Nottinghamshire Pension Fund Committee

Thursday, 14 December 2023 at 10:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

1	Minutes of the last meeting held on 12 October 2023	5 - 8
2	To note updates in the membership of the Committee	
3	Apologies for Absence	
4	Declarations of Interests by Members and Officers:- (see note below)	
5	Update on the progress on the impact of the McCloud Judgement on the administation of the pension fund	9 - 30
6	Transforming pension administration update	31 - 40
7	The composition and voting rights of members of the Pension Fund Committee	41 - 52
8	Pension Fund treasury management mid-year report 2023-24	53 - 56
9	Department of Levelling Up, Housing and Communities consultation	57 - 58
10	Independent Adviser's report	59 - 62
11	Work Programme	63 - 68

15 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

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

Note

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

EXEMPT INFORMATION ITEMS

16 Climate risk analysis - exempt appendix

17 Fund valuation and performance - exempt appendix

18 Fund manager presentations

a) LGIM

b) LGPS Central

Notes

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

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

Customer Services Centre 0300 500 80 80

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

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Jo Toomey (Tel. 0115 977 4506) or a colleague in Democratic Services prior to the meeting.

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

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

Nottinghamshire County Council

minutes

Meeting	NOTTINGHAMSHIRE PENSION FUND COMMITTEE
Date	Thursday 12 October 2023 at 10.30 am

membership

COUNCILLORS

Eric Kerry (Chairman) - **Apologies**
Mike Introna (Vice Chairman in the Chair)

André Camilleri - **Apologies**
John Clarke MBE
Bethan Eddy - **Absent**
Stephen Garner
Roger Jackson - **Apologies**
Sheila Place - **Apologies**
Francis Purdue-Horan
Tom Smith - **Apologies**
Lee Waters

SUBSTITUTE MEMBERS

Councillor Reg Adair for Councillor Eric Kerry
Councillor Richard Butler for Councillor André Camilleri
Councillor Jim Creamer for Councillor Sheila Place
Councillor Johno Lee for Councillor Roger Jackson
Councillor Jonathan Wheeler for Councillor Tom Smith

NON-VOTING MEMBERS:

Nottingham City Council

Councillor Graham Chapman
Councillor Zafran Khan
Vacancy

District / Borough Council Representatives

Councillor Davinder Virdi, Rushcliffe Borough Council **- Absent**
Councillor Dan Henderson, Bassetlaw District Council **- Absent**

Trades Unions

Yvonne Davidson
Chris King

Scheduled Bodies

Sue Reader - **Apologies**

Pensioners' Representatives

Vacancy x 2

Independent Adviser

William Bourne

Officers in Attendance

Jon Clewes	(Chief Executive's Department)
Ciaran Guilfoyle	(Chief Executive's Department)
Keith Palframan	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Sarah Stevenson	(Chief Executive's Department)
Jo Toomey	(Chief Executive's Department)

1. MINUTES OF THE LAST MEETING HELD ON 14 SEPTEMBER 2023

The minutes of the last meeting held on 14 September 2023 were confirmed as a correct record.

2. APOLOGIES FOR ABSENCE

- Councillor André Camilleri (other County Council business) substituted by Councillor Richard Butler
- Councillor Roger Jackson (other County Council business) substituted by Councillor Johno Lee
- Councillor Eric Kerry (medical illness) substituted by Councillor Reg Adair
- Councillor Sheila Place (other reasons) substituted by Councillor Jim Creamer
- Councillor Tom Smith (other County Council business) substituted by Councillor Jonathan Wheeler
- Sue Reader (Scheduled bodies representative)

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None were disclosed.

4. PENSIONS ADMINISTRATION PERFORMANCE REPORT

The Pensions Manager and the Group Manager, Business Services Centre, presented the report which summarised the work of the Pensions Administration Team between 1 April 2022 to 31 March 2023.

RESOLVED 2023/035

1. That the Nottinghamshire Pension Fund Committee notes the performance of the administration of the pension fund, and the continued development of systems and processes that will improve the service to members of the fund.

5. DEPARTMENT FOR LEVELLING UP, HOUSING AND COMMUNITIES (DLUHC) CONSULTATION RESPONSE

The Senior Accountant, Pensions and Treasury Management presented the response to the DLUHC consultation on proposals relating to the investments of the Local Government Pensions Scheme. It covered asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

During discussions, Members:

- Referred to the response, which was appended to the report and commented on the risk of losing small local investments to pooling, whether there should be an ambition of investing 10% in private equity and market volatility
- Noted that feedback on all questions provided by all committee members was incorporated into the response
- Explored the relationship between pooling and levelling up

RESOLVED 2023/036

That the submission of the consultation response as attached to the report, on behalf of the Nottinghamshire Pension Fund Committee, be noted.

6. LOCAL AUTHORITY PENSION FUND STRATEGIC INVESTMENT FORUM CONFERENCE

The Service Director – Finance, Infrastructure and Improvement presented the report on the Local Authority Pension Fund Strategic Investment Forum 2023.

RESOLVED 2023/037

1. That Nottinghamshire Pension Fund Committee members continue to attend appropriate conferences to enable members to be kept up to date with the main national topics relating to investments.

2. That the contents of the report be noted.

7. PROXY VOTING

The Investments Officer presented the report which informed members of the voting of equity holdings in the second quarter of 2023 as part of its ongoing commitment to supporting best practice in corporate governance.

RESOLVED 2023/038

That the contents of the report be noted.

8. LOCAL AUTHORITY PENSION FUND FORUM BUSINESS MEETING

The Investments Officer presented the report informing members about discussions at the last business meeting of the Local Authority Pension Fund Forum.

RESOLVED 2023/039

That the contents of the report be noted

9. WORK PROGRAMME

Members asked about the ongoing review of the Committee's governance arrangements. Members noted that it was expected to form part of the Good Governance report, which was scheduled for consideration on 14 December 2023.

RESOLVED 2023/040

That the work programme be agreed.

The meeting concluded at 11:03.

CHAIR

Nottinghamshire County Council

Report to Nottinghamshire Pension Committee

14 December 2023

Agenda Item: 5

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

LOCAL GOVERNMENT PENSION SCHEME – UPDATE ON THE PROGRESS ON THE IMPACT OF THE MCCLOUD JUDGEMENT ON THE ADMINISTRATION OF THE PENSION FUND

Purpose of the Report

1. The purpose of the report is to update Pension Committee on the progress of the Pension Fund McCloud Project.

Information

Background

2. The McCloud judgement came about when the Government reformed public service pension schemes in 2014 and 2015. At the time transitional protections were introduced for older members of the LGPS Pension scheme. In December 2018, the Court of Appeal ruled that younger members of the Judicial and Firefighters' pension schemes had been unlawfully discriminated against because the protections did not apply to them.

3. The ruling is called the McCloud judgement, after a member of the judicial pension scheme involved in the case.

Impact on Members Benefits

4. In 2014, the LGPS changed from final salary scheme to a career average scheme where a pension builds up based on what you earn each year.

5. Older pension fund members who are closer to retirement are protected from these changes. This means that a pension fund member who qualifies for protection is not impacted by the changes. This means that when a protected member takes their pension, the benefits payable under the career average scheme are compared with benefits they have been built up. Therefore, had the final salary scheme continued they receive the higher amount. This protection is called the underpin.

6. The new legislation removes the McCloud age discrimination, and therefore qualifying younger members will now receive the underpin protection as well. This change was

incorporated into Regulations on 1 October 2023. Underpin protection only applies to pension built up in the remedy period, between 1 April 2014 and 31 March 2022. The underpin will have stopped earlier if a member left the scheme or reached their final salary normal retirement age before 31 March 2022.

7. Analysis nationally has identified that the change in Regulations will mean that on average the members of the LGPS will see a slight improvement in their pensions as a result. However, this is not evenly spread, and the reality is that the average position consists of members seeing no change at all to their benefits, whilst other members will see material improvements in their retirement income.

8. It has also been estimated that younger members of the pension scheme with high pay growth could see up to an estimated 10% increase on their 8 years accrual from 2014 to 2022, when compared to what they could have expected from the current career average scheme.

What the Fund has done to Prepare for McCloud

9. As Pension Committee is aware the Pension Fund appointed a temporary Project Manager and Data analyst to undertake the preparatory work of collecting and checking data from all 290 + scheme employers to enable the evaluation of the impact of the changes on benefits for an estimated 29K members.

10. From December 2021 the Pension Fund has been preparing for the implementation of the new legislation by working with the scheme employers in collecting data.

11. The project team offered all scheme employers the opportunity to meet with them where a full explanation was given on the requirement of scheme employers to check and provide up dated information on their scheme members. Extensive documentation was also provided which explained methodology and requirements.

12. To help with the collection and checking of data the Fund provided all scheme employers with data relating to scheme members who were potentially impacted by the McCloud judgement. This was a significantly different methodology than other LGPS funds have used, but this has significantly helped scheme employers provide more accurate data. Scheme employers were given a deadline to respond.

13. Most scheme employers have returned their data to the project team. However there have been some scheme employers who have taken time to engage in the pension fund exercise which has required the project team to chase the data. However the Fund due to the work of the project team is in a position where it has data from all scheme employers that can be used as part of the McCloud project.

14. Where the fund has received the data a checking process is being undertaken prior to the fund loading the cleansed data back into the Pension Administration System in order that the Fund can apply the new Regulations to scheme members.

15. The validation of the data is taking longer than expected as the team identifies issues in the data that require further checks to be made with scheme employers or adjustments to the funds own data record. One of the reasons for this is that scheme employers have not completed their work to the required standard. Resource availability has also been a factor in the validating of data.

16. One of the difficulties that we have encountered issues is where members who are "unprocessed leavers" in UPM, are causing a disparity in the data, again this leads to more layers of analysis checking for the project team along with other complex administrative processes that impact the data analysis activity.

17. Other difficulties have been the constant delays and lack of clarity from the government around the actual remedy culminating in a very short timescale from the end of consultation to an implementation date of 1 October 2023.

The New Regulations

18. The Department for Levelling Up, Housing and Communities (DLUHC) announced the outcome of the consultation on supplementary McCloud issues and draft Regulations on 8 September 2023. It also laid the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023 which took effect from 1 October 2023.

19. The Regulations implement the McCloud remedy and amend the underpin rules to ensure they work correctly across the scheme. Part 2 of the Regulations replaces the underpin rules in the LGPS (transitional Provisions, Savings and Amendment) Regulations 2014. Part 3 requires administering authorities to check past calculations for events that happened between 1 April 2014 and 30 September 2023.

20. These Regulations require the administering authority to consider a range of McCloud-affected cases to include McCloud calculations on members retiring currently where they meet the criteria for McCloud. Along with deciding for those members who also meet the McCloud criteria who have retired and therefore need their benefit recalculating.

21. To ensure a consistent approach, a national implementation group has been set up to decide what other statutory guidance is needed across the LGPS.

22. To help with implementation DLUHC have issued an initial prioritization policy. This is attached in **appendix 1** and outlines the expectations on the implementation of the McCloud changes. Further advice is expected from DLUHC on implementation.

23. As part of the implementation certain transfers for members with underpin protection are on hold until actuarial guidance for transfers is updated for the McCloud remedy however DLUHC

has also issued guidance on the approach funds must take regarding interfund transfers for members with underpin protection.

24. Further support has been provided by the Local Government Association (LGA) pensions team in organizing communications for scheme members including fact sheet, and guidance along with some advice videos to help members understand if McCloud impacts them. Communications and advice factsheets. Please see appendix 2 which summarizes the McCloud judgement for scheme members.

Implementation of the McCloud Judgement

25. Currently as part of our implementation plan of the new regulations the fund is currently still checking data as previously explained above, this will then be loaded into the Pension Administration System once we are satisfied with the data.

26. With the change in the Regulations, new software has had to be developed by the Pension Fund Software provider. This has been ongoing for a significant period, since the start of the McCloud national project, which has been hindered by the late agreement of the new Regulations.

27. As part of the fund's implementation strategy, the fund loaded new software on 24 October 2023 which now requires testing to ensure the calculation will operate in the administration system. There have been issues identified in the software across all LGPS Civica users, and these are being addressed. Therefore, the fund is expecting further software updates at the beginning of December 2023 this will include rectification of software issues along with additional calculations relating to the new Regulations.

28. It is not expected that the administration system will be ready to use for calculating McCloud benefits until the middle of January 2024.

29. The LGPS nationally is awaiting further written guidance on the implementation of the Regulations. However, a public service pension remedy letter has been issued by HMRC. The newsletter introduces the calculate your public service pension adjustment service. This is for members who need to correct their tax position because of the McCloud remedy. The service will help members to:

    a. Work out any repayments that are due for a lifetime allowance or annual allowance charge they have previously paid.

    b. Work out new, reduced, or extra lifetime allowance or annual allowance charges they may have to pay.

    c. Submit information to HMRC to review.

    The newsletter also provides some interactive guidance.

30. In addition to the HMRC information the LGA have created new areas on the LGPS member website dedicated to the McCloud remedy[The McCloud Remedy :: LGPS (lgpsmember.org)] the new pages include:

a. A short video

b. Frequently asked questions

c. An interactive tool to help members identify if they are affected.

d. Examples of types of cases

e. And detailed information about the remedy

31. The pension fund has updated the Nottinghamshire Pension Fund website to enable members to access information on the McCloud remedy. The fund is also amending and updating correspondence ahead of the fund's ability to undertake the required calculations for members benefits. However, this is a changing landscape as the funds are updated with guidance nationally.

Conclusion

32. The McCloud remedy project is wide-ranging, and this report covers what the Pension Fund is principally concerned with, which is the payment of benefits relating to the McCloud remedy. There are important parts of the project which continue to be required to be progressed in parallel with the progress of the payment of benefits. This includes, but is not limited to, the following:

    a. Collection and verification of additional data required to undertake the McCloud remedy calculations.

    b. Checks to verify which members are in scope of the McCloud remedy from previous pensionable service which hasn't been transferred in or aggregated to the fund. To help, DLUHC intends to discuss the steps administering authorities should be taking to identify such members with the guidance working group.

    c. Any tax impacts of the McCloud remedy, including recalculations of past annual allowance calculations.

    d. Recalculation of inward Public Sector Transfer Club transfers to reflect the McCloud remedy.

    e. Divorce estimates and implementation of pension sharing orders for eligible members.

33. The Pension Fund has an overall plan for delivering the McCloud remedy that considers the above aspects of the project, and will be working with our software provider, to ensure that the fund can meet the prioritisation approach outlined outlined by DULHC.

34. However, the implementation of the McCloud remedy cannot be completed until further national guidance is provided as this is a complex and challenging project for the Pension Fund.

Other Options Considered.

35. There are no other options as the fund is required under legislation to implement the McCloud Judgement.

Reasons for Recommendations

36. This is a significant project for the LGPS nationally and for the pension fund and has an impact on the pension fund in terms of time and resources.

Statutory and Policy Implications

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

Data Protection and Information Governance

38. The project, by its very nature, involves reconciliation, sharing and processing of personal and sensitive data. This is covered by existing arrangements and agreements with scheme employers and scheme members.

Financial Implications

39. The Financial implications of the impact of McCloud across the Pension Fund have been considered as part of the 2022 pension fund valuation.

RECOMMENDATIONS

It is recommended that the Pension Committee:

1) Notes the update on the implementation of the McCloud judgement.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
Jonathan Clewes, Pension Manager on 0115 9773434 or Jon.Clewes@nottscc.gov.uk

Constitutional Comments (KK)
40. The proposals in this report are within the remit of the Nottinghamshire Pension Committee.

Financial Comments (KP)
41. The financial implications are set out in the report.

Background Papers and Published Documents

The Local Government Regulations

The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023 (legislation.gov.uk)

H M R C has published the remedy newsletter

Public service pensions remedy newsletter — October 2023 - GOV.UK (www.gov.uk)

LGPS Member Website:

The McCloud Remedy:: LGPS (lgpsmember.org)

Electoral Division(s) and Member(s) Affected

- All

Department for Levelling Up,
Housing & Communities

LGPS England and Wales McCloud prioritisation – initial policy

One of the issues raised in responses to the Department's consultations on the McCloud remedy in the LGPS was how cases affected by the McCloud remedy should be prioritised. As a wide variety of cases will need to be dealt with, some respondents requested certainty on the order in which they should be approached.

The Government agrees that this is an important issue and this note summarises the Government's current views on how cases affected by the McCloud remedy should generally be prioritised. The content of this note will be considered further in discussions about statutory guidance relating to the McCloud remedy and we intend to issue updated text on prioritisation in any such statutory guidance that we publish.

This note should be read alongside the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023 (SI 2023/972, 'the 2023 Regulations') and the amended Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525, 'the 2014 Regulations'). Terms used in this note have the meaning used in the 2014 and 2023 Regulations.

