Nottinghamshire
County Council

# Nottinghamshire Pension Fund Committee

## Thursday, 07 March 2019 at 10:30

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

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# AGENDA

9 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

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

**Note**

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

EXEMPT INFORMATION ITEMS

10 Fund Valuation and Performance EXEMPT

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

11 Independent Adviser's Report EXEMPT

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

12 Managers' Reports

-

12a Aberdeen Standard Investments EXEMPT

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

12b Kames Capital EXEMPT

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

12c Schroeders Investment Management EXEMPT

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

12d Legal & General Investment Management (LGIM) EXEMPT

- 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 Peter Barker (Tel. 0115 977 4416) 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 PENSIONS FUND COMMITTEE |
| Date | Thursday 10 January 2019 at 10.30 am |

**membership**
Persons absent are marked with `A'

**COUNCILLORS**

Eric Kerry (Chairman)
Stephen Garner (Vice Chairman)

Reg Adair
Chris Barnfather
David Martin
Sheila Place
Mike Pringle
Francis Purdue-Horan
Parry Tsimbiridis

**Nottingham City Council**

A Councillor Graham Chapman
Councillor Anne Peach
A Councillor Sam Webster

**Nottinghamshire Local Authorities' Association**

Councillor Richard Jackson – Broxtowe Borough Council
A Kate Allsop – Executive Mayor Mansfield District Council

**Trades Unions**

Mr A Woodward
Mr C King

**Scheduled Bodies**

A Mrs Sue Reader

**Pensioners**

Vacancy
Mr T Needham

**Independent Adviser**

William Bourne

**Officers in Attendance**

| | |
|---|---|
| Pete Barker | (Chief Executive's Department) |
| Jon Clewes | (Chief Executive's Department) |
| Tamsin Rabbitts | (Chief Executive's Department) |
| Nigel Stevenson | (Chief Executive's Department) |
| Sarah Stevenson | (Chief Executive's Department) |

## 1. MINUTES

The minutes of the last meeting held on 15 November 2018, having been circulated to all Members, were taken as read and were confirmed and signed by the Chair of the meeting.

## 2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Executive Mayor Allsopp, Councillor Chapman, Councillor Webster and Mrs Reader.

Councillor Martin replaced Councillor Smith for this meeting only.

## 3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None.

## 4. WORKING PARTY

Mrs Rabbitts introduced the report and on a motion by the Chairman, duly seconded it was:

**RESOLVED 2019/001**

1. That the grouping of asset classes into broader 'outcome' groupings to make it easier to monitor the overall characteristics of the asset allocation, be approved.

2. That the revised long term asset allocation benchmarks be approved.

3. That the amendment of future quarterly reports to use the asset classes and sub-classes set out in paragraph 6 of the report be approved in order to provide more visibility of the Fund's exposure.

## 5. WORK PROGRAMME

Mrs Rabbitts introduced the report and informed Committee of two further reports.

On a motion by the Chairman, duly seconded it was:-

**RESOLVED 2019/002**

That the following reports be added to the Work Programme:



i) Conferences and Training (7$^{th}$ March 2019)

ii) Annual Review of Strategies (25th April 2019)

## 6. FUND VALUATION AND PERFORMANCE

Mrs Rabbitts introduced the report and on a motion by the chairman, duly seconded it was:

**RESOLVED: 2019/003**

That no further actions are required as a direct result of the contents of the report.

## 7. EXCLUSION OF THE PUBLIC

**RESOLVED: 2018/003**

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

And that Mr William Bourne, the Independent Adviser, be permitted to stay in the meeting during discussion of the exempt items.

## EXEMPT INFORMATION ITEMS

## 8. FUND VALUATION AND PERFORMANCE

Mrs Rabbitts introduced the report and on a motion by the chairman, duly seconded it was:

**RESOLVED 2019/004**

That no further actions are required as a direct result of the contents of the report.

## 9. REPORT OF THE INDEPENDENT ADVISER

Mr Bourne gave an update on issues that affect the pensions investments of Nottinghamshire. On a motion by the chairman, duly seconded it was:

**RESOLVED: 2019/005**

That no further actions are required as a direct result of the contents of the report.

## 10. FUND MANAGERS' REPORTS

On a motion by the chairman, duly seconded it was:

**RESOLVED: 2019/006**

That no further actions are required as a direct result of the contents of the fund managers’ reports received from Aberdeen Standard Investments, Kames Capital and Schroders Investment Management.

The meeting concluded at 12.41pm

**CHAIRMAN**

Nottinghamshire County Council

**Report to Pension Fund Committee**

**7 March 2019**

**Agenda Item: 4**

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

**LOCAL GOVERNMENT PENSION SCHEME – GUARANTEED MINIMUM PENSION RECONCILIATION EXERCISE WITH HMRC – UPDATE REPORT**

## Purpose of the Report

1. The purpose of the report is to update Pension Committee on the progress of the guaranteed minimum pension reconciliation exercise with HM Revenue and Customs (HMRC).

2. The report also explains the next steps of the project in order to complete the reconciliation along with the next stage of the project to undertake the communication and rectification stage of pensions records, and pensions in payment.

## Information

3. The reconciliation exercise is a national requirement initiated by HMRC which is impacting on all Public and Private Sector Pension Funds who were contracted out of additional state pension.

