

# **Nottinghamshire Pension Fund Committee**

**Tuesday, 14 March 2017 at 14:00**

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

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## **AGENDA**

- |   |  |         |
|---|--|---------|
| 1 | Minutes of the last meeting held on 6 December 2016  | 3 - 4   |
| 2 | Apologies for Absence  |         |
| 3 | Declarations of Interests by Members and Officers:- (see note below)<br>(a) Disclosable Pecuniary Interests<br>(b) Private Interests (pecuniary and non-pecuniary) |         |
| 4 | Pension Administration Strategy.docx   | 5 - 28  |
| 5 | Investment Strategy Statement  | 29 - 40 |
| 6 | Conferences and Training   | 41 - 44 |
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### **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 David Forster (Tel. 0115 977 3552) 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>



Meeting **NOTTINGHAMSHIRE PENSION FUND COMMITTEE**

Date **Tuesday, 6 December 2016 (commencing at 10.30 am)**

**membership**

Persons absent are marked with 'A'

**COUNCILLORS**

Reg Adair (Chair)  
Mike Pringle (Vice-Chairman)

	Chris Barnfather	Ken Rigby
A	Ian Campbell	Parry Tsimbirdis
	Mrs Kay Cutts	John Wilkinson
A	Sheila Place	

**OFFICERS IN ATTENDANCE**

Simon Cunnington	(Resources)
Dave Forster	(Resources)
Keith Palframan	(Resources)
Jon Clewes	(Resources)

**MINUTES**

The Minutes of the last meeting of the Committee held on 20 September 2016 having been previously circulated, were confirmed and signed by the Chair.

**APOLOGY FOR ABSENCE**

Apologies for absence were received from

Councillor Ian Campbell  
Sheila Place

**DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS**

None

**LOCAL GOVERNMENT PENSIONS SCHEME CENTRAL GOVERNANCE  
ARRANGEMENTS**

**RESOLVED 2016/010**

That the recommendations be presented to Full Council to approval:-

1. That a joint agreement be enter into with Cheshire West and Chester Council, Derbyshire County Council, Leicestershire County Council, Shropshire Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool and to establish a Joint Committee under s102 of the Local Government Act 1972.
2. That the Council become a joint shareholder of LGPS Central Ltd, incorporated for investment management purposes and regulated under the Financial Services and Markets Act 2000.
3. That the Chairman of the Nottinghamshire Pension Fund Committee, or his nominated representative be appointed to act as the Council's representative on the Joint Committee and Shareholders Forum and to exercise the Council's voting rights as a shareholder of LGPS Central Ltd.
4. That the Service Director (Finance, Procurement & Improvement) be appointed to represent the Council on a Practitioners Advisory Forum.
5. That the Service Director (Finance, Procurement & Improvement),be authorised after consultation with the Chairman and Vice-Chairman of the Pension Fund Committee, to enter into all necessary legal agreements to establish a joint asset pool and investment management company as outlined in this report.

The meeting closed at 10 27 am.

**CHAIRMAN**

**14 March 2017****Agenda Item:4****REPORT OF THE SERVICE DIRECTOR – CUSTOMERS AND HR****LOCAL GOVERNMENT PENSION SCHEME – PENSION ADMINISTRATION  
STRATEGY****Purpose of the Report**

1. The purpose of this report is to seek agreement from the Pensions Committee for the implementation of the Pension Administration Strategy following the consultation with scheme employers, and the update report provided to the Pensions Sub Committee on 2 February 2017.

**Information and Advice****Background**

2. Over the past 9 months the Nottinghamshire Pension Office have been developing an Administration Strategy for the Nottinghamshire Local Government Pension Fund in order to support the work of the pensions administering authority with scheme employers. The implementation of an Administration Strategy has regulatory backing in the form of the Local Government Pension Scheme Regulations (Administration) 2008. This provides the conditions and regulatory guidance surrounding the production and implementation of an Administration Strategy.
3. The regulations allow Nottinghamshire County Council as the LGPS administering authority to prepare an Administration Strategy which contains the following:
  - Procedures for liaison and communication with all scheme employers.
  - The establishment of levels of performance which the administering authority and scheme employers are expected to achieve in carrying out their functions under the LGPS by:-
    - I. The setting of performance targets;
    - II. The making of agreements about levels of performance and associated matters;or
    - III. Such other means as the administering authority consider appropriate.
  - Procedures which aim to secure that the administering authority and scheme employers comply with the statutory requirements in respect of those functions and with agreement about levels of performance.

- Procedures for improving the way the administering authority and the scheme employers work together to ensure that the administration of the pension scheme meets its statutory requirements.
  - Where in certain circumstances following the administering authority discussing with the scheme employer concerns relating to unsatisfactory performance in carrying out its functions, the administering authority may consider giving written notice of a possible fine to that employer.
4. The regulations also require that, where a Pension Administration Strategy is produced, a copy is issued to each of the scheme employers as well as to the Secretary of State.
  5. As part of the implementation process each scheme employer has been consulted on the strategy.

### **Administration Strategy**

6. The main aims of the strategy are to ensure that the administering authority and scheme employers work together for the benefit of members; to ensure statutory compliance and efficiency in the administration of the scheme.
7. Whilst administration processes and requirements for scheme employers have been in place for some time, the development of the strategy provides the administering authority with the ability to enforce compliance with scheme employers to meet their statutory requirements.
8. In the past compliance has been ensured by the Nottinghamshire Pensions Administration Team through chasing and persuading employers, which is very time consuming. With the increase in the number of scheme employers, in the main due to the number of schools converting to academy status, and the development of local government companies it is becoming more difficult for the pensions administration team to ensure compliance without a more formal structure. All LGPS administering authorities are experiencing issues of compliance and have, or are developing similar strategy documents.
9. The Administration Strategy outlines the responsibilities and procedures to be followed by employers and the administration team as the delivery of the administration service is not the responsibility of just the administering authority, but is dependent on joint working with scheme employers.
10. Timeliness and accuracy are an important element of delivering a high quality service to scheme employers, and scheme members. Legislation dictates minimum standards that pension schemes should meet. The strategy outlines these standards and seeks to work with employers to ensure that these are met.
11. One of the aspects of the strategy identifies circumstances where the administering authority may levy costs associated with scheme employer's poor performance. Regulation 43 of the Local Government Pension Scheme (Administration) Regulations 2007 provides that an administering authority may recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that employing authority. However it is the intention of

the administering authority to work with scheme employers to ensure that statutory information is received on time. The strategy provides for the administration authority to recover additional costs where these are incurred due to employer poor performance.