Group 1	**New final underpin dates and deaths** When an eligible member retires, they can rightly expect that the pension they will receive is accurate and complete. Efforts should be taken to ensure that when an eligible member retires on or after 1st October 2023, or otherwise has their final underpin date under regulation 4H of the 2014 Regulations, that the pension calculations undertaken by their administrator take into account their underpin rights, where applicable, straight away. The following situations should also be regarded as part of group 1: • Deaths on or after 1 October 2023 of eligible members. • Trivial commutations calculated on or after 1st October 2023, where the final underpin date or date of member's death was before that date. • Uplifts of Tier 3 benefits to Tier 2, where the final underpin date for the Tier 3 pension was before 1st October 2023 but the uplift decision was on or after then. • Transfers out paid on or after 1st October 2023 where the guarantee date (or for cash transfer sums, the date of leaving) was before 1st October 2023. Prioritising these cases will prevent the need for administrators to revisit these cases subsequently and potentially have to make retrospective amendments to calculated rights. We recognise that, on occasion, there may be circumstances in the period after the remedy comes into force which mean it will not be possible to fully take into account the 2023 Regulations straight away (for example, if the necessary data is unavailable from the employer). In such cases, administrators should clearly communicate that to

<table>
<tr>
<td></td>
<td>affected members at the time, and seek to rectify the situation as soon as they can afterwards.</td>
</tr>
<tr>
<td>Group 2</td>
<td>

Cases falling under Part 3 of the 2023 Regulations
The LGPS McCloud remedy has retrospective effect to 1st April 2014 and, for many eligible members, the underpin date or the final underpin date set out in the 2014 Regulations (as amended by the 2023 Regulations) will have already occurred. Part 3 of the 2023 Regulations sets out how the remedy should apply retrospectively for these eligible members, as well as in respect of eligible members who died before 1st October 2023.

For these cases, administrators will need to review eligible members' entitlements and, where necessary, make additions to pensions or other benefits, including any applicable arrears.

Within this group, cases should be considered in the following order:

a) <u>Cases where a member or survivor pension is in payment</u>
- These are cases where a member or survivor pension is currently being paid which includes membership in the underpin period. The fact that a pension is in payment means that a final underpin date under regulation 4H of the 2014 regulations has already taken place for the eligible member before 1st October 2023, or that the member has died before that date.
- In these cases, the pension a member or survivor receives each month may not be accurate and it is important that administrators consider these cases promptly to ensure that the correct pension is paid as soon as possible in the future, including the payment of any arrears where applicable.
- These cases fall under regulations 5 and 8 of Part 3 of the 2023 Regulations.

b) <u>Cases where payments have been made in the past but there is no ongoing liability</u>
- These are cases where a member has had their final underpin date under regulation 4H before 1st October 2023, or has died, but the liability for the pension rights has otherwise been fully discharged by the administering authority. Cases in this group include:
  - Members and survivor pensions where a pension was in payment, but this is now no longer payable.
  - Cases where the liability was initially discharged through one of the following one-off payments:
    - A transfer out
    - A trivial commutation or small pot payment
    - A death grant payment, where there is no related survivor pension
- For the cases in this group, there will be no ongoing inaccurate payments, but it's possible past payments will have been inaccurate and administrators should make efforts to consider these cases promptly so that any underpayments can be rectified.

</td>
</tr>
</table>

	• These cases fall under regulations 5, 6, 7, 8, 10 and 11 of Part 3 of the 2023 Regulations. c) Cases where a member’s underpin date has taken place before or after 1st October 2023, but not their final underpin date • These are cases where an eligible member has had their underpin date under regulation 4G of the 2014 Regulations – i.e. they leave active membership or reach their 2008 Scheme normal pension age (usually 65) - but they have not had their final underpin date. • For the purposes of this note, this group includes both: ○ eligible members who had their underpin date before 1st October 2023, and ○ eligible members who have their underpin date on or after 1st October 2023 but before the conclusion of the remedy project. • There will not have been any incorrect payments made for members in this group, but it will be possible for administrators to undertake the initial ‘underpin date’ calculation of benefits upon which final calculations will be based. These cases should be reviewed after the cases in groups 1, 2a and 2b. • Cases where a member’s underpin date was before 1st October 2023 fall under regulation 13 of Part 3 of the 2023 Regulations.
Group 3	**All other cases** • Eligible members who do not fall within groups 1 or 2 are those who are in scope of McCloud remedy, but who remain in active membership and have not yet had their underpin date. • Members in this group will be of lower priority than members in group 1 and group 2. However, it is important that administrators take steps to update group 3 members’ records as soon as it is possible to do so, and should have plans to achieve this in time for the first annual benefit statements including McCloud remedy details, expected to be 2024/25. • If a member in group 3 becomes a member in group 1 (for example, they retire) or a member in group 2c (they have their underpin date), their case should be considered in line with our guidance on those groups.

Within each group, administering authorities should consider using tools and analysis to help identify the members who are most likely to have an increased pension or benefit arising from our new underpin provisions, and who are therefore most in need of having their case reviewed promptly.

For all eligible members, remedy work should be concluded in time for the despatch of the first annual benefit statements that are required to include McCloud remedy details. This is expected to be the 2024/25 annual benefit statements and we intend to consult on this issue in early 2024.

General comments

We believe the approach outlined in this note is proportionate and reflects the relative urgency of different cases. The responsibility for administering the scheme lies with each administering authority and the administration of the McCloud remedy, which is complex and varied, should be approached flexibly. There may be circumstances where an authority feels it is right to deviate from the approach outlined above – for example, if it is more administratively efficient to take a different approach and members in a higher priority group would not be materially disadvantaged by doing this. This may be the case if an authority is bulk processing cases, where a number of lower priority cases could be dealt with at one time, and where the same bulk processing could not be used for higher priority cases.

There may also be case specific factors which need to be considered – such as in respect of sensitive cases where special care should be given, for example, after a member's death. Overall, where an authority does take a different approach to that we have outlined here, they should consider this decision carefully, and review that decision at appropriate intervals.

The McCloud remedy project is wide-ranging and this note is principally concerned with the payment of benefits relating to the McCloud remedy. There are important parts of the project which will need to be progressed in parallel with the payment of benefits. This includes, but is not limited to, the following:

- Collection and verification of additional data required to undertake the McCloud remedy calculations.
- Checks to verify which members are in scope of the McCloud remedy from previous pensionable service which hasn't been transferred in or aggregated to that LGPS fund. DLUHC intends to discuss the steps administering authorities should be taking to identify such members with the guidance working group.
- Any tax impacts of the McCloud remedy, including recalculations of past annual allowance calculations.
- Recalculation of inward Public Sector Transfer Club transfers to reflect the McCloud remedy.
- Divorce estimates and implementation of pension sharing orders for eligible members.

We expect that administering authorities will have an overall plan for delivering the McCloud remedy that considers these aspects of the project, and will be working with partners, including software suppliers, to ensure that local plans can be met. In general, local plans should support the prioritisation approach outlined in this note. The Government is aware that updated actuarial guidance is necessary for elements of the remedy and is seeking to issue this as soon as possible

Department for Levelling Up, Housing & Communities

The McCloud judgment and your LGPS pension

This factsheet summarises the McCloud judgment and changes the Government is making to the Local Government Pension Scheme (LGPS) in England and Wales.

At a glance

The changes may affect you if:

- you were paying into the LGPS or another public service pension scheme before 1 April 2012
- you were also paying into the LGPS between 1 April 2014 and 31 March 2022
- you have been a member of a public service pension scheme without a continuous break of more than 5 years

What is the McCloud judgment?

When the Government reformed public service pension schemes in 2014 and 2015, transitional protections were introduced for older members. In December 2018, the Court of Appeal ruled that younger members of the judicial and firefighters' pension schemes had been unlawfully discriminated against because the protections did not apply to them.*

This ruling is called the McCloud judgment, after a member of the Judicial Pension Scheme involved in the case. Because of the ruling, there will be changes to all public service pension schemes that provided transitional protection, including the LGPS.

The changes are called the McCloud remedy and are intended to remove the age discrimination found in the McCloud court case.

The changes are called the McCloud remedy and are intended to remove the age discrimination found in the McCloud court case

* Lord Chancellor and another v McCloud and others
  Secretary of State for the Home Department and others v Sargeant and others [2018] EWCA Civ 2844

Department for Levelling Up,
Housing & Communities

How is the LGPS changing?

In 2014, the LGPS changed from a final salary scheme (a pension based on your pay when you leave) to a career average scheme (a pension which builds up based on what you earn each year).

Older members who were closer to retirement were protected from the changes. This means when a protected member takes their pension, the benefits payable under the career average scheme are compared with the benefits that would have been built up, had the final salary scheme continued and they receive the higher amount. This protection is called the underpin.

To remove the McCloud age discrimination, qualifying younger members will now receive the underpin protection too. This change will come into force on 1 October 2023. Underpin protection only applies to pension built up in the remedy period, between 1 April 2014 and 31 March 2022. The underpin will have stopped earlier if you left the scheme or reached your final salary normal retirement age (usually 65) before 31 March 2022.

From 1 April 2022, there is no underpin protection. Pension built up after this date is based on the career average scheme only.

The LGPS McCloud remedy will come into force on 1 October 2023

01 **1 October 2023**

Am I affected?

You will qualify for underpin protection if:

- You were a member of the LGPS or another public service pension scheme before 1 April 2012,
- You were a member of the LGPS at any time between 1 April 2014 and 31 March 2022 and some or all of this membership was before your final salary normal retirement age (usually 65), and
- You do not have a disqualifying gap. A disqualifying gap is a continuous period of more than five years when you were not a member of a public service pension scheme.

If you have more than one period of LGPS membership, you do not have to join up or 'aggregate' these memberships to qualify for underpin protection.

If you have membership of another public service pension scheme before 1 April 2012, you will not have to transfer that membership to the LGPS to qualify for underpin protection.

You may qualify for underpin protection if you were a member of the LGPS or another public service pension scheme before 1 April 2012 and were a member of the LGPS at any time between 1 April 2014 and 31 March 2022

Am I affected?

You will also be protected if you join the LGPS after 1 April 2022 and transfer in membership from another public service pension scheme if you:

- Qualify for McCloud protection in the previous public service pension scheme rules, and
- You do not have a disqualifying break.

You can use the tool on the next page to see if the changes could affect you.

Were you paying into the LGPS or another public service pension scheme before 1 April 2012?

Yes

No

You are not affected

Were you paying into the LGPS in the remedy period (1 April 2014 to 31 March 2022)?

Yes

No

You are not affected†

Were you under 65* during some or all of the remedy period?

Yes

No

Have you had a disqualifying gap?

You are not affected

Yes

No

You are not affected

Have you retired or are you planning to retire before October 2023?

Yes – After **1 October 2023**, your pension fund will work out whether the pension you built up in the remedy period would have been higher in the final salary scheme. If so, you'll receive an addition to your existing pension.

No – When you take your pension, your pension fund will check whether the pension you built up in the remedy period would have been higher in the final salary scheme. If it would have been, you'll receive an addition to your pension.

* Or under 60 if you had a protected normal retirement age in the final salary scheme of age 60.

† If you were a member of another public service pension scheme between 1 April 2015 and 31 March 2022, and you have transferred that membership to the LGPS, you will be protected.

What do I need to do?

You do not need to do anything. If you qualify for underpin protection, your pension fund will work out if an addition is due to be paid to you when you take your pension. If you have already retired, your pension fund will work out if you are due an addition to your existing pension. They will do this as soon as they can after 1 October 2023.

Will my pension increase?

This depends on the pension that you have built up when you take your pension. You don’t need to do anything – your pension fund will work out whether you are due any additional pension.

Many members won’t see an increase because the pension they build up in the career average scheme will be higher than what they would have built up in the final salary scheme.

Your pension fund will work out if an addition is due to be paid to you when you take your pension

Do the changes affect me if I qualified for original underpin protection?

If you already qualified for protection under the original rules for protection, your pension fund will work out if you are due an addition to your existing pension. They will do this as soon as they can after 1 October 2023.

How can I find out more?

This factsheet doesn't cover all circumstances or provide a detailed explanation of the McCloud remedy, which will be set out in legislation. For more information on how the McCloud remedy may affect you, contact your pension fund. Contact details for all LGPS funds are available here: www.lgpsmember.org/contact-your-fund

For further information on how the McCloud remedy may affect you, please contact your pension fund

Department for Levelling Up, Housing & Communities

Local Government Pensions SAB England and Wales

Key dates

1 April 2012

Members in the LGPS or another public service pension scheme before this date may be in scope of protection

1 April 2014

The LGPS changes from a final salary scheme to a career average scheme

1 October 2023

The LGPS McCloud remedy regulations become law. Qualifying members' pensions will be reviewed from this date onwards

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025

1 April 2014 to 31 March 2022

The remedy period, during which underpin protection may apply for qualifying members

1 April 2022

The underpin protection ends, and all LGPS members build up their pension on a career average basis without underpin protection

31 August 2025

Annual benefit statements issued by this date will include information about underpin protection for all qualifying members

Nottinghamshire County Council

Report to Pension Fund Committee

14 December 2023

Agenda Item: 6

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

LOCAL GOVERNMENT PENSION SCHEME – TRANSFORMING PENSION ADMINISTRATION UPDATE REPORT

Purpose of the Report

1. To update members on the delivery of the key aims of the "transforming pension administration through digital development and new ways of working programme".

2. To seek approval from members for the funding of the move of Civica UPM to a hosted environment and the associated resource.

Information

Background

3. Committee is aware from previous reports that pension administration is changing nationally, and in the LGPS with changes to Regulations, and with the requirements and scrutiny of the Pension Regulator. The introduction of the Regulator's new single code of practice and the proposed administration key performance indicators further support the delivery of the ongoing transformation work that is underway. This is being delivered by the delivery of a range of digital services which include increased automation, significantly reduced manual inputting and amending of member data, ensuring that scheme employers fulfil their responsibilities within the fund and for scheme members to be able to access their pension record 24/7.

4. Following approval by Pension Committee in 2019, the Pension Administration Service set out the key aims of its "transforming pension administration through digital development and new ways of working programme. These are as follows –

   a. Through **improved data quality and increased automation move towards "administration by exception".** Ensuring the right people are doing the right tasks at the right time. Enabling our skilled administrators to concentrate on dealing with complex issues, whilst the automation takes care of the very day-to-day tasks where possible.

   b. **Provide Scheme Employers with portal access** to upload validated data, removing paper and manual input into Civica UPM where at all possible and supporting Employers in fulfilling their duties under the Pension Administration Strategy

c. Improve the management and transition of member and financial data through the **deployment of monthly returns** rather than a yearly return. This would support auto loading and processing of new starters, changes, and leavers to enable cost efficient and transparent processing.

d. **Provide Members with self-service** access to enable them to maintain their personal data, review their pension benefits and communicate with the Fund.

e. **Support the Fund to meet increasing regulatory requirements and standards on reporting** for example, the Pension Regulator requirement for Funds to improve the quality of their data and the expectation that Funds enable Scheme Employers and Members to interact with the Fund via digital platform.

5. Whilst progress has continued to be made with the data audit and improvement workstream, this being the key foundation of the transformation programme, the overall programme's progress has been impeded by a number of key issues over more recent times, for example:

- The impact of the pandemic during 2020 through to 2022
- The delivery of national projects such as Guaranteed Minimum Pension, McCloud, and initial work on national pension dashboards.
- A significant increase in the volume of requests for deferred benefits and active retirement quotes and crystallisation of pensions into payment as a result of the pandemic and the cost-of-living crisis.
- Turnover of experienced pension administration officers and issues in recruiting to both vacancies and additional resources within pension administration.

However, since June 2023, work has been undertaken to refresh and drive forward the required changes to deliver the digital transformation. The following provides the Pensions Committee with an update on delivery against the key aims of the programme.

Improved data quality through data audit and improvement

6. Good quality data is a critical element in the success of digital transformation. The Pension Regulator requires all Funds to maintain accurate records. Data improvement is a continuous process and not a one-off exercise. The Fund's engagement with data improvement does not end once its improvement plan is delivered. Without good quality data, administrators are unable to process requests from scheme employers or members. Continual issues with poor quality and missing data provided by scheme employers impacts funds in several ways including reputational risk and fines from the Pension Regulator, and valuation risks, which affect members and impact on administration.

7. The programme has invested considerable time and resources in the data audit and improvement workstream. Since this activity started the Fund has been required to respond to a number of external projects, all of which have a foundation in "collecting specific data" –

a. GMP Reconciliation project
b. McCloud Court of Appeal judgement regarding age discrimination
c. Initial activity to support the delivery of the National Dashboard system. This national project has been delayed and the Fund's revised staging date is now September 2025.

