

Local Pensions Board

Thursday, 29 September 2016 at 13:30

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

AGENDA

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|---|--|--------------|
| 1 | Minutes of the last meeting held on 19 April 2016 | 3 - 6 |
| 2 | Apologies for Absence | |
| 3 | Membership of the Local Pension Board - oral update | |
| 4 | Declarations of Interests by Members and Officers:- (see note below)
(a) Disclosable Pecuniary Interests
(b) Private Interests (pecuniary and non-pecuniary) | |
| 5 | Pension Fund Annual Report and Accounts 2015-16 | 7 - 130 |
| 6 | LGPS Central Asset Pool | 131 -
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| 7 | Update on Pensions Administration - presentation by Jonathan Clewes, Team Manager, Payroll and pensions | |
| 8 | Update on Training for Local Pension Board Members | 135 -
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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 Paul Davies (Tel. 0115 977 3299) or a colleague in Democratic Services prior to the meeting.

- (4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.
- (5) This agenda and its associated reports are available to view online via an online calendar - <http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>

minutes

Meeting NOTTINGHAMSHIRE LOCAL PENSION BOARD

Date Tuesday, 19 April 2016 at 1.30 pm

membership

Persons absent are marked with 'A'

Employers

Councillor David Kirkham	Nottinghamshire County Council
Councillor Sarah Piper	Nottingham City Council
James Lacey	Nottingham Trent University
David Smith	Autism East Midlands

Members

Sue Maycock	Pension Scheme member
Thulani Molife	Pension Scheme member
2 vacancies	

Also in Attendance

John Raisin	John Raisin Financial Services Ltd, Advisor to the Board
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Officers in Attendance

Sue Bearman	Senior Solicitor, Corporate and Environmental Law
Jon Clewes	Team Manager, Payroll and Pensions
Simon Cunnington	Senior Accountant, Pensions and Treasury Management
Paul Davies	Advanced Democratic Services Officer
Sarah Stevenson	Group Manager, Business Support Centre

CHAIR

James Lacey was elected to Chair the Board.

APOLOGIES FOR ABSENCE

None.

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None.

MINUTES

The minutes of the last meeting held on 16 December 2015 having been previously circulated were confirmed and signed by the Chair.

MEMBERSHIP OF THE LOCAL PENSION BOARD

The report indicated that the recruitment of member representatives was still in progress, with the trade union representative and final employee member representative to be appointed.

RESOLVED 2016/001

That the membership of the Board be noted.

ROLE AND APPROACH OF THE PENSIONS REGULATOR

The Board's Advisor introduced a paper outlining the role of the Pensions Regulator, drawing attention to the requirements of Code of Practice, "Governance and Administration of Public Service Pension Schemes" and the "Compliance and Enforcement Policy for Public Service Pension Schemes".

RESOLVED 2016/002

That the role and approach of the Pensions Regulator be noted.

PENSION BOARD TRAINING

The Board's Advisor introduced a paper which referred to the statutory duty for Board members to have a knowledge and understanding of pensions law and to be conversant with the Scheme regulations and Fund documents. The paper proposed that Board members undertake the training modules in the Regulator's Public Service Toolkit. Other training proposals included a programme of topics to be covered by the Board's Advisor, and other internal and external training opportunities. Board members discussed the time commitment to undertake the Toolkit, and concluded that they should complete the toolkit by the time of the next Board meeting.

RESOLVED 2016/003

- 1) That the Advisor to the Pension Board provide introductory and overview training during 2016 and 2017 covering all eight core areas of Knowledge and Skills for Pension Board Members as identified in the CIPFA Knowledge and Skills Framework for Local Pension Boards.
- 2) That members of the Pension Board undertake the seven modules of the Pension Regulator's Public Service Toolkit by the time of the next Board meeting and forward their development record certificate to Board officers on completion.
- 3) That Board officers and other organisations/persons connected to the Fund, including the Fund Actuary, provide such further training and presentations as appropriate.
- 4) That appropriate external courses/events be made available by Board officers to members of the Pension Board.

PENSION FUND INVESTMENTS

Simon Cunnington gave a presentation on the role of the Pension Fund Committee, its sub-committees and the Pensions Investment Team.

RESOLVED 2016/004

That the presentation be received.

ROLE OF THE PENSION ADMINISTRATION TEAM

Sarah Stevenson gave a presentation on the membership of the scheme in Nottinghamshire, and the role of the Pension Administration Team.

RESOLVED 2016/005

That the presentation be received.

ASSET POOLING AND CONSULTATION ON REVISED INVESTMENT REGULATIONS

Simon Cunnington introduced a report on asset pooling, under which the Nottinghamshire Fund would be pooling assets with eight other funds from the Midlands. The report also informed the Board of the response to consultation on revised pension regulations. In reply to questions, it was explained that the Secretary of State would intervene if a Fund was not following guidance or regulations, and that the Government was encouraging Local Government Pension Scheme Funds to invest in infrastructure projects, possibly alongside other investors.

RESOLVED: 2016/006

That the report on asset pooling and consultation on revised investment regulations be noted.

WORK PROGRAMME

The report suggested items for the next meeting of the Board, due to be held in September. Attention was also drawn to the training programme discussed earlier. Board members commented on the format of the meeting.

RESOLVED: 2016/007

That the work programme be noted, and that the next meeting follow a similar format, with a morning training session, followed by the formal meeting in the afternoon.

The meeting concluded at 3.00 pm.

CHAIR

29 September 2016**Agenda Item: 5****REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &
IMPROVEMENT****PENSION FUND ANNUAL REPORT AND ACCOUNTS 2015/16****Purpose of the Report**

1. To present the Nottinghamshire Pension Fund Annual Report for 2015/16.

Information and Advice

2. The Nottinghamshire Pension Fund Annual Report for 2015/16 is attached. This includes the annual accounts and shows the value of the fund as at 31 March 2016 to be £4,067 million with net returns on investments for 2015/16 of £227 million and net nil transactions from dealings with members. The overall value of the fund is has marginally changed from last year, reflecting the slight fall in asset values due to sluggish global economic growth.
3. The Fund achieved an overall return of -0.3% on its investments over the year, with Property returning 11.1% as an asset class, and Equities returning -2.8%.
4. The Scheme Administration Arrangements (page 11) section gives a breakdown of all the non-investment work that is undertaken to ensure the proper functioning of the Fund's dealings with its members.
5. The external auditors, KPMG, have completed their audit work and anticipate issuing an unqualified audit opinion. No material misstatements or uncorrected audit differences were identified. The auditor's ISA260 report is also attached for information.

Reason/s for Recommendation/s

6. The Pension Fund accounts are approved by Nottinghamshire County Council as part of the Council's overall accounting responsibility. The accounts are also presented to the Nottinghamshire Pension Fund Committee for noting. The Annual Report, including the accounts, is therefore presented to the Local Pensions Board also for noting.

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 Annual Report, annual accounts and draft audit report for 2015/16 be noted.

Report Author:

Ciaran Guilfoyle

Investments Officer – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments

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

Financial Comments (SRC 25/08/2016)

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

Background Papers and Published Documents

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

- 'None'

2015-16

Annual Report



**The Nottinghamshire
Local Government Pension Scheme**

administered by



**Nottinghamshire
County Council**

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Chair's Foreword

The last financial year was a difficult one for pension fund investments as equity markets, with the exception of North America, produced negative returns over the year. The Nottinghamshire Fund has retained a higher weighting to UK equities (given the lower currency risk and higher proportion of returns from income) and has consequently suffered over the year against its strategic benchmark. However, over the three years since the last actuarial valuation, the Fund has returned nearly 6% pa, keeping pace with the assumed long-term returns.

As we move to the next valuation, the number of scheme pensioners has continued to increase, but contributing members have also increased and, together with the expected long-term investment returns, this should continue to mitigate pressure from increased pension expenditure and allow the fund to continue with its investment strategy. Part of this strategy is the Fund's long-term responsible investment approach, actively voting its equity holdings and engaging with companies through its investment managers and membership of the Local Authority Pension Fund Forum (LAPFF). This engagement approach has highlighted and improved the resilience of corporate strategies at global resource companies in the wake of climate change agreements.

From a fund governance perspective the last financial year has been very busy. In addition to the recent establishment of a Local Pension Board to assist the Fund in complying with LGPS regulations, work has been ongoing with eight other Midlands based funds to create a multiasset investment pool called LGPS Central. The £34 billion pool will aim to be a regional centre of excellence in investment management and a collaborative platform for the participating funds. The creation of the pool addresses the government's published criteria for investment pooling and will see significant long-term cost savings through economies of scale, mandate rationalisation, fee negotiations and more use of direct management.

In terms of fund administration the Nottinghamshire Pensions Office has continued their work on the replacement pensions administration system, and in addition have undertaken a good deal of work in revising the Pension Fund website in order to keep stakeholders up to date with the many developments. I look forward to the launch of the revised website during 2016/17.

Cllr Reg Adair

Chair of the Nottinghamshire Pension Fund Committee

Management and Financial Performance

Scheme management and advisers

Nottinghamshire County Council is the administering authority for the Local Government Pension Scheme within Nottinghamshire for which it invests and administers funds with over 270 contributing employers and over 47,000 contributing members. The Governance Compliance Statement (page 44) sets out the governance arrangements of the pension fund and covers:

- the delegation of authority to the Nottinghamshire Pension Fund Committee supported by two sub-committees

- the functions and responsibilities of these committees
- the representation of members, employers and trade unions
- stakeholder engagement
- compliance with best practice.

The Local Government Pension Scheme within Nottinghamshire is managed by and receives advice from a number of different organisations/individuals, as listed below:

Nottinghamshire officers responsible for the fund

Service Director – Finance, Procurement & Performance	Nigel Stevenson
Group Manager – Financial Strategy & Accounting	Keith Palframan
Senior Accountant – Pensions & Treasury Management	Simon Cunnington
Service Director – HR & Customer Service	Marjorie Toward
Group Manager – Business Support Centre and Employee Services Centre	Sarah Stevenson
Pensions Manager	Jon Clewes

Other organisations/individuals

Main Investment Managers used by the fund	Schroders
	Kames Capital
	Aberdeen Asset Management
Fund custodian	State Street
Fund AVC providers	Prudential
	Scottish Widows
Fund actuary	Barnett Waddingham
	Public Sector Consulting
Banker to the fund	Barclays Bank
The fund auditor	KPMG
Independent advisor	William Bourne

Risk management

The Pension Fund's Risk Management Strategy (page 73) is to:

- identify key risks to the achievement of the Fund's aims
- assess the risks for likelihood and impact
- identify mitigating controls
- allocate responsibility for the mitigating controls
- maintain a risk register detailing the risk features in a)-d) above
- review and update the risk register on an annual basis
- report the outcome of the review to the Nottinghamshire Pension Fund Committee annually.

The latest approved risk register is on page 77.

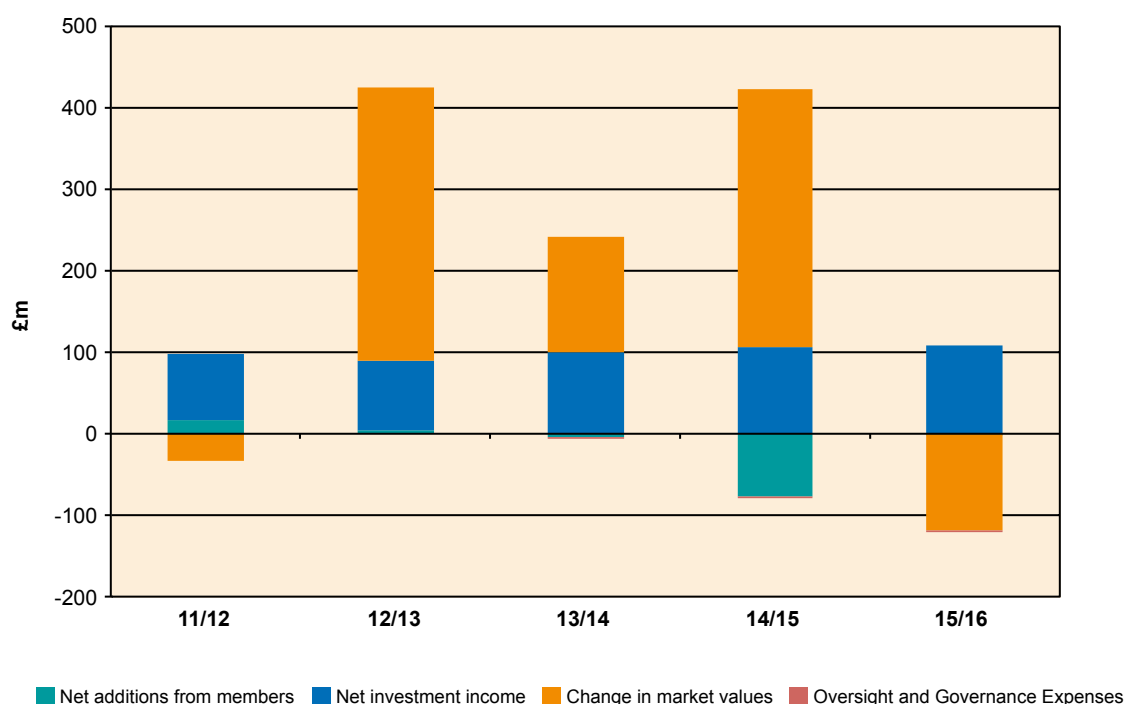
Financial Performance

The pension fund accounts are shown in detail on pages 16 to 43.

The Fund Account shows a cash outflow of £74k from net dealings with members. Investment income for the year was £112m, a marginal increase on the previous year. This has been balanced by a net loss of £119m from sales and/or decreases in the market value of the Fund's investments, so the overall return on investments is an £11m loss.

Overall, the value of the fund has decreased by £12m over the year to stand at £4,067m. The chart below shows how the 3 main components have contributed to the Fund's value over the last 5 years.

Change in Market Value of the Fund



Investment Policy and Performance

Investment Policy

The members of the Nottinghamshire Pension Fund Committee are drawn from the County Council, and they have responsibility for determining the investment strategy, asset allocation and management arrangements for the Fund in order to meet the long-term funding objective of achieving and then maintaining sufficient assets to cover 100% of the Fund's projected accrued liabilities.

The Nottinghamshire Pension Fund Committee separately approves the following policy statements governing the investments made by the Pension Fund:

The Funding Strategy Statement (page 49) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme. Its purpose is to explain:

- How the costs of the benefits provided under the Local Government Pension Scheme (the "Scheme") are met through the Fund.
- The objectives in setting employer contribution rates.
- The funding strategy that is adopted to meet these objectives.

The funding objectives are to:

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

It is recognised that investment returns play a significant role in defraying the cost of providing pensions by mitigating the contributions required from employers. The Statement of Investment Principles (page 55) sets out detailed responsibilities relating to the overall investment strategy of the fund including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also states the fund's approach to responsible investment and corporate governance issues.

The following principles underpin the Fund's investment activity:

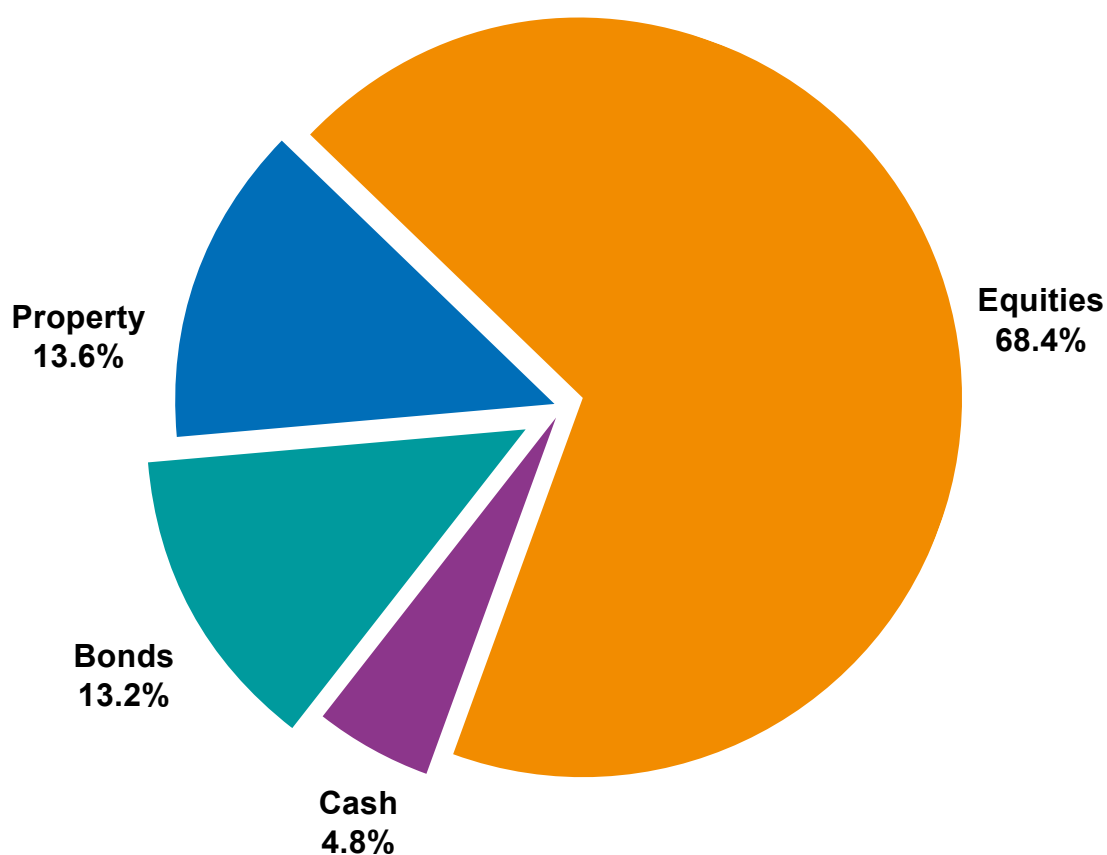
- The Fund will aim to be sufficient to meet all its obligations on a continuing basis.
- The Fund will be invested in a diversified range of assets.
- Proper advice on the suitability of types of investment will be obtained and considered at reasonable intervals.
- The Fund will aim to conduct its business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

The Nottinghamshire Pension Fund Committee is responsible for deciding the asset allocation of the fund. 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. As the Fund receives significant investment income, it 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.