4. Up until April 2016 contributing members of the Local Government Pension Scheme (LGPS) paid lower rate National Insurance contributions as they were "contracted out" of the Additional State Pension which has previously been known as S2P, the state second pension or the State Earnings-Related Pension (SERPS). LGPS employers also paid reduced rate National Insurance contributions in respect of their employees who were in the LGPS. Contracting out ended from 6 April 2016 as part of the Government's introduction of a single-tier basic state pension.

5. Between 1978 and 1997 contracting out of the Additional State Pension was undertaken on a Guaranteed Minimum Pension (GMP) basis. This required contracted out pension schemes to offer pension benefits for the period of contracting out that were worth at least as much as the benefits the additional state pension would have provided. Contracted out pension schemes had to record the relevant contracted out earnings for that period and supply HMRC with details of these. HMRC retained a record of contracted out earnings and GMP entitlement for each individual and then advised pension schemes of GMP entitlements when the individuals reach state pension age.

6. There are complex regulations regarding annual inflationary increases to the GMP element of an individual's pension and the dates at which it becomes payable to the scheme member. The Government decided that with effect from 6 April 2016 contracting-out would be abolished, coinciding with the introduction of the new single tier pension, and as a result

HMRC are providing a one off service to enable schemes to reconcile the GMP figures they hold with those held by HMRC through a bulk process which ceased in December 2018. HMRC are continuing to provide a manual service for individual reconciliation queries.

7. It is important to reconcile the GMP element recorded on the pension fund administration system with that held on the HMRC system, to ensure that pensions coming into payment, together with those already in payment, are paid at the correct amount, and that the liabilities of the pension scheme, so far as GMP values are concerned, are represented accurately at each future valuation.

8. HMRC made data available to all pension schemes from February 2017 for reconciling GMP information for active members.

**The Reconciliation Process**

9. Following approval by Pension Committee on 8 March 2018 the Pension Fund has been engaged in national reconciliation exercise with support from Civica the Pension Fund software provider. The additional resources of a temporary project manager were also agreed to support the project team in the first and second phases of a complicated process of reconciling a total of 165,713 records within the fund.

10. The process has required the comparison of selected Pension Fund data with that held by HMRC. It has required the investigation of discrepancies between the two sets of data to come to an agreed record, reconciled with HMRC records.

11. In order to progress the project was split into a number of distinct phases, the discovery phase, the delivery phase, and the completion phase.

| | Stages of Activities | Activity Description | Project Status | Project Dates |
|---|---|---|---|---|
| Part 1 – identification and confirmation of liabilities with HMRC | **Discovery Phase**<br>Stage 1<br><br><br><br>Stage 2 | Initial comparison of fund data with HMRC file and an early indication of the potential size of the reconciliation issues<br>In Depth Analysis of results from Stage 1 | Complete | October 2017<br>-<br>January 2018 |
| | **Delivery Phase**<br>Stage 3<br>Stage 4<br><br>Stage 5<br>Stage 6<br><br>Stage 7 | Queries issued to HMRC<br>HMRC query returns analysed and distributed into specific categories<br>Individual investigation<br>In-depth analysis and bulk resolution<br>Further individual investigation | Complete | May 2018<br>-<br>November 2018 |
| | **Completion Phase**<br>Stage 8 | Case Conclusion-Receipt of final file from HMRC | Awaiting data file from HMRC, Estimated May | May 2019 |

| | | | | |
|---|---|---|---|---|
| | Stage 9 | Concluded cases uploaded into the pensions administration system | 2019 | |
| Part 2 | **Calculation Phase**<br>– Over payments<br>– Under payments | System and individual calculation to be undertaken using reconciled GMP liability amounts to determine overpayments and underpayments | | Estimated May 2019 – Nov 2019 |
| Part 3 | **Communication Phase** | A communication strategy will need to be developed to ensure that communication is clear to individual pensioners affected by the reconciliation exercise, and where a pension in payment needs to be adjusted, to enable them to understand the potential impact of any adjustment | | Estimated Nov 2019 – March 2020 |
| Part 4 | **Rectification and Communication** | Pensioner payroll records to be adjusted to reflect correct payments determined in the Calculation Phase, and communicated to members | | Estimated April 2020 - Onwards |

12. The discovery phase provided some headline figures and identified the potential size of the reconciliation issues. This early analysis produced high level results based on data within the Civica pension administration system and data provided by HMRC.

13. Following a more in-depth analysis of the data involving the analysis of the Pension Fund's data quality with the outputs being:

- Identification of false mismatches – reducing the number of queries to be raised with HMRC to save time and money
- Identification of discrepancies which should be queried with HMRC
- Identification of discrepancies where all necessary data is readily available to facilitate a query with HMRC.

14. The project has followed onto the delivery phase following the identification of the discrepancies, and has been broken down into five areas of work. The completion of the delivery phase will provide the pension fund with data reconciled with HMRC that will identify the funds liabilities.

15. The areas of work that have been undertaken by Civica on behalf of the Pension Fund following project management methodology are as follows:

- Pension Fund Data issued to HMRC
- HMRC returned data broken down into specific categories
- Individual investigations of certain data

- Undertook in-depth analysis and bulk resolution of some data
- Individual investigation of certain data types.