8. The “behind the scenes” activity of the data audit and improvement has supported the Fund to achieve a significant improvement in its data scores since 2020. During the last 12 months the data improvement activity has been light touch due to the focus being on the final stages of the GMP reconciliation project and data gathering for the McCloud project.

9. As part of the audit improvement phase a series of bulk data improvement (BDIs) tasks have been developed. The project agreed to postpone the running of the final fix, as this requires the implementation of the Service BDI, which would overlap with the data cleanse work being undertaken with employers for McCloud. The McCloud data returns are scheduled to be loaded into Civica UPM in mid-December, following the implementation of the required software module. Once completed this will then result in a further run of the data audit and application of the service BDI to address appropriate Data Validation Failures (DVFs). Any remaining data errors will then be sent to individual scheme employers to address.

10. The following table details the progress achieved since the baseline data validation check (DVCs) figures were taken in September 2020. As can be seen in the table, 57% of the current scheme membership of 148,928 have passed all DVCs. Together with the 48,984 members with between 1 and 3 amendments this covers 90% of the current scheme membership.

As at Sept 2020 Nos of Members	**As at Nov 2021 Nos of Members**	**As at Nov 2022 Nos of Members**	**As at Nov 2023 Nos of Members**	**DVC not passed**	**Total progress from September 2020**
24,035	66,036	82,343	84,314	Passed all DVCs	An increase of 60,279 (57%) of members passing all checks
56,658	56,668	46,835	48,984	1-3 amendments required	A reduction of 7,674 members
26,825	11,388	10,336	11,190	4-6 amendments required	A reduction of 15,635 members
13,507	2,608	2,663	2,978	7-9 amendments required	A reduction of 10,529 members
13,408	1,339	1,172	1,462	10+ amendments required	A reduction of 11,946 members
134,433	**138,039**	**143,349**	**148,928**		**An increase of 14,995 members being included in the Data Audit.**

11. Against the baseline of September 2020 where 53,740 members had between 4 and 10+ data errors, as at November 2023, only 15,630 members now have this range of data errors.

12. However, this year’s Pension Regulator Annual Data Return figures show that common data has remained static over the last 12 months and the scheme specific data score has fallen

slightly, this is due to both an increase of 14,995 members in the November 2023 audit run and the fact that the final fixes detailed in paragraph 9 have been held back due to the focus on GMP and McCloud. Once the final fixes are applied it is expected that both scores will increase further.

	Sept 2020	Sept 2021	Oct 2022	Nov 2023
Common Data	73%	84%	87%	87%
Scheme Specific Data	41%	54%	64%	63%

13. The Fund will be reviewing its Pension Administration Strategy and will be developing a section to report on Scheme Employers' performance against their responsibilities on an annual basis. This will include details of data quality maintenance by Scheme Employers, as informed by periodic data quality dashboards, adherence to LGPS Regulations, Scheme Employer Responsibilities, and breaches.

Increased automation leading to administration by exception.

14. The data audit and improvement workstream has reached a point where the project is confident to progress work on the development of individual process automation (IPA). The project has worked with Civica to develop a process to initially automate the deferment process to allow for "straight through processing" if the record successfully completes a series of validation checks.

15. The IPA process runs a series of validation checks against either an individual or batch of members which require a deferment process completing. These basic checks are to ensure that the member meets the automation eligibility criteria and has all the essential data on the record to process the deferment.

16. Any processes that fail validation will be treated as "administration by exception" and be returned to a work tray for review by a Pension Administrator. Once the review is completed the record will then be passed back into the automated process. However, the Pension Administrator will also have the option to complete a manual deferment process.

17. Eligible records then undergo a further set of pre calculation validations, to check that all the essential data is on the record to process the deferment, for example service details, contributions and pay details. Again, these checks will determine if the record can pass to the next stage of the automated process or be passed out to a Pension Administrator for review.

18. The final stage of the automated process will perform the deferment calculation, update the relevant fields on the members record and generate the deferment letter to be sent out to the member. Post validation checks determine if the process needs manual authorisation using pre-determined conditions, for example where the member's pay is at a particular level and the member would be entitled to substantial deferred benefits. Work is also underway to look at the members communication channel preference and would look to drive distribution via email.

19. The IPA proof of concept is being run in the UPM Train environment. Successful cases within this environment will be passed through to the live system, processed and the actual letter sent out to the member. The IPA will be run against outstanding deferment processes, and leavers

notified through this year's annual return from scheme employers to the Fund. It is currently planned that the automated deferment process will be fully productionised by the end of March 2024 at the latest.

20. The next phase of process automation would include requests for deferred benefit quotations into payment and refunds.

Provide Scheme Employers with portal access

21. As stated in paragraph 15 the data audit and improvement project, as well as reaching a point to progress the process automation project, has also meant that the scheme employer portal project can be re-started.

22. The Employer Web version of the Scheme Employer Portal went live with the largest scheme employer, Nottinghamshire County Council in July 2020 and was then deployed to several other scheme employers including Gedling and Rushcliffe Borough Councils. Rollout to other scheme employers was put on hold during the pandemic and the Pension Office has concentrated its resourcing on the data audit and improvement workstream.

23. Civica have redeveloped the existing Employer Web module replacing it with a new self-service Employer Hub. As well as still allowing employers to submit data files for the processing of new members, the hub also lets them load data and financial information for members and respond to queries from the Pensions Administration Team. The existing functionality is being further enhanced enabling information about the scheme employer as well as its LGPS employees to be available via the employer hub. This will mean that the Fund has one single repository for all scheme employer details and will no longer need to maintain a range of spreadsheets outside of the UPM system.

24. The new self-service Employer Hub will go live at the end of January 2024. The Pension Systems Team are working closely with the Council's ICT Service and have completed all the necessary due diligence checks. Work is also in progress to update the original Data Protection Impact Assessment for sign-off by the Information Governance team.

25. Once the Employer Hub is live, existing users of the Employer Web scheme will be moved over. This activity will be led by the Employer Support and Compliance Team. This team will also lead the rollout to all other scheme employers, before moving to the deployment of monthly returns.

Deployment of monthly returns

26. The existing "Employer Web" of scheme employers will be the first to move from the annual return to monthly returns. Again, it is a requirement of the Pension Regulator that all scheme employers are moved by their Funds to monthly data returns as has been the case for the Teacher Pension Fund for many years.

27. The Fund has also taken account of discussions with other LGPS Funds that have rolled out the employer hub and monthly returns to their scheme employers. They have stressed the importance of completing a data audit and improvement exercise prior to a move to monthly returns.

28. Monthly returns are predicated on the use of the portal as the secure mechanism for the submission of updates to the fund on joiners, changes of details and leavers.

29. As can be seen from the above – the ongoing data audit and improvement activity links into the scheme employer's hub which links into the monthly data return which in turn feeds the automation of everyday tasks where possible. This drives the move of the pension administration service to release capacity enabling our skilled administrators to concentrate on dealing with complex issues.

30. It is anticipated that the rollout of monthly returns will take in the region of 12 months.

Hosting Civica UPM

31. Nottinghamshire Pension Fund currently operates the UPM application within the County Council's 'on-premise' Data Centre environment. To align with the County Council's corporate "Journey to the Cloud" programme the Fund plans to migrate the UPM application to operate within Civica's Microsoft Azure Cloud Hosting environment.

32. The rationale for moving to operate the Civica UPM platform via a secure Microsoft Azure cloud environment is that it will provide pension administration with increased resilience due to access being provided via two UK based data centres, de-risk availability of the Council's ICT resources and help future proof the Fund's digital presence.

33. The hosted service scope will include support, monitoring together with release and upgrade management scheduled throughout the year. The Fund's online presence will increase significantly over the coming 12-18 months with the deployment of the new employer hub, rollout of monthly returns and the launch of the national dashboards. The hosted service will provide 24/7/365 services hours and service availability of 99%

34. This move will also enable the Fund to work with Civica in the future on exciting technologies such as biometrics to build an even stronger digital platform for our pensions administration service in the future.

35. The investment required to move to the hosted environment is detailed in the table below. The hosting contract will be aligned to the main Civica contract currently in place.

Year	Setup costs	Ongoing annual hosting costs	Total
1	£58,725	£132,028	£190,753
2 onwards		£132,028	£132,028

Resources

36. Recruitment into the Pension Administration Team has been challenging. This issue is being experienced by several Administering Authorities. Leavers have in general been due to retirement. This has created a number of opportunities for existing team members to seek promotion. For the Fund this means retaining some of its experienced staff. There has also been some internal movement from within the Business Services Centre over the last 2 years into the Pensions Team.

37. It has proved almost impossible to recruit experienced pension administrators externally. However, the team have recently been successful in recruiting 4 apprentices who will undertake the Pension Administrator apprenticeship. Apprentices who successfully complete their apprenticeship are guaranteed a permanent post. This will provide the Fund with an opportunity to "grow its own". There are also ongoing discussion with the Local Government Association to design and offer an LGPS pension administrator apprenticeship.

38. One of the key outcomes from the transformation programme is to move the administration team away from a one-to-one relationship when processing tasks to a one to many. Over time this will see the release of experienced pension officers from day-to-day tasks to enable them to work on the more complex activities such as pension into payment and death processes.

39. Delivery of the transformation programme will inevitably require a review of the structure of the Pension Administration Team to ensure it is fit for purpose in the new digital way of working. Data is a vital part of the administrative function and consideration will need to be given to a "Data Team" as other LGPS administration teams have done.

40. Systems are at the forefront of our new digital ways of working. In July 2021, Pensions Committee approved temporary funding for 2 years for additional resources to support the delivery of McCloud. This report also stated that the tenure of posts would be kept under review. One of these posts was an additional pension system team functional support officer. This post has been recruited to and whilst supporting McCloud has also undertaken a range of other system related activities which link into the transformation programme. This report seeks approval for the permanent funding of this additional functional support officer to ensure that the appropriate level of resourcing is within the Pension Systems Team to support the administration team.

Post Title	**Nos of posts required and grade**	**Cost per annum (shown at the top of grade) including oncosts**
Pension System Team Functional Support Officer	1 x Grade 5	£41,400

41. Following funding approval from Pension Committee, it is proposed to seek the appropriate delegated decision to establish the post on a permanent basis.

Other Options Considered

42. The Pension Administration Service could continue to operate as it currently does but this is not considered a viable option given both the increasing legislative demands and increasing number of scheme employers, members, and their expectations in this digital age.

43. Without the development of digital platforms for Scheme Employers and members to interact with the Fund, consideration may have to be given to increasing the number of pension administration staff.

Reason/s for Recommendation/s

44. For the Nottinghamshire Pension Fund to be able to meet ongoing statutory responsibilities, increased expectations of members and scheme employers to interact with the Fund online and via self-serve it is imperative that the Fund transforms its service offer ensuring that it is cost efficient and effective and meets its regulatory and statutory requirements.

Statutory and Policy Implications

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

Data Protection and Information Governance

46. The project has completed both an overall high-level Data Privacy Impact Assessment for the transformation programme as well as more detailed individual DPIAs were required. These will be kept under regular review as the work of the programme progresses.

Financial Implications

47. The financial implications are covered within the body of this report at paragraph 35 and 40.

RECOMMENDATION/S

It is recommended that the Members:

1) Note the update on the delivery of the key aims of the "transforming pension administration through digital development and new ways of working" programme.

2) Approve the setup and ongoing funding for the move to a hosted environment.

3) Approve the ongoing funding for the Functional Support Officer within the Pension Systems Team.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
Sarah Stevenson, Group Manager Business Services Centre on 0115 9775740 or sarah.stevenson@nottscc.gov.uk

Constitutional Comments (KK 04/12/2023)

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

Financial Comments (KRP 04/12/2023)

49. The costs of the setup and ongoing support for the hosted environment and for the Functional Support Officer are set out in the report. These costs are a valid charge to the Pension Fund.

HR Comments (JP 04/12/2023)

Any HR implications are contained within the body of the report. It is noted that a further decision will be required to establish the identified post on a permanent basis.

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.

- LGPS – Transforming Pension Administration – 18 July 2019
- LGPS – Transforming Pension Administration – 12 September 2019
- LGPS – Transforming Pension Administration Update Report – 10 September 2020
- LGPS – Transforming Pension Administration Update Report – 4 November 2021
- LGPS – Transforming Pension Administration Update Report – 8 December 2022

Electoral Division(s) and Member(s) Affected

All

Report to Nottinghamshire Pension Fund Committee

14 December 2023

Agenda Item: 7

REPORT OF THE MONITORING OFFICER

THE COMPOSITION AND VOTING RIGHTS OF MEMBERS OF THE PENSION FUND COMMITTEE

Purpose of the Report

1. This report addresses questions from members about the composition and voting rights of members of the Pension Fund Committee ("the Committee").

Information

Background

2. The Nottinghamshire Pension Fund Committee is the Committee to which Council has delegated authority to take decisions on behalf of the Council in its role as the Pension Administering Authority for the Local Government Pension Scheme (LGPS). The Administering Authority carries the statutory responsibilities for discharging the functions of the Nottinghamshire Fund.

3. The current composition of the Committee has largely come about because the functions of two sub-committees were transferred to the Committee. Both of those sub-committees were essentially advisory in nature and included other non-County Council representatives. Those non-County Council representatives appointed to sub-committees had voting rights but the matters on which they voted were to make recommendations to the main Pension Fund Committee, which had the final decision making authority. The non-county council members of the sub-committees were not members of the main Pension Fund Committee and had no voting rights in respect of that Committee.

4. In May 2017, the Council's overall Committee structure was revised in order to improve efficiency and effectiveness, streamlining arrangements to create a smaller number of Committees of Council and reducing the support required to service those Committees. This revision also affected the committee arrangements relating to pension fund administration and investment. The new structure effectively transferred the activities of the former sub-committees and the main decision-making Committee into a single Committee covering all aspects of pensions administration and investment matters.

5. In order to reflect the fact that the two sub-committees had non-county council representatives, the Council determined that similar numbers of such representatives would become members of the Pension Fund Committee but that they would not have voting rights. This was because the rights of those non-county councillor members on the former sub-committees had

previously been to make recommendations to the main Pension Fund Committee with the final decisions resting with that Committee. In addition, legal advice taken at the time confirmed that the option of having a committee comprising 9 County Council voting members and 10 other non-county council representatives all with voting rights would lack legal viability. As a result this option was not considered further.

6. The first meeting of the new look Pension Fund Committee with its combined voting and non-voting membership took place on 22 June 2017 at which the membership of voting (County Councillors) and non-voting (other representatives) was set out as the second item on the agenda.

7. The Pension Fund Committee currently has 21 members: 11 voting members, and 10 non-voting members. The 11 voting members are elected members of the County Council; 6 of whom are from the majority political group on the Council (the Conservative Group); the remaining 5 voting members are 2 from the Labour Group, 2 from the Independent Alliance and 1 non- aligned independent member. The 10 non-voting members are 3 from Nottingham City Council, 2 from District/Borough Councils, 2 Trade Union representatives, 1 Scheduled Body representative, and 2 pensioner representatives.

8. Some non-voting members of the Committee have requested to be given voting rights. Following this request, the Chairman of the Committee asked the Monitoring Officer to arrange for a review of the current practice. This has included consideration of practices across a range of other local authorities' Pensions Funds Committees, as well external legal advice being sought on the requirements of applicable law.

9. The practices across various local authorities indicate a wide variation nationally. There are examples where the voting members are drawn only from the Administering Authority (as in Nottinghamshire) and others where non-councillors from outside the Administering Authority had voting rights. At some Pension Funds the non-members were present only as observers and not members of the Committee. As a result there was no consistency of approach. It should be noted that no two Fund areas are the same and each Pension Fund Administering Authority makes its own decision on what is most appropriate for their area, regarding Committee membership. The Government response to the Good Governance report (see below) should help provide improved clarity over any expectations in this area and whilst it is not expected that prescriptive legislative provisions will be imposed, revised Government guidance may assist in providing a framework for greater consistency to assist Administering Authorities in how they approach the issue of representation.

10. It is also worth reflecting on the regular use of working groups at Nottinghamshire, made up of voting and non-voting members each having equal status and opportunity to contribute to the work and outcomes and to influence the formation of a consensus view to be put before the Committee. In addition, although non-county councillors do not have voting rights, they do have the right to speak as members of the Committee. These mechanisms provide valuable opportunities for the non-voting members of the Committee to influence debate and proposals to assist the Committee in reaching its decisions.

<u>Legal Issues</u>

11. The Pension Fund Committee is formed under section 101 of the Local Government Act 1972, with delegated authority from the County Council to deal with responsibilities and decision-making powers in relation to the administration of the Local Government Pension Scheme.

12. Legal advice relating to the issue can be summarised as follows:

a. Non-County Council members (provided they are not disqualified) can be appointed to the Committee.

b. The choice and number of such appointees is a matter for the County Council as Administering Authority.

c. The County Council may give such appointees voting rights.

d. A majority of the Committee ought to be constituted by members of the majority political group on the County Council but in other respects, the requirements regarding political proportionality between different political groups need not apply.