The agreed asset allocation ranges are those aimed at achieving best returns within acceptable risk parameters. These are shown below.

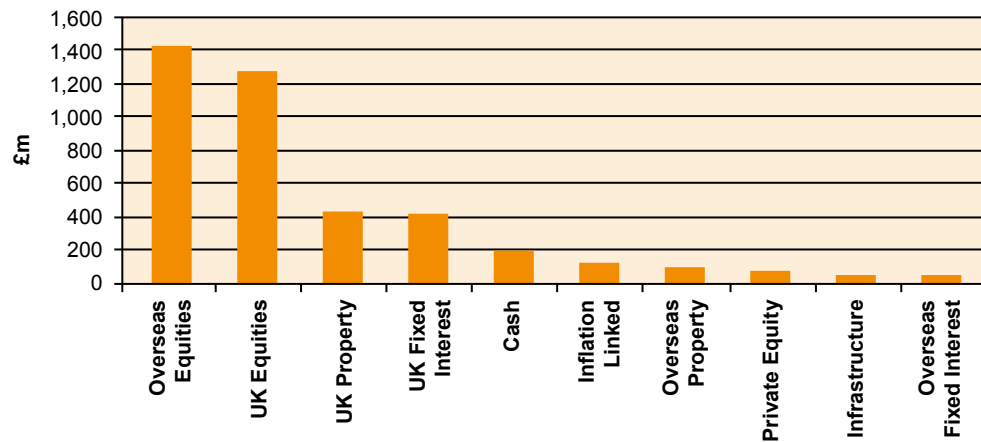
Equities	55% to 75%
Property	5% to 25%
Bonds	10% to 25%
Cash	0% to 10%

At the end of the financial year 2015/16 the actual asset allocation was as shown in the chart below. These allocations are within the agreed ranges.

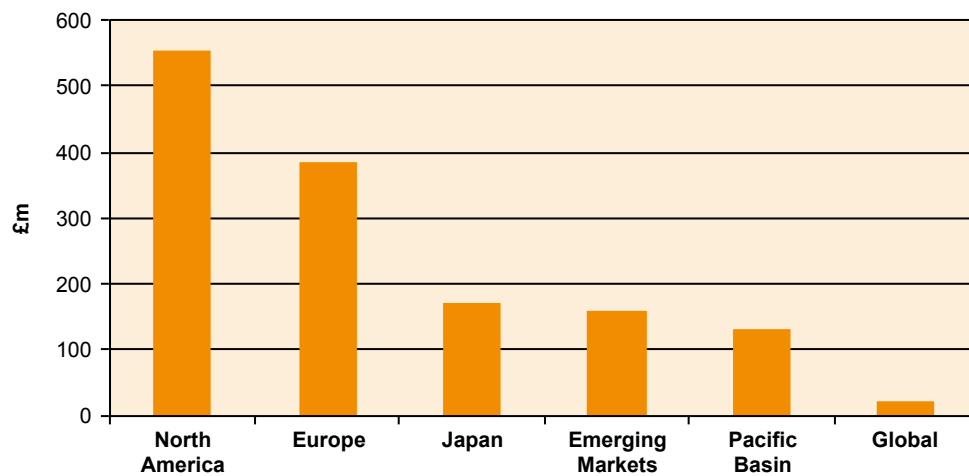


More detail on the actual asset allocation is shown in the following charts.

Asset Allocation of the Fund 31 March 2016

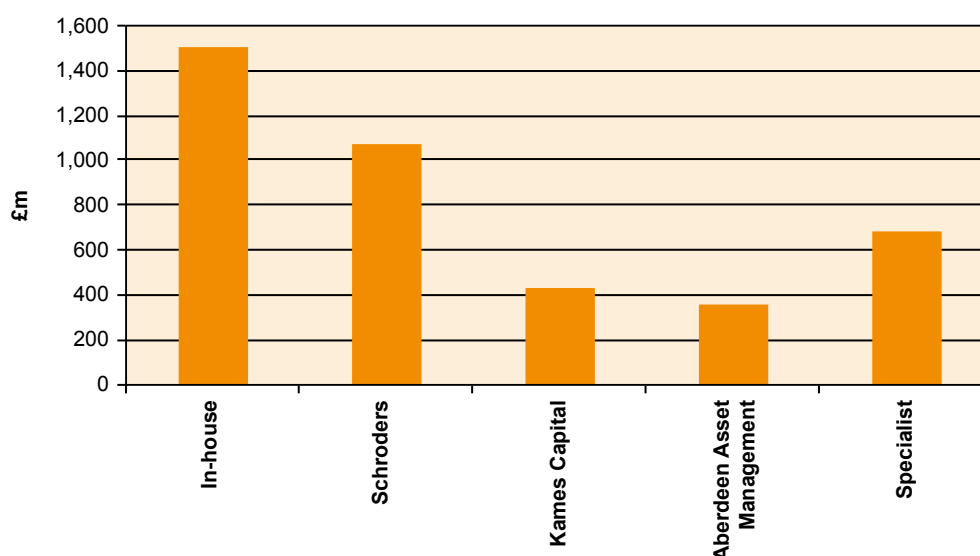


Breakdown of Overseas Equities



The Pension Fund Committee also determines the investment management arrangements to implement the agreed strategy. The assets of the Fund are managed within five portfolios and a breakdown of these as at 31 March 2016 is shown below:

Management of Funds 2015/16



The in-house team of six, led by the Senior Accountant (Pensions and Treasury Management), manages the bulk of the In-house portfolio and monitor all externally managed investments. The team also records and accounts for all the pension fund investments, producing quarterly valuations for Pensions Investment Sub-committee as well as the annual report and accounts.

Investment Performance

In 2015/16, the Fund achieved an overall negative return from its investments of -0.3% compared with its strategic benchmark return of 2.1%. Contractions in world markets have meant that both the benchmark and the performance are a lot lower than last year. Underperformance relative to the benchmark remains largely a result of the strength of the US economy

and the relative weight of the US within global equity markets. The Fund retains a higher weighting to UK equities than the global benchmark as these are expected to provide less volatile returns over time with a higher proportion of dividends.

In-house equities provided a return of -2.7% over the year (against a benchmark of -3.0%), whereas externally managed equities returned -3.5% (against a benchmark of -2.6%). Bonds, however, returned positive growth of 1.0% as confidence in the global economic recovery continued to waver. Such feelings from investors then fed through to the bricks and mortar of the property market where the Fund made a return of 11.1% for the year.

Detailed performance figures are shown in the table on page 7.

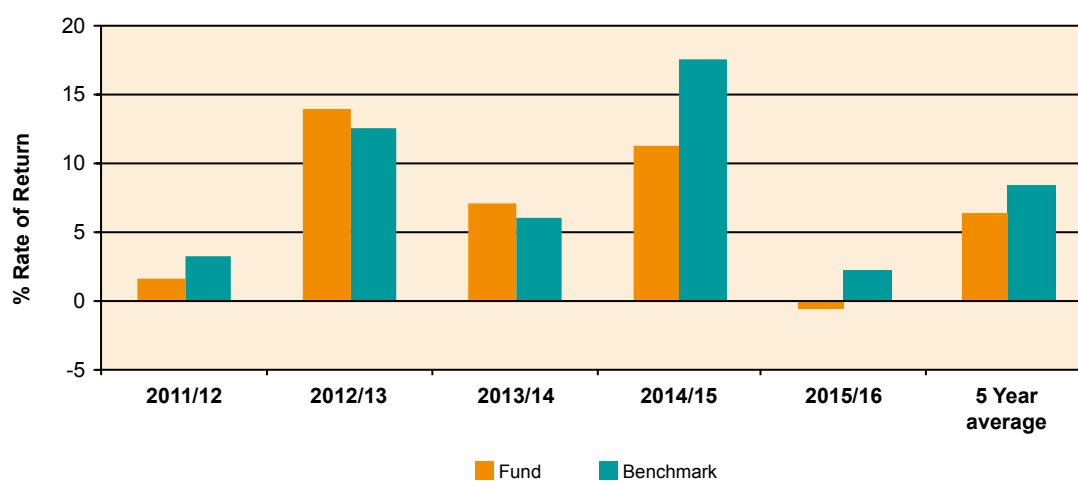
Fund returns achieved over 1, 3, 5 and 10 years by asset class

To 31 March	1yr	3yrs	5yrs	10yrs
	%	%	%	%
Equities	-2.8	5.6	6.8	5.7
UK Bonds	1.5	4.4	7.1	-
Property	11.1	11.4	7.8	4.1
Total	-0.3	5.9	6.6	5.3

Information on returns is provided by State Street.

NB. the above rates of return are now net of fees as from 1st April 2014.

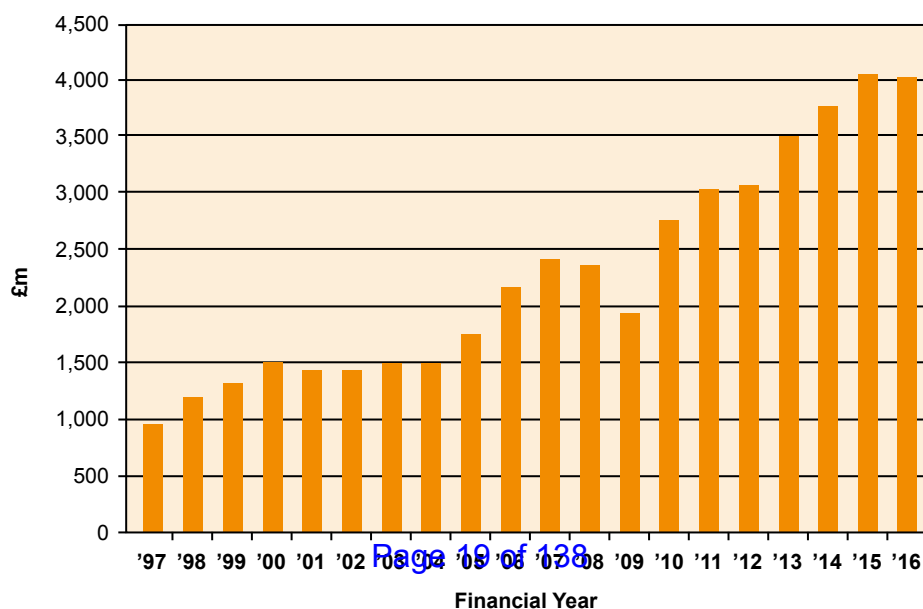
Investment Performance of the Fund over the last 5 years



TOP 20 HOLDINGS AS AT 31 MARCH 2016

Holding	£m		
SGST Schroder North American Equity Fund	190,268,578	4.7%	US Equities
Kames Diversified Growth Fund (Class B ACC)	111,274,161	2.8%	Inflation Linked
Legal & General Asia Pac Ex Jap Dev Eqty Index	99,163,039	2.5%	Pacific Basin Equities
RWC Specialist UK Focus Fund	87,518,197	2.2%	UK Equities
Legal & General Japan Equity Index	78,312,589	1.9%	Japan Equities
Royal Dutch Shell EUR0.07 'B' (UK)	76,376,087	1.9%	UK Equities
Standard Life Euro Property Growth - Harmonisd	64,828,821	1.6%	Overseas Property
RWC European Focus Fund	56,597,491	1.4%	Europe Equities
Legal & General Global Emerging Mkts Index	52,624,254	1.3%	Emerging Markets Equities
Glaxosmithkline Plc Ord 25P	49,985,987	1.2%	UK Equities
British American Tobacco Ord 25P	48,626,705	1.2%	UK Equities
Vodafone Group Us\$0.2095238	45,540,090	1.1%	UK Equities
Hsbc Holdings Plc Ord Us\$0.50	43,394,400	1.1%	UK Equities
BP Plc Ord Us\$0.25	38,762,631	1.0%	UK Equities
Astrazeneca Group Us\$0.25	36,232,527	0.9%	UK Equities
Legal & General UK Smaller Cos Fund	35,358,480	0.9%	UK Equities
Prudential Plc Ord 5P	34,130,954	0.8%	UK Equities
Unilever Ord GBP0.0311	33,620,215	0.8%	UK Equities
Keills Property Trust	33,172,866	0.8%	UK Property
Schroder Ut Ltd Instit Pacific Fund Inc	33,165,707	0.8%	Pacific Basin Equities
Total	1,248,953,779	30.9%	

FUND VALUATION OVER LAST 20 YEARS



Scheme Administration Arrangements

The Pensions Office

The Pensions Office is the part of the Nottinghamshire Pension Fund responsible for the administration of the Nottinghamshire Local Government Pension Scheme (LGPS), including the Councillors' LGPS. The Pensions Office undertakes the 'nuts and bolts' of pensions work from setting up new members and updating their records during membership to making payment of their retirement benefits. This work is undertaken in line with the statutory LGPS Regulations. In addition, the office also undertakes some of the employer related work of the LGPS on behalf of Nottinghamshire County Council.

The office is currently separated into the following areas of work:

- Pensions Administration
- Employer Support and Compliance
- Technical/Communications
- Technical/Performance

Pensions Administration System

In November 2014 a new Pensions Administration System was implemented and since implementation further updates and developments have been made. These developments include; document imaging, a workflow system which assists with the distribution and prioritisation of work and a contact manager facility linked to pension records which can be utilised to assist Pensions Office staff to answer telephone enquiries.

Benchmarking

The Pensions Office, as part of measuring its administration cost and performance against other Administering Authorities, belongs to the Pensions Administration Benchmarking Club. This Club is run by the Chartered Institute of Public Finance Limited and we have been a member of it since 2000. Our performance in terms of cost per member has always been lower than the national average, and we continue to remain one of the cheaper cost-per-member authorities for administration in the country.

Communications

The Communications Strategy Statement (see page 69) details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website. This is available at www.nottspf.org.uk and includes all of the policy statements as well as a great deal more information about the investments and benefits of the pension fund.

Benefit Statements

The Pensions Office is required each year to send annual benefits statements to its active and deferred members. The statement is intended to inform the scheme member of the value of their benefits, and provide an overview of when they may become payable.

Website Development

The current Nottinghamshire Pension Fund web site was Launched in 2007, (www.nottspf.org.uk) and covers all aspects of the LGPS and has information for all different types of stakeholders including active members, councillor members, deferred members, pensioners, their dependants and employers. There is also a section which gives details on the investment performance of the Fund and related matters.

A new web site is being implemented this summer, with the main key benefit to improve and upgrade the website functionality to pensioners, members of the scheme and employers.

It is important to have a website that meets modern website design criteria, accessible via multiple devices, that will encourage members and pensioners to use the site, making it easy to find the information that they need to. There are many benefits to redesigning the website. A key benefit is the development in the near future to provide members with restricted access to their own pension record enabling them through secure access to update personal details such as address, complete online forms and against certain criteria simulate pension estimates. This will have the advantage of reducing

direct administration contact to more priority cases, and therefore reducing administration costs.

Employer Support and Compliance function

The Pensions Office's Employer Support and Compliance function is responsible for liaison with scheme employers on a range of matters in relation to their responsibilities under the LGPS Regulations. This includes:

- Supporting employers in undertaking their responsibilities;
- Communicating Regulation and process changes to LGPS employers;
- Resolving problems in relation to the quality of information supplied by LGPS employers;
- The development of improved communication methods between the Pensions Office and LGPS employers;
- The review and improvement of information and administrative systems.

We also have the following contact with our LGPS Scheme Employer representatives:

- Year-end meetings are undertaken yearly to support preparation for and understanding of reporting requirements at year end;
- Meetings with employer representatives to communicate changes to the LGPS Regulations and the impact on employer responsibilities;
- Ad hoc individual or group support and training sessions with LGPS Employers.
- Ad hoc individual or group support and training sessions with LGPS Employers.

Membership

The majority of employees of our scheme employers will be brought into the pension scheme automatically, whether through 'contractual enrolment' under the schemes rules or under the Governments 'auto-enrolment' rules. Members can though elect to opt out of the scheme after their first day of employment if they wish.

The membership of the fund over the past three years has been:

	31/03/14	31/03/15	31/03/16
Contributors	39,151	42,671	47,272
Deferred Benefits	36,311	39,711	41,509
Pensioners	30,824	32,015	33,112
Total	106,286	114,397	121,893

Statement by the Actuary

Introduction

The last full triennial valuation of the Nottinghamshire County Council Pension Fund ("the Fund") was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement gives a broad update on the funding position as at 31 March 2016.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows:

- The Fund as a whole had a funding level of 85% i.e. the assets were 85% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £620m.
- To cover the cost of new benefits and to also pay off the deficit over a period of 20 years, a total contribution rate of 18.8% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their individual deficit.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 are summarised below:

Assumption	31 March 2013
Discount rate	6.0% p.a.
Pension increases	2.7% p.a.
Salary increases	2.7% until 31 March 2015 then 4.5% p.a.
Mortality	110% of the S1PA tables for males and 100% of the S1PA tables for females with projected improvements in line with the 2012 CMI model allowing for a long term rate of improvement of 1.5% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

The 2016 triennial valuation is currently underway and the assumptions to be adopted as at 31 March 2016 will be decided upon as part of the valuation process.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so the asset values are also measured in a consistent manner.