16. On conclusion of the above methodology a file was submitted to HMRC on 30 October 2018 and a number of individual cases were also submitted in line with the published HMRC deadlines.

17. The total number of records submitted to HMRC is 52,072. As part of this process 1738 individual investigations have taken place requiring in depth analysis of individual pension records.

18. The first set of matching data is due to be received back from HMRC and loaded onto the pension's administration system at the end of February. This may give the Fund an early indication of the amount of rectification work that will need to be undertaken, however it should be noted that this information is likely to change when the final HMRC file is received. HMRC have stated, as part of their project that they hope to issue a final file of reconciled fund data to the Pension Fund by May 2019. This file will identify all the pension fund's liabilities against individual pension fund members who require a GMP, this includes all active, deferred and Pensioner members.

**The Next Phases**

19. On receipt of the data file from HMRC the next phase of the project as identified in the table above (part 2) will be to undertake the calculation of pensions in payment including over and under payments. The methodology to achieve this will be to load the HMRC records on to the individual member records on the Pension Administration system, this will then allow the automatic bulk calculation against pension records. Early testing of this solution suggests that a number of manual calculations will need to be undertaken due to the complexity of the calculations, and the different types of pension records.

20. Once the calculations have been completed there will need to be a communication plan to communicate to individuals the recalculation of pensions, any overpayments and underpayments and how this will be managed by the fund, a separate report will be prepared for Pensions Committee outlining the implications of the calculations and making recommendations on how this might be managed. Any recommendations will be based on what has been implemented nationally across other funds. However it will be for the Pension Committee to determine the final course of action.

**Additional Work with HMRC**

21. A further aspect of the project has been added by HMRC, in that HMRC now wish to reconcile financial records relating to CEP payments. A CEP payment (contributions equivalent payment) is a payment to HMRC where a member of a scheme who had a refund of contributions on ceasing to be a member, requires the pension fund to make a payment that restores a member of an occupational pension scheme into the state second pension (S2P).

22. HMRC are expecting funds to review their records of payment, and if in deficit / or surplus then the appropriate adjustment will be made, either the Fund will be required to pay up any deficit, or HMRC will return overpaid funds. Therefore work is required on reconciling historic

financial data with HMRC records. HMRC have issued an initial notification of a deficit of up to £750,000, over a 30year + timescale. The administration team has challenged this initial figure by writing to HMRC seeking clarification, early indications are that HMRC have identified discrepancies in their data and will be adjusting their records accordingly. The Fund will continue to challenge HMRC, and the Fund is awaiting an updated reconciliations file in order to continue to check HMRC records against the Fund records.

**Review of Resources Requirements**

23. The work undertaken with Civica has enabled the Pension Fund to agree a position with HMRC relating to the Fund's GMP liabilities against the pension records of the fund. This has been achieved using a blended approach by using Pension Administration Resources in the form of a Temporary Project Manager, and supplementing pension administration resources with Civica resources. This phase of the project has been brought in within the budget at a cost of £310,000, along with the cost of the Project Manager at a salary cost of £35,228. These additional resources have enabled the pension administration team to continue with day to day activities.

24. The Project Manager has undertaken the day to day project coordination, project planning, reporting and has managed the Payroll Reconciliation Project which is still ongoing. The role is also undertaking the additional task of the scheme financial reconciliation activity which is an additional task included by HMRC.

25. Initially it was planned that the rectification phase would have started October 2018 following the data being completed and issued to the fund by HMRC. However HMRC, due to the amount of reconciliation work with other Pension Funds, have extended their time lines within their project plan. Therefore with the fund not expecting to receive its data file from HMRC until May there is a need to review the Administration Team's resources in order to complete the rectification phase. The work that will be required cannot be picked up by the current resources within the administration team given the work plan for the current year, which includes data improvement for the scheme valuation exercise, changes in regulations, other national initiatives, and the business as usual pension administration activity.

26. It is estimated that the Project will run for a further 18 months until September 2020 to enable the completion of rectifying pensioner records and pensions in payment, this will involve devising and implementing a communication plan, involving writing to affected members, assessing progress, dealing with calculation queries, and liaising with HMRC to deal with outstanding data queries. Other data improvement actions will need to be undertaken across the Funds member records. However should the work be completed earlier than estimated, the post will cease.

27. Whilst it is hoped that the Pension Administration system will calculate a high proportion of pension benefits, it is highly likely there will be a requirement for manual calculations, therefore additional support will be required to undertake the manual calculation work, and therefore the Fund seeks to commission Civica to undertake some of this work. However until we have the data from HMRC it is difficult to estimate what support is required along with the cost.

**Other Options Considered**

28. Information from other LGPS Pension Funds across the country is that a number have engaged external providers to manage the project in totality at significantly greater costs, some are relying on internal resources with larger internal project teams. The process and approach that the fund has followed has enabled the reconciliation of data to be completed in a much quicker time, and has kept the fund on schedule. It is only the change by HMRC in their time frame due to their ability to respond to funds that has caused the delay in the project.

**Reasons for Recommendations**

29. In order to complete the project it will be important to continue to engage the support of Civica to assist in the rectification process, in terms of supporting the process of calculating the benefits for members following changes to their GMP, which cannot be catered for in the bulk calculation resolution.