12. The pension administration team are currently developing and implementing processes, and strategies including software developments that will support scheme employers in enabling them to meet their statutory requirements.
13. The circumstances where such additional cost that might be recovered from scheme employers are:
  - Persistent failure to provide relevant information to the administration team, scheme member or other interested party in accordance with specified performance targets that are identified in the strategy document (either as a result of timeliness of delivery or quality of information);
  - Failure to pass relevant information to the scheme member or potential members due to not meeting agreed timescales outlined in the performance targets;
  - Failure to deduct and pay over correct employee and employer contributions to the Nottinghamshire Pension Fund within stated timescales;
  - Instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body.

## Consultation

14. The Administration Strategy was circulated to all 295 employers within the scheme on 29<sup>th</sup> November 2016 for consultation responses to be received by 6<sup>th</sup> January 2017.
15. Following the closure of the consultation on 6 January 2017, 11 employers responded with comments and these have been considered against the strategy document. A report regarding the consultation was presented to Pensions Sub Committee on 2 February 2017 feeding back on some of the main points raised. In summary they were:
  - All responses have welcomed the Administration Strategy.
  - The time frame for actions within the strategy has been raised in a number of responses especially regarding the calculation of redundancy and pension estimates for scheme employers.
  - The training of scheme employers has been raised by a number of respondents, and as part of the implementation of the strategy an employer's training day took place on 9 February 2017. This is the first of a programme of activities.
  - A comment was received on the complicated nature of the pension's forms. It should be noted that all forms comply with the LGPS regulations. A number of these forms will be superseded by the implementation of an employer's pension system portal. In the interim forms are being reviewed.
  - The requirement for employer briefings, and business partnership roles/ account managers to support scheme employers. This is a resource issue for the administering authority and we are looking at different ways of providing information, e.g. webinars, via the recently updated and relaunched Nottinghamshire Pension Fund website.

- There have been a number of comments on how the fines will be calculated and levied against employers. Clearly the administering authority will be working to support employers to mitigate any issues of non-compliance.

**16.** As part of the consultation a copy of the Administration Strategy has been circulated to the Pension Board and will be presented at the next meeting in April 2017, date to be confirmed.

## **Statutory and Policy Implications**

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

## **RECOMMENDATION**

It is recommended that Members agree the Administration Strategy attached as Appendix A for implementation from April 2017 .

**MARJORIE TOWARD**  
**SERVICE DIRECTOR – CUSTOMERS AND HR**

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

Jonathan Clewes, Pensions Manager on 0115 9773434 or [Jon.Clewes@nottsc.gov.uk](mailto:Jon.Clewes@nottsc.gov.uk)

### **Constitutional Comments (KK 15/02/17)**

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

### **Financial Comments (KP 02/03/17)**

There are no financial implications arising from the contents of the report.

### **Background Papers**

Copy of generic consultation response document

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

All



# Nottinghamshire Local Government Pension Fund

## Joint Administration Strategy and Service Level Agreement

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## **1.0 Introduction**

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

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

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

1. Nottinghamshire County Council in its role of administering authority and scheme employer,
2. All other Scheme Employers within the Nottinghamshire Local Government Pension Fund.

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

1 April 2015 was a key milestone in setting out the governance arrangements of the Local Government Pension scheme (LGPS). From that date the Pensions Regulator (tPR) took responsibility for setting the standards of administration and governance requirements on all administrative aspects of the Pension Scheme. In addition the Nottinghamshire Local Pension Board has now been established to provide an independent scrutiny role which will assist the Nottinghamshire Local Government Pension Fund to achieve regulatory compliance, effective and efficient administration and governance of the pension fund.

## **2.0 Background**

The LGPS represents a significant benefit to Scheme Members. Much of the success in promoting the scheme members and ensuring a high quality service depends upon the relationship between the administering authority and scheme employers in the day to day administration of the scheme. The administering authority also reminds or alerts employers to the value of the LGPS, thereby helping with recruitment, retention and motivation of employees.

The fund comprises of over 295 Scheme Employers with active members, and approximately 125,553 (at October 2016) scheme members in relation to the Local Government Pension Scheme (LGPS). The efficient delivery of the benefits of the LGPS is dependent on sound administrative procedures being in place between the administering authority and Scheme Employers.

## **3.0 Strategic Aims**

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

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

#### **4.0 Regulatory Framework**

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

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

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

In addition, Regulation 59(6) of the administration regulations also requires that where a Pension Administration Strategy is produced, a copy is issued to each of the

relevant employing authorities as well as to the Secretary of State. Similarly, when the Strategy is revised at any future time the administering authority (following a material change to any policies contained within the strategy) must notify all of its relevant employing authorities and also the Secretary of State.

