Nottinghamshire County Council

Local Pensions Board

Wednesday, 11 September 2019 at 13:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

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2	Apologies for Absence	
3	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
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Notes

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

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

Customer Services Centre 0300 500 80 80

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

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Martin Gately (Tel. 0115 977 2826) 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 LOCAL PENSION BOARD
Date	Tuesday, 4 December 2018 at 1.30 pm

membership
Persons absent are marked with `A'

Employers

Councillor Tony Harper		Nottinghamshire County Council
Councillor Michael Edwards		Nottingham City Council
James Lacey	A	Nottingham Trent University
David Smith		Autism East Midlands

Members

Bernard Coleman	Pension Scheme member
Mark Heppenstall	Pension Scheme member
Thulani Molife	Pension Scheme member

Also in Attendance

John Raisin	John Raisin Financial Services Ltd, Advisor to the Board

Officers in Attendance

Jon Clewes	Team Manager, Payroll and Pensions
Martin Gately	Democratic Services Officer
Sarah Stevenson	Group Manager Business Support Centre and Employee Service Centre

MINUTES

The minutes of the last meeting held on 14 June 2018 having been previously circulated were confirmed and signed by the Chair.

For Members' information, Sarah Stevenson corrected a typographical error in the Performance Report received by the Local Pension Board at its meeting on 14 June. The report should have made reference to 14 May 2018, rather than 2017.

APOLOGIES FOR ABSENCE

Apologies for absence were received from James Lacey, and therefore Councillor Tony Harper acted as chairman for this meeting.

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None.

LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD

Jon Clewes, Pension Manager, introduced the report, the purpose of which was to inform the Pension Board of the continuing work being undertaken by the Administration Team to improve data quality, and ensure statutory compliance of the scheme employers.

Mr. Clewes explained that there were a number of service levels, which included a requirement to monitor the performance of scheme employers. Software to assist this monitoring is currently being developed, but it is not yet available and the work is challenging.

Academy Trusts who have applied to enter the scheme are being brought in as a single employer. Efforts have been made to improve data quality and the number of accurate submissions. A letter will be sent to the Pensions Regulator regarding compliance, and employers will be charged for additional administrative costs.

Mr. Clewes indicated that very cold spells – such as last February and March - can have an impact on member mortality, as can hot weather. Survivor benefits are paid out in the first month after notification. Larger overpayments are recovered, but they are sometimes written off if they are around £150.

Members heard that there were fluctuations in the numbers of scheme members wishing to transfer their pension out of the scheme. Withdrawing from the scheme can expose members' assets to risk, and one individual lost £129,000 of benefit. A certificate is required if more than £30,000 is being transferred out, in order to ensure that the scheme member has taken appropriate advice. There will also be a media campaign in relation to this.

In response to a query from Board Members, Mr. Clewes stated that, in one instance, data was not returned due to one academy's use of a shared services centre in Cheshire which had failed to extract the information. Some academies have outsourced their payroll providers, nevertheless this does not absolve them of their responsibility for providing annual returns.

In addition, Members heard that this Authority did not seek to levy fines against defaulters since it be inappropriate to fine other public bodies.

Sarah Stevenson explained that the plan is to move to monthly returns and to procure and implement the Members' Portal, which would allow both self-service and distribution of the Annual Benefit Statement online from 2020.

In terms of resourcing, an active apprenticeship linked to Pension Administration is currently being developed. The operation of administration will need to be looked at in a fundamentally different way, with a transition to basic admin being done by the members themselves.

RESOLVED 2018/005

That:-

1) 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 be considered.

UPDATE ON THE LOCAL GOVERNMENT SCHEME ADVISORY BOARD

Jon Clewes introduced the report, the purpose of which was to provide a high level summary of the current topics being considered by the National Local Government Scheme Advisory Board.

Mr. Clewes explained the background to the national cost cap – and how the cost cap's calculations are carried out by the Government Actuary's Department (GAD). John Raisin observed that the GAD headline was very positive.

Members also heard about the SAB separation project, further to the SAB having issued a tender to interested parties to help it to develop options for change with regard to the separation of the LGPS pension funds from their local authorities. Mr. Clewes explained the options which included: Option 1 – separation within existing structures and Option 2 – separation via new structures.

Members commented that they found it extremely useful to receive a report on the SAB, because it allowed them to see the bigger picture.

RESOLVED 2018/006

That the activities of the Scheme Advisory Board be considered and the implementation of any recommendations by the Administration Authority of recommendations of the Scheme Advisory Board be monitored.

THE PENSION SCHEME REGULATOR AND SCHEME RETURN

Jon Clewes introduced the report, the purpose of which was to update on the response of the Administering Authority to the Annual Governance Survey 2018, which is circulated by the Pension Regulator for completion by the Pension Manager in conjunction with the Pension Board Chairman.

Mr. Clewes indicated that the questionnaire was fairly straightforward and included questions on recordkeeping and cyber security. John Raisin recommended mentioning the letter from the Scheme Advisory Board within the response.

RESOLVED 2018/007

That the reference be made to the Scheme Advisory Board letter within the questionnaire response.

WORK PROGRAMME

The next meeting of the Board was scheduled for summer 2019, when the issues under consideration would include: New Regulations on Pooling, Pensions Administration Performance, LGPS Central Update, GMP Reconciliation and Risk Register.

Members considered the possibility of a move to quarterly meetings synchronised to take place after Pensions Committee.

[Actuarial valuation be included in the future work programme].

RESOLVED 2018/008

That a move to quarterly meetings of the Board be examined.