At 31 March 2013, the market value of the assets used was £3,496m and this has increased over the period to an estimated £4,034m.

Updated position

Over the period from March 2013 to March 2016, the assets have achieved an estimated return broadly in line with what was assumed at the 2013 valuation. Payment of deficit contributions during the period in line with agreed contribution schedules will have improved the funding position.

We estimate that the position at 31 March 2016 will have improved when compared on a consistent basis to 31 March 2013, but the final reported position will depend on the assumptions adopted as part of the 2016 valuation process.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Alison Hamilton FFA

Partner, Barnett Waddingham LLP

Pension Fund Accounts, Net Assets Statement and Notes

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

The Authority administers the pension fund for over 300 participating employers and over 120,000 members. The employers include the County Council, the City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

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

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

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

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

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

The accounts of the fund are set out over the following pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 requires:

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

Pension Fund Accounts 2015-16

FUND ACCOUNT FOR YEAR ENDED 31 March 2016

	Notes	2014/15 £000	2015/16 £000
Contributions	4		
Employer contributions		(130,112)	(131,873)
Member contributions		(42,714)	(43,243)
		(172,826)	(175,116)
Transfers in from other pension funds		(6,124)	(4,940)
Benefits	5		
Pensions		137,495	141,963
Commutation of pensions and lump sum retirement benefits		25,991	26,567
Lump sum death benefits		3,324	3,860
		166,810	172,390
Payments to and on account of leavers		87,072	6,519
Administration expenses	6	1,764	1,221
Net additions from dealings with members		76,696	74
Oversight and governance expenses	7	572	584
Investment Income	8	(110,790)	(112,363)
Profits & losses on disposal of investments & changes in value		(316,474)	(119,007)
Taxes on income		703	638
Investment management expenses	9	3,838	3,990
Net Returns on Investments		(242,723)	11,272
Net (increase)/decrease in net assets available for benefits during the year		(345,455)	11,930
Opening net assets of the Fund		3,733,145	4,078,600
Net assets available to fund benefits		4,078,600	4,066,670

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

NET ASSETS STATEMENT FOR THE YEAR ENDED 31 March 2016

	Notes	31 March 2015 £000	31 March 2016 £000
Investment Assets	10 & 14		
Fixed Interest Securities		412,853	421,376
Equities		1,983,371	1,885,900
Pooled Investment Vehicles		1,199,849	1,194,736
Property		321,700	343,314
Forward Foreign Exchange		-	168
Cash deposits		131,916	193,339
Other Investment Balances	12	21,568	23,802
Investment liabilities	12	(4,571)	(7,739)
		4,066,686	4,054,896
Current assets	13	14,198	13,198
Current liabilities	13	(2,284)	(1,424)
		11,914	11,774
Net assets of the fund available to pay benefits at the year end		4,078,600	4,066,670

The actuarial present value of promised retirement benefits, as required by the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16*, is shown at note 2c.

Notes to the Accounts

1 ACCOUNTING POLICIES

a) Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* (the Code). On issues where there is no clear guidance in the Code, reference has been made under the hierarchy of standards to *Financial Reports of Pension Schemes: a Statement of Recommended Practice 2015* (the Pensions SORP) or to individual International Accounting Standards (IAS).

Disclosures in the Pension Fund accounts have been limited to those required by the Code.

b) Debtors and Creditors

The accruals concept is applied to these accounts in compliance with the Code.

c) Investments

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

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

- Equities traded through a stock exchange are valued at the latest quoted price. Where more than one price is quoted the 'bid' price is used.
- Unit Trusts and managed funds are valued at the closing single price or the bid price where applicable. These reflect the market value of the underlying investments.
- Unquoted securities and pooled private equity investments are valued at fair value by the fund managers at the year end in accordance with industry accepted guidelines.

- The market value of fixed interest investments is based on the 'clean price', i.e. excludes income accrued at 31 March but not yet due for payment.
- Property investments are stated at open market value based on a quarterly independent valuation at the Net Assets Statement date.

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

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

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

d) Investments Income

Income is accounted for on an accruals basis for the following:

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

e) Taxes on Income

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

f) Foreign Currencies

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

g) Contributions

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

h) Benefits Payable

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

i) Transfers to and from Other Schemes

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

j) Other Expenses

Management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Nottinghamshire County Council charges the Fund with the costs it incurs in administering the scheme and the Fund. Fees and charges within pooled investment vehicles have the effect of reducing the fair value of those investments. The embedded costs are disclosed at note 9.

2 OPERATION OF THE FUND

a) Contributions and Solvency

With effect from 1 April 2008 The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 were introduced.

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

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

Employers are required to make such balancing contributions, determined by the Actuary, as will maintain the fund in a state of solvency, having regard to existing and prospective liabilities.

b) Actuarial Valuations

As required by the Regulations an Actuarial Valuation of the Fund was carried out as at 31 March 2013.

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

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

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

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

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

c) Actuarial Present Value of Promised Retirement Benefits

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

	31 March 2014		31 March 2015		31 March 2016	
	% pa	Real % pa	% pa	Real % pa	% pa	Real % pa
RPI Increases	3.6	-	3.3	-	3.3	-
CPI Increases	2.8	(0.8)	2.5	(0.8)	2.4	(0.9)
Salary Increases	4.6	1.4	4.3	1.0	4.2	0.9
Pension Increases	2.8	(0.8)	2.5	(0.8)	2.4	(0.9)
Discount Rate	4.5	0.9	3.4	0.1	3.7	0.4

The net liability under IAS 19 is shown below.

	31 March 2014	31 March 2015	31 March 2016
	£000	£000	£000
Present value of funded obligation	5,733,792	6,886,812	6,665,990
Fair value of scheme assets	3,708,200	4,050,198	4,034,292
Net Liability	2,025,592	2,836,614	2,631,698

The present value of funded obligation consists of £6,387.2 million in respect of vested obligation and £278.8 million in respect of non-vested obligation.

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

d) Investment Strategy

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

The Nottinghamshire Pension Fund Committee, advised by the Pensions Sub-Committee, is responsible for determining the investment strategy of the Fund and the type of investment management to be used. The Pensions Sub-Committee consists of nine elected County Councillors, three representatives of Nottingham City Council, two representatives of the District Councils, two representatives of the Trade Unions, a representative elected by the other scheduled and admitted bodies

and two appointed pensioner representatives. Meetings are also attended by an independent adviser and representatives of the Chief Financial Officer.

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

e) External Audit

A separate fee is payable to KPMG LLP for audit of the pension fund. All fees have been included in the accounts for the period to which they relate. The fee for 2015/16 is £26,626 (£33,226 for 2014/15). Rebates of £7,171 were also received from the Audit Commission in 2014/15 as part of their efficiency savings in advance of closure.

3 CONTRIBUTORS AND PENSIONERS

Members at 31 March 2016

	County Council	City Council	District Councils	Others	Total
Contributors	19,354	8,039	3,611	16,268	47,272
Deferred Beneficiaries	18,075	9,885	3,774	9,775	41,509
Pensioners	15,578	6,581	4,660	6,293	33,112
					121,893

Members at 31 March 2015

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

4 ANALYSIS OF CONTRIBUTIONS

	Employers		Members		Total	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	£000	£000	£000	£000	£000	£000
County Council	42,324	41,724	12,845	13,008	55,169	54,732
Scheduled Bodies	83,306	85,780	28,300	28,749	111,606	114,529
Admitted Bodies	4,482	4,369	1,569	1,486	6,051	5,855
	130,112	131,873	42,714	43,243	172,826	175,116

5 ANALYSIS OF BENEFITS

	2014/15	2015/16
	£000	£000
Pensions	137,495	141,963
Commutation and lump sum	25,991	26,567
Lump sum death benefits	3,324	3,860
	166,810	172,390
Comprising of:		
County Council	68,831	70,076
Scheduled Bodies	92,802	96,357
Admitted Bodies	5,177	5,957
	166,810	172,390

6 ADMINISTRATION EXPENSES

	2014/15 £000	2015/16 £000
Printing and stationery	11	3
Legal fees	39	21
Other external fees	541	61
Administering Authority Costs	1,173	1,136
	1,764	1,221

7 OVERSIGHT AND GOVERNANCE EXPENSES

	2014/15 £000	2015/16 £000
Training and conferences	17	14
Printing and stationery	1	1
Subscriptions and membership fees	28	42
Actuarial fees	9	13
Audit fees	33	27
Audit Commission rebate	(7)	-
Other external fees	90	100
Administering Authority Costs	401	387
	572	584

8 INVESTMENT INCOME

Analysis by type of investment	2014/15 £000	2015/16 £000
Interest from fixed interest securities	(17,232)	(17,483)
Income from index-linked securities	-	-
Dividends from equities	(61,158)	(62,828)
Income from pooled investment vehicles	(12,876)	(13,466)
Income from property pooled vehicles	(3,557)	(3,484)
Net rents from property	(13,661)	(13,244)
Interest on cash deposits	(911)	(771)
Other	(1,395)	(1,087)
	(110,790)	(112,363)
Directly held property		
Rental income	(15,723)	(15,005)
Less operating expenses	2,062	1,761
Net rents from property	(13,661)	(13,244)

9 INVESTMENT MANAGEMENT EXPENSES

	2014/15 £000	2015/16 £000
Custody fees	326	323
Investment management fees	3,335	3,473
Other external fees	158	176
Administering Authority Costs	19	18
	3,838	3,990

The investment management fees shown above are those fees attributable to external managers and charged directly to the Fund. Additional fees and charges are incurred through pooled investment vehicles. These have the effect of reducing the fair value of the investments. The estimated embedded costs within pooled investment vehicles were £8.1 million in 2015/16 (£7.4 million in 2014/15).

10 INVESTMENTS

a) Investment Analysis

	31 March 2015	31 March 2016
	£000	£000
Fixed Interest Securities		
UK Public Sector	123,886	134,871
UK Other	272,302	268,934
Overseas Other	16,665	17,571
Equities		
UK	1,201,166	1,119,160
Overseas	779,595	763,130
Unlisted	2,610	3,610
Pooled Investment Vehicles		
Unit Trusts	472,802	414,435
Other Managed Funds	595,426	610,683
Pooled Vehicles Invested in Property		
Property Unit Trusts	39,545	67,970
Other Managed Funds	92,076	101,648
Property	321,700	343,314
Forward Foreign Exchange	-	168
Cash and Currency	131,916	193,339
Investment Liabilities	(210)	-
Total Investments	4,049,479	4,038,833

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

	31 March 2015 £000	31 March 2016 £000
Market Value	4,049,479	4,038,833
Original Value	2,771,543	2,884,394
Excess/ (Deficit) of Market Value over Original Value	1,277,936	1,154,439

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

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

No investments have been made contrary to these limits.

b) Reconciliation of Opening and Closing Values of Investments 2015/16

	Value at 1 April 2015 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market value £000	Value at 31 March 2016 £000
Fixed Interest Securities	412,853	129,806	(110,463)	(10,820)	421,376
Equities	1,983,371	279,351	(245,387)	(131,435)	1,885,900
Pooled Investment Vehicles	1,068,228	52,722	(80,920)	(14,912)	1,025,118
Property Pooled Vehicles	131,621	24,113	(1,590)	15,474	169,618
Property	321,700	47,951	(48,444)	22,107	343,314
	3,917,773	533,943	(486,804)	(119,586)	3,845,326
Forward Foreign Exchange	(210)	68,377	(68,578)	579	168
	3,917,563	602,320	(555,382)	(119,007)	3,845,494
Cash deposits	131,916				193,339
	4,049,479				4,038,833

Reconciliation of Opening and Closing Values of Investments 2014/15

	Value at 1 April 2014 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market value £000	Value at 31 March 2015 £000
Fixed Interest Securities	360,883	209,548	(192,162)	34,584	412,853
Index Linked Securities	1,818,478	243,831	(227,821)	148,883	1,983,371
Equities	972,048	227	(7,595)	103,548	1,068,228
Pooled Investment Vehicles	119,084	20,369	(3,523)	(4,309)	131,621
Property Pooled Vehicles	288,140	29,597	(30,760)	34,723	321,700
Property	288,075	12,354	(37,425)	25,136	288,140
	3,558,633	503,572	(461,861)	317,429	3,917,773
Forward Foreign Exchange	191	113,640	(113,086)	(955)	(210)
	3,558,824	617,212	(574,947)	316,474	3,917,563
Cash deposits	153,469				131,916
	3,712,293				4,049,479

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

Transaction costs are included in the cost of purchases and sale proceeds. The costs charged directly to the fund, such as fees, commissions and stamp duty, amounted to £3.9 million in 2015/16 (£2.0 million in 2014/15). In addition, indirect costs are incurred through the bid-offer spread on investments. This amount is not separately provided.

c) Management Arrangements

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

	31 March 2015		31 March 2016	
	£000	%	£000	%
In-house	1,616,513	39.9%	1,503,184	37.2%
Schroder Investment Management	1,161,491	28.7%	1,075,755	26.7%
Kames Capital	417,018	10.3%	423,862	10.5%
Aberdeen Property Investors	329,340	8.1%	351,860	8.7%
Specialist	525,117	13.0%	684,172	16.9%
Total	4,049,479	100.0%	4,038,833	100%

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

	31 March 2015	31 March 2016
	£000	£000
In-house		
Legal & General	298,820	285,450
Specialist		
Kames Capital	118,769	140,772
RWC Capital	127,580	156,510
Standard Life	64,589	72,186

d) Asset Allocation

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

	31 March 2015		31 March 2016	
	£000	%	£000	%
UK Fixed Interest	396,188	9.8%	403,806	10.0%
Overseas Fixed Interest	16,665	0.4%	17,571	0.4%
UK Equities	1,336,470	33.0%	1,256,580	31.1%
Overseas Equities:				
US	586,559	14.5%	552,691	13.7%
Europe	417,433	10.3%	384,583	9.5%
Japan	161,430	4.0%	172,291	4.3%
Pacific Basin	147,863	3.6%	132,329	3.3%
Emerging Markets	192,149	4.7%	158,973	3.9%
Global	21,394	0.5%	21,055	0.5%
UK Property	368,885	9.1%	419,830	10.4%
Overseas Property	84,436	2.1%	93,101	2.3%
Private Equity	72,441	1.8%	83,311	2.1%
Infrastructure	-	-	37,931	0.9%
Multi-Asset	115,860	2.9%	111,274	2.8%
Forward Foreign Exchange	(210)	-	168	-
Cash	131,916	3.3%	193,339	4.8%
Total	4,049,479	100.0%	4,038,833	100.0%

e) Property

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

	31 March 2015 £000	31 March 2016 £000
Freehold	321,700	328,314
Leasehold more than 50 years	-	15,000
	321,700	343,314
Original Value	273,485	280,651

f) Analysis of Pooled Investment Vehicles

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

	31 March 2015 £000	31 March 2016 £000
UK Equities	158,248	176,408
Overseas Equities:		
US	226,251	190,387
Japan	67,597	63,473
Europe	91,980	92,575
Pacific Basin	147,863	132,329
Emerging Markets	169,204	140,193
Global	21,394	21,055
UK Property	47,185	76,517
Overseas Property	84,436	93,101
Private Equity	69,831	79,701
Infrastructure	-	17,723
Multi-Asset	115,860	111,274
Total	1,199,849	1,194,736

g) Private Equity Funds

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

Funds	Currency	Commitment millions
Wilton Private Equity Fund LLC	USD	14
Pantheon Europe Fund III	EUR	10
East Midlands Regional Venture Capital Fund	GBP	5
Coller International Partners IV	USD	10
Schroders Private Equity Fund of Funds III	EUR	22
DCM Private Equity Fund II	USD	18
Pantheon Europe Fund V	EUR	15
Coller International Partners V	USD	18
Catapult Growth Fund LP	GBP	4
Altius Associates Private Equity Fund	USD	10
Partners Group Secondary 2008	EUR	13
DCM Private Equity Fund III	USD	16
Coller International Partners VI	USD	16
Altius Associates Private Equity Fund II	USD	15
Foresight Nottingham Fund LP	GBP	10
Aberdeen SVG Private Equity	USD	15
DCM Private Equity Fund IV	USD	16
Coller International VII	USD	16
Pantheon Multi-Strategy	EUR	14
Infrastructure Funds		
Partners Group Global Infrastructure	EUR	12
Altius Real Assets Fund I	USD	15
Hermes GPE Infrastructure Fund LP	GBP	25

These commitments are drawn by the funds over time as investments are made in underlying companies or assets. The undrawn commitments as at 31 March 2016 were £93.3 million (£75.7 million at 31 March 2015). Of the funds above, the following were new commitments made during 2015/16:

Funds	Currency	Commitment millions
Coller International VII	USD	16
Pantheon Multi-Strategy	EUR	14
Hermes GPE Infrastructure Fund LP	GBP	25

h) Analysis of derivatives

Open Forward Foreign Exchange contracts at 31 March 2016

Settlement	Currency Bought	Local Value £000	Currency Sold	Local Value £000	Asset Value £000	Liability Value £000
Up to 3 months	GBP	2,150	EUR	(2,750)	-	(35)
Up to 3 months	GBP	14,323	USD	(20,300)	203	
					203	(35)
Total net forward foreign exchange contracts					168	

Open Forward Foreign Exchange contracts at 31 March 2015

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

11 CONTINGENT LIABILITIES

The fund has 22 private equity and infrastructure funds which have undrawn commitments as at 31 March 2016 of £93.3 million (£75.7 million at 31 March 2015).