30. Given information from other funds in line with their projects, resources have been used to communicate, and in certain instances meet with members of the scheme who have been effected, mainly by significant overpayments to their pensions which will need to be handled with sensitivity.

31. In addition work still needs to be ongoing in reconciling payroll data with pension records.

32. In order to support the project it will be necessary to extend the temporary contract of the Project Manager.

33. The work also supports the requirements of the Pension Regulator to reconcile and ensure that pension records are accurate and up to date, as the Pension Regulator will be asking funds to report on the accuracy of the fund data later in the year as part of the Annual Scheme return. Also whilst this rectification process will not impact on the 2019 valuation it will have an impact in improving data for future valuations.

## Statutory and Policy Implications

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

**Data Protection and Information Governance**

35. The project, by its very nature, involves reconciliation, sharing and processing of personal and sensitive data. This is covered by existing arrangements and agreements with HMRC and Civica, the software provider. However, a data impact assessment has been completed for the project overall to reflect the aspects of the data sharing, and updating of data, along with ensuring the mitigation of risks arising from the project activity itself.

**Financial Implications**

36. The cost of the reconciliation stage was £309,833 and was completed to time and within the set budget of £310,000.

37. It is difficult to estimate the support costs for the rectification stage where the Fund will require support from Civica as we do not have the final file from HMRC which will enable the Fund to understand how much work will be required to be undertaken, and therefore it is proposed that once the information is available, a separate short report will be prepared for Pensions Committee to seek the appropriate additional budget for the rectification work.

38. The budget requirement for the cost of a Project Manager at Band B will be a maximum of £52,842 if the project continues until the end of September 2020. Should the work be completed earlier the contract end date will be reviewed based on work requirements.

39. Other costs will relate to the number of overpayments and underpayments identified following the calculation of benefits in payment it is not possible to provide this figure at this time.

40. Additionally there is now the possible financial implication to the scheme which may require a deficit payment to HMRC. A final figure is due to be issued by HMRC in May 2019, and work is ongoing to challenge the preliminary figure provided to the Fund.

41. The additional recommended resources costs for the next stage of the project will be charged to the Fund.

## RECOMMENDATIONS

It is recommended that the Committee:

1) Approve the continuation of the GMP Reconciliation Project and the allocation of the required resources as set out in the body of the report to complete the calculation, communication and rectification phases of the reconciled HMRC data file, to ensure the Fund is able to meet its statutory requirements.

2) Agree to receive an update report on the rectification stage once an assessment of the HMRC data has been completed.

**Marjorie Toward**
**Service Director – Customers, Governance and Employees**

**For any enquiries about this report please contact:**
Jonathan Clewes, Pension Manager on 0115 977 3434 or Jon.Clewes@nottscc.gov.uk

**Constitutional Comments (KK 20/02/2019)**

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

**Financial Comments (KP 20/02/2019)**

43. The financial implications are set out in the report.

**HR Comments (JP 20/02/2019])**

44. The requirements for additional internal staffing resources are set out in the report to Personnel Committee on 13 March 2019.

**Background Papers and Published Documents**

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

- None

**Electoral Division(s) and Member(s) Affected**

- All

Nottinghamshire County Council

**Report to Pension Fund Committee**

**7 March 2019**

**Agenda Item: 5**

**REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**

# MHCLG CONSULTATION

## Purpose of the Report

1. To approve the response to the Ministry of Housing, Communities & Local Government (MHCLG) consultation on pooling.

## Information

2. The MHCLG has issued statutory guidance on asset pooling in the Local Government Pension Scheme (LGPS) (Appendix A) for a private consultation. Officers have worked with LGPS Central partner funds and wider colleagues across the LGPS to coordinate our response, and plan to submit a response on behalf of Nottinghamshire Pension Fund.

3. The draft response is attached in Appendix B.

4. The consultation closes on 28th March.

## Statutory and Policy Implications

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

## RECOMMENDATION

1) That the submission of the attached response on behalf of Nottinghamshire Pension Fund be approved.

**Nigel Stevenson**
**Service Director – Finance, Infrastructure and Improvement**

**For any enquiries about this report please contact:**

Tamsin Rabbitts, Senior Accountant – Pensions and Treasury Management

**Constitutional Comments (SLB 25/02/2019)**

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

**Financial Comments (TMR 25/02/19)**

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.

# Local Government Pension Scheme

## Statutory guidance on asset pooling

# Contents

## Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

## 1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

## 2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

**'Pool'** the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
**'Pool member'** an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
**'Pool governance body'** the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
**'Pool company'** the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
**'Pool fund'** a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
**'Pool vehicle'** an investment vehicle (including pool funds) made available to pool members by a regulated pool company
**'Pooled asset'** an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
**'Retained asset'** an existing investment retained by a pool member during the transition period
**'Local asset'** a new investment by a pool member which is not a pooled asset

## 3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external
- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

*Regular review of services and procurement*
3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

*Regular review of active and passive management*
3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

## 4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

*Strategic and tactical asset allocation*

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

## 5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

*Temporary retention of existing assets*

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

*Regular review of retained assets*

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

## 6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

## 7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

*Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:*

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

*Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.*

*Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.*

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

## 8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

*For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.*

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

This matter is being dealt with by:
**Tamsin Rabbitts**
Reference: 041018LGPSC
**T** 0115 977 3427
**E** tamsin.rabbitts@nottscc.gov.uk
**W** nottinghamshire.gov.uk