13. Whether or not the current composition of the Committee is retained is therefore a matter for the County Council. The County Council has the legal authority to decide whether to give voting rights to non-voting members or continue with the current practice. There is no legal requirement to agree a request to grant voting rights to non-County Council members of the Committee, and if the Council was minded to do so it would have to take into account the other legal issues set out above.

14. Any decision on the composition of the Committee is a matter for the Full Council. This Committee does not have the power to make that decision but may vote to refer the matter to the Full Council for a decision if that is considered appropriate at this time. The Council's constitutional arrangements currently do not allow for non-County Council members of the Committee to have voting rights. Therefore, any decision to grant voting rights to non-County Council members of the Committee will require a change to the Council's constitutional arrangements relating to the Pension Fund Committee.

15. A decision to grant voting rights to non-County Council members of the Committee would have knock on implications for the size of the Committee due to the application of the relevant requirements relating to political proportionality. It would require a change to the composition of the Committee, to ensure compliance with the principle that a majority of the Committee should be constituted by members of the majority political group on the Council. If all current non-voting members had voting rights the number of majority group members would have to be increased to such an extent that the total membership of the Committee would be 31 people

16. It is also important to consider the effective functioning of committees, particularly in relation to decision making. If all 21 current members of the Committee had voting rights, this could be potentially unwieldy and would create an unusually large number. Increasing the voting membership of the Committee beyond the current 11 members also risks it becoming less effective in terms of reaching decisions and fulfilling its duties.

17. As a result, if voting rights were to be considered for non-county council members it would be impractical to do that without giving fundamental reconsideration of overall voting and non-voting membership to determine and appropriate size and composition for the Committee. Such a review would necessarily need to reconsider whether an appropriate mix of Scheme Employer bodies, Scheduled body representatives, Pensioner representatives and other relevant bodies are reflected within the membership alongside Council members representing the administering authority. The outcome of such a review could result in a quite different

looking membership from the Committee in place today which could be different in size, composition and voting rights, providing the overriding requirements of the law are met.

18. Given the current position with the Good Governance review (see below) and the potential for changes to legal requirements which may flow from that, it also seems premature to consider making changes which could soon be affected by any consultation on future governance requirements as proposed by Government.

19. There appear to be a number of options for the possible composition of the Committee and the approach to voting rights. These include:

   a. Maintaining the status quo and making no changes at this time
   b. Giving all current non-voting members a right to vote (but this requires increasing the number of majority group members to 10 and would make the Committee size unwieldy)
   c. Removing all non-voting members from the Committee and set up separate employer and member committees/forums to obtain their input
   d. Reducing the overall number of members of the committee and giving all members a vote, whilst ensuring the necessary legal requirements are met.
   e. Increasing the size of the Committee and giving some of the non-voting members voting rights.

20. Further consideration of these options and their pros and cons are set out in the **Appendix**.

<u>Good Governance Review</u>

21. The Good Governance project by the Scheme Advisory Board for the LGPS (SAB) was instigated to examine the effectiveness of LGPS governance models and consider enhancements to further strengthen governance. Work was undertaken to work alongside scheme stakeholders to identify best practice and propose beneficial changes to regulations and guidance for consideration by Government.

22. The good governance review carried out by Hymans Robertson on behalf of the SAB reported its findings in a final report in February 2021 together with an Action Plan regarding the recommendations. Section C of the Phase III report of the Good Governance project which is headed 'Representation', recommends that each fund should publish a policy on the representation of scheme members and non- administering authority employers on its committees, explaining its approach to voting rights for each party. There is a recognition that each administering authority knows its own situation best, and any guidance should avoid being overly prescriptive and limiting. Administering authorities are advised to prepare, maintain and publish their policy on representation and provide the rationale for their approach to representation for non-administering authority employers and scheme members (both local authority and non-local authority) on any relevant committees; and the rationale as to whether those representatives have voting rights.

23. The SAB's view is that it would expect scheme managers to have the involvement of employers and member representatives on any relevant committee. In addition to representatives on committees, administering authorities should state the other ways in which they engage their wider employer and scheme membership. It is an important principle that administering authorities retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

24. As part of the Good Governance Review, the report is now with the Department for Levelling Up, Housing and Communities (DLUHC), with an Action Plan consisting of formal requests to

the DLUHC and other bodies to implement certain recommendations. Implementation of the recommendations will require the Government to amend scheme regulations and produce revised statutory guidance. It is not currently known the extent to which DLUHC will endorse the SAB recommendations or the timescale within which the Government decision will be made. Whatever the view, there will need to be consultation on any proposed amendments to the relevant Regulations and then those amendments will need to be published, most likely alongside updated statutory guidance.

25. There are aspects of the Action Plan, relating to promoting best practice, which may be a useful guide when considering the current composition of the Committee, and allocation of voting rights, when the County Council is ready to consider those issues. Although it would be possible to review those issues in advance of the position being clarified by Government, on balance it is suggested that this activity is better left until the Government responds formally to the SAB recommendations in the Good Governance Review to avoid the possibility of needing to undertake such an exercise twice, thereby avoiding duplication of cost and effort.

26. Another of the recommendations of the Good Governance Review is that members of the Committee have the appropriate knowledge and understanding to carry out their duties effectively. Maintaining sufficient knowledge and understanding can be difficult to achieve due to the highly technical nature and increasingly complex landscape of matters brought for a decision to Pension Fund Committee. In addition, maintaining knowledge and expertise for directly elected members, can be impacted by the duration of their terms of office as they are subject to change at each main election every 4 years and following any by-elections. Also, the larger the number of members on the Committee with voting rights, potentially the more difficult it is to ensure that they all have sufficient knowledge and understanding to carry out their duties on the Committee.

27. As the DLUHC position is yet to be published, this report does not propose changes to the composition or voting rights of the Committee. Once a response from the Government has been received, the Committee may want to consider commissioning an independent governance review to include a range of issues set out in the Good Governance Review and ask officers to bring a report back to the Committee on any appropriate options and next steps. As a result, the recommendation of this report is for no change to the composition or voting rights of the Committee and to adopt a “wait and see” approach with regard to the response from Government to the SAB Good Governance report recommendations.

Other Options Considered

28. The alternative options have been set out. Broadly they would be to give some or all of the current non-voting members voting rights. That would have knock on implications for the size of the Committee and its operational effectiveness as its membership would have to increase to 31 (if all current members were giving voting rights) in order to meet the requirement for the majority group on the Council to have the majority on the Committee. This is considered to be inappropriate and not good practice. Another option would be to undertake a complete review the current membership and consider reducing the number of members overall. This may have the effect of reducing the number of non-county councillor representatives in order to make the committee size manageable and to meet the relevant requirements of political proportionality. Finally, it would be possible to change the arrangements back to a sub-committee and main committee structure however that would reverse the effect of the changes made in 2017 to improve efficiency and effectiveness across the whole governance system. Any changes introducing additional committees would require additional resources to manage the work of the committees and is not therefore considered appropriate at this time.

Reason/s for Recommendation/s

29. It is recommended not to change the Committee composition or voting rights at this time. Instead a wait and see approach is proposed until such time as the Government has responded to the recommendations of the SAB Good Governance Review and any legislative or regulatory changes which may flow from that and determine an appropriate course of action at that time.

Statutory and Policy Implications

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

Financial Implications

31. There are no direct financial implications identified from the report.

Legal Implications

32. The legal implications have been set out in the main body of the report.

Consultation

33. The decision on whether or not to change the voting rights and composition of the Committee is a matter for the County Council on which no consultation is required.

Crime and Disorder Implications

34. None identified in connection with this matter.

Data Protection and Information Governance

35. None identified in connection with this matter.

Human Resources Implications

36. None identified in connection with this matter.

Business Support Implications

37. None identified in connection with this matter.

Human Rights Implications

38. None identified in connection with this matter.

Implications in relation to the NHS Constitution

39. None identified in connection with this matter.

Public Sector Equality Duty implications

40. The Council must have regard to its duties under the Equality Act 2010 when reaching decisions. No impacts on people with protected characteristics are identified in connection with this matter.

Smarter Working Implications

41. None identified in connection with this matter.

Safeguarding of Children and Adults at Risk Implications

42. None identified in connection with this matter.

Implications for Residents

43. None identified in connection with this matter. The issues relate to the responsibilities of the Council as Pension Administering Authority and the governance arrangements relating to the discharge of those functions.

Implications for Sustainability and the Environment

44. None identified in connection with this matter.

RECOMMENDATION/S

It is recommended that the Pension Fund Committee:

1. Notes the contents of the report and the information set out in the **Appendix**.

2. Agrees that at this time no changes are required to the composition and voting rights of the Committee pending the outcome of the Government response to the SAB Good Governance report when Committee will consider any appropriate next steps at that time.

Marjorie Toward
MONITORING OFFICER

For any enquiries about this report please contact: Insert name, title, telephone number and e-mail address of report author(s) here:

Heather Dickinson, Group Manager, Legal, Democratic and Information Governance: heather.dickinson@nottscc.gov.uk

Constitutional Comments (KA 27/11/2023)

45. This committee is the appropriate body to consider the issues raised in this report. However, any decision on the voting rights of members of the committee will require a change to the constitution, which is a matter for the Full Council.

Financial Comments (KRP 4/12/23)

46. There are no direct financial implications arising from the recommendations in the report.

Background Papers and Published Documents

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

- ‘SAB Good Governance Final Report February 2021:
  Good_Governance_Final_Report_February_2021.pdf (lgpsboard.org)

Electoral Division(s) and Member(s) Affected

- All

Appendix – Potential Options for the constitution of the Committee

No.	OPTIONS	PROS	CONS	ADDITIONAL COMMENTS
1	No change to the current Committee	• A majority of the Committee is already constituted by members of the majority political group on the Council • Only Council members can vote, so the Council has the majority/only vote • The Committee already has employer and member representation, which fulfils one of the recommendations of the Good Governance Review	• It does not address the request that has been made for non- voting members of the Committee to have a vote • It does not address the current constitution of the Committee, which has some inconsistencies due to partly being formed from two former sub-committees • It would possibly be a missed opportunity – the Committee could be re-designed so that it is more fit for purpose and takes account of the recommendations set out in the Good Governance Review	• This is the most straight forward option
2	Give the current non- voting members the right to vote	• This addresses the request that has been made for non-voting members of the Committee to have a vote • This addresses the recommendation in the Good Governance Review to have employer and member representatives but goes further than is strictly necessary as the Review does not state that such representatives should have voting rights	• A majority of the Committee would no longer be constituted by members of the majority political group on the Council • The Council would no longer have the majority vote on the Committee • It would make the Committee unwieldy in terms of decision making • It does not address the current inconsistencies in terms of employer and member representation on the Committee	• This option is potentially unworkable • An additional 10 members of the majority political group on the Council would be required, taking the total number of voting members to 31

No.	OPTIONS	PROS	CONS	ADDITIONAL COMMENTS
3	Remove all of the non-voting members from the Committee and set up separate employer and member committees and forums to obtain input	• A majority of the Committee would be constituted by members of the majority political group on the Council • The Council would retain the majority/only vote on the Committee • It maintains a decision-making committee that is not too big or unwieldy	• It does not directly address the recommendation in the Good Governance Review to have employer and member representatives on such committees, however this would be addressed in part by setting up separate employer and member committees/forums	• There will be a staff resource issue to this option which needs to be factored in • Without additional staff, there is currently no capacity to manage additional committee work
4	Reduce the overall number of members on the Committee and give all members a vote. This could be done in a variety of ways but one approach to membership of the Committee could be: • 5 Council members from the majority political group • 2 other Council members • 1 employer representative • 1 member/trade union representative	• This addresses the request that has been made for non-voting members of the Committee to have a vote This addresses the recommendation in the Good Governance Review to have employer and member representatives but goes further than is strictly necessary as the Review does not state that such representatives should have voting rights • A majority of the Committee would be constituted by members of the majority political group on the Council • The Council would retain the majority vote on the Committee • It maintains a decision-making committee that is not too big or unwieldy	• This is a more wholesale change to the Committee, but does provide an opportunity to re- design the Committee so that it is more fit for purpose and takes account of the recommendations set out in the Good Governance Review	• This reduces the current Council members from opposition parties to 2, which may raise concerns As an alternative the current Council membership of 11 voting members could be retained with the addition of 1 employer representative and 1 member/trade union representative, giving a total of 13 voting members • Reducing the current 10 non-voting members to 2 voting members may not address the concerns that have been raised by the non-voting members. Such a significant reduction, albeit in return for voting rights, may result in increased concerns

No.	OPTIONS	PROS	CONS	ADDITIONAL COMMENTS
5	Increase the size of the current Committee & give some of the non-voting members the right to vote	• This addresses the request that has been made for non-voting members of the Committee to have a vote • This addresses the recommendation in the Good Governance Review to have employer and member representatives but goes further than is strictly necessary as the Review does not state that such representatives should have voting rights • A majority of the Committee would be constituted by members of the majority political group on the Council • The Council would retain the majority vote on the Committee	• It could make the Committee unwieldy in terms of decision making with a total of 15 voting members and 8 non-voting members • It creates a division between current non-voting members, giving some of them voting rights but others would have none	One approach could be as follows: • Add an additional 2 voting members from the majority political group on the Council, taking the total to 8 • Give voting rights to one of the existing employer representatives and 1 of the existing member/trade union representatives, which gives 7 other voting members in total

Nottinghamshire County Council

Report to Pension Fund Committee

14 December 2023

Agenda Item: 8

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

PENSION FUND TREASURY MANAGEMENT MID-YEAR REPORT 2023/24

Purpose of the Report

1. To provide a mid-year review of the Pension Fund's treasury management activity in 2023/24 for the 6 months to 30 September 2023.

Information

2. Treasury management is defined as the management of a council's cash deposits; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. In other words, it is concerned with managing day-to-day cashflow, and ensuring that bills can be paid as and when they fall due. With respect to the Pension Fund, treasury management should be distinguished from the separate process of making long-term investments with the aim of making a return such that should cover the liability to pay out future pensions.

3. The Council approves the Treasury Management Policy and Strategy - and also receives mid-year and full year outturn reports – on Council-held cash balances. Since April 2020 this role in relation to Pension Fund cash balances has been delegated to the Pension Fund Committee. In turn, this Committee delegates responsibility for the implementation, scrutiny and monitoring of its Pension Fund treasury management policies and practices to the Treasury Management Group, comprising the Service Director (Finance, Infrastructure & Improvement), the Group Manager (Financial Management), the Senior Accountant (Pensions & Treasury Management), the Senior Accountant (Financial Strategy & Compliance) and the Investments Officer.

4. The Pension Fund's treasury management strategy and associated policies and practices for 2023/24 were approved by Pension Fund Committee in March 2023.

5. The Fund manages its cash investments in-house and invests only with institutions on its approved lending list. The aim to achieve the optimum return on cash investments commensurate with appropriate levels of security and liquidity.

6. In the first half of 2023/24, cash investment activities have been in accordance with the approved limits as set out in the Pension Fund's Treasury Management Policy and Strategy. The main points to note are:

- All treasury management activities were undertaken by authorised officers within the limits agreed by the Council.
- All deposits were made to counterparties on the Fund's approved lending list.
- No changes made to the Fund's lending criteria during the first half of the year.
- Over the 6 month period covered by this report the Fund earned 4.78% on its short-term lending.

7. The table below shows that cash deposits as at the end of September totalled £183m, and also provides an analysis of the Fund's treasury management activity:

	Total B/f	Total Raised	Total Repaid	Outstanding
	£000	£000	£000	£000
INSIGHT MMF	0	40,100	-100	40,000
LGIM MMF	16,950	75,150	-52,100	40,000
BLACK ROCK	35,600	22,900	-57,650	850
JP MORGAN	600	39,350	-17,750	22,200
ABERDEEN STANDARD	40,000	4,450	-4,450	40,000
FEDERATED	13,600	56,950	-30,550	40,000
	106,750	**238,900**	**-162,600**	**183,050**

8. Active use has been made of the instant-access money market funds (MMFs) on the Pension Fund's counterparty list. This approach stems from needing to keep the Fund's cash liquid, available not only to pay pensions but also for the various external managers who may require cash for long-term investment at short notice.

9. The cash balance at any point in time is the snapshot sum of pension fund contributions (from both employees and employers) and investment income, less retirement lump sums, monthly pension payments, and immediate or future investment commitments. As at 30 September, the estimated Pension Fund commitments were as follows:

Investment Commitment	Estimated £m	When required
Schroders	47.2	Immediately
Abrdn commitments	38.5	Unpredictable
Private Equity commitments	210.2	Unpredictable
Infrastructure/Credit commitments	149.2	Unpredictable
Total	**445.1**	

10. The Fund earned 4.78% on average on its short-term lending over the period, which compares favourably with the average adjusted SONIA (Sterling Overnight Index Average) rate over the same period, which was 4.61%.