12 OTHER INVESTMENT BALANCES AND LIABILITIES

	31 March 2015 £000	31 March 2016 £000
Other investment balances		
Outstanding investment transactions	1,364	-
Investment income	20,204	23,802
	21,568	23,802
Contingent Liabilities		
Outstanding investment transactions	(1,728)	(4,699)
Investment income	(2,843)	(3,040)
	(4,571)	(7,739)

13 CURRENT ASSETS AND LIABILITIES

	31 March 2015 £000	31 March 2016 £000
Current Assets		
Contributions due from employers	8,951	8,829
Other	5,247	4,369
	14,198	13,198
Current Liabilities		
Payments in advance	-	-
Sundry creditors	(794)	(1,212)
Other	(1,490)	(212)
	(2,284)	(1,424)

14 FINANCIAL INSTRUMENTS

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

31 March 2016

	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	Totals £000
Financial Assets				
Fixed Interest Securities	421,376	-	-	421,376
Equities	1,885,900	-	-	1,885,900
Pooled Investment Vehicles	1,025,118	-	-	1,025,118
Property Pooled Vehicles	169,618	-	-	169,618
Forward Foreign Exchange	168	-	-	168
Cash deposits	-	193,339	-	193,339
Other investment balances	-	23,802	-	23,802
Current Assets	-	13,198	-	13,198
	3,502,180	230,339	-	3,732,519
Financial Liabilities				
Investment Liabilities	-	-	(7,739)	(7,739)
Current Liabilities	-	-	(1,424)	(1,424)
	-	-	(9,163)	(9,163)
	3,502,180	230,339	(9,163)	3,723,356

31 March 2015

	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	Totals £000
Financial Assets				
Fixed Interest Securities	412,853	-	-	360,883
Equities	1,983,371	-	-	1,818,478
Pooled Investment Vehicles	1,068,228	-	-	972,048
Property Pooled Vehicles	131,621	-	-	119,084
Forward Foreign Exchange	-	-	-	191
Cash deposits	-	131,916	-	153,469
Other investment balances	-	21,568	-	21,670
Current Assets	-	14,198	-	10,033
	3,596,073	167,682	-	3,455,856
Financial Liabilities				
Investment Liabilities	-	-	(4,571)	(4,571)
Current Liabilities	-	-	(2,284)	(2,284)
	-	-	(6,855)	(6,855)
	3,596,073	167,682	(6,855)	3,756,900

No financial assets were reclassified during the accounting period.

b) Valuation of financial instruments carried at fair value

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

Level 1 Fair values derived from quoted market price.

- this includes all quoted equity, fixed interest and index linked instruments.

Level 2 Fair values derived from valuation techniques based significantly on observable inputs.

- this includes all pooled property investments.

Level 3 Fair values derived from valuation techniques where at least one significant input is not based on observable market data.

- this includes unlisted shares and investments in private equity funds.

As at 31 March 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	3,245,641	169,618	86,921	3,502,180
Loans and receivables	230,339	-	-	230,339
Total	3,475,980	169,618	86,921	3,732,519
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(9,163)	-	-	(9,163)
Total	(9,163)	-	-	(9,163)
Net	3,466,817	169,618	86,921	3,723,356
As at 31 March 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	3,389,401	131,621	77,791	3,270,684
Loans and receivables	167,682	-	-	185,172
Total	3,557,083	131,621	77,791	3,455,856
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(6,855)	-	-	(6,855)
Total	(6,855)	-	-	(6,855)
Net	3,550,228	131,621	75,051	3,756,900

c) Nature and extent of risks arising from financial instruments

The aims of the Fund are to:

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

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

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

The Risk Register identifies the highest risks as arising from:

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

Actions have been agreed to mitigate these risks.

The Fund's primary risk is that its assets fall short of its long term liabilities. The Funding Strategy Statement states that the funding objectives are to:

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

The most significant effect on the funding level arises from changes in the discount rate used by the actuaries. The sensitivity analysis below (prepared by the Fund's actuaries) shows the impact of a movement of 0.1% in the discount rate.

Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present Value of Total Obligation (£000)	6,541,542	6,665,990	6,792,930

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

For the first time in 2013/14 there was a net withdrawal from dealings with members. The net withdrawal in 2014/15 would have been marginal but for the transfer out in respect of the Nottinghamshire Probation Trust. The net withdrawal in 2015/16 was again marginal.

The Fund continues to receive significant investment income and is therefore unlikely to need to sell assets in order to meet pension benefits. This allows the Fund to implement a long term investment strategy and minimise the impact of short term fluctuations in investment and currency markets. The strategy, and the assumptions that underpin it, are reviewed on a regular basis and cash flows are monitored closely to ensure there is sufficient liquidity to meet forecast cash flows.

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

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

15 MEMBERS ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

	31 March 2015	31 March 2016
	£000	£000
Prudential	33,573	32,802
Scottish Widows	3,298	3,221
	36,871	36,023

16 RELATED PARTY TRANSACTIONS

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

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

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

Disclosures are required for:

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

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

Governance Compliance Statement

1 Introduction

- 1.1 This is the governance compliance statement of the Nottinghamshire pension fund which is part of the Local Government Pension Scheme and administered by Nottinghamshire County Council (the council). The statement has been prepared as required by the Local Government Pension Scheme (Administration) Regulations 2008.

2 Governance Arrangements

- 2.1 Under the terms of the council's constitution, the functions of the council as administering authority of the pension fund are delegated to the Nottinghamshire Pension Fund Committee. This is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).
- 2.2 The Nottinghamshire Pension Fund Committee meets four times a year and its members act in a quasi-trustee capacity. Under the constitution, it is responsible for Administering the Nottinghamshire Pension Fund, including investments by and management of pension funds.
- 2.3 The Pensions Investment Sub-Committee has responsibility for investment performance management of the Fund Managers and making appropriate recommendations to the Nottinghamshire Pension Fund Committee. Meetings are held four times a year. The sub-committee may appoint a working party to consider future policy & development.
- 2.4 The Pensions Sub-Committee has responsibility for making recommendations to the Nottinghamshire Pension Fund Committee on matters relating to the administration and investment of the Pension Fund. Meetings are held four times a year.

- 2.5 The number of voting members of the Nottinghamshire Pension Fund Committee is determined by the Council at its annual meeting. The number of voting members of the sub-committees is determined by the Nottinghamshire Pension Fund Committee on the basis of the council's constitution.

3 Functions and Responsibilities

- 3.1 The Nottinghamshire Pension Fund Committee separately approves the pension fund's Funding Strategy Statement, Statement of Investment Principles, Risk Management Strategy and Communications Strategy Statement.
- 3.2 The Funding Strategy Statement sets out the aims and purpose of the pension funds and the responsibilities of the administering authority as regards funding the scheme. Funding is the making of advance provision to meet the cost of accruing benefit promises and the long term objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee, advised by the two Sub-Committees.
- 3.3 The Statement of Investment Principles sets out more detailed responsibilities relating to the overall investment strategy of the funds including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also covers the funds' policy on trustee training and expenses and states the funds' approach to socially responsible investment and corporate governance issues. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee, advised by the two Sub-Committees.

- 3.4 Financial Regulations specify that the Service Director (Finance) is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).
- 3.5 The Risk Management Strategy aims to reduce or eliminate risks which may jeopardise the achievement of the Fund's key objectives. It includes a risk register that identifies and prioritises the main risks to the operation of the fund. Responsibility for the Risk Management Strategy is delegated to the Nottinghamshire Pension Fund Committee, advised by the two Sub-Committees.
- 3.6 The Communications Strategy Statement details the overall strategy for involving stakeholders in the pension funds. The stakeholders identified are:
- trustees
 - current and prospective scheme members
 - scheme employers
 - administration staff
 - other bodies.

Responsibility for the communications strategy is delegated to the Nottinghamshire Pension Fund Committee, advised by the Pensions Sub-Committee.

4 Representation

- 4.1 The Nottinghamshire Pension Fund Committee has 9 members all of whom are current county councillors. The political make-up of the committee is in line with the current council and the chair is normally appointed by Council. All members have full voting rights.
- 4.2 The Pensions Investment Sub-Committee has 17 members consisting of the following representatives:
- County Councillors (9)
 - Nottingham City Council (3)
 - Nottinghamshire Local Authorities' Association (2)
 - scheduled and admitted bodies (1)
 - trade unions (2)
- 4.3 The Pensions Sub-Committee has 19 members consisting of the following representatives:
- County Councillors (9)
 - Nottingham City Council (3)
 - Nottinghamshire Local Authorities' Association (2)
 - scheduled and admitted bodies (1)
 - trade unions (2)
 - pensioners (2)
- 4.4 All members on both sub-committees have voting rights where allowed by relevant regulation.
- 4.5 Meetings of the Sub-Committees are also attended by officers of the County Council and an independent adviser. This ensures the Sub-Committees have access to "proper advice" as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Proper advice is defined as the advice of a person who is reasonably believed to be qualified by their ability in and practical experience of financial matters. This includes any such person who is an officer of the administering authority.

5 Stakeholder Engagement

- 5.1 An annual meeting of the pension funds is held in October to which all employer representatives and scheme members are welcome. The purpose of the meeting is to report on investment performance and current issues of concern to the pension funds.
- 5.2 A number of other initiatives to involve stakeholders are currently in place including:
- regular employers meetings
 - meetings between employers and actuaries
 - Nottinghamshire Finance Officers meetings
 - the annual report for the pension funds
 - Nest Egg magazine for all members
 - Pensions road shows at various venues around the County
 - dedicated pension fund web site.

6 Review and Compliance with Best Practice

- 6.1 This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the pension funds.
- 6.2 The regulations require a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. The guidance contains best practice principles and these are shown below with the assessment of compliance.

Ref.	Principles	Compliance and Comments
A	Structure	
a.	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully compliant
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Fully compliant
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Fully compliant
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Fully compliant
B	Representation	
a.	<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i employing authorities (including non-scheme employers, eg, admitted bodies); ii scheme members (including deferred and pensioner scheme members), iii independent professional observers, and iv expert advisors (on an ad-hoc basis). 	<p>Fully compliant</p> <p>The sub-committees include representatives from employing authorities, scheduled and admitted bodies and scheme members. An independent adviser attends the sub-committee meetings.</p>
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Fully compliant
C	Selection and role of lay members	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	<p>Fully compliant</p> <p>All members of the Nottinghamshire Pension Fund Committee and its sub-committees are aware of their responsibilities for the oversight of the funds.</p>
D	Voting	
a.	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant

Ref	Principles	Compliance and Comments
E	Training/facility time/expenses	
a.	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant Members are encouraged to receive suitable training to help them discharge their responsibilities including attending training courses, conferences and meetings. Travel and subsistence arrangements are those which prevail for the County Council.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Fully compliant
F	Meetings (frequency/quorum)	
a.	That an administering authority's main committee or committees meet at least quarterly.	Fully compliant The Nottinghamshire Pension Fund Committee meets 4 times a year.
b.	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Fully compliant The Pensions Sub-committee meets 4 times a year. The Investment Sub-Committee meets 4 times a year.
c.	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Fully compliant
G	Access	
a.	That subject to any rules in the councils constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant
H	Scope	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant Scheme issues are decided by the Nottinghamshire Pension Fund Committee after consideration at the Pensions Sub-committee.
I	Publicity	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant The governance compliance statement is published on the pension fund website and is included with the relevant committee report (available on the County Council website).

Funding Strategy Statement

Introduction

- 1 This is the Funding Strategy Statement (FSS) for the Nottinghamshire County Council Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”) and describes Nottinghamshire County Council’s strategy, in its capacity as Administering Authority, for the funding of the Nottinghamshire County Council Pension Fund (“the Fund”).
- 2 The Statement describes a single strategy for the Fund as a whole. The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

Purpose of the Funding Strategy Statement

- 3 The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:
 - How the costs of the benefits provided under the Local Government Pension Scheme (the “Scheme”) are met through the Fund
 - The objectives in setting employer contribution rates
 - The funding strategy that is adopted to meet these objectives.

Purpose of the Fund

- 4 The purpose of the Fund is to:
 - Pay pensions, lump sums and other benefits provided under the Regulations
 - Meet the costs associated in administering the Fund
 - Receive contributions, transfer values and investment income.

Funding Objectives

- 5 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.
- 6 The funding objectives are to:
 - Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund
 - Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

Key Parties

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

The Administering Authority

- 8 The Administering Authority for the Pension Fund is Nottinghamshire County Council. The main responsibilities of the Administering Authority are to:
 - Collect employee and employer contributions
 - Invest the Fund’s assets
 - Pay the benefits due to Scheme members
 - Manage the actuarial valuation process in conjunction with the Fund Actuary
 - Prepare and maintain this FSS and also the Statement of Investment Principles (SIP) after consultation with other interested parties as appropriate
 - Monitor all aspects of the Fund’s performance.

Scheme Employers

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

Fund Actuary

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

Funding Strategy

- 11 The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

- 12 The actuarial valuation involves a projection of future cash flows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

Funding Method

- 13 The key objective in determining employer's contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.
- 14 The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new staff access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.
- 15 For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:
- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit

- The future service funding rate which is the level of contributions required from the individual employers which, in combination with employee contributions, is expected to support the cost of benefits accruing in future.

- 16 The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.
- 17 For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

Valuation Assumptions and Funding Model

- 18 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover.
- 19 The assumptions adopted at the valuation can therefore be considered as:
- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid
 - The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.
- 20 An explanation of these key assumptions is included in the following paragraphs but further details of all of the assumptions adopted can be found in the latest actuarial valuation report.

Future Price Inflation

- 21 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

Future Pay Inflation

- 22 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term.

Future Pension Increases

- 23 Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Future Investment Returns/Discount Rate

- 24 To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values. The discount rate that is adopted will depend on the funding target adopted for each employer.

- 25 For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate.
- 26 For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer becomes an exiting employer under Regulation 64. The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.
- 27 The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Asset Valuation

- 28 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

- 29 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Deficit Recovery/Surplus Amortisation Periods

- 30 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different from the value of accrued liabilities, depending on how the actual experience of the Fund differs from the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.
- 31 Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers’ contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.
- 32 The period that is adopted for any particular employer will depend on:
- The significance of the surplus or deficit relative to that employer’s liabilities
 - The covenant of the individual employer and any likely limited period of participation in the Fund
 - The implications in terms of stability of future levels of employers’ contribution.

Pooling of Individual Employers

- 33 The general policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.
- 34 However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

- 35 The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Cessation Valuations

- 36 On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.
- 37 In assessing the financial position on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions from those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

Links with the Statement of Investment Principles

- 38 The main link between the FSS and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the SIP.
- 39 As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and Counter Measures

- 40 The main link between the FSS and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the SIP.
- 39 As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

Financial Risks

- 42 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.
- 43 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5 per cent per annum in the real discount rate will decrease/increase the valuation of the liabilities by 10 per cent, and decrease/increase the required employer contribution by around 2.5 per cent of payroll.
- 44 However, the Pensions Investment Sub-Committee regularly monitors the investment returns achieved by the fund managers and receives advice from officers and independent advisers on investment strategy.
- 45 The Committee may also seek advice from the Fund Actuary on valuation related matters. In addition, the Fund Actuary may provide funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic Risks

- 46 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.
- 47 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.
- 48 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements. However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory Risks

- 49 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. Regulations also place certain limitations on how the assets can be invested. The tax status of the invested assets is also determined by the Government.
- 50 The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.
- 51 However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Employer Risks

- 52 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:
- Structural changes in an individual employer's membership
 - An individual employer deciding to close the Scheme to new employees
 - An employer ceasing to exist without having fully funded their pension liabilities.
- 53 The Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.
- 54 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Monitoring and Review

- 55 This FSS is reviewed formally, in consultation with the key parties as appropriate, at least every three years to tie in with the triennial actuarial valuation process.
- 56 The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Statement of Investment Principles

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 2009 (the “Investment Regulations”) govern the management of the pension fund and the investment of fund money. According to Regulation 12 of the Investment Regulations an administering authority is required to prepare, maintain and publish a Statement of Investment Principles (SIP).
- 3 The SIP must cover policy on:
 - the types of investment to be held
 - the balance between different types of investments
 - risk, including the ways in which risks are to be measured and managed
 - the expected return on investments
 - the realisation of investments
 - the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
 - the exercise of the rights (including voting rights) attaching to investments
 - stock lending.
- 4 The SIP must also state the extent to which the administering authority complies with relevant guidance given by the Secretary of State, and give reasons for any areas of non-compliance. The relevant guidance is published by CIPFA in the *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012*. This provides best practice for managing investments and includes a guide to the application of the 2008 *Investment Governance Group Principles* to LGPS funds.

Purpose of the Fund

- 5 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.

Principles

- 6 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 the suitability of types of investment will be obtained and considered at reasonable intervals.
 - The Fund will aim to conduct its business and to use its influence in a long term responsible way.

Key Parties

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

The Administering Authority

- 8 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.
- 9 The members of the Committees act in a quasi-trustee capacity and are hereafter referred to as "Trustees".

Trustees

- 10 The Trustees recognise their full responsibility for the oversight of the Fund, and operate to a Code of Conduct. The Trustees shall:
- Determine the overall investment strategy, and what restrictions, if any, are to be placed on particular types and market locations of investments
 - Determine the type of investment management to be used and appoint and dismiss fund managers
 - Receive quarterly reports on performance from the main fund managers and question them regularly on their performance
 - Receive independent reports on the performance of fund managers on a regular basis
 - Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.

Chief Finance Officer

- 11 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 Strategy & Compliance) is the deputy Section 151 Officer. Financial Regulations specify that the Section 151 Officer is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).
- 12 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
- 13 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

- 14 The Fund has an Independent Adviser who attends meetings of the Pensions Investment Sub-Committee, Pensions Sub-Committee and Pensions Working Party as required.
- 15 The independent adviser is engaged to provide advice on:
- the objectives and policies of the fund
 - investment strategy and asset allocation
 - the fund's approach to responsible investment

- choice of benchmarks
- investment management methods and structures
- choice of managers and external specialists
- activity and performance of investment managers 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.