Nottinghamshire County Council

Ministry of Housing, Communities & Local Government
Local Government Finance Reform and Pensions,
Local Government Finance 2/SE,
Fry Building, 2 Marsham Street,
London
SW1P 4DF

Dear Sirs, 21 March 2019

RE: Draft MHCLG guidance on LGPS asset pooling - informal consultation

Dear Sirs,

**Local Government Pension Scheme - Statutory guidance on asset pooling**

The Nottinghamshire County Council Pension Fund would like to thank the Government for recognising the achievement made to date by the eight asset pools across the LGPS. We agree that there is still much to do in terms of the delivery of the pooled vehicle investment offering by the pools and the transition of assets into the pool and therefore, we welcome the statutory guidance to assist us with that challenge, as well as the opportunity to comment on such.

As a Partner Fund of the LGPS Central Pool, we would ask the Government to recognise that, whilst asset pooling is intended to deliver wider benefits as well as cost savings across the LGPS more generally, there are some Partner Funds within the LGPS Central Pool where the cost savings will not be so apparent and transferring assets into pooled vehicles may lead to an increase in costs. We would suggest that the current guidance is extended further to address this risk and provide support and advice to those Partner Funds that may be affected in this way. We would further add that it is important to acknowledge that all decisions about making an investment in a pooled vehicle should continue to be made locally, on a value for money basis, to ensure that these decisions do not run contrary to the fiduciary duty of Elected Members on Pensions Committees, who have a responsibility to act in the best interests of their Pension Fund. It is vital that the guidance reflects this responsibility and provides clarity on requirements in these circumstances.

Our comments on the detail of the statutory guidance follow:

**2. Definitions**

The definitions are helpful in promoting the use of common terminology and we welcome the clear definition of ‘pool governance body’ and its role in setting the direction of the pool and holding the pool company to account (4.2).

We do feel that there is further clarity needed around the definition of ‘Retained asset’ and the reference to the transition period, which we infer to mean until 2020. We feel the transition period should be longer to give realistic opportunity to set up funds and transfer assets. Furthermore this is contra to the concept of the retention of existing assets (5.4, 5.5 and 5.6), including Life funds and direct property which are subject to review at least every three years. This is a reasonable approach for those assets which are not appropriate to transfer, but there is insufficient guidance to judge where this is considered reasonable to be the case.

Likewise, the definition of 'Local assets' and its reference to new investments as opposed to the concept of Local assets (as described in 6.2) which are local initiatives and permitted to be held outside the pool on a permanent basis. Clarification would be helpful.

**3. Structure and Scale**

3.1 The measurement of 'gross risk adjusted returns' versus what we might otherwise have invested in will be difficult to measure going forward. Strategic Asset Allocations will change going forwards anyway and it will not always be a case of comparing apples with apples. A consistent methodology for calculating risk adjusted returns would be welcomed.

It would be helpful to understand whether Pool members are expected to have full knowledge of all underlying investment manager costs in a Pooled fund / vehicle i.e. full disclosure or if it is acceptable for reporting at the Pooled fund / vehicle level. We feel the latter is sufficient and consistent with other reporting requirements.

It should be recognised that whilst pooling does permit diversification across some asset classes, there is also an element of compromise involved in the specification of pooled funds/ vehicles and pool members are not always going to be able to invest in line with their specific asset allocation requirements.

Also, risk may not always be diversified if the decision is to invest significant assets with one investment manager.

3.2 Confirmation that pool members must appoint a pool company to implement their investment strategies, and that pool companies must be regulated entities is welcomed. This creates a level playing field and a more reliable basis for inter-pool comparison.

The last sentence of 3.2 needs clarification. 'Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles' is contradictory to the previous sentence '…..pool companies to decide ….whether to use in-house or external management. If pool companies are deciding whether to use external or in-house management, how can pool members have the choice of investing internally or externally, unless they do so outside the pool (or invest via another pool)? Whilst there is a general acceptance that in-house management can be delivered more cheaply than external management, this should not be at the risk of 'affecting gross risk-adjusted returns' and therefore unless the internal team has a good performance track record, which is comparable to that of the external managers and one which stands up in an open procurement process, the decision to invest via in-house or via external managers must be retained by pool members and the pool company should offer both options through its pooled vehicles. There should be no automatic blending of both unless agreed by all pool members.

3.6 We are unsure as to why there is specific mention of active and passive management in this guidance as we feel the decision to invest in either should form part of a pool members decision making process in respect of Strategic Asset Allocation (4.2). The expectation of ongoing performance comparison may also prove difficult; some standard methodology for calculating risk adjusted returns has already been referred to.

**4. Governance**

4.2 Thank you for the emphasis that Strategic Asset Allocation remains the responsibility of pool members in recognition of an authority's specific liability profile and cash-flow needs.

4.4 Whilst we recognise the wider perspective and appreciate the need for a long-term view, one of the original four criteria for asset pooling was focussed on cost savings and value for money. Whilst the implementation costs of pooling can be recovered over a longer timescale, and this may also be true of transition costs in some cases, there needs to be ongoing savings for these costs to be recovered. Therefore, any sense of forcing funds to transfer assets into a pool at increased cost risks undermining the potential cost savings in the long-term.