Reasons for Recommendation/s

11. It is considered good practice for Members to consider treasury management planned and actual performance at least three times per financial year, firstly in the Strategy Report before

the start of the year, then in this Mid-Year Report, and also in the Outturn Report, after the close of the financial year.

Statutory and Policy Implications

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

Financial Implications

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

RECOMMENDATION/S

14. That Pension Fund Committee members endorse the actions taken by the Section 151 Officer to date as set out in the report.

Nigel Stevenson
Service Director – Finance, Infrastructure and Improvement

For any enquiries about this report please contact: Ciaran Guilfoyle

Constitutional Comments (SR 14/11/2023)

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

Financial Comments (TMR 14/11/2023)

16. 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.

- Treasury Management Mid-year Report 2022/23, Pension Fund Committee 10 November 2022
- Treasury Management Strategy Statement 2023/24, Pension Fund Committee 2 March 2023
- Treasury Management Outturn 2022/23, Pension Fund Committee 27 April 2023

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to Pension Fund Committee

14 December 2023

Agenda Item: 9

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

DEPARTMENT OF LEVELLING UP, HOUSING AND COMMUNITIES (DLUHC) CONSULTATION

Purpose of the Report

1. To highlight the government response to the DLUHC consultation on proposals relating to the investments of the Local Government Pension Scheme (LGPS).

Information and Advice

2. The Fund's response to this consultation was presented to Committee in October 2023 following discussion at the September meeting. The government published its response to the consultation alongside the Chancellor's Autumn statement. This can be found online at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response .

3. The detailed guidance relating to these proposals is yet to be published, but the key points are as follows:

   - Pooling: a comply or explain framework setting a deadline of 31 March 2025 for funds to transition all listed assets to their pool or explain why this has not occurred.
   - Levelling up: funds will be required to consider an allocation of 5% to Levelling Up assets in the UK but are not mandated to invest if it does not fit within their investment strategy.
   - Private equity: Funds will be required to consider an allocation of 10% to private equity but are not mandated to invest if it does not fit within their investment strategy.
   - The Government will revise pooling guidance to set out its preferred model (including delegation of manager selection and strategy implementation), which could be different to the current model of some pools
   - All funds to publish formal training policies for their committees and report on the training undertaken.

4. The consultation response has addressed few of the concerns raised by LGPS Schemes, though the primacy of the Fund's fiduciary responsibility is recognised and it is noted that the asset allocations are not mandatory. The Fund is well placed to explain why certain asset classes have yet to be transferred and are likely to remain outside the pool as at 31st March 2025.

5. As at the end of September 19% of the Fund's investments were already pooled through LGPS Central. A further 3% is committed to Central Funds but not yet drawn. 21% of the Fund's investments were pooled through a joint procurement 3rd party pooling process with partner funds in passive funds managed by LGIM. These numbers are likely to increase as more investment products become available.

6. The Fund will await the detailed guidance arising from the consultation. It is believed that the LGPS Central model meets the Governments criteria in that the pool are responsible both for manager selection within funds and the strategy adopted by those managers to achieving both the required investment returns and the appropriate ESG (Environmental, Social and Governance) outcomes.

7. The direction of travel towards fewer, larger pools is clear, which the Chancellor mentioning an aspiration that all should have assets in excess of £200 billion by 2040 to maximise benefits of scale.

Statutory and Policy Implications

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

RECOMMENDATION

1) The government response to the consultation is noted.

Nigel Stevenson
Service Director – Finance, Infrastructure and Improvement

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

Constitutional Comments (KK 01/12/2023)

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

Financial Comments (TMR 30/11/23)

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.

Nottinghamshire County Council

Report to the Nottinghamshire Pension Fund Committee

14 December 2023

Agenda Item: 10

REPORT OF THE ADVISOR TO THE NOTTINGHAMSHIRE PENSION FUND COMMITTEE

INDEPENDENT ADVISER'S REPORT

Purpose of the Report

1. To provide an opportunity for the Advisor to the Committee to update and brief the Committee on matters relevant to the Pension Fund (Appendix A).

Information

2. The Nottinghamshire Pensions Fund Committee receives regular updates from its advisor. The updates set out issues affecting the fund, including matters on a national and global level.

3. The last update was presented to the Committee at its meeting on 14 September 2023.

Statutory and Policy Implications

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

Financial Implications

5. There are no financial implications arising as a result of this report.

RECOMMENDATION/S

1) That the report of the Advisor to the Nottinghamshire Pension Fund Committee be noted.

William Bourne
Advisor to the Nottinghamshire Pension Fund Committee

For any enquiries about this report please contact:

Jo Toomey, Advanced Democratic Services Officer
Telephone: 0115 977 4506
Email: jo.toomey@nottscc.gov.uk

Constitutional Comments (KK)

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

Financial Comments (SES)

7. There are no specific financial implications arising directly 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

Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne **20th November 2023**

Market Commentary

1. Three months ago I wrote that inflation was declining, that interest rates would remain high, and that while I was braced for some market volatility, especially in currency markets, the environment was relatively benign for risk assets such as equities. There has been less volatility than I expected, though both the US$ and the Japanese yen have been the subject of some speculation.

2. Inflation continues to fall in most of the world but remains above the 2% level which many central banks target. The latest U.S. annual data point was 3.2%, that in Europe 4.3% and in the U.K. 4.6%. These are dramatically lower numbers than a year ago, but the conflicts in the Middle East and (on-going) in Ukraine may lead to slower reductions in the future than the market seems to expect.

3. The European Central Bank raised interest rates during the quarter to 4.5%, but for the time being most central banks have paused their programmes of rate rises. However, there are unlikely to be falls for some time to come until inflation is clearly under control. Central banks, except for the Bank of Japan, are likely to err on the side of caution.

4. Another reason why falls in interest rates look unlikely is that U.S. economic growth in the 3rd quarter came in at 4.9%, well above expectations. Non-farm payrolls (i.e., employment) was also higher. Consumption was robust, but the key driver seems to have been exports and inventory restocking. Other countries do not seem to have participated in the same way, and some surveys and indicators suggest that the GDP data overstates the U.S. recovery.

5. I suggested last time that bond yields would rise further. U.S. bond yields have risen to a current level of around 4.5% (ten year tenor) but have stabilized there. U.K. yields rose to a peak in October but have since fallen again. As a result the yield curve inversions I have noted over the last twelve months have reduced from nearly 100bps to around 40bps. Any inversion is still a recession indicator which cannot be ignored, but the reduction suggests a degree of normalisation.

.

6. In Japan the Bank of Japan is now allowing 10-year yields to rise above 1%, signalling an end to its policy of using its balance sheet to control the yield curve. In my view this is a victory for market forces, showing that the authorities cannot repress bond yields indefinitely. The implication is that bond yields generally will rise further to reflect the worsening debt problems of western governments.

7. Higher bond yields create higher debt service costs for governments. The U.S. must finance or refinance around one third of its total stock of debt, or $11 trillion, over the next fifteen months. Much of this is likely to be at substantially higher rates than what was in place previously. The U.S. Fed seems to be reacting by financing more short-term and less by long-term bond issuance.

8. China, now the engine of growth for much of the world, showed some recovery, with year-on-year growth at a similar number to the U.S. This was despite more travails in the real estate sector, with another large developer, Country Garden, missing a bond payment. More than 50% of the largest 50 Chinese real estate developers have now failed over the past two years.

9. Over the twelve months to September 23, equity market indices have risen by between 14% (U.K.) and 30% (Europe and Japan). However, leadership has been narrow, and (for example) a lot of climate change equity strategies have underperformed substantially.

10. In contrast to equities, infrastructure, which is considered a good match for pension fund liabilities, has performed poorly in the last six months. There are specific concerns over the future profitability of renewable energy, as is evidenced by the Danish company, Orsted, cancelling two major U.S. offshore wind projects. More generally the realisation that interest rates and bond yields are going to stay higher for longer has hit valuations of future income streams. This can be seen across long-duration assets, but perhaps because of its very long-term nature infrastructure has been worst hit.

11. Geo-politics and politics remain a source of risk and disruption. While the increasing number of military confrontations may not directly affect markets, they suck up resources, capital, and labour and contribute to greater uncertainty. At the same time the next U.S. election is looming, which makes it even less likely that the current (or future) administration will take the fiscal actions necessary to cope with the ever-increasing budget deficit.

12. In the longer-term the greatest risk to the Fund remains that of higher inflation. However, in the nearer term, it is the damage caused to valuations of all asset classes by further rises in bond yields. So long as assets continue to deliver an income stream, the direct consequence will primarily be seen through lower funding ratios, but the secondary impacts could be considerable. The best defence the Fund has is broad diversification across a range of asset classes.

Nottinghamshire County Council

Report to Pension Fund Committee

14 December 2023

Agenda Item: 11

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme.

Information

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

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

Other Options Considered

4. None.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

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

RECOMMENDATION/S

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

Marjorie Toward
Customers, Governance and Employees

For any enquiries about this report please contact:
Jo Toomey, Advanced Democratic Services Officer
E-mail: jo.toomey@nottscc.gov.uk
Tel: 0115 977 4506

Constitutional Comments (HD)

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

Financial Comments (NS)

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

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

PENSION FUND COMMITTEE – WORK PROGRAMME (updated 21 November 2023)

Report Title	Summary of agenda item	Report Author
11 January 2024 (Annual General Meeting)		
Presentation of the Pension Fund accounts	Formal presentation of the Pension Fund accounts to Committee	
Nottinghamshire Pension Fund Annual Report	Annual report of the Nottinghamshire Pension Fund	
Actuarial issues	Barnett Waddingham LLP presentations	
Management and Financial Performance	Financial management presentation	
Investment Performance	Pensions and treasury management presentation	
Pensions administration	Presentation from the Pensions Administration Team	
Questions	Responses to questions submitted in writing no less 10 working days before the meeting	
7 March 2024		
Strategic asset allocation working party report	Report on the discussions and recommendations arising from the January working party meeting on the Fund's Strategic Asset Allocation and Investment Strategy and any other issues discussed	Tamsin Rabbitts
Treasury Management Strategy 2024/25	Strategy for the forthcoming financial year	Ciaran Guilfoyle
Conferences and training report	Planned training and conferences for 2024/25	Tamsin Rabbitts
Fund valuation and performance – quarter 3	Summary of quarterly performance	Tamsin Rabbitts
Fund valuation and performance – exempt Appendix	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Independent Adviser's report	Independent Adviser's review of performance	Independent Adviser
Managers presentations	Presentations by Fund Managers (exempt)	Schroders and Abrdn
Report on the Local Authority Pension Fund Forum conference	Report on the presentations attended by representatives of the Fund at the Local Authority Pension Fund Forum Conference held in December 2023	Tamsin Rabbitts
18 April 2024		

Report Title	Summary of agenda item	Report Author
Review of progress on the Climate Risk Action plan	6-monthly report	Tamsin Rabbitts
Climate Stewardship report	Progress on the Fund's climate stewardship strategy	Tamsin Rabbitts
Review of Pension Fund Strategies		Tamsin Rabbitts / Jon Clewes
Review of the Pension Fund Risk Register		Sarah Stevenson Keith Palframan
Proxy voting	Summary of voting activity	Ciaran Guilfoyle
Local Authority Pension Fund Forum business meeting	Report from Local Authority Pension Fund Forum business meetings	Ciaran Guilfoyle
Report on the Local Government Pension Scheme Governance Conference	Report of the presentations attended by representatives of the Fund at the Local Government Pension Scheme Governance Conference held in January 2024	
13 June 2024		
Fund valuation and performance – quarter 4	Summary of quarterly performance	Tamsin Rabbitts
Fund valuation and performance – exempt appendix	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Independent Adviser's report	Independent Adviser's review of performance	Independent Adviser
Managers presentations	Presentations by Fund Managers (exempt)	LGPS Central
11 July 2024		
Proxy voting	Summary of voting activity	Ciaran Guilfoyle
Local Authority Pension Fund Forum business meeting	Report from Local Authority Pension Fund Forum business meeting	Ciaran Guilfoyle
Annual administration performance report		Jon Clewes
Pooling update	An update will be provided on pooling arrangements	LGPS Central
Treasury management outturn 2023/24	Summary of Treasury management activity for the year ended 31 March 2023	Ciaran Guilfoyle
To be placed		

Report Title	**Summary of agenda item**	**Report Author**
Pensions Administration – Tracing Service		Sarah Stevenson / Jon Clewes
Pension Fund Review of Cyber Security – Pension Regulator Requirement		Sarah Stevenson / Jon Clewes
Pension Regulator's Code of Practice		Jon Clewes

Nottinghamshire County Council

Report to Pension Fund Committee

14 December 2023

Agenda Item: 12

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

CLIMATE ACTION PLAN REPORT

Purpose of the Report

1. To review progress against the Climate Action Plan and consider additional items.

Information

2. The first Climate Risk Report was reported to the Nottinghamshire County Council Pension Fund in October 2020, with a number of recommendations which became the Fund's Climate Action Plan. Since then the Plan has been reviewed and updated on receipt of the annual Climate Risk Reports and the Committee has reviewed progress on a six monthly basis.

3. The following table shows the progress which has been made against the Climate Action Plan for this year and whether it is in accordance with the original plan.

Ref	Category	Action	Timing	Notes	Progress since October 22	In line with original plan?
	Governance					
1	Governance	Publish a TCFD (Taskforce for Climate-related Financial Disclosure) Report. This will incorporate the key elements of the Climate Risk Report.	Oct-Dec each year	LGPS Central to provide support	Published at the December 22 PFC (Pension Fund Committee) meeting. The 22/23 TCFD report is due at the Dec 23 PFC meeting	Yes
2	Policies	Maintain a Climate Strategy consistent with the TCFD recommendations and including a Climate Stewardship Plan, monitored regularly by the Nottinghamshire Pension Fund Committee	The strategy was reviewed in the spring alongside other strategies	LGPS Central to provide support	The Climate Strategy was approved by PFC in April 23. The Climate Stewardship Plan monitoring update was reported at the same meeting.	Yes
3	Governance	Schedule agenda time at Nottinghamshire Pension Fund Committee meetings at least annually for discussion of progress on climate strategy Report 6 monthly on progress for the first two years of the Action Plan.	An annual review will take place to coincide with the annual update of metrics		The 6 monthly review took place in April and this is the annual review.	Yes
4	Governance	Schedule one training session on general Responsible Investment matters and one climate-specific training per year	Jan & October working parties	LGPS Central to provide training	LGPS Central provided a training on Green Bonds at the January Working Party. A training on the new LGPS Central proposed stewardship	Yes

Ref	Category	Action	Timing	Notes	Progress since October 22	In line with original plan?
	Governance					
					themes took place at the October Working Party.	
5	Reporting	In the Annual Report include a summary of the Climate Risk Report in a manner consistent with the TCFD Recommendations and a summary of the Fund's annual voting activities.	Annually	LGPS Central to provide support with this	The voting summary has been included in the Annual report for 22/23. The latest available TCFD report will be included.	Yes

Ref	Category	Action	Timing	Notes	Progress since October	In line with original plan?
	Strategy					
6	Asset Allocation	Notwithstanding other factors in the Fund's asset allocation process, seek to move towards the Long Term Target Strategic Asset Allocation weightings	Ongoing	This item is now completed. Climate risk considerations will continue to inform strategic asset allocation, but this item can be removed from the Action Plan.	The strategic asset allocation was achieved including the investment of the 5% allocation to Sustainable Equities that was invested in May 22.	Yes

Ref	Category	Action	Timing	Notes	Progress since October	In line with original plan?
	Strategy					
7	Asset Allocation	The Fund should attempt to take a view on the likelihood of different climate scenarios, drawing on its suppliers and advisers.	Ongoing	With the support of LGPS Central and our Independent Adviser	Considered in the January WP meeting.	Yes
8	Asset Allocation	Monitor fund managers, discussing with equity managers the influence of climate factors on their sector positioning and with real assets managers their physical risk resilience & GRESB participation. Use IIGCC (The Institutional Investors Group on Climate Change)'s "Addressing climate risks and opportunities in the investment process"	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central and investment managers	Engagement is a regular topic at PFC. LGPS Central reported on the Stewardship Plan as part of the Climate Risk reporting in April.	Yes
9	Asset Allocation	Explore the potential for additional allocations to Global Sustainable Equities and Infrastructure if evidence suggests there could be asymmetrical return profiles (i.e. with expected relative upside in a 2°C scenario and no meaningful relative downside)	Considered as part of the annual review of asset allocation		A 5% allocation to sustainable equities was agreed at the March 22 PFC and invested in May 22 when the new LGPS Central Sustainable Equity Fund was launched. Performance is being monitored.	Yes