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

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

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

## **5.0 Nottinghamshire Local Pension Board**

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

## **6.0 Key Objectives**

The key objectives of this Strategy are to ensure that:

- The Nottinghamshire Local Government Pension Fund and Scheme employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in the Pensions Administration Service Level Agreement attached to this document);
- The Nottinghamshire Local Government Pension Fund operates in accordance with LGPS Regulations and is aligned with the Pensions Regulator's requirements by demonstrating compliance and scheme governance;
- Communication processes are in place to enable both the Fund and Scheme Employers to proactively and responsively engage with each other through the new website and the Employer Support and Compliance Team ;
- Accurate records are maintained for the purpose of calculating pensions entitlements and Scheme Employer liabilities, ensuring all information and

data is communicated accurately, on a timely basis and in a secure and compliant manner;

- The Fund and Scheme Employers have appropriate skills and that training is in place to deliver a quality service and advise Scheme Employers on the changing pensions agenda;
- Standards are set and monitored for the delivery of specified activities in accordance with LGPS Regulations standards as set out in the Pension Administration Service Level Agreement attached to this document.

## **7.0 Establishing Levels of performance.**

### Performance standards

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

## **8.0 Quality**

### Legislation

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

- Pension Act 1995 and associated disclosure legislation;
- Freedom of information Act 2000;
- Age Discrimination Act 2006;
- Data Protection Act 1998;
- Equality Act 2010;
- Finance Act 2004;and
- Health and Safety legislation.

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

## **9.0 Administration Standards**

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

- Compliance with all requirements set out in the information provided on the LGPS Website;

- Work is to be completed in the required format, using the appropriate forms contained on the LGPS Website.
- Information to be legible, accurate and in the required format;
- Communications to be easy to read and understand;
- Information provided to be checked for accuracy;
- Information to be authorised by an agreed signatory in line with the Scheme Employers Audit requirements;
- Actions are carried out, or information is provided, within the timescales set out in this strategy and Service Level Agreement document.

## **10.0 Performance Standards**

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

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

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

## **11.0 Procedures for Compliance**

Compliance is the responsibility of the administering authority and Scheme Employers. The Nottinghamshire Local Government Pension Fund, Employer Support and Compliance Team will work closely with all Scheme Employers to ensure compliance with all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy. The Pensions Administration Team will also work with employers to ensure that overall quality and timeliness is continually improved. Various methods will be employed, in order to ensure such compliance and service improvement, these will include:

- Audit
- Performance Monitoring

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

## **12.0 Liaison and Communication**

### **12.1 Authorised contact for Employers**

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

- A strategic contact for valuation, scheme consultation and, discretionary statements
- An internal Disputes Resolution Procedure lead officer for stage 1.
- An administration contact for day to day administration of the Nottinghamshire Pension Fund, undertaking the completing of forms and responding to day to day queries.
- A Year End Activities lead officer.
- A Finance contact for completion and submission of the monthly postings and co-ordination of exception reports.

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

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

### **12.2 Liaison and Communication with Employers**

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

- A contact point for regulatory advice, guidance and administration queries.
- A Employer Support and Compliance Team for advice and guidance with monthly returns process.
- A Helpline for members at certain points in the year e.g. helpline for ABS queries
- An E-mail address (generic).
- Pension fund access 8:00 to 5:00 Monday to Thursday and 4:30 Friday (face to face, telephone and e-mail for both – scheme members and employers).
- Website availability with employers and members area.
- Employer and Member information and forms available on the website.
- Annual year end briefing for year-end activities.
- Pension Fund Annual General Meeting.

## **13.0 Improving Employer Performance**

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



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

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

#### **14.0 Circumstances where the Administering Authority may Levy Costs Associated with the Employing Authorities Poor Performance.**

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

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

#### **15.0 Circumstances Where Costs Might Be Recovered.**

Any additional costs to the Nottinghamshire Local Government Pension Fund in the administration of the LGPS that are incurred as a direct result of poor performance will be recovered from the Scheme Employer. The circumstances where such additional costs will be recovered from the Scheme Employer;

- Persistent failure to provide relevant information to the administering authority, scheme member or other interested party in accordance with specified performance targets (either as a result of timeliness of delivery or quality of information);
- Failure to pass relevant information to the scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets;

- Failure to deduct and pay over correct employee and employer contributions to the Nottinghamshire Local Government Pension fund within stated timescales;
- Instances where the performance of the Scheme Employer results in fines being levied against the administering authority by the Pension Regulator, Pensions Ombudsman or other regulatory body.

## **16.0 Calculation of Costs Incurred**

For a persistent failure to resolve an isolated case satisfactorily the Fund will recharge costs from the point in time at which a formal letter is issued to the Scheme Employer until the case is resolved, (at a rate yet to be agreed) for each hour an officer spends trying to resolve the matter.

For persistent and ongoing failure to meet targets, following the intervention to assist the employer concerned, the Fund will recharge the additional costs due to the employer's poor performance (at the rate yet to be agreed), based on a total amount per officer hour spent on the activity. This would be based from the point in time that the formal letter is sent, until performance improves.

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

## **17.0 Disputes**

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

## **18.0 Consultation**

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

## **19.0 Review Process**

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

## **Service Level Agreement**

### **Administering Authority Duties and Responsibilities**

**Nottinghamshire Local Government Pension Fund Administration Team will ensure the following functions are carried out:**

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

### **Discretionary powers**

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

### **Internal Disputes Resolution Procedure (IDRP)**

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

### **Fund Performance Levels**

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

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

<b>Fund Administration Task</b>	<b>Timescale</b>
Make available formal Valuation results (including individual employer details)	10 working days from receipt of final certified results from fund actuary.
Carry out interim valuation exercise on cessation of admission agreements or scheme employer ceasing participation in the fund	Referral to the fund actuary within 1 month from receipt of all required data from the scheme employer.
Arrange for the setting up of separate admission agreement, where required (including the allocation of assets and notification to the secretary of state)	Within 3 months of agreement to set up such funds.
All new admitted bodies to be required to undertake a risk assessment and to put in place a bond or alternative security to protect other scheme employers participating in the pension fund	To be completed before the body can be admitted to the Fund.
All admitted bodies to undertake a review of the level of bond or indemnity required to protect the other scheme employers participating in the pension fund.	Annually, or such other period as may be agreed with the administering authority.