4.5 & 4.6 Recognising that Local Pension Boards have a role to play in the oversight of the governance of the pool is helpful, as is the flexibility for each pool to decide for themselves whether or not observers drawn from the Local Pension Board are included on pool governance bodies.

4.8 This is somewhat contradictory to 4.2 and would benefit from clarification. Tactical Asset Allocation decisions are typically short-term deviations from a pool members Strategic Asset Allocation and it therefore follows that these decisions should reside with individual pool members.

4.9 We agree that including an explanation of how the balance between the range of pool vehicles and reduced costs is reached is an appropriate thing to include in the Investment Strategy Statement albeit we are not sure it has a place in the Funding Strategy Statement. However, at this point of delivery we are unable to comment fully on this as our priority is the creating of sub-funds and transferring pool members' assets into them so cost savings can be delivered. It may be more appropriate to defer this particular requirement to a later 'business as usual' version of the guidance in due course.

**5. Transition of assets to the pool**

5.1 Transition of listed assets '…..over a relatively short period' is somewhat vague albeit the fact it is not prescriptive is helpful. However, the guidance should be expanded to recognise that the lead time required to set up FCA regulated sub-funds and transition assets into them will not always be possible over a relatively short period.  The nature and objectives of the fund are relevant, not just whether the assets transitioning into them are listed.  Whilst time is a factor, it is more important that Pool companies are not pressured into employing excessive resources to speed up implementation in the short term, which may increase total costs above and beyond savings which could be delivered in the longer term. Instead Pools should have criteria for assessing the prioritisation of the creation of new Pool vehicles. In LGPS Central for instance we have a set of 8 agreed criteria to help us determine what makes one sub-fund more important than another; Cost savings and Pool member inclusion being 2 of those criteria.

5.2 / 5.3 We welcome the clarity and permissions around cost-sharing.

5.4 Whilst this is helpful, it might be useful to state that the government recognises that for some investments the time frame for retention may be significant e.g. for Illiquid asset classes such as Private Equity.

5.5 It is helpful to state that life funds, direct property, and some infrastructure investments may remain outside the Pool where the costs of transitioning could be significant.  However, this should be extended to recognise that it should also explicitly apply where the costs of managing any investments would be higher within a Pool fund or vehicle. This decision would form part of the Regular review of retained assets at least every three years (5.6) with the rationale for such a decision being clearly stated.  This one change would go a long way to meeting our concerns over potential conflicts between our fiduciary responsibilities and statements in the guidance requiring the transition of assets.

The ability to retain existing direct property assets outside the pool is also welcomed, given the potential costs of changing ownership (unless there is legislation to exempt funds from much of this). However, the government is asked to recognise that these assets will continue to need active investment management in order that the property portfolio remains fit for purpose in terms of delivering income, capital growth and investment returns. Pool members must have the ability to re-shape their retained direct property portfolios in line with the market. This mitigates the risk of sub-optimal portfolios that simply cost money and result in a drag on performance i.e. the need to continue to buy, sell and undertake capital expenditure for development. (This ties in with 6.4). In time Pool companies will provide appropriate Pool funds and vehicles for direct (and indirect property) which, in the first instance will be available for new/ additional Strategic Asset Allocations to property or for the unwinding of the costlier indirect vehicles. Again, these will need to be actively managed to avoid the same sub-optimal portfolio risks.

**6. Making investments outside the pool**

6.1 Whilst we are committed to being ambitious, we are realistic in our expectations that it will be extremely difficult for Pool companies to offer an adequate range of investment vehicles by 2020. Consideration should be given to extending this date rather than setting unachievable targets.

6.2 See previous comment in Definitions regards Local assets.

6.4 Pool companies clearly need to be encouraged to offer the investment products that pool members need to deliver their investment strategy. However, this may not always be possible, and it should be acknowledged that in some instances holding assets outside the pool and/or making new investments outside the pool will be the only alternative; particularly where the provisions of 6.2 and 6.3 cannot be utilised.

**7. Infrastructure Investment**

The adoption of the CIPFA definition of Infrastructure is welcomed as is the flexibility in respect of targets and methods of delivery.

**8. Reporting**

Given that the results of the CIPFA consultation are not yet available, albeit they may be effective from 1 April 2019, and given that the closing date for this consultation is not until 29 March 2019, we anticipate that additional review for the purposes of alignment may be necessary.

Whilst we acknowledge the drive for fairer comparison across LGPS funds and pools, a great deal of information is being asked for across this Reporting section and at this stage, it is difficult to know what may or may not be readily available or easily accessible. The potential for additional resource requirements to manage increased levels of reporting across pools and within Pool member funds should also be recognised.

8.2 See previous comments in Definitions in respect of 'retained assets' and 'local assets'. The reference to 'transition plans for local assets' would seem to be more appropriate for 'retained assets' i.e. 'an existing investment retained by a pool member during the transition period'. A 'local asset' (2.1) is 'a new investment by a pool member which is not a pooled asset' – which in accordance with 6.1 and 6.2 are likely to be held outside the pool on a more permanent basis.

8.5 It is implicit that there may not be a specific end date for some assets being held outside the pool (5.5) and a high-level transition plan may not be appropriate. In these instances, being able to provide the rationale and cost implication of comparable pool vehicles together with the next review date should suffice.