Ref	Category	Action	Timing	Notes	Progress since October	In line with original plan?
	Strategy					
10	Asset Allocation	Explore potential investments in sustainable private equity, green bonds and low-carbon passive equities.	Ongoing	Longer term consideration Take into account as review of asset allocation	These investment options continue to be considered and where appropriate some are included within the existing LGPS Central funds.	Yes
11	Policy Engagement	Continued public support for the Paris Agreement and join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies via LGPS Central	Ongoing	With the support of LGPS Central Part of stewardship plan	The Fund's Climate Strategy explicitly gives "strong support" to the Paris Agreement. The Climate Stewardship Plan draws on the CA100+ benchmark, which is a collective effort to monitor company progress on implementing Paris-aligned climate policies. LGPS Central have continued to join collaborations for lobbying purposes.	Yes
12	Strategy	Explore the potential options to monitor and manage climate risk in alternative asset classes	Ongoing	With the support of LGPS Central	LGPS Central are exploring this.	Yes

Ref	Category	Action	Timing	Notes	Progress since October	In line with original plan?
	Risk Management					
13	Company Stewardship	Create and maintain an annual stewardship plan	April 23	With the support of LGPS Central	Plan and engagement update was taken to the April 23 PFC	Yes
14	Company Stewardship	Through LGPS Central, engage corporate bond managers on their approach to assessing climate risk within their portfolio in the absence of reported greenhouse gases emissions data	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central	LGPS Central have engaged with corporate bond managers on a regular basis.	Yes
15	Company Stewardship	Prioritise the most material/ strategic real assets investment manager exposure for dialogue on climate risk. Consider using the recent IIGCC guide for this endeavour.	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central	LGPS Central are engaging on the Fund's behalf on a regular basis.	Yes
16	Company Stewardship	Continue to engage the companies highlighted in the Climate Stewardship Plan through selected stewardship partners	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central	Plan and engagement update was provided to the April 23 PFC. Schroders challenged on their engagement and strategy at the March 23 and September 23 PFC.	Yes
17	Company Stewardship	Report progress on the Climate Stewardship Plan to the Nottinghamshire Pension Fund Committee on an annual basis.	Ongoing	With the support of LGPS Central	Plan and engagement update was provided to the April 23 PFC.	Yes
18	Company Stewardship	Ensure that the Fund's voting behaviour supports and enhances engagements highlighted in the Climate Stewardship Plan.	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central and Hermes EOS	Voting reports delivered quarterly. Integrated strategy delivered by Hermes EOS.	Yes

Ref	Category	Action	Timing	Notes	Progress since October	In line with original plan?
	Risk Management					
19	Climate Stewardship Plan	Add NextEra Energy, Reliance Industries, Cemex and Southern Company to the Climate Stewardship Plan for 2023-24.	From 2023-24	With the support of LGPS Central	LGPS Central will include these companies in their 23-24 update.	

Ref	Category	Action	Timing	Notes	Progress since October	In line with original plan?
	Metrics and Targets					
20	Metrics	Repeat Carbon Risk Metrics analysis annually	Autumn 23		The 2023 Climate Risk Report is being presented to the December PFC.	Yes
21	Metrics	Repeat Climate Scenario Analysis every 2-3 years	Delivered in Dec 22 PFC. Next report due alongside the next Triennial Valuation		LGPS Central are monitoring developments in this evolving area to inform the provision of the next Climate Scenario Analysis .	Yes
22	Metrics	Report annually on progress on climate risk using the TCFD framework	Autumn 23		The 2023 Climate Risk Report is being presented to the December PFC.	Yes
23	Metrics	• Continue to monitor manager engagement progress with key carbon intensive and fossil fuel holdings • Continue to monitor manager approaches to managing climate risk within the portfolios • Continue to monitor manager performance	Ongoing	With the support of LGPS Central and investment managers	Schroders challenged on their engagement and strategy at the March 23 and September 23 PFC.	Yes

Ref	Category	Action	Timing	Notes	Progress since October	In line with original plan?
	Metrics and Targets					
		on carbon risk metrics relative to the benchmark				

Proposed Changes

Ref	Category	Action	Timing	Notes	Progress since October 22	Proposal
6	Strategy Asset Allocation	Notwithstanding other factors in the Fund's asset allocation process, seek to move towards the Long Term Target Strategic Asset Allocation weightings	Ongoing	This item is now completed. Climate risk considerations will continue to inform strategic asset allocation, but this item can be removed from the Action Plan.	The strategic asset allocation was achieved including the investment of the 5% allocation to Sustainable Equities that was invested in May 22.	Delete from Action Plan

Other work

4. The items on the Climate Action Plan are just part of the work the Pension Fund is doing to mitigate the financial risk of climate change.

5. The Pension Fund will continue to monitor and manage all financially material risks to which it is exposed.

Other Options Considered

6. None. This progress report was requested by the Nottinghamshire County Council Pension Fund Committee.

Reason/s for Recommendation/s

7. The Climate Action Plan is part of the Fund's approach to addressing the risks and opportunities related to climate change.

Statutory and Policy Implications

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

Financial Implications

9. There are no direct financial implications arising as a result of publishing this report.

RECOMMENDATION/S

1) That members
   - Agree the proposed amendment
   - Endorse the work that has been undertaken and note the progress made against the Climate Action Plan and
   - consider whether there are any actions they require in relation to the progress on the Nottinghamshire County Council Pension Fund Climate Action Plan.

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

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 01/12/2023)

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

Financial Comments (TMR 20/11/2023)

11. The financial implications are set out in paragraph 9.

Background Papers and Published Documents

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

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to Pension Fund Committee

14 December 2023

Agenda Item: 13

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

CLIMATE RISK MANAGEMENT REPORT AND TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

Purpose of the Report

1. To present the Climate Risk Management Report from LGPS Central Ltd to Members, and present this year's Task Force on Climate-related Financial Disclosures (TCFD) report.

Information

2. In 2020, in order to enable the Pension Fund to identify its exposure and understand its financial risk arising from climate change, the Fund commissioned LGPS Central to produce some climate risk analysis and scenario modelling, and a TCFD report which contains the key elements of the Climate Risk report. The scenario modelling is only performed every few years and was refreshed for 2023 and included a 1.5° scenario. The climate risk analysis has been repeated based on data at 31 March 2023.

3. This Climate Risk Report has been issued to the Nottinghamshire Pension Fund, and has been presented to the members of the Nottinghamshire Pension Fund Committee by LGPS Central at a training session to communicate the findings and recommendations of the Climate Risk Report, and enable Members to appreciate the challenge in obtaining reliable data for these calculations and the complexity of modelling these issues.

4. Some modifications have been made to the climate risk report this year and some new metrics introduced.

5. The report consists of three sections. The first analyses the Fund's approach to climate change, encompassing its activities and disclosures. The second section presents the Fund's carbon footprint metrics. Lastly, the third section compiles the carbon footprint dashboard for all funds examined in the model.

6. The additional metrics that are reported in this edition were selected to align the Fund's reporting with that of the proposed metrics published by the Department for Levelling Up, Housing and Communities in their September 2022 consultation. The key additions include a metric that measures the quality of data used as input to the calculations, and a forward-looking metric which measures alignment to the Paris Agreement. The alignment metric utilises a combination of MSCI's Low Carbon Transition Score, MSCI Implied Temperature Rise and an issuer's science-based targets.

7. Appendix A presents the TCFD report which shares the key results of the analysis.

8. There are restrictions on what can be publicly reported from the climate risk analysis due to commercial confidentiality of supplier intellectual property**, and issues with reliability of some of the data due to the proportion of estimated figures,** so the full Climate Risk report is attached as exempt Appendix B. For reference, a portion of the second section and the entirety of the third section of the Climate Risk Management Report will remain exempt.

9. The purpose of the climate risk analysis is to help the Pension Fund better understand the risks and implications of climate change. It does this based on the available data. As this is dependent on what companies currently publish, it should be noted that this data is incomplete and subject to ongoing updates as further information is published or estimates improved. As such, previously published figures may change to reflect the latest available data. The model requires a number of assumptions and the output of the model should be interpreted in this context. Data is improving, partly due to pressure from engaged shareholders such as ourselves, but the sensitivity to assumptions and estimations and incompleteness of the data needs to be appreciated in interpreting the results of this work.

10. Despite this caveat, the analysis is supportive of the Fund's current investment strategy.

    - It shows that the year-end equity holdings continue to be below the market cap benchmark in terms of carbon footprint and weight of fossil fuel reserves, which indicates that the fund has been considering and managing climate risks.
    - The Fund's emissions intensity, as measured by financed emissions per £M invested is trending positively, decreasing by 28.9% since 2019.

11. Members should be reassured of these signs that they are discharging their responsibilities appropriately.

Report recommendations and considerations

12. The report provides a number of new recommendations for incorporation into Climate Action Plan for the Committee's consideration. These are as follows:

Category	Action	Timing	Notes
Governance	1. Further disclosure on the Fund's climate governance, including details on climate training provided to Members.	2024	
Strategy	1. Expand the climate scenario analysis to assess not just the impact on the Fund's investments but also its funding position. 2. More details on the risks and opportunities identified may include how these risks can materialise, the financial and non-financial impact, and how the Fund can mitigate/exploit such risks and opportunities.	2025	Discussions with LGPS Central to be held in early 2024
Risk Management	1. Further attention could be paid towards detailing escalation processes for stewardship, alongside measures of how the companies held within the Climate Stewardship Plan are progressing towards the achievement of their targets. 2. Further disclosure of details relating to specific risks associated with climate change 3. Review the companies within the Climate Stewardship Plan to ensure the relevance of the list. Continue to engage and report on the progress.	2024	Climate Stewardship Plan is reported annually.
Metrics	1. Updating its Climate Strategy to include engagement relating to improved data coverage for its portfolio climate analysis.	2023	

Ongoing work

13. Alongside this work the Pension Fund will continue to consider climate risks in setting long term strategic asset allocations.

14. The Pension Fund will continue to monitor and manage all financially material risks to which it is exposed.

Other Options Considered

15. The Pension Fund is not currently required to undertake climate risk analysis or to publish a TCFD report. However, undertaking climate risk analysis and publishing a TCFD report

are regarded as best practice and are consistent with the Pension Fund's commitment to transparency.

Reason/s for Recommendation/s

18. Members and officers need to better understand and control the climate related financial risks in the Pension Fund investments.

Statutory and Policy Implications

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

Financial Implications

20. There are no direct financial implications arising as a result of publishing this report.

RECOMMENDATION/S

1) That members include the new actions in the Climate Action report and consider whether there are any other actions they require in relation to the issues contained within the report.

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

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 01/12/2023)

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

Financial Comments (TMR 30/11/2023)

22. The financial implications are set out in paragraph 20.

Background Papers and Published Documents

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

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire Pension Fund Climate-related Disclosures

Report prepared in alignment with the recommendations of the TCFD

November 2023

Nottinghamshire County Council

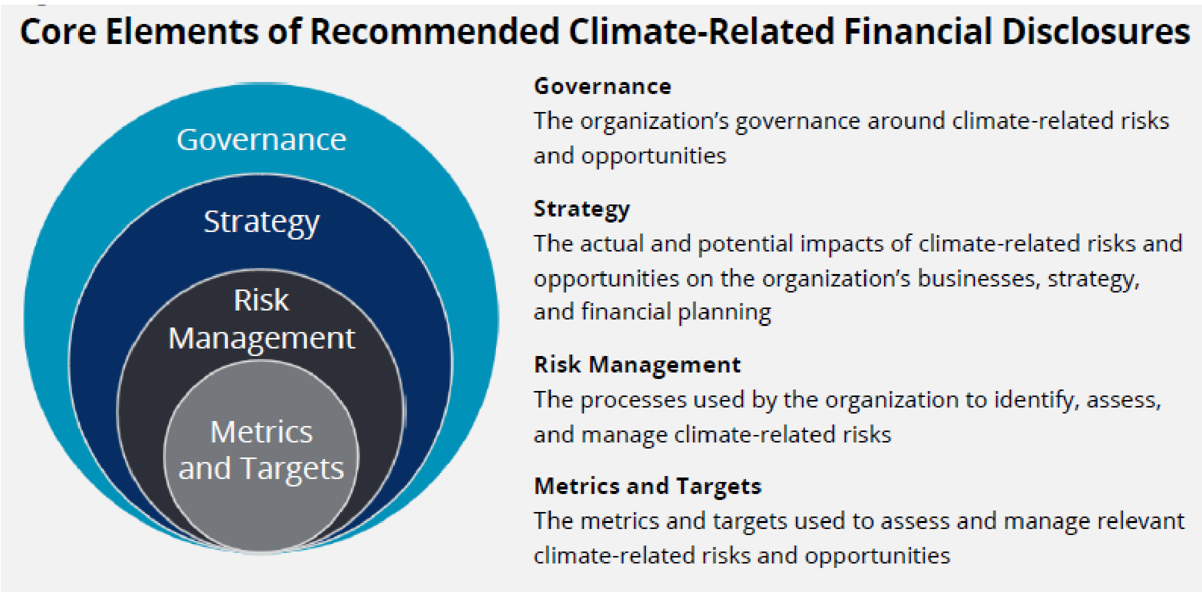
Introduction to the TCFD

The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD exceed 4,000 organisations representing a market capitalisation of over $27 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice.

The recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see Figure 1 below) are designed so as to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances. Examples of pension funds that were early adopters of the TCFD recommendations include AP2, NEST, PGGM, RPMI Railpen, The Pensions Trust, and Environment Agency Pension Fund.

In September 2022, the Department of Levelling Up, Housing and Communities (DLUHC) released a consultation document, seeking views on proposals for LGPS Administering Authorities (AAs) to manage and report on climate risks in line with TCFD. While this policy is still in the consultation stage, we expect these requirements to be formally adopted by DLHUC in 2024.

Figure 1: TCFD Disclosure Pillars



The Fund supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a pension fund, we are long-term investors and are diversified across asset classes, regions and sectors, making us "universal owners". It is in our interest that the market is able to effectively price climate-related risks and that policymakers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our beneficiaries.

About this report

This report is Nottinghamshire Pension Fund's (NPF or 'the Fund') fourth climate-related disclosure report. It describes the way in which climate-related risks are currently managed within the Fund.

Since October 2020, NPF has received four Climate Risk Reports from the Fund's pooling company, LGPS Central Ltd. These reports provide an in-depth review of the Fund's climate risks under different climate change scenarios across all asset classes. The Fund uses the findings of these reports to inform the Climate Strategy.

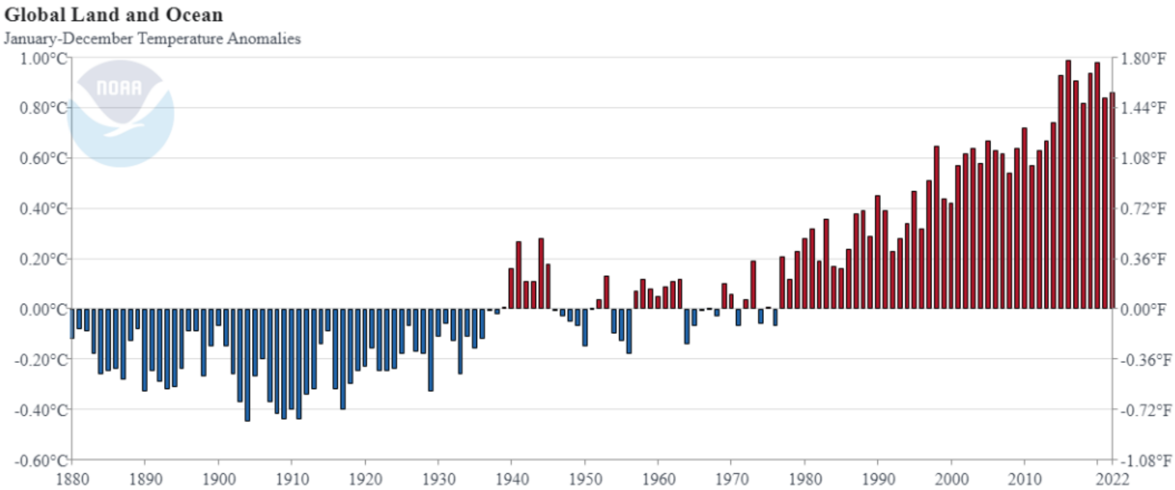
In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, the most recent report discloses the most recent Carbon Risk Metrics Analysis and includes a gap analysis of the Fund's policies and disclosures relating to the four pillars of the TCFD. We expect to update our Carbon Risk Metrics on an annual basis.