<b>Scheme Administration Task</b>	<b>Timeline</b>
New Starters – make all administration decisions in relation to a new scheme member	Within 2 month from receipt of all necessary information.
General Enquiries - Provide a response.	10 days from receipt of all necessary information.
Provide Transfer in quote to scheme member	2 month from receipt of all the necessary information
Confirm receipt of transfer in payment and update pension record.	1 month from receipt of all necessary information. Scheme member responsibility to chase the transfer.
Arrange for the transfer of scheme member additional voluntary contributions into in-house arrangement	2 month from receipt of all necessary information.
Provide requested estimates of benefits to employees/ employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency.	Two 2 months from receipt of all necessary information. Subject to the demands of the service, prioritisation and statutory requirement to provide information'

Notify leavers of deferred benefit entitlements	Within 2 months of receipt of all necessary information.
Details of transfers out quotation	Within 2 month of receipt of all necessary information
Payment of Transfers out	1 Month from receipt of all necessary information
Notify retiring employees of options following request from member (as per retirement pack)	1 month of receipt of all necessary information.
Payment of retirement Lump Sum and Pension	Lump Sum paid within 30 days of retirement subject to receipt of necessary information. Pension to be paid in the next available pay run. Into the nominated bank account.
Death notifications – issue initial information, requesting certificates	Within 10 working days following notification of death.
Notification of survivor benefits	10 working days following receipt of all necessary information
Undertake Life Certificates checks with the DWP Operate the Tell us Once Service	Periodic.

## **Scheme Employer Duties and Responsibilities**

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

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

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

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

### **Discretionary powers**

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

### **Member contribution bands**

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member. The employer must also inform the member of the band

that they have been allocated on joining the scheme and when they have been reallocated to a different band.

## **Payments & Charges**

### **Payments by employing authorities**

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

### **Paying contributions**

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

### **AVC deductions**

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

### **Payment Method**

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

### **Early retirement and augmentation costs**

Employers are required to pay the full early retirement costs within 1 month of request.

### **Interest on late payment**

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

### **Employer contributions**

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

### **Actuarial Valuation**

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



## Administration Charge

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

## Employer activities

Communication Requirements – task	Timescale
Provide and publish policies in relation to all areas where the employing authority may exercise discretion within the scheme. A copy of the policy to be provided to the administering authority	Within 30 working days of policy being formally agreed by the employer. To be reviewed annually.
Provide details of employer and employee contributions	17 of the month following deduction
Respond to enquiries from administering authority	Within 10 working days
Provide year end information for the purposes of annual benefit statements, annual allowance, and lifetime allowance calculations	By 30 April following the year end in the required format. (following the implementation of the employer portal information may be provided through the portal by April 2017)
Provide year end information in a valuation year.	By 30 April following the year end
Distribute information provided by the Admin Authority to scheme members/potential scheme members which is provided either direct from Pensions Office or where notified through the website.	Within 20 days of receipt or notification
Provide new scheme members with scheme information and new joiner forms	At appointment of employee or change in contractual conditions.
Inform the Pension Fund of all cases where prospective new employer or admitted body may join the fund.	Notify the Pension Fund at least 3 months before the date of transfer.
Payment of additional fund payments in relation to early payment of benefits.	Within 30 working days of receipt of invoice from the pension fund/ within timescales specified in each case.



<b>Employer Responsibilities-Task</b>	<b>Timescale</b>
New starters must be notified to the Pensions Office.	10 working days of the scheme member joining.
Arrange for the correct deduction of employee contributions from scheme members pensionable pay on becoming a scheme member.	Immediately upon commencing scheme membership either through auto enrolment opting in or change in circumstances.
Reassessment of employee contribution rate in line with employer's policy	Immediately following change of circumstances.
Ensure correct deduction of pension contributions during any period of child related leave, trade union dispute or other forms of leave of absence from duty.	Immediately, following receipt of election from scheme member to make the necessary pension contributions.
Commence/amend/cease deductions of additional pension contributions	Commence/ amend in month following election to pay contributions or notification received from administering authority, cease immediately following receipt of election from scheme member.
Employers are responsible for assessing and reassessing the contribution band that is allocated to an employee	The employer must inform the employee of the band have been allocated on joining the scheme and when they have been reallocated to a different band
Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s)	Commence deduction of AVCs upon receipt of notification of provider. Pay over contributions to the AVC provider(s) by the 17th of the month following the month of election.
Refund any employee contributions when employees opts out of the pension scheme before 3 months	Month following month of opt out.
Cease deduction of employee contributions where a scheme member opts to leave the scheme.	Month following month of election, or such later date specified by the scheme member.
Send a completed end of year contribution return to enable the production of annual benefit statements, annual allowance and lifetime allowance calculations	By 30 April each year.  (this process will change pending the implementation of an electronic employers portal)
Provide the administering authority with all material (personal and contract) changes in employee's details.	Within 10 days of the change.
Provide scheme leavers/retiree details to administering authority	Within 10 days of leaving.
Provide member estimate details.	At the point of request from the member.
To have access to an independent medical practitioner qualified in	Within one month of commencing participation in the scheme, and having

Occupational health medicine, in order to consider all ill health retirement applications as an employer	arrangements in place on an ongoing basis.
Appoint a nominated person for stage 1 of the pension dispute process and provide full details to the administering authority	Within 10 working days following the resignation of the current/ new employer to the fund “appointed person”.