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 returns from 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.
- 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:

Asset Class	Expected Return (pa)
Equities	6.7%
Gilts	3.3%
Corporate Bonds	3.9%
Property	5.8%
Cash	3.1%
Discount Rate	6.0%

- 20 At the latest valuation, the Fund was assessed to have a deficit of £620m and a funding level of 85%. 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.
- 21 The agreed asset allocation ranges for the Fund are shown below along with the Fund's strategic benchmark and liability based benchmark.

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

- 22 These ranges will be kept under regular review. 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. The proportions are those aimed at achieving best returns within acceptable risk parameters. The Fund will vary between the asset classes according to market circumstances, relative performance and cash flow requirements.
- 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.
- 25 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).
- 27 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.
- 28 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.
- 29 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.

Investment Policy

- 25 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).
- 26 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
- 30 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.
- 31 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 Statement of Investment Principles will be revised accordingly.

Risk Management

- 32 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.
- 33 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.
- 34 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.
- 35 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.
- 36 The correlation between UK and overseas markets has increased significantly over recent time, reflecting the increasing globalisation of the market. The Fund will therefore make no distinction between the relative holdings of UK and overseas equities, but will take into account exchange rate risks when deciding the balance. 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.
- 37 In addition, the following constraints will apply. These constraints will be reviewed from time to time, and if changes are made, these will be incorporated into a revised Statement of Investment Principles, 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.
 - 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

- 38 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.
- 39 The Fund has an independent adviser who will be present at meetings of the Sub-Committee along with appropriate officers of the administering authority. This is considered best practice in accordance with the requirements for "proper advice" in the governing regulations.
- 40 The investment management arrangements of the Fund can be found in the latest annual report (available on the Fund's website, www.nottspf.org.uk). The Fund also publishes details of its holdings on the website on a quarterly basis.
- 41 This Statement of Investment Principles will be kept under review and will be revised following any material changes in policy.
- 42 The following appendices are attached:
- Appendix A – the Fund's Statement on Responsible Investment
 - Appendix B – compliance with the *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012*.

Appendix A

Statement on Responsible Investment

1 Statement of Principles

- 1.1 The Nottinghamshire Fund adopts a long term approach to responsible investment. The Trustees recognise their full responsibility for the oversight of the Funds and are charged with determining the overall investment strategy and the type of investment management used. The investment strategy is aimed at achieving best returns whilst minimising risk and overall variability in future employers' contribution rates. Environmental, social and governance (ESG) issues will be taken into account where these are considered likely to impact on returns.
- 1.2 The Fund supports best practice in corporate governance and adopts the Stewardship Code as recommended by the *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012*. The Code states that institutional investors should:
- Publicly disclose their policy on how they will discharge their stewardship responsibilities.
 - Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
 - Monitor their investee companies.
 - Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
 - Be willing to act collectively with other investors where appropriate.
 - Have a clear policy on voting and disclosure of voting activity.
 - Report periodically on their stewardship and voting activities.

- 1.3 The Fund has adopted a number of specific policies to implement its approach to long term responsible investment and its responsibilities under the Stewardship Code.

2 Policies Adopted

- 2.1 The Fund adopts a policy of positive engagement with the companies in which it invests in order to promote high standards of corporate governance. It believes that this will help to raise standards across all markets and that this is in the best long term interests of the Fund, its beneficiaries and other stakeholders.
- 2.2 Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance. The Fund also holds a number of investments that specifically focus on engaging with the management of under-performing companies in order to generate superior returns.
- 2.3 The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Fund actively supports the work of LAPFF and sees this as an important element of its stewardship responsibilities.
- 2.4 The Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds. The Fund retains responsibility for voting (rather than delegating this to investment managers) and proxy votes are submitted for the majority of its global equity holdings.

2.5 Voting is in line with corporate governance best practice and the Fund subscribes to independent research services for voting advice. Voting activity is reported to the Pensions Sub-Committee and disclosed on the Fund website. In exceptional circumstances the Fund will combine with others on a specific issue but only after appropriate consultation.

2.6 In order to ensure ownership rights can be exercised, the Fund holds and will continue to hold, investments in its own name where possible, rather than in the name of investment managers. It will continue to oppose those processes, such as stock lending, which also deprive the Fund of the ability to meet its corporate governance objectives.

Appendix B

Summary of Compliance with the Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
1. Effective Decision Making a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation. b) Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	<ul style="list-style-type: none"> • Separate Committee responsible for the Pension Fund. • Governance Compliance Statement published. • Roles of Members, officers, external advisors and managers defined. • Committee has specified appropriate skills. • Skills and knowledge audit of Committee's membership occur. • Committee has sub committees or a panel to progress significant areas between meetings of the Committee. • Committee obtains proper advice from officers and external investment managers. • Training plan for Members in place. • Papers and reports should be clear and comprehensive and circulated in advance of meetings. • A medium term business plan for the Pension Fund should be in place. 	Generally compliant	1. A training needs assessment will be carried out with members of the Committees.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
<p>2. Clear Objectives</p> <p>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</p>	<ul style="list-style-type: none"> In setting objectives, the Committee has considered: <ul style="list-style-type: none"> the fund's liabilities the adequacy of assets the maturity of the Fund's liabilities its cashflow and has sought proper advice. Risk is considered as part of the asset allocation strategy. Funding levels and employer contribution rates are considered and the advice of the Actuaries sought. The Committee considers whether to request an Asset Liability Study. The Committee states the range of investments it is prepared to include in its asset allocation and say why some asset classes may have been excluded. The Committee takes proper advice, including from specialist independent advisors where appropriate. Advisors are appointed in open competition and are set performance objectives. The Committee understands transaction related costs incurred, including commission, and has a strategy for ensuring these costs are properly controlled. 	Generally compliant	<p>2. A report is provided to a future Sub-Committee on transaction related costs.</p>

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
3. Risk and Liabilities a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. b) These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	<ul style="list-style-type: none"> ● The Committee sets an overall investment objective for the fund that represents its best judgement of what is necessary to meet the fund's liabilities and takes account of the Committee's attitude to risk. ● Appropriate performance benchmarks have been set. ● The Statement of Investment Principles includes a description of the risk assessment framework used for potential and existing investments. ● The triennial valuation includes a risk assessment in relation to the valuation of its liabilities/assets and factors affecting long term performance. ● The Committee uses internal and external audit reports to satisfy itself on the fund's internal controls. ● The Investment Strategy is suitable for the fund's objectives and takes account of the ability to pay of the employers in the fund. ● The Annual Report includes an overall risk assessment in relation to each of the fund's activities. 	Generally compliant	<ol style="list-style-type: none"> 3. The triennial valuation report is presented to the Pensions Investment Sub-Committee highlighting key factors such as the need for risk assessments in relation to the Fund's liabilities and assets. 4. Relevant Audit reports be presented to future Sub-Committees as appropriate. 5. Undertake employer risk analysis and consider actions arising to mitigate risks to the Fund.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
4. Performance Assessment a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	<ul style="list-style-type: none"> ● The Committee should consider whether existing index benchmarks are appropriate and consider whether active or passive management are appropriate for managing the Fund's assets. ● Performance targets in relation to a benchmark should specify clear time periods and risk limits, and monitoring arrangements should include reports on tracking errors. ● In addition to overall Fund returns, the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed. ● Although returns will be measured quarterly, a longer timeframe (typically 3–7 years) should be used to assess the effectiveness of Fund management arrangements. ● Returns should be obtained from specialist performance measurement agencies independent of the fund managers. ● Actuarial services should be market tested periodically. ● When assessing managers and advisors, the extent to which decisions have been delegated should be considered. ● The Committee should set out its expectations of its own performance in its business plan which should be assessed and reported in the fund's Annual Report. 	Generally compliant	<ol style="list-style-type: none"> 6. Reports on Fund performance from the Fund's performance measurement agency are presented to the Pensions Sub-Committee. 7. The Fund's strategic and portfolio benchmarks to are kept under regular review. 8. The Sub Committees to consider setting a performance framework to help assess their own performance.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
<p>5. Responsible Ownership</p> <p>Administering Authorities should:</p> <p>a) adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents</p> <p>b) include a statement of their policy on responsible ownership in the Statement of Investment Principles</p> <p>c) report periodically on the discharge of such responsibilities.</p>	<ul style="list-style-type: none"> ● Policies regarding responsible ownership must be disclosed in the statement of Investment Principles. ● The Committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the Committee's policy. ● Funds should be aware of the ISC Code on the Responsibilities of Institutional Investors and the United Nations Environment Programme Finance Initiative. ● Authorities may wish to consider seeking alliances with other pension funds to enhance its influence on environmental, social and governance issues e.g. LAPFF. 	Compliant	<p>9. The Statement on Responsible Investment within the Statement of Investment Principles to be updated as necessary to reflect guidance available and presented to the Pensions Sub-Committee as appropriate.</p>

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
<p>6. Transparency and Reporting</p> <p>Administering Authorities should:</p> <p>a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.</p> <p>b) provide regular communication to scheme members in the form they consider most appropriate.</p>	<ul style="list-style-type: none"> • The Governance Compliance Statement should be maintained regularly. • The Communication Statement should contain sufficient information. • The Annual Report should be compared to the regulations setting out the required content. • The content of the Statement of Investment Principles, the Funding Strategy Statement and the Governance Compliance Statement should comply with the relevant guidance and requirements. 	Compliant	<p>10. The core source documents namely the Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement and the Communication Statement continue to be updated as necessary to reflect guidance available and presented to the Pensions Sub-Committee as appropriate.</p>

Communications Strategy Statement

1 Purpose

- 1.1 The aim of this communications strategy is to ensure that all stakeholders are kept informed of current and future developments within the Pension Fund and that our communications are clear, concise and accessible to all.

2 Background

- 2.1 The Local Government Pension Scheme is one of the most important benefits an employer may offer, and the giving of information and its feedback can only enhance the operation of the fund. An effective communications strategy is therefore vital for an organisation like ours which strives to provide a high quality, cost effective and consistent service to its customers. The impact that good communication has on the efficient running of the fund cannot be understated.
- 2.2 The requirement to produce a communication strategy originates from the Office of the Deputy Prime Minister who issued the Local Government Pension Scheme (Amendment) (No.2) Regulations 2005, which obliged each pension fund administering authority to prepare and publish and maintain a policy statement on governance, and a policy statement on its communication strategy. The Local Government Pension Scheme Regulations 2013 provides the current legislative basis for both governance (regulation 55) and communication (regulation 61) requirements.
- 2.3 The policy statement on the communication strategy is required to set out how the authority would communicate with members, members' representatives, prospective members and employing authorities; and for the promotion of the Scheme to prospective members and their employing authorities.

- 2.4 A report was presented to the Pensions Administration Sub-Committee on 24 October 2005, outlining key aspects of a Communications Strategy and based on the views of the Committee the final draft is as noted below in section 3.
- 2.5 The contents of this statement will be subject to review and revision following a material change in policy.

3 Strategy

- 3.1 This report intends to consult the Committee about the potential and the scope of communications. The report sets out the mechanisms which are to be used to meet those communication needs. The Pensions Office would use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication.
- 3.2 There are six distinct groups with whom the Pensions Office needs to communicate with:
- a) Trustees
 - b) Scheme Members
 - c) Prospective Scheme Members
 - d) Scheme Employers
 - e) Administration Staff
 - f) Other Bodies

Trustees

- 3.3 The Pensions Office would aim to develop a micro site on the County Council Intranet to contain relevant information for Trustees with regard to training and the roles of the trustees. The development of knowledge and training can be provided by Officers under investment and administration matters, and supplemented by attendance at relevant external training sessions, conferences, and seminars. The role of the Trustees can be supplemented through the Pensions Committee, Investment Committee, and the Pensions Administration

Sub Committee, at which specific advice can be provided by Officers. All the respective Committees will be provided with information and reports on all relevant pension matters, and where approval and leadership on issues is required.

- 3.4 It is worth noting the ten investment principles as set out in the Myner's report in relation to the role of Trustees and Fund Management. The principles are as set out below:

- a) Effective Decision Making
- b) Clear Objectives
- c) Focus on Asset Allocation
- d) Expert Advice
- e) Explicit Manager Mandates
- f) Activism
- g) Appropriate Benchmarks
- h) Performance Measurement
- i) Transparency
- j) Regular Reporting

The Pension Fund already complies with most parts of the principles, and the extent of compliance is disclosed in the Statement of Investment Principles. There is currently a Government Treasury Working Party which is looking to assess the extent of compliance by Pension Funds generally, and it is already apparent that Public Sector Schemes are doing better than Private Sector Schemes. Nevertheless, the Working Party is likely to reemphasise the importance of Trustees having 'familiarity' with investment matters.

Scheme Members

- 3.5 The Pensions Office would aim to develop an extensive internet website containing scheme details, scheme leaflets, etc. There would be links to other organisations relevant to scheme members, e.g. Employers, AVC Providers, Employers' Organisations, etc.

- 3.6 The publication of 'Nest Egg' for Active Members and Pensioners would continue, which would target specific issues related to their needs. The communications with Pensioners needs to be developed in the context of informing on pertinent issues, such as Health, Finances, etc. It is intended that the Pensions Office would liaise with Employers to ascertain up to date address details of members in order to send the 'Nest Egg' to home addresses. It would then request members to inform the office of any address changes. This would ensure that all Active Members of the LGPS received a copy of the publication. We would also consider upon request attending various Pensioner forums or meetings to inform on issues or answer questions relating to the LGPS.

- 3.7 The Pensions Office would send Benefit Illustrations to all Active and Deferred Members. There is development work underway to improve upon the timing of the despatch of such illustrations, so that members receive the statements soon after the end of the previous year end.

- 3.8 An extensive range of scheme literature is produced by the Pensions Office and is supplied to employing bodies and Scheme Members directly. Copies of the scheme literature will form part of the website.

- 3.9 The Pensions Office continues to issue periodic pay advices to scheme pensioners. This can be utilised as a communication mechanism, as messages can be included on the advice, e.g. to reinforce the needs for pensioners to ensure that in the event of their demise or change of address that the service is notified promptly.

- 3.10 The Pensions Office utilises both surface and e-mail to receive and send correspondence.

- 3.11 A dedicated telephone help line has been established and is widely publicised in scheme literature.

- 3.12 The Pensions Office aims to provide more frequent Pensions Roadshows around the County, whilst undertaking satellite Roadshows and surgeries, as requested, by specific organisations.
- 3.13 There would be other miscellaneous actions taken for Scheme Members, such as Customer Satisfaction Surveys, Specific Customer Complaints and Commendations, and the tracking and contacting of Deferred Beneficiaries.

Prospective Scheme Members

- 3.14 As part of the Government's aim to encourage the public to save for the future, the Pensions Office would aim to target prospective members. This would be done by ensuring that all new appointees receive the scheme booklet. There would be specific information on the website for non-joiners and with data from Employers would focus on specific groups to market the scheme, e.g. by messages on payslips.
- 3.15 Staff from the Pensions Office would attend induction courses for new recruits to inform of the scheme and the benefits the LGPS offers. We would utilise the Pension Roadshows to, and in partnership with the Department of Works & Pensions and AVC Providers, target specific non-members to provide a more informed choice.
- 3.16 The Pensions Office would work with the Trade Unions to ensure that the scheme is understood, and that all related pension issues are communicated effectively through the Unions.

Scheme Employers

- 3.17 The Pensions Office aims to work in partnership with Scheme Employers to assist them in the application of the scheme. It is intended to establish a frequent 'dialogue meeting' with District Councils and other group Employers to pass information, and identify and resolve cases. A 'Technical Newsletter' would

be developed to communicate issues under current debate and any changes on Employer functions.

- 3.18 We currently have an Employer's Guide through which they are informed of administration responsibilities. An Internet site would be developed for manuals and scheme literature to be available for Employers.
- 3.19 It is intended that Employer Forums would be established to facilitate discussion with small employers and subsequently improve communication. Staff from the Pensions Office attend Pre-Retirement Courses at District Councils to inform retiring members of specific retirement issues.
- 3.20 The Pensions Office uses the 'CIVICA UPM' database to hold member records. It is intended to achieve greater web compatibility and the transmission of data electronically. Furthermore, we intend to develop systems so that major Employers have access through the internet to pension records of employees together with a calculation suite, for the provision of estimates direct to employees.

Administration Staff

- 3.21 The Pensions Office currently ensures that all new staff receive robust induction and training, so that they are able to undertake their duties and responsibilities effectively. The Pensions Office has Team Meetings and Management Team Meetings to discuss issues ranging from planning to communications. It is intended to establish an Issues Meeting which will require a cross section of staff from the Pensions Office to discuss issues and concerns.
- 3.22 There is currently an Intranet site for the administration staff called 'Documents on Line', which needs to be further developed. A Review Group would also be established to review on a periodic basis the Pensions Office's work practices and process, including communications.

Other Bodies

- 3.23 The Trade Unions are a valuable organisation for the Pensions Office to ensure that the details of the LGPS's availability are brought to their members' attention. The management of the Pensions Office regularly attend various national and regional forums to share issues of common interest and develop and establish best practice, i.e. the National Information Forum, and the East Midlands Pensions Officer Group. The Pension Manager attends the annual Pension Managers' conference in Torquay to discuss various common and pertinent issues. The meeting of the Additional Voluntary Contribution Providers are also attended on a regular basis to discuss various issues, and to, as required, circulate information to scheme members.
- 3.24 The Pensions Office is a member of the Pensions Benchmarking Club which is run by the Chartered Institute of Public Finance and Accountancy (CIPFA). We provide information on membership numbers and administration costs and subsequently benchmark our costs and service with all members and specified members of the Club.
- 3.25 Staff from the Pensions Office undertake visits to Comparator Administering Authorities to learn and share new practices and systems, and to facilitate new ideas and solutions which have a common goal.