In conclusion, we would like to reiterate our thanks for this guidance and for the opportunity to comment. There are a few anomalies identified and a number of areas where greater clarity would assist and not lead to wider misinterpretation, but we accept that we are all still progressing through a period of learning and there may be a need for more regular 'business as usual' updates to this guidance as we continue our LGPS pooling journey.

Yours faithfully,

Nottinghamshire County Council Pension Fund

Nottinghamshire County Council

**Report to Nottinghamshire Pension Fund Committee**

**7 March 2019**

**Agenda Item: 6**

**REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**

**CONFERENCES AND TRAINING**

## Purpose of the Report

1. To seek approval for attendance at conferences and training in 2019/20.

## Information

2. The Fund is committed to ensuring those charged with decision-making and financial management have effective knowledge and skills and this is achieved through attendance at key conferences and the provision of specific training and information for Members.

3. From 2018/19 onwards assets are beginning to be transferred to LGPS Central, however this will take place on a phased basis over a number of years. After transition asset allocation decisions will remain with the fund so it will be essential that Committee Members continue to receive appropriate up to date information on investment opportunities to enable them to hold LGPS Central to account and to ensure the funds allocation decisions represent the best option for the fund.

4. It is proposed to continue to attend key pension conferences and to ensure training is available. The LGA's LGPS Fundamentals course is well regarded by those who have attended and it is proposed to continue to offer this course to new members of the Committees or those wishing to refresh existing knowledge. In addition to the specific events listed below briefings will be arranged following any changes in legislation which impacts on the work of the Committee. Approval is sought for attendance at the following conferences and training in 2019/20.

| Conference | Location | Date | Attendance |
|---|---|---|---|
| PLSA Local Authority Conference | Cotswolds | May 2019 | 2 Members<br>1 Officer |
| LAPFF Annual Conference | Bournemouth | Dec 2019 | 2 Members<br>1 Officer |
| LAPFF Business Meetings | London | Quarterly | 2 Members<br>1 Officer |
| Property Training/visits | Various | October 2019 | Available to all members of Pension Committee |

| Conference | Location | Date | Attendance |
|---|---|---|---|
| LGA LGPS Fundamentals Course | Various | October to December | New Members and Members requiring refresher training |
| LGPS Governance Conference (previously called the Trustees conference) | Tbc (Bristol in 2019) | Tbc - Jan 20 | 2 Members<br>1 Officer |
| *LAPF Strategic Investment Forum* | *Herts* | *2-4 July 19* | *2 Members*<br>*1 Officer* |
| *The conferences in italics is suggested to replace the LGC Investment Summit we have previously attended.* | | | |

5. In addition to the above, the Committee has historically held one of the quarterly investment meetings each year at the offices of our 3 main Fund Managers on a rotating basis. This covers the funds main equity, bond and property holdings. This allows for more in depth discussions on the relevant portfolio and incorporates some training provided by the Fund Manager. It is planned that these annual focussed meetings will continue as previously, extended to reflect our internally managed Specialist Portfolio and our passive equity investments but will be adapted as required to reflect requirements as investments transfer to the Pool.

6. Officers attend training courses where these are required to ensure they are properly skilled and qualified to fulfil their responsibilities.

**Other Options Considered**

7. Members and Officers could attend other conferences in addition to or instead of those suggested. The conferences suggested have proved useful and interesting in previous years or have been recommended. The proposed changes follow a value for money review. Not attending any such events was not considered due to the importance of ensuring that those charged with decision-making and financial management have effective knowledge and skills.

**Reason/s for Recommendation/s**

8. 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 ensure that those charged with decision-making and financial management have effective knowledge and skills.

## Statutory and Policy Implications

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

## RECOMMENDATION/S

1) That attendance at conferences and training as set out in the report be approved.

**Nigel Stevenson**
**Service Director – Finance, Infrastructure and Improvement**

**For any enquiries about this report please contact:**
Tamsin Rabbitts, Senior Accountant – Pensions and Treasury Management

**Constitutional Comments (SLB 30/01/2019)**

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

**Financial Comments (TMR 30/01/2019)**

11. Costs associated with attending conferences and other training events are a legitimate charge to the Fund in accordance with governing regulations.

**Background Papers and Published Documents**

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

None

Nottinghamshire County Council

**Report to Pension Fund Committee**

**7 March 2019**

**Agenda Item: 7**

**REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES**

**WORK PROGRAMME**

## Purpose of the Report

1. To consider the Committee's work programme for 2019.

## Information

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

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

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

### Other Options Considered

5. None.

### Reason/s for Recommendation/s

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

## Statutory and Policy Implications

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

## RECOMMENDATION/S

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

**Marjorie Toward**
**Customers, Governance and Employees**

**For any enquiries about this report please contact: Pete Barker, x74416**

**Constitutional Comments (HD)**

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

**Financial Comments (NS)**

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

**Background Papers**

None.