### **Measuring performance**

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

### **Unsatisfactory performance**

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





**14 March 2017****Agenda Item:5****REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &  
IMPROVEMENT****INVESTMENT STRATEGY STATEMENT****Purpose of the Report**

1. To seek approval to the Fund's Investment Strategy Statement.

**Information and Advice**

1. For many years Local Government Pension Funds have been required to maintain a Statement of Investment Principles (SIPs). In broad terms this document laid out the things that were considered by the Fund when making investment decisions and included such things as the types of investment that could be held, how the various risks were taken into account and what the Fund's objectives were.
2. New Local Government Pension Scheme (LGPS) Investment Regulations became effective on 1<sup>st</sup> November 2016. These Regulations removed the restrictions on investments that were formerly in place for the LGPS and, in effect, allowed individual Funds complete discretion about where and how to invest. The Regulations also introduced a requirement for administering authorities to formulate, publish and maintain an Investment Strategy Statement (ISS) and this needs to be approved by 1<sup>st</sup> April 2017. The ISS is simply a more detailed version of the SIPs, with the SIPs being no longer necessary.
3. The Investment Strategy Statement must include:
  - a) A requirement to invest money in a wide variety of investments;
  - b) The authority's assessment of the suitability of particular investments and types of investments;
  - c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
  - d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
  - e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
  - f) The authority's policy on the exercise of rights (including voting rights) attaching to investments

4. The draft ISS was considered by the Working Party on 18<sup>th</sup> January 2017 and has been reviewed by the Funds' Independent Advisor. Any amendments have been included in the final ISS.
5. The proposed Investment Strategy Statement is attached as Appendix A.

## **Statutory and Policy Implications**

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

## **RECOMMENDATION**

- 1) That the Investment Strategy Statement be approved.

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

**For any enquiries about this report please contact:**  
Keith Palframan, Group Manager – Financial Strategy & Compliance

## **Constitutional Comments (      )**

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

## **Financial Comments (KRP 27/02/17)**

There are no direct financial implications arising from the report.

## **Background Papers**

None

## **INVESTMENT STRATEGY STATEMENT**

### **Introduction**

1. The County Council is an administering authority of the Local Government Pension Scheme (the “Scheme”) as specified by the Local Government Pension Scheme Regulations 2013 (the LGPS Regulations). It is required by Regulation 53 of the LGPS Regulations to maintain a pension fund for the Scheme.
2. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Investment Regulations”) govern the management of the pension fund and the investment of fund money. According to Regulation 7 of the Investment Regulations an administering authority must formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. It must publish a statement of its investment strategy and must review and if necessary revise its investment strategy at least every 3 years.
3. The investment strategy statement must include:
  - a) a requirement to invest fund money in a wide variety of investments
  - b) the authority’s assessment of the suitability of particular investments and types of investments
  - c) the authority’s approach to risk, including the ways in which risks are to be assessed and managed
  - d) the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services
  - e) the authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
  - f) the authority’s policy on the exercise of the rights (including voting rights) attaching to investments.

### **Purpose and Principles**

4. The purpose of the Fund is to:
  - Pay pensions, lump sums and other benefits provided under the LGPS Regulations
  - Meet the costs associated in administering the Fund
  - Receive contributions, transfer values and investment income
  - Invest any Fund money not needed immediately to make payments.
5. The following principles underpin the Fund’s investment activity:
  - The Fund will aim to be sufficient to meet all its obligations on a continuing basis
  - The Fund will be invested in a diversified range of assets

- Proper advice on diversification and the suitability of types of investment will be obtained and considered
- The Fund will aim to conduct its business and to use its influence in a long term responsible way.

## **Key Parties**

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

### **The Administering Authority**

7. The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council's constitution, the functions of the Council as administering authority are delegated to the Nottinghamshire Pension Fund Committee supported by two Sub-Committees. The full governance arrangements of the Fund are detailed in the Fund's Governance Compliance Statement.
8. The members of the Committees are not trustees (as the LGPS is a statutory scheme) but do have fiduciary duties towards the scheme members and employers.

### **Committee Members**

9. The Committee Members recognise their full responsibility for the oversight of the Fund, and operate to a Code of Conduct. They shall:
  - Determine the overall asset allocation and investment strategy of the Fund
  - Determine the type of investment management to be used and, until LGPS Central is operational, appoint and dismiss fund managers
  - Receive regular reports on performance from the main fund managers and question them regularly on their performance
  - Receive independent reports on the performance of fund managers on a regular basis
  - Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.

### **Chief Finance Officer**

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



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

### **Independent Adviser**

13. The Fund has an Independent Adviser who attends meetings of the Pensions Investment Sub-Committee, Pensions Sub-Committee and Pensions Working Party as required. This is considered best practice in accordance with the requirements for “proper advice” in the governing regulations.

14. The independent adviser is engaged to provide advice on:

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

### **LGPS Central**

15. LGPS Central is the asset pool in which the Nottinghamshire Fund is participating in order to meet the government’s criteria for investment reform issued in November 2015. The County Council jointly owns LGPS Central Ltd, the operating company which is intended to achieve FCA regulation and manage collective investment vehicles on behalf of the participating funds.

### **Asset Allocation**

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

17. Employers’ contributions are determined as part of the triennial actuarial valuation of the Fund. The actuarial valuation involves a projection of future cash flows to and from the Fund and its main purpose is to determine the level of employers’ contributions that should ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. This is the main funding objective as set out in the Funding Strategy Statement.

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

payments in future provided that the future investment return was equal to at least the discount rate used.

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

<b>Asset Class</b>	<b>Expected Return (pa)</b>
Equities	7.4%
Gilts	2.4%
Other Bonds	3.3%
Property	5.9%
Cash	1.8%
<b>Discount Rate</b>	<b>5.4%</b>
<b>Fund Target Return</b>	<b>6.0%</b>

20. At the latest valuation, the Fund was assessed to have a deficit of £621m and a funding level of 87%. Deficit recovery contributions have been certified for the majority of employers but any returns in excess of the discount rate will help to recover the Fund to a fully funded position. The Fund will therefore target an annual return rate of 6%.