Nottinghamshire
County Council

Climate-related risks

Human activities are estimated to have caused approximately 1.1°C of global warming above pre-industrial levels.[1] Most of this warming has occurred in the past 35 years, with each of the ten warmest years between 1880 and 2022 taking place over the last 12 years.[2] The overwhelming scientific consensus is that the observed climatic changes are the result primarily of human activities including electricity and heat production, agriculture and land-use change, industry, and transport.

Figure 2: Global Land and Ocean Annual Temperature Anomalies (1880-2022) [3]



In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the majority of climate scientists anticipate that given the current level of climate action, by 2100 the world will be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

[1] IPCC_AR6_SYR_SPM.pdf
[2] Annual 2022 Global Climate Report | National Centers for Environmental Information (NCEI) (noaa.gov)
[3] Annual 2022 Global Climate Report | National Centers for Environmental Information (NCEI) (noaa.gov)

Nottinghamshire County Council

Governance

TCFD Recommended Disclosure
a) Describe the board's oversight of climate-related risks and opportunities

Roles and responsibilities at the Fund are set out clearly in the Fund's *Governance Compliance Statement.* Overall responsibility for managing the Fund lies with Nottinghamshire County Council which has delegated the management and administration of the Fund to the Nottinghamshire Pension Fund Committee.

The Nottinghamshire Pension Fund Committee ("the Committee") is responsible for preparing the Investment Strategy Statement (ISS) and Climate Strategy. The ISS includes the Fund's approach to responsible investment and recognises climate change as a factor that could have a serious impact on financial markets. The Climate Strategy is premised on 10 foundational evidence-based beliefs about climate risk, considering climate science, the energy transition, and climate stewardship. The Climate Change Strategy is reviewed on an annual basis. The Committee meets eight times a year, and reports from an Independent Adviser (which include advice on the Fund's approach to Responsible Investment) are received regularly.

As per the Climate Strategy, the Fund is committed to providing decision-makers with appropriate training, including specialised training on climate change.

The Local Pensions Board has an oversight role in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with LGPS Regulations and any other legislation relating to the governance and administration of the Scheme.

TCFD Recommended Disclosure
b) Describe management's role in assessing and managing climate-related risks and opportunities.

The Service Director for Finance, Infrastructure and Improvement, Group Manager Financial Services and Senior Accountant Pensions and Treasury Management have primary day-to-day responsibility for the way in which climate-related investment risks are currently managed. Where appropriate, the Fund's pooling company, LGPS Central Ltd, assists in assessing and managing climate-related risks.

As detailed in the Climate Strategy, the Fund leverages partnerships and initiatives – including the Institutional Investors Group on Climate Change (IIGCC) – to identify and manage climate risk. The Service Director for Finance, Infrastructure and Improvement, the Group Manager Financial Services, and the Senior Accountant Pensions and Treasury Management are accountable to the Committee for delivery of the Climate Strategy.

As a primarily externally managed fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers. External portfolio managers are monitored on a regular basis by the Nottinghamshire Pension Fund Committee.

Since 2020 the Fund Officers have received an annual Climate Risk Report, which allows a view of climate risk throughout its total equities and fixed income portfolios, and identify further means for the Fund to manage its material climate risks.

Strategy

TCFD Recommended Disclosure
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

As a diversified asset owner, the range of climate-related risks and opportunities are multifarious and constantly evolving. A subset of risk factors is presented in Table 1.

Table 1: Example Short, Medium & Long-Term Risks

Risk	Transition / Physical	Time Horizon	Impact Area	Mitigation / Management Strategy
Policy Changes (Including Carbon Pricing)	Transition	Short Medium Long	Across investments and funding Investments in carbon-intensive industries Operational	• Monitor potential regulatory changes (domestic and international) • Monitor managers' preparedness and awareness of changing carbon prices across relevant markets • Consider impact of likely policy changes in strategic decisions
Technological Change	Transition	Short Medium Long	Across Asset Classes	• Monitor potential technology disruptors • Monitor manager awareness of emerging and disruptive technologies • Consider impact of these changes in strategic decisions
Extreme Weather Events	Physical	Short Medium Long	Physical Assets Corporate Holdings	• Carry out scenario analyses on various climate scenarios to assess impact • Monitor portfolio company's assessments of extreme weather impacts on their operations
Resource Scarcity	Physical	Medium Long	Physical Assets	• Monitor manager awareness of resource scarcity • Special consideration to agricultural holdings

Short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this.

Long-term risks include physical damages to real assets and resource availability. Examples would include increased sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

TCFD Recommended Disclosure
b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.

Although the Fund is diversified across asset classes, regions, and sectors, it is recognised that climate risk is systemic and is unlikely to be eliminated through diversification alone.

The Fund's Climate Change Strategy sets out the Fund's approach to managing the impact of climate-related risks. The main management techniques within investment strategy are: measurement and observation; policy review; asset allocation; selection and due diligence; purposeful stewardship; and transparency and disclosure.

The Fund is exploring options to further embed climate-related risks and opportunities into its investment strategy, including reviewing potential investments in sustainable asset classes where this supports the Fund's investment and funding objectives.

TCFD Recommended Disclosure
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

In 2020 and 2022, the Fund engaged the expertise of an external contractor, Mercer LLC, to understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at the fund and asset-class level). All asset classes are included in this analysis. The climate scenarios considered are Rapid Transition, Orderly Transition and Failed Transition. This analysis is carried out every 2 to 3 years and a summary of the results of the 2022 analysis are provided below.

The scenarios are defined according to the change since pre-industrial times in mean global surface temperatures. The Rapid Transition scenario is characterised by sudden divestments in 2025 to align portfolios to the Paris Agreement goals. The Orderly Transition scenario represents an early and smooth transition, with the markets pricing-in dynamics occurring gradually over four years. A Failed Transition scenario represents a scenario in which society makes no attempt to limit global warming, with severe physical and extreme weather events and the markets pricing in these risks.

The analysis showed that over medium- to long-term, a successful transition is imperative for the Fund as its asset allocation fares better under Rapid and Orderly transition scenarios versus the Failed transition. Over the long term for nearly all investors a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

The analysis concluded with several key recommendations, including: The Fund continues its net zero trajectory. The Fund should explore allocations to sustainable/low carbon assets to mitigate potential transition impacts in the short and medium term. Finally, the Fund works with their appointed fund managers to understand how they assess and monitor climate risk.

It should be noted here that translating Climate Scenario Analysis into an investment strategy is a challenge for several reasons. Firstly, there is a wide range of plausible climate scenarios with significantly different and far-reaching consequences. Secondly, the probability of any given scenario is hard to determine, and especially so when considering longer time horizons. Finally, the best performing sectors and asset classes in an orderly scenario tend to be the worst performers in a failed scenario and vice versa. This makes categoric strategic recommendations particularly challenging. Despite the challenges, the Fund believes in seeking out the best available climate-related research in order to make its portfolio as robust as possible.

Risk Management

TCFD Recommended Disclosure
a) Describe the organisation's process for identifying and assessing climate-related risks.

The Fund seeks to identify and assesses climate-related risks at the total fund level and the individual asset level. The Fund's Climate Risk Reports from 2020-2022 include a combination of both top-down and bottom-up analyses.[4] The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

As far as possible climate risks are assessed in units of investment return, in order to compare with other investment risk factors.

As a primarily externally-managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual fund managers appointed by the Fund. Existing fund managers are monitored on a regular basis.

Engagement activity is conducted with investee companies through selected stewardship partners including LGPS Central, EOS at Federated Hermes, and LAPFF (see below). Based on the findings of its Climate Risk Report, the Fund has devised a Climate Stewardship Plan in order to focus engagement resources on the investments most relevant to the Fund's climate risk.

TCFD Recommended Disclosure
b) Describe the organisation's process for managing climate-related risks.

The Fund manages climate risk in different ways according to the nature, duration, magnitude and time horizon of the risk itself. As set out in the Fund's Climate Strategy, the main management techniques are: measurement and observation; policy review; asset allocation; selection and due diligence; purposeful stewardship; and transparency and disclosure.

Engagement and shareholder voting are an important aspect of the Fund's approach to managing climate risk. The Fund expects all investee companies to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activities by investors.

The Fund supports the engagement objectives of the Climate Action 100+ initiative, whereby companies adopt the appropriate governance structures to effectively manage climate risk, decarbonise in line with the Paris Agreement, and disclose effectively using the TCFD recommendations. In September 2020, CA100+ introduced a Benchmark Framework which identifies ten key indicators of success for business alignment with a net zero emissions future and goals of the Paris Agreement. In 2022 the organisation announced the launch of its Phase 2 strategy, and in 2023

[4] Climate Scenario Analysis is only included in the 2020 and 2022 Climate Risk Reports.

it announced the launch of its new Net Zero Benchmark. The organisation's focus has now shifted from analysis of company targets and commitments to analysis of company progress towards decarbonisation.

Either through its own membership or through LGPS Central's membership, the Fund has several engagement partners that engage investee companies on climate risk which are described in the following table.

Table 2: The Fund's Stewardship Partners

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPS Central. Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website. The Responsible Investment Team at LGPS Central engages companies on NPF's behalf, including via the Climate Action 100+ initiative.
Federated Hermes	EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies.
Local Authority Pension Fund Forum	NPF is a long-standing member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds.

The instruction of shareholder voting opportunities is an important part of climate stewardship. The Fund delegates responsibility for voting to LGPS Central for all directly held securities, or the Fund's directly appointed investment managers for investments held in funds. For directly held securities, votes are cast in accordance with LGPS Central's *Voting Principles*, to which the Fund contributes during the annual review process. LGPS Central's *Voting Principles* incorporate climate change, for example by voting against companies that do not meet certain thresholds in the Transition Pathway Initiative (TPI) scoring system.

The Fund reports quarterly on its voting activities. These reports are publicly available on the Pension Fund website. In addition, LGPS Central reports quarterly on its voting and engagement activities. These reports are publicly available via the LGPS Central website.

Based on the findings of the Fund's Climate Metric Analyses, the Fund is able to identify the 10 largest contributors to its overall carbon footprint. The Fund can use this information to inform investment and engagement decisions, although it is important to recognise that carbon figures alone should be accompanied by a contextual awareness of the company's approach to decarbonisation and net zero. For example, consider SSE a UK based electric utilities company. The company is one of the portfolio's top emitters. However, the company has demonstrated aggressive green power expansion targets and implemented science-based targets.

Table 3: Top 10 largest emitters from NPF's Total Equity portfolio

Issuer	PF Weight	% Financed Emission	Contribution to FE Rank	% WACI	Contribution to WACI Rank
SHELL PLC	2.00%	18.70%	1	7.30%	1
BP P.L.C.	1.00%	4.00%	3	1.50%	11
ANGLO AMERICAN PLC	0.70%	2.40%	6	2.70%	5
RIO TINTO PLC	0.40%	2.00%	7	2.40%	6
SSE PLC	0.40%	1.20%	11	2.20%	7
CRH PUBLIC LIMITED COMPANY	0.20%	2.40%	5	1.60%	10
RWE Aktiengesellschaft	0.10%	5.20%	2	4.20%	3
AIR PRODUCTS AND CHEMICALS, INC.	0.10%	1.00%	16	3.00%	4
Fortum Oyj	0.10%	1.20%	13	1.50%	12
CEMEX, S.A.B. de C.V.	0.00%	1.50%	9	0.90%	15

TCFD Recommended Disclosure
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Both 'mainstream' risks and climate-related risks are discussed by the Committee. While specific macro-economic risks are not usually included in isolation, the Fund has deemed climate risk to be sufficiently significant and therefore included it on the Fund's Risk Register. Climate risk is further managed through the Fund's Climate Stewardship Plan.

Metrics and Targets

TCFD Recommended Disclosure
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Fund receives annual reports from LGPS Central Ltd which set out the carbon risk metrics for its listed equities and fixed income portfolios. The poor availability of data in unlisted asset classes prevents a more complete analysis at this time.

The carbon risk metrics analysis includes:[5]

- Absolute Emissions (measured by 'Financed Emissions')
- Emissions Intensity (measured by 'Normalised Financed Emissions' and 'Weighted Average Carbon Intensity', or WACI)
- Data Quality
- Paris Alignment

The full results of these analyses fall beyond the scope of this TCFD report, but will be detailed in the 2023 Climate Risk Report. These carbon risk metrics aid the Fund in assessing the potential climate-related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. The Fund additionally monitors stewardship data (see above).

TCFD Recommended Disclosure
b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. TCFD Guidance: *Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.*

In line with the TCFD guidance and following receipt of a report from LGPS Central Limited we provide below the carbon metrics relating to the Total Equity portfolios.[6] Further information is available in the full dashboard at the end of this report.

[5] Definitions of these metrics can be found in the Glossary at the end of this report.
[6] Analysis undertaken on the listed equities portfolios with holdings data as of 30th June 2023. The information in Table 4 was provided to the Fund in a report authored by LGPS Central Limited. In LGPS Central Limited's report, the Total Equities portfolio comprises the Total Active Equities and the Total Passive Equities portfolios weighted according to their size in GBP.

Table 4: Carbon risk metrics for total equities as of 31st March 2023[7]

Portfolio	Financed Emissions		Normalised Financed Emissions		Weighted Average Carbon Intensity		Data Quality	Alignment
	PF	BM	PF	BM	PF	BM		
Total Equities	253,283	351,069	70.0	94.6	101.0	156.7	2.1	21.6%

The financed emissions associated with the Fund's total equities are approximately 28% lower than the financed emissions of the blended benchmark. This follows an approximate 8% decrease in the Fund's financed emissions year-on-year. Similarly, the Fund's equities experienced an approximate 11% decrease in WACI from the previous year. Finally, the Fund's equities are associated with a WACI which is 36% lower than that of the benchmark.

The Fund's equity investment has a lower exposure to fossil fuels relative to the benchmark, as measured by both absolute exposure and when apportioned by revenue. While the benchmark has a greater absolute exposure to companies involved in clean tech, when exposure to clean tech is apportioned by revenue the exposure exceeds that of the benchmark.

70% of the Fund's equities are associated with companies which are currently being engaged by the Fund. Further to this, 22% of the financed emissions are associated with companies which are considered to be aligned or aligning to the Paris agreement, as determined by LGPS Central's alignment metric.

Whilst the Fund's carbon risk metrics results show the Fund generally 'outperforms' its benchmarks, the Fund is proactively exploring ways to further embed climate risk management in its investment decision making. The Fund expects to update its carbon risk metrics data on an annual basis.

TCFD Recommended Disclosure
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The ability for diversified investors (such as pension funds) to set meaningful climate targets is inhibited by the paucity of credible methodologies and data currently available. Like most investors, the Fund is supportive of the development of target-setting methodologies, and the increasing completeness of carbon datasets. The Fund wishes to set meaningful and challenging climate targets for its investment portfolio and work is underway to assess options within the limitations of currently available data.

[7] Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

Nottinghamshire County Council

Appendix 1

TCFD Recommendations for Asset Owners (source: TCFD)

Governance

Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities.

Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

Recommended Disclosure (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Recommended Disclosure (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.

Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.

Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Metrics and Targets

Recommended Disclosure (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Recommended Disclosure (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Appendix 2: Glossary

Clean Technology/ Weight in Clean Technology: the weight of a portfolio invested in companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

Coal Reserves/ Portfolio exposure to thermal coal reserves: the weight of a portfolio invested in companies that own thermal coal reserves.

Data Quality: this metric assesses the quality of a company's carbon reporting. It is represented on a scale of 1-4, where 1 (the highest score) suggests that emissions data has been independently verified. A score of 4 (the lowest score) suggests that data may be based on sectoral estimates.

Engagement: dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

Financed Emissions: the absolute amount of greenhouse gas emissions associated with a particular holding or portfolio. This is calculated by assuming the investor is responsible for their share of the company's total emissions. For example, if an investor owns 10% of a company which emits 1000 tonnes of CO2, the investor's financed emissions will be 100 tonnes.

(Normalised) Financed Emissions: the portfolio's financed emissions divided by £1m invested. This intensity figure allows investors to track changes in financed emissions over time, irrespective of changes in AUM.

Fossil Fuel Reserves/ Portfolio exposure to fossil fuel reserves: the weight of a portfolio invested in companies that own fossil fuel reserves.

Paris Alignment: This score, expressed as a percentage, shows the proportion of financed emissions within the portfolio that are aligned to LGPSC's 'alignment' metric. In order to classify as aligned, the company must meet several threshold criteria across a variety of climate metrics.

Physical risk/ climate physical risk: the financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Scope 1 Greenhouse Gas Emissions: Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles.

Scope 2 Greenhouse Gas Emissions: Indirect emissions from the generation of purchased energy

Scope 3 Greenhouse Gas Emissions: Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Stewardship: the promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Transition risk/ climate transition risk: the financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

Weighted Average Carbon Intensity (WACI): A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.