**Electoral Division(s) and Member(s) Affected**

All

**PENSION FUND COMMITTEE – WORK PROGRAMME**

| **Report Title** | **Brief summary of agenda item** | **Report Author** |
|---|---|---|
| **25 April 2019** | | |
| LGPS Central Ltd | Update Report | Tamsin Rabbitts |
| Annual Review of Strategies | | Tamsin Rabbitts |
| Proxy Voting | Summary of voting activity during quarters 3 & 4 of 2018 | Ciaran Guilfoyle |
| LAPFF Business Meeting | Report from LAPFF Business Meeting | Ciaran Guilfoyle |
| LAPFF Conference | Report from the LAPFF conference | Tamsin Rabbitts |
| Transforming Delivery | | Jon Clewes |
| *LGPS Scheme Advisory Board Update* | *6 monthly report updating members on the work of the SAB if anything of note* | *Jon Clewes/Ciaran Guilfoyle* |
| Admission Body Status Update | Details of organisation who satisfy the criteria to be admitted to the LGPS (as required) | Andy Durrant |
| **6 June 2019** | | |
| Fund Valuation & Performance – Qtr 4 | Summary of quarterly performance | Tamsin Rabbitts |
| Fund Valuation & Performance | Details review of quarterly performance (exempt) | Tamsin Rabbitts |
| Independent Adviser's Report | Independent Adviser's review of performance and managers reports (exempt) | William Bourne |
| Managers Reports | Quarterly reports from Kames, Schroders and ASI (exempt) | Relevant fund managers |
| Pension Administration Annual Performance & Strategy Review | Report detailing the Administering Authority and Scheme Employers performance against the Admin Strategy including any data breaches | Jon Clewes |

| | | |
|---|---|---|
| **18 July 2019** | | |
| Proxy Voting | Summary of voting activity during quarter 1 of 2016 | Ciaran Guilfoyle |
| LAPFF Business Meeting | Report from LAPFF Business Meeting | Ciaran Guilfoyle |
| *Update on LGPS Asset Pooling* | *(If required)* | *Keith Palframan* |
| PLSA conference | Report from PLSA conference | Nigel Stevenson |

Nottinghamshire County Council

**Report to Pension Fund Committee**

**7 March 2019**

**Agenda Item: 8**

# REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

# FUND VALUATION AND PERFORMANCE

## Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 31 December 2018.

## Information

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

3. The table below shows a summary of the total value of the investment assets of the Fund as at 31 December 2018, in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The majority of the changes are due to the drop in equity markets in the last quarter. The benchmark was reviewed and changed at the last committee meeting (after the end of this period). This is a long term target and it will take some years to achieve it

| | **Latest Quarter** | | **Long term** | **Previous Quarter** | | **Previous Year** | |
|---|---|---|---|---|---|---|---|
| | **31 Dec 2018** | | **Benchmark** | **30 Sept 2018** | | **31 Dec 2017** | |
| | £m | % | | £m | % | £m | % |
| Equities | | | | | | | |
| Quoted | 2,943 | 57.5% | 56% | 3,427 | 62.3% | 3,239 | 64.3% |
| Private | 385 | 7.5% | 12% | 329 | 6.0% | 242 | 4.8% |
| Property | 796 | 15.5% | 15% | 760 | 13.8% | 609 | 12.1% |
| Bonds | | | | | | | |
| Gilts | 147 | 2.9% | 2% | 135 | 2.5% | 116 | 2.3% |
| Other Bonds | 696 | 13.6% | 13% | 722 | 13.1% | 744 | 14.8% |
| Cash | 154 | 3.0% | 2% | 126 | 2.3% | 88 | 1.7% |
| | **5,120** | **100%** | **100%** | **5,498** | **100%** | **5,037** | **100%** |

4. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £252.2m or 4.9% of the fund. Infrastructure commitments amount to 6.1% of the fund. There is a long term target for investments in infrastructure to be 8% of the fund.

5. The Fund investments have decreased by £377.9 million (6.9%) since the previous quarter. Fund investments have decreased by £191.2 million (3.6%) over the last 12 months. The table below shows the first half year Fund Account for 2018/19 along with the full year figures for 2017/18.

| **Summary Fund Account** | **Q3 2018/19 £000** | **Full Year 2017/18 £000** |
|---|---|---|
| Employer contributions | (96,697) | (193,459) |
| Member contributions | (31,613) | (45,176) |
| Transfers in from other pension funds | (8,398) | (9,813) |
| Pensions | 121,364 | 153,122 |
| Commutation of pensions and lump sums | 26,191 | 27,700 |
| Lump sum death benefits | 2,993 | 4,741 |
| Payments to and on account of leavers | 9,550 | 16,713 |
| **Net (additions)/withdrawals from dealings with members** | **23,390** | **(46,172)** |
| **Administration Expenses** | **275** | **1,953** |
| **Oversight & governance expenses** | **1,195** | **488** |
| Investment Income | (71,229) | (149,816) |
| Profits & losses on disposals & changes in value | 94,502 | (51,189) |
| Taxes on income | 841 | 620 |
| Investment management expenses | 2,810 | 4,895 |
| **Net Returns on Investments** | **26,924** | **(195,490)** |
| | | |
| **Net (increase)/decrease in net assets** | **51,784** | **(239,221)** |

6. The significant drop in the equity markets in the last quarter has more than offset previous in year gains, decreasing the overall fund value during the year. Rebalancing during the quarter has slightly mitigated the poor performance as value was realised from equities and reinvested in alternatives and property.

## Statutory and Policy Implications

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

## RECOMMENDATION

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

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**Constitutional Comments**

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

**Financial Comments (TMR 13/2/2019)**

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