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

<b>Asset Class</b>	<b>Allocation Ranges</b>	<b>Strategic Benchmark</b>	
Equities	55% to 75%	FTSE All Share World	65.0%
Property	5% to 25%	IPD annual	15.0%
Bonds	10% to 25%	FTSE UK All Stock	17.5%
Cash	0% to 10%	LIBID 7 Day	2.5%
<b>Liability Based Benchmark</b>		FTSE UK Gilts (5 Yrs)	100.0%

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

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

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

## **Investment Strategy**

### **Requirement to invest fund money in a wide variety of investments**

25. The Fund will be invested in a diversified range of assets. The fund will be diversified across multiple asset classes with different risk return expectations and correlations to deliver the targeted return of the Fund. The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. These asset classes are only examples of the types of investments that may be held, and are not intended to be an exhaustive list.

### **Assessment of the suitability of particular investments and types of investments**

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

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

27. The risk tolerance of the Fund is agreed with the Pensions committee, the investment team and independent advisor through the setting the investment beliefs, funding and investment objectives. The Fund will only take sufficient risk in order to meet the target return set out in paragraph 19 of 6%.
28. The fund is exposed to Investment, operational, governance and funding risks. These risks are identified, measured, monitored and then managed. This is carried out using risk registers with section responsibility and over sight from the Head of Governance/CRO.

### **Approach to pooling investments**

29. The Fund is entering the LGPS Central pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to more uncorrelated asset classes. Becoming an FCA registered investment manager will lead to improved governance, transparency and reporting giving the Pension Fund assurance that it's investments are being carried out effectively.
30. It is expected that virtually all of the Fund's assets will be transferred to the Pool on 1st April 2018, although it will take some time for the Pool to restructure the assets into appropriate sub-funds within the Pool. These sub-funds are likely to be set-up over a period of 2 – 3 years, with the timing being dependent on market conditions and operational circumstances, and

until such time as the appropriate sub-fund is set up the assets transferred into the Pool will be overseen by LGPS Central on behalf of the Fund.

31. The detailed business case for LGPS Central demonstrates how the proposal will meet the four key assessment criteria laid down by the government:
  - Asset pool(s) that achieve the benefits of scale (>£25billion)
  - Strong governance and decision making
  - Reduced costs and value for money
  - Improved capacity and capability to invest in infrastructure
32. The business case outlined the proposed governance, oversight and management structure of the pool and this has been reviewed by Eversheds, the legal advisers appointed by the pool.
33. The structure will allow participating funds to exercise control (both individually, and collectively) over the new arrangements, not only as investors in the pooled funds, but also as shareholders of the operator company, LGPS Central Ltd.
34. Whilst assets will be managed on a pooled basis, each fund will be able to exercise their investor rights independently, although benefits of scale will be most effectively harnessed where parties work together in a co-ordinated way to align their decision making. An important example of this is responsible investment and voting policies where cross-voting between funds within the same pool would be both costly to administer and counter-productive.
35. The Shareholders Forum, governed by a Shareholders Agreement and operating under company law, will have formal decision making powers. Nottinghamshire County Council will have equal voting rights alongside the other participating funds, and unanimous decisions will be required on key strategic matters. These will be specified in the Shareholders Agreement and Articles of Association and will include the appointment and dismissal of the company's senior executives, approval of the company's strategic plan and any significant financial transactions, such as major acquisitions, lending or borrowing.
36. The degree of control to be exercised by the Shareholders through their reserve powers will be greater than is generally the case, in order to satisfy the Teckal exemption criteria and allow the company to undertake services on behalf of the investor funds without a formal procurement process.
37. The Joint Committee, established by an Inter-Authority Agreement, will be the forum for dealing with common investor issues, and for collective monitoring of the performance of the pool against the agreed objectives of LGPS Central. It will however, have no formal decision making powers and recommendations will require the approval of individual authorities, in accordance with their local constitutional arrangements.
38. The government has made clear their expectation that pooled entities should be regulated by the Financial Conduct Authority (FCA) to ensure appropriate safeguards over the management of client monies. As such, LGPS Central Ltd will be subject to on-going oversight by the FCA and key management positions, including the company directors, will need to be 'approved persons', able to demonstrate appropriate knowledge, expertise and track record in investment management. These positions also carry significant personal liability for their actions and decisions.

39. The detailed business case has been reviewed by a joint DCLG/HMT Review Panel, and Ministerial consent to proceed has been received.
40. Comprehensive programme governance arrangements are in place to ensure that the statutory deadline for the implementation of pooling is achieved and that costs and savings are managed in accordance with the agreed business case. The s151 officers of each of the participating funds sit on the LGPS Central Programme Board and regular joint meetings are held between the Chairs and Vice-Chairs of the respective Pension Fund Committees to ensure effective member oversight of progress and delivery. The Nottinghamshire Pension Fund Committee, the Pensions Sub-Committee and the Local Pensions Board are also being updated regularly on key developments and decisions.
41. Expert advisers have been appointed to provide support on legal matters, FCA registration, taxation and overall programme management.

### **Policy on social, environmental and corporate governance considerations**

42. Social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
43. It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to ESG in two key areas:
- a. Sustainable investment / Environmental and social factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
  - b. Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.
44. In combination these two matters are often referred to as 'Responsible Investment', or 'RI' and this is the preferred terminology of the fund. The Committee takes RI matters seriously and will not appoint any manager unless they can show evidence that RI considerations are an integral part of their investment decision-making processes. Following appointment managers are required to report any changes in their approach to RI to Officers.

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

45. The policy of the Fund will be to treat the equity allocation as a block aimed at maximising the financial returns to the funds (and thus minimising employers' contributions) consistent with an acceptable level of risk. The block of Bonds, Property and Cash is aimed at lowering overall risk (at the cost of anticipated lower return).
46. The Trustees have agreed an allocation to private equity and infrastructure. This will be effected principally through fund of funds arrangements to increase diversification and reduce risk. The allocation is based on *committed* amounts and, owing to the nature of these funds, the actual net investment level will be significantly lower. New investments will be made over time to target a commitment level of 10% of the Fund (within an allocation range up to 15% to allow for movements in market value).