Risk Management Strategy

Introduction

- 1 This is the Risk Management Strategy for the Nottinghamshire County Council Pension Fund. Risk Management is a key element in the Fund's overall framework of internal control and its approach to sound governance. However, it is not an end in itself, but a means of minimising the costs and disruption to the Fund caused by undesirable or unexpected events. The aim is to eliminate or reduce the frequency of risk events occurring (where possible and practicable) and minimise the severity of the consequences if they do occur.
- 2 Risk can be defined as any event or action which could adversely affect the Fund's ability to achieve its purpose and objectives. Risk management is the process by which:
 - risks are systematically identified
 - the potential consequences are evaluated
 - the element of risk is reduced where reasonably practicable
 - actions are taken to control the likelihood of the risk arising and reducing the impact if it does.
- 4 The funding objectives are to:
 - Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund
 - Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.
- 5 The following principles underpin the Fund's investment activity:
 - The Fund will aim to 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 the suitability of types of investment will be obtained and considered at reasonable intervals.
 - The Fund will aim to conduct its business and to use its influence in a long term responsible way.

Purpose and Objectives of the Fund

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

Key Parties

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

The Administering Authority

- 7 The Administering Authority for the Pension Fund is Nottinghamshire County Council. The main responsibilities of the Administering Authority are to:
 - Collect employee and employer contributions
 - Invest the Fund's assets
 - Pay the benefits due to Scheme members
 - Manage the actuarial valuation process in conjunction with the Fund Actuary

- Prepare and maintain the Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) after consultation with other interested parties as appropriate
- Monitor all aspects of the Fund's performance.

Scheme Employers

8 In addition to the Administering Authority, a number of other Scheme Employers, including Admission Bodies, participate in the Fund. The responsibilities of each Scheme Employer that participates in the Fund, including the Administering Authority, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales
- Notify the Administering Authority of any new Scheme members and any other membership changes promptly
- Exercise any discretions permitted under the Regulations
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures
- Notify the Administering Authority of significant changes in the employer's structure or membership.

Trustees

9 The members of the Nottinghamshire Pension Fund Committee and its Sub-Committees act in a quasi-trustee capacity and are hereafter referred to as "Trustees". The main responsibilities of the Trustees are to:

- Determine the overall investment strategy, and what restrictions, if any, are to be placed on particular types and market locations of investments

- Determine the type of investment management to be used and appoint and dismiss fund managers
- Receive quarterly reports on performance from the main fund managers and question them regularly on their performance
- Receive independent reports on the performance of fund managers on a regular basis
- Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.

Fund Actuary

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

- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations
- Advise on other actuarial matters affecting the financial position of the Fund.

Chief Finance Officer

11 Under the Council's constitution, the Service Director (Finance, 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 and Treasury Management).

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

Service Director (HR & Customer Service)

- 13 The Service Director (HR & Customer Service) is responsible for the Pensions Administration function, operated by the Pensions Office within the Business Support Centre. This function covers:
- Pensions administration and employers support
 - Pensions administration systems
 - Communications
 - Technical/performance support
- 14 Representatives of the Service Director (HR & Customer Service) provide advice to the Trustees on pension administration matters and attend meetings of the Pension Fund Committees as required.

Independent Adviser

- 15 The Fund has an Independent Adviser who attends meetings of the Pensions Investment Sub-Committee, Pensions Sub-Committee and Pensions Working Party as required.
- 16 The independent adviser is engaged to provide advice on:
- the objectives and policies of the fund
 - investment strategy and asset allocation
 - the fund's approach to responsible investment
 - choice of benchmarks
 - investment management methods and structures
 - choice of managers and external specialists

- activity and performance of investment managers and the fund
- the risks involved with existing or proposed investments
- the fund's current property portfolio and any proposals for purchases, sales, improvement or development
- new developments and opportunities in investment theory and practice.

Risk Management Strategy

- 17 The Pension Fund's Risk Management Strategy is to:
- a) identify key risks to the achievement of the Fund's aims
 - b) assess the risks for likelihood and impact
 - c) identify mitigating controls
 - d) allocate responsibility for the mitigating controls
 - e) maintain a risk register detailing the risk features in a)-d) above
 - f) review and update the risk register on an annual basis
 - g) report the outcome of the review to the Nottinghamshire Pension Fund Committee.
- 18 Risk Register is a key part of the Risk Management Strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved. These actions will link to the Service Plan process currently reported to the Nottinghamshire Pension Fund Committee in accordance with the *Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012*.

19 All staff involved in the Pension Fund and Members of the Nottinghamshire Pension Fund Committee and its two Sub-Committees need to have an appropriate level of understanding of risk and how risks affect the performance of the Fund. To consolidate the risk management process, the Pension Fund Committee will be asked to:

- agree the Risk Management Strategy
- approve the Risk Register and agreed actions
- receive and approve the Annual Governance Statement, which will comment upon the Fund's risk management process.

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

Risk Register

Objectives

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

Risk Assessment

- Identified risks are assessed separately and for each the following is determined:
 - the likelihood of the risk materialising
 - the severity of the impact/potential consequences if it does occur.
- Each factor is evaluated on a sliding scale of 1 to 5 with 5 being the highest value i.e. highest likelihood/most severe impact/consequences. The risk evaluation tables below have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value.

LIKELIHOOD:

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

IMPACT:

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

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

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

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

Red = Very High Priority

Take urgent action to mitigate the risk.

Orange = High Priority

Take action to mitigate the risk.

Yellow = Medium Priority

Check current controls and consider if others are required.

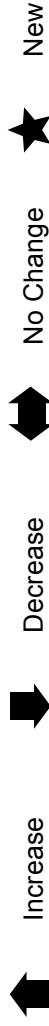
Green = Low Priority

No immediate action other than to set a review date to re-consider your assessment.

Nottinghamshire Pension Fund Risk Register - Summary

Risk	Inherent Risk		Current Risk	
	Rating	Change	Rating	Change
Risk Inv3 Fund assets are assessed as insufficient to meet long term liabilities.	16	↔	HIGH	★
Risk Adm1 Standing data & permanent records are not accurate.	16	↑	HIGH	★
Risk Inv4 Significant variations from assumptions used in the actuarial valuation.	12	↓	HIGH	★
Risk Gov3 An effective performance management framework is not in place.	12	↓	MEDIUM	★
Risk Inv1 Inappropriate investment strategy is adopted.	12	↔	MEDIUM	★
Risk Inv5b Custody arrangements.	12	↓	MEDIUM	★
Risk Adm2 Inadequate controls to safeguard pension fund records.	12	↔	MEDIUM	★
Risk Gov1 Pension Fund governance arrangements are not effective.	9	↔	MEDIUM	★
Risk Gov2 Pension Fund objectives are not defined and agreed.	9	↔	MEDIUM	★
Risk Gov4 Inadequate resources are available to manage the pension fund.	9	↑	MEDIUM	★
Risk Inv2 Fund cash is insufficient to meet its current obligations.	9	↔	MEDIUM	★
Risk Inv5a Fund manager mandates.	9	↔	MEDIUM	★
Risk Inv5d Financial Administration.	9	↔	MEDIUM	★
Risk Adm3 Failure to communicate adequately with all relevant stakeholders.	9	↑	MEDIUM	★
Risk Gov5 Failure to adhere to relevant legislation and guidance.	9	↑	LOW	★
Risk Inv5c Accounting arrangements.	6	↓	LOW	★
Risk Inv5e Stewardship.	6	↔	LOW	★

Key to risk rating change since previous version of Risk Register:



Governance

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

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	3	9	HIGH	↔
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> The Council's constitution clearly delegates the functions of administering authority of the pension fund to the Nottinghamshire Pension Fund Committee (NPF Committee), supported by two Sub-Committees. The terms of reference of each Sub-Committee are agreed. The Fund publishes a Governance Compliance Statement which details the governance arrangements of the Fund and assesses compliance with best practice. This is kept regularly under review. A training policy is in place which requires Members to receive continuing training and all new Members to attend the Local Government Employers training course. Officers of the Council attend meetings of the NPF Committee and Sub-Committees. The Fund has a formal contract for an independent adviser to give advice on investment matters. They are contracted to attend each meeting of the pension fund Sub-Committees. 				
Action Required	<ul style="list-style-type: none"> Continue to monitor via existing processes. 				
Responsibility	Group Manager (Financial Management) Group Manager (BSC) Group Manager (Legal Services)			Timescale On-going	

Governance

Risk: Gov2 - Pension Fund objectives are not defined and agreed.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	3	9	HIGH	↔
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> Purpose and objectives are outlined in the Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP). Both documents are approved by the NPF Committee and reviewed on a regular basis. 				
Action Required	<ul style="list-style-type: none"> Continue to monitor via existing processes. 				
Responsibility	NPF Committee Group Manager (Financial Management)			Timescale On-going	

Governance

Risk: Gov3 - An effective performance management framework is not in place.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	4	12	VERY HIGH	↓
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> Investment performance is reported quarterly to the Pensions Investment Sub-Committee. The Fund's main managers attend each quarter and officers receive regular updates from the Fund's other managers. Poor investment performance is considered by the Sub-Committees and referred for decision if necessary to the NPF Committee. Fund strategic benchmark has been implemented to improve monitoring of decisions regarding asset allocation and investment management arrangements. 				
Action Required	<ul style="list-style-type: none"> Consider performance monitoring framework for Fund Administration. 				
Responsibility	NPF Committee and Sub-Committees Group Manager (Financial Management) Group Manager (BSC)			Timescale March 2016	

Governance

Risk: Gov4 - Inadequate resources are available to manage the pension fund.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	3	9	VERY HIGH	↑
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> The pension fund is managed by the Pensions & Treasury Management and HR Pensions teams. Operating costs are recharged to the pension fund in accordance with regulations. Staffing levels and structures are kept under regular review. 				
Action Required	<ul style="list-style-type: none"> Continue to monitor via existing processes. 				
Responsibility	Group Manager (Financial Management) Group Manager (BSC)			Timescale On-going	

Governance

Risk: Gov5 - Failure to adhere to relevant legislation and guidance.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	3	9	HIGH	↑
Current Risk	2	2	4	LOW	★
Current Controls	<ul style="list-style-type: none"> • An established process exists to inform members and officers of statutory requirements and any changes to these. • Sufficient resources are in place to implement LGPS changes while continuing to administer the scheme. • Membership of relevant professional groups ensures changes in statutory and other requirements are registered before the implementation dates. 				
Action Required	• Continue to monitor requirements via appropriate sources.				
Responsibility	Group Manager (Financial Management) Group Manager (BSC) Senior Accountant - Pensions & TM			Timescale On-going	

Investments

Risk: Inv1 - Inappropriate investment strategy is adopted.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	4	12	VERY HIGH	↔
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> • The Investment Strategy is in accordance with LGPS investment regulations and is documented, reviewed and approved by the NPF Committee. • The Strategy takes into account the expected returns assumed by the actuary at the triennial valuation. • Investment performance is monitored against the Fund's strategic benchmark. • A regular review takes place of the Fund's asset allocation strategy by the Pension Fund Working Party. • An external advisor provides specialist guidance to the Pensions Investment Sub-Committee on the investment strategy. 				
Action Required	• Continue to monitor via existing processes.				
Responsibility	Group Manager (Financial Management) Senior Accountant - Pensions & TM			Timescale On-going	

Investments

Risk: Inv2 - Fund cash is insufficient to meet its current obligations.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	3	9	HIGH	↔
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> Fund cash flow is monitored daily and a summary fund account is reported to Pensions Investment Sub-Committee each quarter. Annual accounts are produced for the pension fund and these show the movements in net cash inflow Regular assessment of Fund assets and liabilities is carried out through actuarial valuations. The Fund's Investment and Funding Strategies are regularly reviewed. 				
Action Required	<ul style="list-style-type: none"> Continue to monitor via existing processes. 				
Responsibility	Investments Sub-Committee Group Manager (Financial Management) Senior Accountant (Pensions & TM)			Timescale On-going	

Investments

Risk: Inv3 - Fund assets are assessed as insufficient to meet long term liabilities.

	Likelihood	Impact	Risk Rating		
Inherent Risk	4	4	16	VERY HIGH	↔
Current Risk	3	3	9	HIGH	★
Current Controls	<ul style="list-style-type: none"> Fund assets are kept under review as part of the Fund's performance management framework. Regular assessment of Fund assets and liabilities is carried out through Actuarial valuations. The Fund's Investment and Funding Strategies are regularly reviewed. An external advisor provides specialist guidance to the Pensions Investment Sub-Committee on the investment strategy. 				
Action Required	<ul style="list-style-type: none"> Continue to monitor via existing processes. Review cash flow projections prepared by actuaries on a regular basis. 				
Responsibility	Investments Sub-Committee Group Manager (Financial Management) Senior Accountant (Pensions & TM)			Timescale On-going	

Investments

Risk: Inv4 - Significant variations from assumptions used in the actuarial valuation.

	Likelihood	Impact	Risk Rating		
Inherent Risk	4	3	12	HIGH	⬇️
Current Risk	3	3	9	HIGH	★
Current Controls	<ul style="list-style-type: none"> Actuarial assumptions are reviewed by officers and discussed with the actuaries. Sensitivity analysis undertaken on assumptions to measure impact. Valuation undertaken every 3 years. Monitoring of cash flow position and preparation of medium term business plan. Contributions made by employers vary according to their member profile. 				
Action Required	<ul style="list-style-type: none"> Continue to monitor via existing processes. Review cash flow projections prepared by actuaries on a regular basis. 				
Responsibility	Group Manager (Financial Management) Senior Accountant (Pensions & TM)			Timescale On-going	

Investments

Risk: Inv5 - Inadequate controls to safeguard pension fund assets.

Inv5a - Fund manager mandates.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	3	9	HIGH	↔️
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> Complete and authorised client agreements are in place. This includes requirement for fund managers to report quarterly on their performance. Client portfolios are managed in accordance with investment objectives. AAF 01/06 (or equivalent) reports on internal controls of service organisations are reviewed for external managers. In-House Fund has a robust framework in place which is regularly tested by internal audit. Fund Managers maintain an appropriate risk management framework to minimise the level of risk to Pension Fund assets. 				
Action Required	<ul style="list-style-type: none"> Continue to monitor via existing processes. 				
Responsibility	Group Manager (Financial Management) Senior Accountant (Pensions & TM)			Timescale On-going	

Investments

Inv5b - Custody arrangements.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	4	12	VERY HIGH	⬇️
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> • Complete and authorised agreements are in place with external custodian. • AAF 01/06 (or equivalent) report on internal controls of service organisations is reviewed for external custodian. • Regular reconciliations carried out to check external custodian records. • Where assets are custodied in-house, physical stock certificates are held in a secure cabinet to which access is limited. 				
Action Required	• Continue to monitor via existing processes.				
Responsibility	Group Manager (Financial Management) Senior Accountant (Pensions & TM)			Timescale On-going	

Investments

Inv5c - Accounting arrangements.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	2	6	MEDIUM	⬇️
Current Risk	2	2	4	LOW	★
Current Controls	<ul style="list-style-type: none"> • Pension Fund accounting arrangements conform to the Local Authority Accounting Code, relevant IFRS/IAS and the Pensions' SORP. • The Pension Fund subscribes to the CIPFA Pensions Network and Technical Information Service and officers attend courses as appropriate. • Regular reconciliations are carried out between in-house records and those maintained by external custodian and investment managers. • Internal Audits are carried out regularly. • External Audit review the Pension Fund's accounts annually. 				
Action Required	• Continue to monitor via existing processes.				
Responsibility	Group Manager (Financial Management) Senior Accountant (Pensions & TM)			Timescale On-going	

Investments

Inv5d - Financial Administration.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	3	9	HIGH	↔
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> • The pension fund adheres to the County Council's financial regulations with appropriate separation of duties and authorisation limits for transactions. • Daily cash settlements are made with external custodian to maximise returns on cash. • Investment transactions are properly authorised, executed and monitored. • Contributions due to the fund are governed by Scheme rules which are implemented by the Pensions Manager. • The Pension fund maintains a bank account which is operated within regulatory guidelines. 				
Action Required	• Continue to monitor via existing processes.				
Responsibility	Group Manager (Financial Management) Senior Accountant (Pensions & TM)			Timescale On-going	

Investments

Inv5e - Stewardship.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	2	6	MEDIUM	↔
Current Risk	2	2	4	LOW	★
Current Controls	<ul style="list-style-type: none"> • The pension fund aims to be a long term responsible investor and has adopted the FRC's Stewardship code. • The Fund is a member of Local Authority Pension Fund Forum (LAPFF) and National Association of Pension Funds (NAPF), and supports their work on shareholder engagement. • The pension fund has a contract in place for a proxy voting services. Voting is reported to the Pensions Sub-Committee each quarter and published on the Fund website. 				
Action Required	• Continue to monitor via existing processes.				
Responsibility	Group Manager (Financial Management) Senior Accountant (Pensions & TM)			Timescale On-going	

Administration

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

	Likelihood	Impact	Risk Rating		
Inherent Risk	4	4	16	VERY HIGH	↑
Current Risk	3	3	9	HIGH	★
Current Controls	<ul style="list-style-type: none"> • Business processes are in place to identify changes to standing data. • Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input. • Documentation is maintained in line with agreed policies. • Change of details form sent out to members alongside annual statement. • Data matching exercises (National Fraud Initiative) help to identify discrepancies. • Data cleansing has been undertaken as part of transfer to new Pensions Administration system. 				
Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. • Introduce quarterly monitoring of returns from major fund employers. 				
Responsibility	Group Manager (BSC)			Timescale On-going	

Administration

Risk: Adm2 - Inadequate controls to safeguard pension fund records.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	4	12	VERY HIGH	↑
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> • ICT Disaster Recovery Plan and Security Plan are agreed and in place. • New Data Centre and back up arrangements in place • Software is regularly updated to meet LGPS requirements. • Audit trails and reconciliations are in place. • Documentation is maintained in line with agreed policies • Physical records are held securely. 				
Action Required	<ul style="list-style-type: none"> • Continue to monitor via existing processes. 				
Responsibility	Group Manager (BSC)			Timescale On-going	

Administration

Risk: Adm3 - Failure to communicate adequately with all relevant stakeholders.

