	6,886,812	7,018,341

The Fund deficit at the last triennial valuation was £620 million. With no other change in assumptions, an increase in the discount rate of just under 0.5% would reduce the deficit to nil.

For the first time in 2013/14 there was a net withdrawal from dealings with members. This was the case again in 2014/15, although the net withdrawal would have been marginal but for the transfer out in respect of the Nottinghamshire Probation Trust. However, the Fund continues to receive significant investment income and it is therefore unlikely that assets will have to be realised in order to meet pension benefits. This allows the Fund to implement a long term investment strategy and minimise the impact of short term fluctuations in investment and currency markets. The strategy, and the assumptions that underpin it, are reviewed on a regular basis and cash flows are monitored closely to ensure there is sufficient liquidity to meet forecast cash flows.

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

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

15. Members Additional Voluntary Contributions

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

	31 March 2014 £000	31 March 2015 £000
Prudential	33,667	33,573
Scottish Widows	3,282	3,298
	36,949	**36,871**

16. Related Party Transactions

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

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

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

Disclosures are required for:

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

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

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

08 September 2015

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

LOCAL GOVERNMENT PENSION SCHEME POOLED INVESTMENTS

Purpose of the Report

1. To inform Members of the government announcement on pooling investments within the Local Government Pension Scheme (LGPS) and discussions on possible options to meet the government's requirements.

Information and Advice

2. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the attached exempt appendix.

3. In the budget announced on 7 July 2015, the Chancellor of the Exchequer announced that there would be a further consultation on proposals to deliver savings within the LGPS. The announcement was as follows:

    > The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool.

4. There is little clear detail at this stage but further information has been provided by the Scheme Advisory Board (SAB). Key points are:
    - Strategic asset allocation decisions will remain at the local fund level.
    - The sector has an opportunity to put forward proposals on the size, shape, number and make-up of the pooled vehicles to be utilised.
    - The default position will be for all funds and all assets to be caught by the requirement to invest via pooled vehicles and that the majority if not all listed assets to be invested on a passive basis.
    - There may be an opportunity to make a case for exemptions to this default position.

5. A meeting was convened by the Local Government Association (LGA) in London on 21 August 2015 to give additional details on the proposals and this was attended on behalf of the Fund by Simon Cunnington, Senior Accountant (Pensions & Treasury Management). Further meetings have also been held among LGPS administering authorities to discuss possible approaches to satisfy the government's requirements. Detail of these meetings is included in the attached exempt appendix.

6. Further reports will be brought to this Committee or to the Pensions Sub-Committee as more information is available and as the ideas around pooling investments evolve.

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

1) That the report be noted.

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

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments

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

Financial Comments (SRC 18/08/2015)

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

Background Papers and Published Documents

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

- 'None'

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

8 September 2015

Agenda Item: 6

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

REFERRAL FROM PENSIONS SUB-COMMITTEE – WORKING PARTY RECOMMENDATIONS

Purpose of the Report

1. To seek approval of the Pension Fund Committee to items referred from the Pensions Sub-Committee regarding the Fund's equity portfolios and their benchmarks.

Information and Advice

2. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the attached exempt appendix.

3. At its meeting on 16 July 2015, the Pensions Sub-Committee considered a report on whether the following are appropriate:
    - the returns generated by the Fund's equities
    - the management arrangements
    - the balance between passive and active investment
    - the individual portfolio benchmarks.

4. After discussion, the following recommendations were made:
    a. The Fund should continue to favour UK equities.
    b. The Fund's equity portfolios should move to fixed benchmarks with an agreed split between UK and overseas
    c. The overseas portion of the benchmarks will reflect the allocations within the Fund's strategic equity benchmark.
    d. Ranges should be agreed around the regional allocations to allow for market movements and active asset allocation decisions.
    e. Discussions should be held with external managers regarding the proposed new benchmark and possible changes to performance targets.
    f. A staged approach should be taken in moving to the new benchmarks and further reports brought to update the Sub-Committee as appropriate.
    g. As equity markets recover, cash should be realised from the In-House portfolio to fund previously approved investments in property.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

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

RECOMMENDATION/S

1) That the points set out at paragraph 4 are approved.

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

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments (SLB 18/08/15)

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

Financial Comments (SRC 18/08/15)

8. The financial implications to the Fund are set out in the exempt appendix.

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'