47. Investments, such as private equity and infrastructure, that fall outside the high level asset classes will be included within the most appropriate class for reporting purposes and assessed against the relevant part of the strategic benchmark.
48. Cash will be managed and invested on the Fund's behalf by the County Council in line with its treasury management policy. The policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield. If losses occur, however, the Fund will bear its share of those losses.
49. Pension fund cash is separately identified each day and specific investment decisions will be made on any surplus cash identified, based on the estimated cash flow requirements of the Fund. As the majority of cash is allocated to individual investment managers and may be called by them for investment at short notice, it is expected that the majority of cash will be placed on call or on short-term fixed deposits. Unallocated balances may be placed directly with the Fund's custodian.
50. Joint investments using a combination of Fund cash and County Council cash may be made where this is in the best interests of the Fund. In considering such investments, guidance issued by the Department for Communities and Local Government will be followed and the Fund will receive its fair share of interest in proportion to the share of cash invested.
51. Other asset classes, such as hedge funds and currency, will be reviewed as part of the regular asset allocation strategy review and, if a decision to invest in other assets is made, the Investment Strategy Statement will be revised accordingly.

## **Risk Management**

52. The Fund has adopted a Risk Management Strategy to:
- a) identify key risks to the achievement of the Fund's objectives
  - b) assess the risks for likelihood and impact
  - c) identify mitigating controls
  - d) allocate responsibility for the mitigating controls
  - e) maintain a risk register detailing the risk features in a)-d) above
  - f) review and update the risk register on a regular basis
  - g) report the outcome of the review to the Nottinghamshire Pension Fund Committee.
53. The Risk Register is a key part of the strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.
54. A key part of managing the investment risk is by ensuring an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets, which will be reviewed regularly by the Pensions Investment Sub-committee. The level of risk in the equities block will be managed by a balance between passive and active management that may be varied from time to time, according to performance and emerging knowledge and experience of the market. This will continue as the Fund moves to pooled investments, with asset allocation decisions remaining with the Pensions Investment Sub-committee.



55. It is believed that active management can add value to the Fund but only over the long term, and decisions to appoint or dismiss fund managers will be given careful consideration. It is accepted that investment performance (particularly from equities) can be volatile but, as a long term investor, the Fund can ride out this volatility as long as projected net cash flow continues to be positive.
56. The correlation between UK and overseas markets has increased significantly over recent time, reflecting the increasing globalisation of the market. The Fund will take into account exchange rate risks when deciding the balance between holding of UK and overseas equities.. As a long term investor, the Fund does not undertake currency hedging. Individual managers may hedge currency risks but only with prior approval from the Fund. The Fund will only take risks commensurate with meeting the overall 6% return target.
57. In addition, the following advisory guidelines will apply. These guidelines will be reviewed from time to time, and if changes are made, these will be incorporated into a revised Investment Strategy Statement, and amendments will be published.
- Not more than 10% of the Fund to be invested in unlisted securities.
  - Not more than 10% of the Fund to be invested in a single holding.
  - Prior to pooling, not more than 25% of the Fund to be invested in securities which are managed by any one body, i.e. in a unit trust type arrangement.
  - Not more than 15% of the Fund to be invested in partnerships, with not more than 2% in any one partnership.
  - Not to enter into any stock lending arrangements.
  - No underwriting without prior approval.
  - No involvement in derivatives (including currency options) without prior approval.

## **Other Issues**

58. The Fund's assets are held in custody by a combination of an independent custodian, investment managers and in-house. The performance of fund managers will be measured against individual benchmarks, and the overall fund, including cash returns, against the strategic benchmark. Performance will be measured by an independent agency. The statement of accounts will be audited by the County Council's external auditors.
59. The investment management arrangements of the Fund can be found in the latest annual report (available on the Fund's website, [www.nottspf.org.uk](http://www.nottspf.org.uk)). The Fund also publishes details of its holdings on the website on a quarterly basis.
60. This Investment Strategy Statement will be kept under review and will be revised following any material changes in policy.





**14 March 2017**
**Agenda Item:6**

## **REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT**

### **CONFERENCES AND TRAINING**

#### **Purpose of the Report**

1. To seek approval for attendance at conferences and training in 2017/18.

#### **Information and Advice**

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. Attendance at conferences and training was considered by the Pension Sub-Committee on 2 February 2016.
3. 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. As part of the development of LGPS Central events will be organised to update Members on progress. In addition to the specific events listed below there will induction training available for new Committee Members following the May elections, and briefings will be arranged following any changes in legislation which impacts on the work of the Committees. Approval is sought for attendance at the following conferences and training in 2017/18.

<b>Conference</b>	<b>Location</b>	<b>Date</b>	<b>Attendance</b>
PLSA Local Authority Conference (formerly NAPF)	Cotswolds	15 <sup>th</sup> – 17 <sup>th</sup> May 2017	2 Officers
LGE LGPS "Trustees" Conference	Bournemouth	June 2017	2 Members 1 Officer
LGC Investment Summit	Cardiff	7 <sup>th</sup> – 8 <sup>th</sup> Sep 2017	2 Members 1 Officer
LAPFF Annual Conference	Bournemouth	7 <sup>th</sup> – 9 <sup>th</sup> Dec 2017	1 Member 1 Officer
LAPFF Business Meetings	London	Quarterly	1 Member 1 Officer
Property Inspection/ Training	Various	October	Available to all

		2017	members of Pension Sub-Committees
LGA LGPS Fundamentals Course	Various	October to December	New Members and Members requiring refresher training
LGPS Central	Stakeholder event	June / July 2017	Available to all members of Pension Sub-Committees

### **Reason/s for Recommendation/s**

- 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**

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

### **RECOMMENDATION/S**

- That attendance at conferences and training as shown at paragraph 3 be approved.