Appendix 3: Important Information

Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated August 2022 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Nottinghamshire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

The following notices relates to Table 4 (above), which is produced for the Fund by LGPS Central Limited based on a product licensed by MSCI ESG Research LLC. This report confers no suggestion or representation of any affiliation, endorsement or sponsorship between LGPS Central and MSCI ESG Research LLC. Additionally:

Although LGPS Central's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Nottinghamshire County Council

Appendix 4: Total Equities Dashboard

Equities

LGPS Central

Equities	Multiple	Multiple	£3,924,467,201	Blended	Q1 2023
Asset Class	Fund Classification	Fund Manager	NAV	Reference Index	Period

Carbon Footprint Metrics		Portfolio	Reference	Previous Year	Data Availability Portfolio	Data Availability Reference
Total Financed Emissions	Scope 1+2	253,283	337,640	275,208	94.6%	97.8%
tCO2e	Scope 3	3,121,196	3,097,224	3,014,555	94.2%	97.4%
Normalised Financed Emissions	Scope 1+2	70.0	91.1	79.7		
tCO2e/£M Invested	Scope 3	868.7	835.4	880.8		
Weighted Average Carbon Intensity	Exclude Sovereign	101.0	149.1	113.2	94.6%	97.8%
tCO2e/$M Revenue	Include Sovereign	101.0	149.1	113.2	94.6%	97.8%

Top 10 Emissions Contributors

Issuer	PF Weight	Ref Weight	% Financed Emission		% WACI		Scope 1+2	Scope 3	Engagement	Focus	Data	LCT	ITR	SBT
SHELL PLC	2.0%	2.3%	18.7%	1	7.3%	1	137.7M	1,174.0M	Yes	Yes	2	2.9	2.5	No
BP P.L.C.	1.0%	1.3%	4.0%	3	1.5%	11	35.5M	640.7M	Yes	Yes	2	2.8	2.4	No
ANGLO AMERICAN PLC	0.7%	0.5%	2.4%	6	2.7%	5	13.3M	335.2M	Yes	No	2	5.8	5.5	No
RIO TINTO PLC	0.4%	0.8%	2.0%	7	2.4%	6	30.3M	583.9M	Yes	No	2	5.5	5.9	No
SSE PLC	0.4%	0.3%	1.2%	11	2.2%	7	6.2M	4.7M	No	No	2	5.7	1.3	Yes
CRH PUBLIC LIMITED COMPANY	0.2%	0.4%	2.4%	5	1.6%	10	33.8M	22.4M	Yes	Yes	2	4.9	1.8	Yes
RWE Aktiengesellschaft	0.1%	0.0%	5.2%	2	4.2%	3	89.6M	23.0M	Yes	No	2	4.5	6.6	Yes
AIR PRODUCTS AND CHEMICALS, INC.	0.1%	0.1%	1.0%	16	3.0%	4	24.2M	20.2M	Yes	No	2	4.4	10.0	No
Fortum Oyj	0.1%	0.0%	1.2%	13	1.5%	12	17.0M	120.2M	Yes	No	2	3.1	10.0	No
CEMEX, S.A.B. de C.V.	0.0%	0.0%	1.5%	9	0.9%	15	39.3M	14.8M	Yes	No	2	4.0	1.9	Yes

Recommendations / Observations

- Relative outperformance in financed emissions was driven largely by asset allocation decisions in Energy and Materials, as well as security selection in Utilities.
- YoY, the transition of 5% of equities into LGPSC's Sustainable Equity Fund helped drive a decrease in the Fund's overall financed emissions.
- WACI declined partially driven by lower carbon intensities by issuers within the Utilities sector.

Worst YoY Contributors	Stewardship Focus
DRAX GROUP PLC	No
Fortum Oyj	No
GLENCORE PLC	Yes

High Impact Sectors / Climate Solutions Exposures (Portfolio vs Benchmark)

Fossil Fuel Exposure	Fossil Fuel Revenue	Thermal Coal Exposure	Coal Power Exposure	Cleantech Exposure	Cleantech Revenue
7.0% | 9.5%	2.9% | 4.2%	2.2% | 3.2%	0.0% | 0.1%	35.1% | 36.9%	5.7% | 4.9%

Portfolio Alignment & Engagement

Engagement	Data Quality	LCT	ITR	SBT	Alignment
70.1%	2.1	37.4%	21.3%	36.9%	21.6%

Nottinghamshire County Council

Report to Pension Fund Committee

14 December 2023

Agenda Item: 14

REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

FUND VALUATION AND PERFORMANCE

Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 30 September 2023.

Information and Advice

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

3. The table below shows a summary of the total value of the investment assets of the Fund as at 30 September 2023 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark is a long-term target which the fund will move towards over the next year.

	Latest Quarter		Long term	Previous Quarter		Previous Year	
	30 Sept 2023		Benchmark	30 June 2023		30 Sept 2022	
	£m	%		£m	%	£m	%
Growth	4,018	62.4%	60%	4,009	62.0%	3,690	59.7%
Inflation Protection	1,540	23.9%	28%	1,575	24.4%	1,635	26.4%
Income	646	10.0%	10%	647	10.0%	602	9.7%
Liquidity	238	3.7%	2%	234	3.6%	258	4.2%
	6,442	**100.0%**	**100%**	**6,465**	**100.0%**	**6,185**	**100.0%**

4. Liquidity includes the Fund's short bond portfolio which is designed to return cash to the Fund over the next year or so as commitments to less liquid investments are called.

5. Within Inflation Protection are investments in Infrastructure assets amounting to £497.2m or 7.7% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 9.4% of the fund. Following the decisions made by Pension Fund

Committee in March 22 there is a long-term target for investments in infrastructure to be 9.8% of the fund.

6. The table below shows the detailed breakdown by portfolio of the Fund as at 30 September 2023 together with the total value of each portfolio at the previous quarter end.

	Core Index		Schroders		LGPS Central		Aegon S		Abrdn		Specialist		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Growth														
UK Equities	455.1	35%	668.0	37%	0.0	0%					0.0	0%	1,123.1	**17%**
Overseas Equities														
North America	271.9	21%	671.3	37%							0.0	0%	943.2	15%
Europe	251.2	19%	145.9	8%							158.8	10%	555.9	9%
Japan	131.2	10%	65.8	4%							67.4	4%	264.4	4%
Pacific	120.3	9%	48.4	3%									168.7	3%
Emerging Markets	79.9	6%	105.3	6%	127.3	11%					0.0	0%	312.5	5%
Global	0.0	0%	72.1	4%	350.7	29%					0.0	0%	422.8	7%
	854.5	65%	**1,108.8**	61%	**478.0**	40%					**226.2**	15%	**2,667.5**	**41%**
Private Equity					48.1	4%					179.1	12%	227.2	**4%**
Inflation protection														
Property														
UK Commercial									367.2	69%			367.2	6%
UK Commercial - Local									30.4	6%			30.4	0%
UK Strategic Land									2.0	0%			2.0	0%
Pooled - UK									38.0	7%	157.8	10%	195.8	3%
Pooled - Overseas									98.4	18%	45.7	3%	144.1	2%
									536.0		**203.5**	13%	**739.5**	**11%**
Infrastructure					108.8	9%					388.4	26%	497.2	**8%**
Inflation Linked											303.3	20%	303.3	**5%**
Income														
UK Bonds														
Gilts					125.7	10%							125.7	2%
Corporate Bonds														
					125.7	10%							**125.7**	**2%**
Overseas Bonds														
Corporate Bonds					294.0	25%							294.0	5%
					294.0	25%							**294.0**	**5%**
Credit					143.3	12%					83.2	5%	226.5	**4%**
Liquidity														
Cash/Currency	0.0	0%	42.5	2%	0.2	0%	0.0	0%	0.0		136.6	9%	179.3	**3%**
Short bonds							58.8	100%					58.8	1%
Total	**1,309.6**	20%	**1,819.3**	28%	**1,198.1**	19%	**58.8**	1%	**536.0**	8%	**1,520.3**	24%	**6,442.1**	
Previous Qtr Totals	1,298.8	20%	1,814.5	28%	1,197.0	19%	67.1	1%	539.5	8%	1,547.9	24%	6,464.8	

7. The value of the Fund's investments has decreased by £22.7 million (-0.4%) since the previous quarter. Over the last 12 months the value has increased by £6.1 million (0.1%).

8. The table below shows the first half Fund Account for 2023/24 with the unaudited full year figures for 2022/23.

Summary Fund Account	**Q2 2023/24 £000**	**Full Year 2022/23 £000**
Employer contributions	(86,678)	(175,315)
Member contributions	(25,369)	(54,643)
Transfers in from other pension funds	(9,244)	(18,937)
Pensions	109,437	197,937
Commutation of pensions and lump sums	20,256	36,224
Lump sum death benefits	3,546	6,202
Payments to and on account of leavers	4,722	17,991
Net (additions)/withdrawals from dealings with members	**16,670**	**9,459**
Administration Expenses	**84**	**2,687**
Oversight & governance expenses	**71**	**1,701**
Investment management expenses	**1,186**	**21,838**
Investment Income	(35,641)	(90,118)
Profits & losses on disposals & changes in value	11,245	204,164
Taxes on income	209	404
Net Returns on Investments	**(24,187)**	**114,450**
Net (increase)/decrease in net assets	**(6,176)**	**150,135**

Sustainable investments and fossil fuels

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

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

	Latest Quarter		**Previous Quarter**		**Previous Year**	
	30 Sep 2023		**30 Jun 2023**		**30 Sep 2022**	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	118.4	1.83%	102.2	1.58%	109.7	1.77%
Other Fossil fuel	99.4	1.54%	88.4	1.37%	90.3	1.45%
Total Fossil fuel	217.8	3.37%	190.6	2.95%	200.0	3.22%
Sustainable & Renewable	783.4	12.12%	810.9	12.54%	762.4	12.29%

11. Oil prices were high this quarter and this was reflected in the share prices of Oil and Gas companies. In the longer term this should speed the transition as a high oil price incentivises alternatives and investment to reduce consumption. However in the short term this has increased prices and hence valuations of Oil and Gas holdings in the Fund.

12. Schroders hold a number of Oil and Gas companies within the Active Equity portfolio. Sustainability forms part of their criteria in assessing companies for investment. For example one of their holdings, Equinor, develops not only oil but gas, wind and solar energy. Schroders gained £15.3m on their Oil and Gas holdings during the quarter.

13. The 'Other Fossil fuel' category is almost entirely the Energy sector in our passive portfolio and will reflect the share of the index relating to Energy. It should be noted that the Energy sector includes any renewable energy companies within the index, and that some oil and gas producers are also involved in the production of biofuels, hydrogen, wind power and solar energy, so have a renewables element. As a result of these two factors the figure for fossil fuels is likely to be overstated, and the figure for renewables understated.

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

15. For this reason, while the data provided should show the Fund's exposure to fossil fuels reducing over time, it can only be an indicative part of our risk monitoring and does not provide the full picture.

16. A more thorough assessment of the Fund's equity investments is provided by LGPS Central's 2023 carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves which is being presented to Committee at today's meeting.

17. The 'sustainable and renewable energy' investment figure contains more estimates. The figure includes eleven specific investments – the Renewables Infrastructure Group, Impax Environmental, Aegon Sustainable Diversified Growth Fund, the three LGPS Central Global Sustainable Equity funds, and three renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank's Offshore Wind Fund and the Langar Lane Solar Farm. First Solar and Siemens Energy, held within the Schroders portfolio are also included.

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

19. It can be seen that the Fund's investments in Sustainable Equities and Renewable Energy is now several times higher than those in Fossil Fuel investments.

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

Core Index Portfolio

21. Below are detailed reports showing the valuation of the Core Index portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation and compares it to the portfolio benchmark (and a comparison with the previous quarter).

	30 Sep 2023 Portfolio		**B/Mark**	**30 Jun 2023 Portfolio**	
	£000	**%**	**%**	**£000**	**%**
UK Equities	455,141	34.7%	35%	446,637	34.4%
Overseas Equities:	854,450	65.3%	65%	852,195	65.6%
North America	271,917	20.8%	20%	269,437	20.7%
Europe	251,167	19.2%	20%	256,327	19.7%
Japan	131,192	10.0%	10%	127,299	9.8%
Pacific Basin	120,286	9.2%	10%	121,253	9.3%
Emerging Markets	79,888	6.1%	5%	77,879	6.0%
Cash	0	0.0%	0%	0	0.0%
Total	**1,309,591**			**1,298,832**	

22. There were no purchases or sales during the period.

Schroder Investment Management Portfolio

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

	30 Sep 2023 Portfolio		**B/Mark**	**30 Jun 2023 Portfolio**	
	£000	**%**	**%**	**£000**	**%**
UK Equities	667,978	36.7%	40.0%	665,956	36.7%
Overseas Equities	1,108,856	60.9%	59.5%	1,108,547	61.1%
North America	671,293	36.9%	35.7%	672,378	37.1%
Europe	145,889	8.0%	7.6%	140,849	7.8%
Japan	65,807	3.6%	3.6%	65,130	3.6%
Pacific Basin	48,415	2.7%	2.8%	49,133	2.7%
Emerging Markets	105,305	5.8%	5.8%	107,407	5.9%
Global Small Cap	72,147	4.0%	4.0%	73,650	4.1%
Cash	42,534	2.3%	0.5%	40,043	2.2%
Total	**1,819,368**			**1,814,546**	

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	7,813	3,630	4,183
Overseas Equities			
North America	75,792	81,887	-6,095
Europe	24,129	13,638	10,491
Japan	5,713	5,632	81
Pacific Basin	0	0	0
Emerging Markets	0	0	0
Global Small Cap	0	0	0
Totals	**113,447**	**104,787**	**8,660**

LGPS Central

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

	30 Sep 2023 Portfolio		30 June 2023 Portfolio	
	£000	%	£000	%
Global equity	350,676	29%	365,994	31%
EM equity active	127,299	11%	126,928	11%
Corporate bonds	294,024	25%	291,903	24%
Gilts	125,651	10%	126,509	11%
Private Equity	48,134	4%	34,832	3%
Infrastructure	108,819	9%	106,104	9%
Credit	143,334	12%	144,583	12%
Cash	190	0%	179	0%
Total	**1,198,127**		**1,197,032**	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	3,225	2,592	633
Corporate Bonds	0		0
Equities			
UK	0		0
Global	0		0
Emerging Markets	0		0
Private Equity	13,334	23	13,311
Infrastructure	5,374		5,374
Credit			0
Totals	**21,933**	**2,615**	**19,318**

Abrdn (previously Aberdeen Standard Investments)

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

Date	Property	Transaction
05/07/2023	Part of Motorline Dealership, The Drive, Gatwick Road, West Sussex	Licence to Underlet
18/07/2023	Unit 3a Isabella Court, Millennium Business Park Mansfield	Rent Review Memorandum
23/08/2023	3A Brooke Park, Handiforth, Cheshire	Licence to Underlet
05/09/2023	Unit 6100 Crosspoint, Coventry	Licence for Alterations

Specialist Portfolio

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

	30 Sep 2023		30 June 2023	
	£000	%	£000	%
Private Equity	179,100	12.9%	176,600	12.4%
Infrastructure	388,400	28.1%	400,700	28.2%
Credit	83,200	6.0%	84,300	5.9%
Property Funds	203,500	14.7%	213,600	15.0%
Aegon DGF	303,300	21.9%	315,300	22.2%
Equity Funds	226,200	16.3%	231,100	16.3%
Total	**1,383,700**		**1,421,600**	

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-657	2,402	-3,059
Infrastructure	419	414	5
Credit	-5,650		-5,650
Property Funds	3,000	1,398	1,602
Aegon DGF			0
Equity Funds			0
Totals	**-2,888**	**4,214**	**-7,102**

The negative purchase for credit relates to a return of capital on our Dorchester Credit Opportunities fund.

Responsible Investment Activity

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

31. During the quarter the Fund's investment managers have continued with their usual stewardship activities through considered voting of shares and engaging with investee company management as part of the investment process. Quarterly reports on Responsible Investment issues have been received from LGIM and LGPS Central in addition to the LAPFF Quarterly Engagement report. Full reports and other responsible investment information can

be found on the Pension Fund website here https://www.nottspf.org.uk/about-the-fund/responsible-investment .

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

33. LAPFF (Local Authority Pension Fund Forum) have engaged with a number of companies during the quarter. More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. The July LAPFF business meeting was attended and reported to Committee in October 23.

34. Work started on the 2023 Climate Risk report during the quarter. The report is being presented at today's meeting.

35. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter in addition to those already mentioned. The LGPS Central pool Responsible Investment Working Group was attended in July and considered such issues as stewardship, ESG in Real Estate and an update on Central's Net Zero policy.

36. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised.

Statutory and Policy Implications

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

RECOMMENDATION

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

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

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments

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

Financial Comments (TMR 1/12/2023)

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