	Likelihood	Impact	Risk Rating		
Inherent Risk	3	3	9	HIGH	↑
Current Risk	2	3	6	MEDIUM	★
Current Controls	<ul style="list-style-type: none"> • A communications strategy is in place. • The Fund website is periodically updated and Nest Egg newsletter is published regularly. • The Fund has an annual meeting aimed at all participating employers. • The Pensions Sub-Committee has representatives of the County Council, City Council, Nottinghamshire Local Authorities, Trade Unions, Scheduled and Admitted Bodies. • Regular Pension road shows and communication takes place. • Meetings are held regularly with employers within the Fund. • Benefit Illustrations are sent annually to contributing and deferred Fund members. • Annual report, prepared in accordance with statutory guidelines, is published on the website. 				
Action Required	<ul style="list-style-type: none"> • Consider employer risk analysis to safeguard contributions to the Fund. • Carry out a review of the communications strategy. 				
Responsibility	Group Manager (BSC)			Timescale June 2015	

List of Active Fund Employers

A1 Housing Bassetlaw	Capita Managed IT Solutions Limited
ABM Catering Limited	Carers Federation
Active4Today Limited	Carillion Limited
Advance Housing and Support Ltd	Carillion Service (Farnborough)
Alderman White School	Carlton le Willows Academy
All Saints Catholic Voluntary Academy	Central College Nottingham
Ambleside Primary School	Change, Grow, Live
Archbishop Carnmer CE Academy	Channeling Positivity
Arnbrook Primary School	Chetwynd Primary
Arnold Hill Academy	Child Migrants Trust
Ashfield Citizens Advice Bureau	Chilwell School
Ashfield District Council	Christ The King School
Ashfield Homes	Citizens Advice Broxtowe
Ashfield School	Civica UK Ltd
Autism East Midlands	Clifton Advice Centre
Balderton Parish Council	Compass Contract Services
Barnby Road Trust	Cotgrave Candleby Lane School
Barnsley Premier Leisure	Cotgrave Town Council
Bassetlaw Citizens Advice Bureau	Cropwell Bishop Parish Council
Bassetlaw District Council	Diocese of Southwell & Nottingham
Becket School	Multi Academy Trust
Beech Academy	Disabilities Living Centre
Beeston Fields Primary & Nursery School	Djanogly City Academy
Bespoke Cleaning Services Limited	Djanogly Northgate Academy
BESTWOOD PARTNERSHIP FORUM	Djanogly Strelley Academy
Bilborough College	Dukeries Academy
Bilsthorpe Flying High Academy	East Bridgford St Peters CE Academy
Bingham Town Council	East Leake Academy
Birklands Primary School	East Midlands Crossroads - Caring for Carers
Bishop Alexander LEAD Academy	East Midlands Further Education Council
BKSB Limited	Edale Rise Primary and Nursery School
Blessed Robert Widmerpool Catholic School	Edna G Olds Academy
Blidworth Parish Council	Edwalton Primary School
Blue Bell Primary School	Edwinstowe Parish Council
Bluecoat Academy	Ernehale Junior School
Bluecoat Beechdale Aademy	Fairfield Primary Academy
Bramble Academy	Faith in Families
Bramcote Crematorium Joint Committee	Family Action
Bramcote Hills School	Family Care for Nottingham
Brocklewood Primary School	Farnborough Academy
Broxtowe Borough Council & Councillors	Farndon Parish Council
Brunts Academy	Fernwood Academy
Bulloughs Cleaning Services Limited	Firbeck Academy
Bulwell Academy	Foxwood Academy
Burton Joyce Parish Council	Framework Housing Association
Calverton Parish Council	Futures Advice, Skills and Employment Ltd

Gedling Borough Council
 George Spencer Academy
 Glapton Academy
 Glenbrook Primary School
 Good Shepherd Academy
 Greasley Parish Council
 Greenfields Centre Limited
 Greenwood Academies Trust
 Greythorn Primary School
 Groundwork Greater Nottingham
 Hall Park Academy
 Harworth & Bircotes Town Council
 Harworth C of E Academy
 Hempsill Hall Primary School
 Highbank Primary & Nursery School
 Hillside Primary & Nursery School
 Hogarth Primary & Nursery School
 Holgate Academy
 Holme Pierrepont Leisure Trust
 Holy Cross Academy
 Holy Trinity Catholic Voluntary Academy
 Huntington Academy
 Innovate Services Limited
 Institute of Crem and Cremation Management (ICCM)
 Joseph Whitaker School
 Jubilee LEAD Academy
 KIMBERLEY SCHOOL
 Kimberley Town Council
 Kingston Park Academy
 Kirkby College
 Lafarge Tarmac Ltd
 Langar Cum Barnstone Parish Council
 LEAD Multi Academy Trust
 Leamington Primary and Nursery Academy
 Leverton CE Academy
 Magnus Church of England Academy
 Manor Academy Trust
 Mansfield & District Crematorium Joint Ctte
 Mansfield Citizens Advice Bureau
 Mansfield District Council
 Mansfield District Leisure Trust Ltd
 Mansfield Primary Academy
 Mansfield Road Baptist Housing
 Marketing Nottingham & Nottinghamshire Limited
 Meadows Advice Group
 Meden School

Mellors Catering Services Limited (Arnbrook)
 Mellors Catering Services Limited (OLSE)
 Mellors Catering Services Limited (Rushcliffe)
 Mellors Catering Services Limited (Southwark)
 MENCAP
 Mercury Cleaning Services Ltd
 Metropolitan Housing Trust
 Milford Academy
 National Church of England Academy Trust
 Nethergate School
 New Charter Housing (Gedling Homes)
 New College Nottingham
 Newark & Sherwood DC
 Newark & Sherwood Homes
 Newark Academy
 Newark Emmaus Trust Limited
 Newark Town Council
 Newstead Parish Council
 Norbridge Academy
 North Ashfield Behaviour & Attendance
 Nottingham Academy
 Nottingham Assoc of Local Councils
 Nottingham Citi Care Partnership
 Nottingham Citizens Advice Bureau
 Nottingham City Council - EMC
 Nottingham City Council
 Nottingham City Homes
 Nottingham City Transport Limited
 Nottingham Contemporary Arts
 Nottingham Emmanuel School
 Nottingham Free School
 Nottingham Girls Academy
 Nottingham Ice Centre Ltd
 Nottingham Regeneration Limited
 Nottingham Revenues & Benefits Ltd
 Nottingham Trent University
 Nottingham University
 Nottingham University Samworth Academy
 Nottinghamshire Combined Fire authority
 Nottinghamshire County Council
 Nottinghamshire County Scout Association
 Nottinghamshire Deaf Society
 Nottinghamshire Fire & Rescue (Trading)
 Nottinghamshire Police Authority
 NTU Union of Students
 NUA (Nottingham University Academy of Science
 & Technology)

Nuthall Parish Council
 Oakwood Academy
 Old Basford School
 Ollerton & Boughton Town Council
 Our Lady & St Edwards Catholic Primary
 Our Lady Perpetual Succour Catholic Primary
 Outwood Academy Portland
 Outwood Academy Valley
 Partnership Council
 Peafield Lane Academy
 Pearsons Young Persons Centre
 Portland School
 Priory Catholic Voluntary Academy
 Quarrydale Academy
 Queen Elizabeth Academy
 Radcliffe on Trent Parish Council
 Radford Academy
 Rainworth Parish Council
 Ravenshead Parish Council
 Redhill School
 Carlton Academy
 Renewal Trust
 Retford Oaks Academy
 Riverside Primary School
 RNN Group (Early Years)
 Rosslyn Park Primary & Nursery School
 Ruddington Parish Council
 Rural Community Action Notts
 Rushcliffe Academy
 Rushcliffe Borough Council
 Sacred Heart Academy
 Samworth Church Academy
 Scape Group Limited
 Selston Parish Council
 Serlby Park School
 Sherwood & Newark CAB
 Sherwood E-act Academy
 Sir Donald Bailey Academy
 Skegby Junior Academy
 SLM Limited
 Sneinton C of E Academy
 South Nottinghamshire Academy
 South Wold Community School
 Southern Electric Contracting Limited
 Southwark Primary
 Southwell Leisure Centre

Southwell Town Council
 Sparken Hill Academy
 St Ann's Well Academy
 St Augustine Primary School
 St Edmund Campion Catholic Primary
 St John's Church of England Academy
 St Joseph's Catholic Primary School (Boughton)
 St Joseph's Catholic Primary School (Retford)
 St Margaret Clitherow Academy
 St Mary Magdalene C of E Primary School
 St Mary's Catholic Primary School
 St Patrick's Catholic Primary & Nursery School
 St Patricks Catholic Primary School
 St Philip Neri with St Bede Catholic Voluntary School
 St Teresa's Catholic Primary School
 Stapleford Town Council
 Stonesoup Academy
 Streetwise Environmental Ltd
 Sunnyside Spencer Academy
 Sutton Community Academy
 Sycamore Academy
 Taylor Shaw Limited
 The Elizabethan Academy Trust
 The Flying High Academy
 Thera East Midlands Ltd
 T(n)S Catering Management Limited
 Tollerton Parish Council
 Toot Hill School
 Top Valley Academy
 Trent Valley Drainage Board
 Trinity School
 Trowell Parish Council
 Tuxford Academy
 Tuxford Primary Academy
 United Response
 UPP (Nottingham) Ltd
 Vision Studio School
 Wainwright Primary School
 Warren Hill Academy Trust
 Warsop Parish Council
 Webb Support Services Limited
 West Bridgford School
 West Notts College of FE
 Whitemoor Academy
 Windmill Primary Academy



The Nottinghamshire Local Government Pension Scheme
is administered by Nottinghamshire County Council

Notts LG Pensions Office, Business Support Centre, Nottinghamshire County Council
c/o County Hall, West Bridgford, Nottingham NG2 7QP
0115 977 2727 • nottspf.org.uk • lgpensions@nottsgov.uk



External Audit Report 2015/16

**Nottinghamshire County Council and
Nottinghamshire Pension Fund**

August 2016

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



Section one: Introduction



This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and
- Our assessment of the Authority's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Nottinghamshire County Council ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in February 2016, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

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

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

We have also reviewed your progress in implementing prior recommendations in Appendix 1.

Acknowledgements

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



Section two: Headlines



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

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

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.</p>
Audit adjustments	<p>Our audit has not identified any material audit adjustments. Our audit has identified some minor presentational adjustments to the financial statements presented for audit, which Management have agreed to amend in the final draft of the financial statements.</p>
Key financial statements audit risks	<p>We identified the following key financial statements audit risks in our 15/16 External audit plan issued in February 2016.</p> <ul style="list-style-type: none"> — Calculation of the Minimum Revenue Provision; — The adoption of IFRS13 for the valuation of Non-Financial Assets; and — The identification and valuation of the Authority's Infrastructure Assets. <p>We also identified, in our External Audit Plan, other areas of audit focus which were identified as:</p> <ul style="list-style-type: none"> — Follow up of prior year recommendations in relation to Pension system reporting and VAT accounted for within school bank reconciliations.
Accounts production and audit process	<p>We received complete draft accounts by 8 June 2016 ahead of the Department for Communities and Local Government ('DCLG') deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2014/15</i> relating to the financial statements.</p> <p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>As in previous years, we have debriefed with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process.</p>

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

VFM conclusion and risk areas	<p>We identified the following VFM risks in our External audit plan 2015/16 issued in February 2016.</p> <ul style="list-style-type: none"> — Future savings plans; and — Working with partners – Better Care Fund. <p>We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> — Review of Pension Fund Annual Report for consistency; — Final review of audit work; and — Final review of financial statements. <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
Audit Certificate	<p>We are in the process of completing the work on the Whole of Government Accounts which we anticipate completing by 30 September 2016.</p> <p>An objection to the accounts has been received from a local elector. This will delay us issuing our audit certificate until this matter has been given due attention.</p>



Section three: Financial Statements

Proposed opinion and audit differences



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

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by Full Council on 15 September 2016.

Audit differences

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

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £18 million for the Authority. Audit differences below £900k are not considered significant.

We did not identify any material misstatements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016.

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

Movements on the general fund 2015/16

£m	Pre-audit	Post-audit
Deficit on the provision of services	(34)	(34)
Adjustments between accounting basis and funding basis under Regulations	30	30
Transfers to earmarked reserves	1	1
Decrease in General Fund	(3)	(3)

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit
Property, plant and equipment	1,254	1,254
Other long term assets	34	34
Current assets	163	163
Current liabilities	(125)	(125)
Long term liabilities	(1,507)	(1,507)
Net worth	(181)	(181)
General Fund	24	24
Other usable reserves	171	171
Unusable reserves	(376)	(376)
Total reserves	(181)	(181)

Proposed opinion and audit differences (cont.)



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

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.

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

Pension fund audit

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

For the audit of the Fund we used a materiality level of £40m million. Audit differences below £2m are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by Full Council on 15 September 2016.

We did not identify any material misstatements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

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

Annual report

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

Pension fund annual report

We are yet to review the Pension Fund Annual Financial Report and to confirm that, the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

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

Significant audit risks



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

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in February 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

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

Calculation of the Minimum Revenue Provision (MRP)

— Risk

The Authority is planning to revise the calculation of its Minimum Revenue Provision. This will have an impact on the amount charged to its General Fund for the repayment of its external debt in future years.

This risk affects only the Authority.

— Findings

Although this will not impact on the 2015/16 statements, we have reviewed the Authority's revised policy to ensure that it complies with the Statutory requirements with no significant issues to note. This included consultation with our Local Government technical team. We will review the application of the new policy to the 2016/17 MRP calculation.

The adoption of IFRS13 for the valuation of Non Financial Assets

— Risk

The adoption of IFRS 13 requires the Authority to value its Non Financial Assets at fair value in 2015/16. The comparative figures for 2014/15 will also need to be restated. The restatement will also require a number of additional disclosures to the statements.

— Findings

We have discussed the methodology adopted by the Authority in implementing this new requirement. We have reviewed the valuation arrangements in place, by discussions with Officers and agreed the new valuations to the 2015/16 financial statements. There were no significant issues arising from the work undertaken.

Significant audit risks



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

This section sets out our detailed findings on those risks.

Identification and Valuation of the Authority's Infrastructure Assets

— Risk

The CIPFA Transport Infrastructure Code of Practice for 2015/16 requires the Authority to measure its transport infrastructure assets on a Depreciated Replacement Cost basis from 2016/17, rather than on the current Historic Cost basis. This is expected to result in a very large increase in the value of assets on the Authority's balance sheet.

Although the change in the Code does not come into effect until 1 April 2016, the Authority will need to ensure that it has the procedures in place for the 2016/17 accounts.

— Findings

We have been liaising with officers throughout the year to discuss the approach to the requirement detailed above. We will continue these discussions as further clarification is received from CIPFA on the approach, with a view to agreeing an approach which is in line with the Code of Practice.

In our External Audit Plan 2015/16 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

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

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Significant audit risks



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

This section sets out our detailed findings on those risks.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus



In our External Audit Plan 2015/16, presented to you in February 2016, we identified two areas of audit focus relating to our prior year recommendations. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings.

Follow up of our prior year recommendations

— Schools VAT

We raised a recommendation relating to the quality assurance procedures in relation to reclaimed VAT cash balances for school accounts in 2013/14, which was reported in 2014/15 as not being completed.

— Findings

We have confirmed this recommendation has been implemented as part of the 2015/16 audit.

— Pensions system reporting

As part of our work on Pensions in 2014/15, we raised a recommendation that the Authority should ensure that the reporting from the system is reviewed and rectified to address any coding issues which may be embedded within the reports. This will aid the reporting during for triennial valuation purposes when required.

— Findings

We confirmed this recommendation has been implemented as part of the 2015/16 audit, and information has been sent to the actuary as part of the triennial valuation exercise.

Accounts production and audit process



The Authority has a well established and strong accounts production process. This operated well in 2015/16. The standard of accounts and supporting working papers was good.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the recommendation in our ISA 260 Report 2014/15.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process. The statements continued to be produced to a high standard. In preparation for the change in deadlines going forward, we started our audit earlier than in previous years, which has not caused any major issues in preparing and providing the statement of accounts and supporting working papers. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 8 June 2016
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , which we issued on 23 February 2016 set out our working paper requirements for the audit. The quality of working papers provided was high and fully met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers resolved all audit queries in a reasonable time

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

Additional findings in respect of the control environment for key financial systems

We are pleased to report that we have no specific findings in relation to the control environment.

Prior year recommendations

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

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

Appendix one provides further details.