**Nigel Stevenson**

**Service Director – Finance, Procurement and Improvement**

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

Keith Palframan, Group Manager – Financial Strategy & Compliance

### **Constitutional Comments ( )**

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

### **Financial Comments (KRP )**

- 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'



**14 March 2017****Agenda Item:7****REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &  
IMPROVEMENT****TRIENNIAL VALUATION – INITIAL RESULTS****Purpose of the Report**

1. To inform members of the results of the triennial valuation of the Fund as at 31 March 2016.

**Information and Advice**

2. The Fund is required to obtain an actuarial valuation of the assets and liabilities of the Fund every three years in order to determine the contributions payable by each employer. The actuary issues a rates and adjustments certificate specifying the common rate of employer's contribution and any individual adjustments to take account of circumstances particular to each employer. These circumstances include the different membership profiles of each employer and the level of assessed deficit of liabilities over assets.
3. The rates and adjustments certificate covers the three years following the year in which the valuation is prepared. The latest triennial valuation of the Fund was required as at 31 March 2016 with rates being certified for years 2017/18 to 2019/20. A draft final report has now been received, although the valuation will not be finalised until the end of March 2017.
4. In order to carry out the valuation, the actuaries, Barnett Waddingham, require detailed information about the membership of the fund and the investments. This information is used to estimate the cash flows in relation to each member. The actuaries have made assumptions over pay increases, inflation, life expectancy and other relevant issues in order to come up with this estimate. Further assumptions are used (mainly in respect of expected investment returns) to determine a 'discount rate' which is then used to discount the cash flows to estimate the total of the Fund's liabilities.
5. The basic premise of the discount rate is that investment returns can help to cover liabilities in the future – if the Fund has £100 now and can expect investment returns of 5% pa then that £100 is sufficient to cover £105 of liabilities in 1 years' time. Hence the liability figure (in this example £105) is 'discounted' back to the present value (£100) using the assumed rate of investment return. The actuaries therefore look at the asset allocation of the Fund and the expected long term returns of each asset class in deciding the appropriate discount rate. It is important to note that a lower discount rate produces a higher liability figure (and vice versa).
6. Under the revised LGPS governing regulations, Fund actuaries should still have regard to "the desirability of maintaining as nearly constant a common rate as possible", but with the

introduction of the regulatory requirements to secure solvency and long-term cost efficiency into the Regulations there is a clear shift in emphasis in the Regulations from sustainability of the employers in the Fund, to sustainability of the Fund as a whole.

7. The agreed financial assumptions used in the latest valuation are shown below, along with comparisons from the previous valuation.

<b>Financial Assumptions</b>	<b>31/03/16</b>	<b>31/03/13</b>
Central Discount Rate	5.4%	6.0%
Pay Increases: Long term	3.9%	4.5%
Short term	2.4%	2.7%
Retail Price Inflation	3.3%	3.5%
Pension Increases (CPI)	2.4%	2.7%

8. As can be seen, the discount rate has reduced thus increasing liabilities, although the increase is mitigated slightly by assumptions over pay and pension increases. Initial results for the Fund show liabilities of £4,649 million compared to assets of £4,028 million, giving a funding level of 87%. This is up slightly from 85% at 2013.
9. The contributions determined at this valuation payable by each employer are still being finalised but will be set out in the actuary's final report. These are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers. Future service contributions are certified as a percentage of payroll. For the majority of employers, deficit recovery contributions have been certified as a monetary amount, payable each year in addition to the future service rate. This is to ensure that deficit contributions are made at the required level regardless of any reductions in payroll. The certified contributions are the minimum that each employer is required to pay.
10. As part of the communication process with employers a briefing note was prepared by the actuaries in January and circulated to employers. It was also made available via the employers section of the Funds website. In addition specific queries were passed to the actuaries for individual responses as they were received.

## **Statutory and Policy Implications**

11. 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 report be noted.

**Nigel Stevenson**

**Service Director – Finance, Procurement and Improvement**

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

Keith Palframan, Group Manager – Financial Strategy & Compliance

### **Constitutional Comments (      )**

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

### **Financial Comments (KRP 27/02/17)**

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.

Draft Valuation Report





**14 March 2017****Agenda Item:8****REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &  
IMPROVEMENT****STRATEGIC LAND - BASILDON****Purpose of the Report**

1. To approve the setting up of a wholly owned company to protect the Pension Fund investment in strategic land at Basildon.

**Information and Advice**

2. Nottinghamshire Pension Fund purchased land at Basildon a number of years ago. The intention is to promote the land for future development and generate a return to the Pension Fund by increasing the value.
3. A consultancy firm was appointed to manage the promotion and to manage the land prior to any future development. This included leasing the land to tenants.
4. Aberdeen Asset Management (AAM) informed Nottinghamshire County Council (NCC) prior to Christmas that they were retendered the contract following changes to the personnel at the original consultant.
5. As part of this process AAM obtained legal advice which highlighted a potential financial risk to the Pension Fund during this process. The advice given was that NCC should set up a wholly owned limited company to hold the leases and manage the land. This company would simply be in place to replicate the arrangements previously agreed. It would not carry out any other activities.
6. NCC Legal Service have advised that the decision to set up such a company should be taken by Pension Fund Committee, however as there was a period when the Pension Fund was exposed to the risk prior to any suitable meeting, it was proposed that Nigel Stevenson as the S151 Officer, in consultation with Legal Services and the Chair and Vice Chair of Pension Fund Committee, should approve the setup of a company to hold the leases until the new consultant is in place. This was subject to a report to this meeting explaining what has been done and requesting approval of the arrangements.

**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 the action taken to protect the interests of the Pension Fund in setting up a company to hold the property leases be approved.

**Nigel Stevenson**

**Service Director – Finance, Procurement and Improvement**

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

Keith Palframan, Group Manager – Financial Strategy & Compliance

### **Constitutional Comments (      )**

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

### **Financial Comments (KRP 27/02/17)**

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.

Copy of Legal advice note