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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire County Council Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire County Council Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

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

Other matters

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

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

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



Section four: Value for Money

VFM Conclusion



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

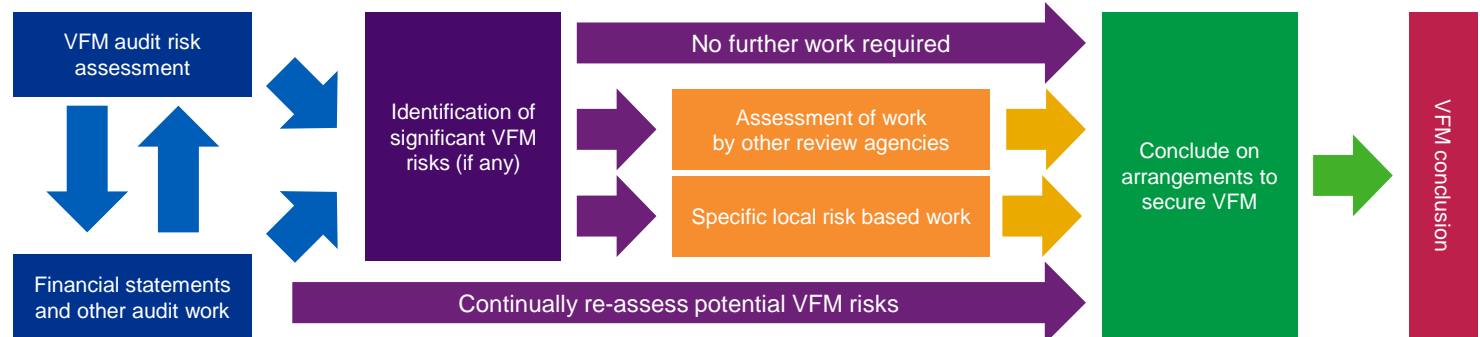
Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



VFM Conclusion (cont.)



We have considered the Authority's arrangements for securing value for money in line with the NAO's Code of Audit Practice.

Our approach

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Authority.

Key elements of our work

Below we set out the key elements of work undertaken in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority.

We have summarised overleaf our assessment of the specific VFM risks identified in our Audit Plan presented to the Audit Committee in March 2016.



VFM Criteria	Work Undertaken
<ul style="list-style-type: none"> - <i>Informed Decision Making</i> - <i>Sustainable Resource Deployment</i> - <i>Working with Partners and other Third Parties.</i> 	<p>To consider the three criteria we have undertaken the following procedures:</p> <ul style="list-style-type: none"> - Regular liaison with the s151 officer, and key personnel; - Meetings with Corporate Directors from key areas of the Authority, including Adult Social Care, Health and Public Protection, Resources, and Place; - Review of the medium term financial plan; - Assessment of the budget setting process, in particular the cross party planning undertaken for 2016/17; - Review of 2015/16 outturn vs budget, and current outturn forecasts for 2016/17; - Review of current transformation plans and spending proposals; and - Review of Authority minutes and Internal Audit reports. <p>We do not have any significant matters to report following our work in these areas.</p>

Specific VFM Risks



We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>In 2015/16 the Authority entered into Section 75 agreement with Clinical Commissioning Groups to pool funds to implement the local Better Care Fund. The implementation of the Better Care Fund drives integration of services to improve outcomes for the patient and public as well as delivery efficiencies and effectively manages limited resources during challenging times. We consider this a significant risk as the Better Care Fund is in its early stages and therefore there are risks associated with the delivery of improved health and social care in Nottinghamshire and achieving significant savings.</p> <p>This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>We have reviewed:</p> <ul style="list-style-type: none"> - The arrangements the Authority has in place to ensure the delivery of Better Care Plans and progress made against the plans; - The framework to ensuring delivery of the services against targets and consider any actions taken by the Authority where delivery is under performing significantly; and - The overall savings achieved are in line with those planned and consider how the Authority will fund any savings which are not achieved. <p>We are satisfied that the Authority has suitable arrangements in place to monitor and ensure delivery of the Better Care Plans.</p>
	<p>The Authority's budgets over recent years have delivered significant planned savings, but further strong financial challenges lie ahead. The Authority forecasts predict that over the forthcoming years, additional savings will need to be found as the Authority faces further expenditure pressures and a continued reduction in resources. We understand the Authority has identified saving proposals for 2015/16 and 2016/17, but may require further savings in 2016/17 and future years to meet the potential impact of reduced resources on the financial standing of the Authority. Therefore we consider this as a significant risk</p> <p>This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.</p>	<p>We have reviewed:</p> <ul style="list-style-type: none"> - The arrangements for assuring delivery of the Authority's savings programme; - The delivery of the saving plans to date including any actions taken by the Authority where savings are not achieved in line with the plan; - The arrangements the Authority have in place in identifying further savings for future years. <p>We are satisfied that the Authority has suitable arrangements in place to monitor and ensure delivery of the savings plans. We are aware of the progress being made to address the £50.2m shortfall by 2019/20 identified in the February 2016 budget statement, and it is important that members and officers continue to work together to address the gap.</p>



Appendices

Appendix 1: Update on prior year recommendations

Appendix 2: Audit differences

Appendix 3: Materiality and reporting of audit differences

Appendix 4: Independence and objectivity

Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:

Included in original report	2
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2016
1	3	<p>Quality assurance procedures – Prior year follow up</p> <p>In 2013/14 we raised a recommendation relating to the reclaimed VAT cash balances for school accounts. We highlighted there were quality assurance procedures which could be strengthened, in particular:</p> <ul style="list-style-type: none"> ■ school bank reconciliations included amounts relating to reclaimed VAT in the cash balance even though the reclaimed VAT was not actually received late into the following month. <p>Recommendation</p> <p>Although the financial impact of this recommendation is unlikely to be material, it is recommended that the Authority implement these additional quality assurance procedures regarding school bank accounts for completeness.</p>	<p>Responsible officer</p> <p>Group Manager - Financial Management</p> <p>Due date</p> <p>April 2015</p>	This recommendation has now been implemented.

Follow up of prior year recommendations (cont.)

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2016
2	2	<p>Pensions system reporting</p> <p>We identified that the reporting from the system highlighted differences between what was originally sent to the actuary in April 2015, and rerunning the report in August 2015.</p> <p>Management investigated this issue, and determined that there was a coding issue on the original report run in April 2015 which omitted certain data from the output.</p> <p>Although this does not impact on the 2014/15 Statement of Accounts, the Authority will need to provide detailed information for triennial valuation purposes in 2016/17, and therefore will need to ensure that information is complete and accurate upon providing this to the actuary.</p> <p>Recommendation</p> <p>The Authority should ensure that the reporting from the system is reviewed and rectified to address any coding issues which may be embedded within the reports. This will aid the reporting during for triennial valuation purposes when required.</p>	<p>Responsible officer Senior Accountant</p> <p>Due date 31 December 2015</p>	<p>A full review of system reporting was undertaken and information has been provided to the actuary to enable them to undertake the triennial valuation process, which is currently underway.</p> <p>Therefore, we are satisfied, this recommendation has been implemented.</p>

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

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

Uncorrected audit differences

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

Material Misstatements

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

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

Materiality and reporting of audit differences

For 2015/16 our materiality is £18 million for the Authority's accounts. For the Pension Fund it is £40 million.

We have reported all audit differences over £900k for the Authority's accounts and £2 million for the Pension Fund, to the Audit Committee.

Materiality

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

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

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in February 2016.

Reporting to the Audit Committee

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

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

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

In the context of the Authority, we have considered individual differences to be clearly trivial if it is less than £900k for the Authority, and £2 million for the Pension Fund.

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

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £40 million which is approximately 1 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £30 million for 2015/16.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

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

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

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

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

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

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

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

Declaration of independence and objectivity (cont.)

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

General procedures to safeguard independence and objectivity

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Nottinghamshire County Council and Nottinghamshire County Council Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Nottinghamshire County Council and Nottinghamshire County Council Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the audit was £98,213.00 plus VAT, for the Authority (£130,950.00 plus VAT in 2015/16), and £29,926.00 plus VAT, for the Pension Fund (£29,926.00 plus VAT in 2015/16). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Audit of Teachers' Pension Returns	£3k	We have considered the potential threats to auditor independence based on the non audit services undertaken, and based on our professional judgement believe that no further safeguards are required as our objectivity has not been compromised, and there are no issues of independence with respect to the Authority and Pension Fund.
Certification of Local Transport Grant return	£3k	
Total estimated fees	£6k	
Total estimated fees as a percentage of the external audit fees	6.1%	



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REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT**LGPS CENTRAL ASSET POOL****Purpose of the Report**

1. To provide an update on progress regarding the pooling of investments in the Local Government Pension Scheme (LGPS).

Information and Advice

2. In the July Budget 2015, the Government announced its intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. In November 2015, the Department for Communities and Local Government (DCLG) published *Local Government Pension Scheme: Investment Reform Criteria and Guidance*. The criteria cover the following:
 - A. Asset pool(s) that achieve the benefits of scale
 - B. Strong governance and decision making
 - C. Reduced costs and excellent value for money
 - D. An improved capacity to invest in infrastructure
3. Authorities were asked to submit their initial proposals on asset pooling to the Government by 19 February 2016 with refined and completed submissions by 15 July 2016. At the Pension Board meeting on 19 April 2016, Board members were notified of the Fund's initial response to the government's request including the creation of a multi asset investment pool called LGPS Central, expected to be some £34 billion in size.
4. At its meeting on 21 June 2016, the Nottinghamshire Pension Fund Committee approved the business case for the LGPS Central investment pool and this formed the basis of the detailed submission to government. This report provides an overview of the business case and progress towards the creation of LGPS Central. The Pension Fund Committee and the Pensions Sub-Committee, along with the Committee Chair and Vice-Chair and the Council's s151 Officer have been kept informed throughout the discussions on the business case.

Recommended legal structures and governance arrangements

5. In order to meet the Government's criterion for strong governance, legal and governance structures need to be put into place that are suitably robust. There are two realistic options, both put forward in the Project Pool submission made by LGPS funds and facilitated by Hymans Robertson.
6. The option agreed unanimously by the funds participating in the LGPS Central investment pool is that a Financial Conduct Authority (FCA) regulated authorised structure should be

used. This will involve using a collective investment vehicle (CIV) with an authorised contractual scheme (ACS) and other legal structures for assets. This option is robust, in alignment with LGPS Central's requirements and with the Government's criteria. At meetings with officials from the Department for Communities and Local Government (DCLG), the Treasury and the Local Government Association (LGA), it has been made clear that an FCA regulated structure is the Government's strong preference.

7. The other option, a collective asset pool, which has no legal status and would be overseen by a Joint Committee providing governance oversight, was considered to be insufficiently robust and unlikely to meet the Government's criteria.
8. Having agreed a corporate structure, fund officers explored the options for establishing an operator for the LGPS Central investment pool. They agreed that of the three available options, the build option (ie creating an operator) is strongly recommended as it is estimated to be the most cost effective for the long term and provides the most flexibility for the establishment and management of the operator. With respect to the other two options, to buy or to rent an existing operator, the former has limited availability and the latter gives less flexibility (coupled with higher long term costs).

Business case

9. In order to produce the business case, external advisers (Deloitte and Eversheds) were appointed following a tendering process. The business case rests on meeting the Government's four criteria as follows.
10. **Governance.** The FCA regulated authorised structure is expected to meet the governance criteria set by the Government. The proposed operator will be owned equally by each fund participating in the LGPS Central investment pool with one share and one vote per fund. The structures to be put in place will ensure that participating funds oversee the management of the operator (via a shareholders' forum) and that their investment management needs are also met (via a practitioners' advisory forum).
11. A draft responsible investment framework for the LGPS Central investment pool has been prepared. The framework is designed to meet the Government's requirement for investment pools to address environmental, governance and social issues.
12. **Scale.** With some £34 billion of assets, the LGPS Central investment pool will meet the Government's size criterion – the expectation is for the new investment pools to have at least £25 billion of assets. Very few exceptions will be requested – one is for the West Midlands Transport Authority's fund's buy in policy (valued at £250 million) and the other is for cash held for operational, non-investment purposes, expected to be very modest in scale.
13. **Costs and cost savings.** Modelling has been done, using relatively conservative assumptions around transition costs and fee reductions, on costs and cost savings for the LGPS Central investment pool over the fifteen year period to 31 March 2034. The base case projection is that annual investment costs then will be £152 million after operator running costs, compared with £196 million in 2014/15, representing an annual cost saving of £44 million by then. Cumulative savings for the LGPS Central investment pool are estimated at £262 million by 31 March 2034, with break-even expected by 31 March 2026.

14. Cost savings will be secured through economies of scale and mandate rationalisation, fee negotiations and more use of direct (rather than more expensive indirect) investment. The LGPS Central investment pool will deploy both internal and external investment management. The base case for cost savings assumes that the current mix of internal and external investment management remains but the savings are projected to be higher with greater use of internal management.
15. The set up costs for the LGPS Central investment pool are estimated to be between £3 million and £4 million with Nottinghamshire's share estimated at between £0.4 million and £0.5 million. Once set up, annual operator costs are projected to be around £5.2 million. Transition costs are estimated to be significant – one off costs of £50 million are projected across the pool.
16. In Nottinghamshire's case specifically, annual cost savings are estimated to be £685,000 per annum in 2033/34 compared with 2014/15. The cost savings assume no changes in asset allocation or fund size and have been struck after operator running costs. More savings could be secured through the greater use of internal management (up to £2.7 million annual savings by 2033/34).
17. **Infrastructure.** One of the Government's criteria is to encourage more investment in infrastructure. The strategic decision to invest in the asset class will remain with administering authorities, with implementation resting with the new investment pools, including LGPS Central.
18. National infrastructure platform options are currently being explored by the LGPS, including LGPS Central, in order to enable better access to suitable opportunities in the UK. A national infrastructure platform will lead to lower fees and should enable better diversification.
19. The current weighted target allocation to infrastructure for the LGPS Central investment pool is 4%, with 1.5% actually invested. The target is expected to rise to over 5% in the coming years. In the case of Nottinghamshire, the target allocation to infrastructure is 5%, with 1.6% actually invested.

Programme planning and resourcing

20. A joint meeting of Committee Chairs, Vice-Chairs and Section 151 Officers was held on 8 July 2016 at which the business case was ratified before being submitted to the DCLG for its approval.
21. A further tender for advisers to provide advice on the operational, business, accounting, legal and taxation issues associated with setting up the LGPS Central investment pool has been carried out and PwC and Eversheds have been appointed. Workstreams have been set up to ensure each element of the implementation is considered and detailed plans have been developed for each stream. A substantial amount of work will be required for the LGPS Central investment pool to be set up properly and each participating fund is devoting resources to the workstreams supporting the business case.
22. A draft shareholders' agreement (which will replace the memorandum of understanding already in place between the participating funds) is being considered at the first Shareholders' Forum on 27 September 2016. A target operating model is also being

developed in conjunction with PwC and this will inform the development of sub-funds within the CIV and the procurement of external support services (such as depositary and asset servicer).

23. Key executives are planned to be appointed to the operator by April 2017, ahead of the application for FCA registration. This will ensure that the LGPS Central investment pool will be set up by 1 April 2018. Additional advisers are likely to be needed for recruitment of key executives and to ensure fit for purpose IT systems are put in place.

Statutory and Policy Implications

24. 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

It is recommended that the report be noted.

Report Author:

Simon Cunningham

Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunningham

Constitutional Comments

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

Financial Comments (SRC 26/08/16)

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

Background Papers and Published Documents

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

- 'None'

REPORT OF CORPORATE DIRECTOR, RESOURCES**UPDATE ON TRAINING FOR LOCAL PENSION BOARD MEMBERS****Purpose of the Report**

1. To update the Board on the training for Board members.

Information and Advice

2. At the last meeting, the Board agreed that members undertake the seven modules of the Pension Regulator's Public Service Toolkit, with a view to completing the modules by today's meeting. Board members are invited to report on their progress.
3. Immediately preceding today's meeting, members received training on two further aspects of the CIPFA Knowledge and Skills Framework for Pension Boards:
 - Pensions Accounting and Auditing Standards
 - Pensions Administration

In addition, the Pension Fund's actuaries, Barnett Waddingham LLP, gave a training session on the triennial valuation of the Fund.

4. The remaining core areas of the CIPFA Framework to be covered in 2017 are:
 - Financial markets and products knowledge (including understanding of the importance of the investment strategy)
 - Procurement and relationship management
 - Investment performance & risk management
5. Externally organised training opportunities will be suggested to Board members from time to time.

Other Options Considered

6. Not applicable.

Reason/s for Recommendation/s

7. To inform the Board of the progress in meeting the requirements for members' training.

Statutory and Policy Implications

8. 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 services), the public sector equality duty, safeguarding of children and adults at risk, 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 update on Board members' training be noted.

Jayne Francis-Ward
Corporate Director, Resources

For any enquiries about this report please contact:

Constitutional Comments

9. As the report is for noting only, no constitutional comments are required.

Financial Comments (CG 01/09/2016)

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

Background Papers and Published Documents

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

None

Electoral Division(s) and Member(s) Affected

- All

REPORT OF CORPORATE DIRECTOR, RESOURCES**WORK PROGRAMME****Purpose of the Report**

1. To invite the Board to consider its work programme.

Information and Advice

2. When establishing the Board in March 2015, the County Council considered that the Board would meet formally twice per year.
3. For the next meeting, in March or April 2017, the following items are suggested:

Report	Author
Investment Strategy Statement (subject to new regulations being in place)	Ciaran Guilfoyle
Scheme Advisory Board Update	Ciaran Guilfoyle
Pensions Administration Update	Sarah Stevenson / Jon Clewes
Update on training for Local Pension Board members	Paul Davies

4. The work programme for 2017 onwards will be formulated in conjunction with the Chair. There are likely to be some standing items, for example, report and accounts, and progress with the Administration Strategy.
5. Board members are also invited to suggest items for inclusion in the work programme.

Other Options Considered

6. Not applicable.

Reason/s for Recommendation/s

7. To assist the Board in preparation of its work programme.

Statutory and Policy Implications

8. 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 services), the public sector equality duty, safeguarding of children and adults at risk, 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 Board's work programme be noted, and consideration be given to any changes which the Board wishes to make.

Jayne Francis-Ward
Corporate Director, Resources

For any enquiries about this report please contact:

Constitutional Comments (HD)

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

Financial Comments (CG 01/09/2016)

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

Background Papers and Published Documents

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

None

Electoral Division(s) and Member(s) Affected

- All