The meeting concluded at 3.05 pm.

CHAIR

Nottinghamshire County Council

Report to Nottinghamshire Pension Board

11 September 2019

Agenda Item: 4

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

LOCAL GOVERNMENT PENSION SCHEME – PENSION ADMINISTRATION PERFORMANCE REPORT.

Purpose of the Report

1. The purpose of the report is to inform the Nottinghamshire Pension Board of the performance of the Administration Team, and provide details of the key performance indicators that have been developed and updated by Cipfa.

Information and Advice

Background

2. One of the of the main areas of focus across the Local Government Pension Scheme has been the performance of scheme employers providing their statutory data to Administering Authorities in a timely manner to enable the updating of member records. The Scheme Advisory Board along with the Local Government Association has highlighted this matter.

3. The Pensions Regulator has continued raise concerns across the LGPS funds relating to data quality and the need for improvement. To help manage the improvement of data, Pensions Administration has been using the Pension Administration Strategy to try and drive compliance with scheme employers. Over the last financial year the Administration Team have also been undertaking data improvement activities to improve data quality for the fund valuation which is being undertaken currently

4. The Fund will be reporting to the Pension Regulator in the Annual Scheme Return in August/ September the position of the fund relating to its common and conditional data.

5. To meet the requirements set out by the regulator the fund reported in 2017-2018:

Common Data	59%	Accuracy
Conditional Data	60%	Accuracy

6. A data improvement plan is in place to improve the data within the Administration System in order to be able to report in more detail to the Pensions Regulator once an agreed reporting

format has been implemented by the Scheme Advisory Board in conjunction with the regulator for the 2019/20 scheme return. The LGPS funds are still awaiting what the reporting requirements will be.

7. The Administration Team is continually updating records, chasing employers, and reminding members of the scheme to update the fund of changes of personal circumstances, e.g. changes of address.

8. The Administration Strategy was designed to provide a framework for the management of scheme employer's responsibilities to ensure that the Administering Authority receives accurate data. However this is being reviewed and an updated strategy will be presented at a future Pension Board.

9. Data is important to the Pension Fund for a number of reasons, the main reasons being:

    a. Members are paid the pensions they are entitled to
    b. Employers' costs are reliable/correct
    c. Investment and administration costs are reliable/correct
    d. Fund valuations reflect true costs/ liabilities of the fund
    e. Cost effective administration – less queries
    f. Reduce Internal Dispute Resolution Procedure cases
    g. Avoid the Pensions Regulator
    h. Maintains the scheme's reputation

10. Included in the Administration Strategy is a service level agreement, which is designed to enable the monitoring of activities, undertaken by scheme employers and the Administering Authority.

11. The fund monitors its performance through a suite of SLA reports, which are based on the agreed SLA's within the Administration Strategy.

12. In addition this year CIPFA set up a working party which has developed a process whereby scheme administration data can be captured on a consistent basis and shared between funds, and therefore the Administration Team are able to report on a number of quarter 4 figures with a view to collecting a full set of data for 2019/20 financial year.

Pension Fund Membership Statistics

13. At 31 March each year the Administering Authority report a set of figures that identify the number of members within the fund under certain categories. These figures are used to populate the fund's annual report, along with other statistical reports including the Office of National Statistics, the Pension Regulator Scheme Return, and the Cipfa Benchmarking report.

14. The following table details the membership of the Fund against each category, and sets a context to the size of the fund.

Pension Fund Members as at 31 March	2017-2018	2018-2019
Active Members	44,436	46,350
Deferred - Staff	46,448	47,365
Pensioners	35,245	37,157
Frozen Refunds	8,275	8,118
Leavers in progress	9,202	7,070
Total Membership	**143,606**	**146,060**

Frozen Refunds – are where members have taken a proactive decision to opt out of the LGPS but then have failed to confirm their details to enable the payment of refund of benefits to be processed. The total net refund value is £1,598,266.56

15. In addition, it is important to understand the context of the number of employers in the fund as this increases the complexity of managing the collection of data from different employers.

LGPS Employers	31.03.2018	Number Admitted	Changes +/-	Number Leaving	31.03.2019
Scheduled 1					
Local Authorities	9	-	-	-	9
Academies	192	22	-	18	196
Others- Active	16	-	-	-	16
Others- Defunct	24	-	18	-	42
	241				263
Scheduled 2					
Town and Parish Councils	31	1	+1	-	33
Others - Active	10	-	-	1	9
Others - Defunct	12	-	+1	-	13
Total Scheduled	**294**	**-**	**-**	**-**	**318**
Admitted					
Admission	57	5	-1	2	59
Others - Active	23	-	-	1	2
- Defunct	83	-	3	-	86
Total Admitted	**163**	**-**	**-**	**-**	**167**
Total	**457**	**-**	**-**	**-**	**485**

16. From April 2018 to March 2019, the number of active scheme employers has increased, with the continued growth and change of academies adding to the complexity of the scheme by increasing the employer bodies. The fund received 28 applications from employers who met the criteria for admission into the fund; the table above shows the movement of employers in

the fund with employers withdrawing from the scheme, as they no longer have any active members of the scheme, which drives an employer closure.

17. The number of scheme employers is continuing to increase as schools convert to academy status, along with reorganisation of academy trusts and the outsourcing of services by existing scheme employers. With the increasing numbers of employers, this provides an ongoing challenge to the Administering Authority to ensure that pension fund and member data is kept up to date.

18. In order to try to reduce the number of employer bodies the fund continues to work with a number of Academy Trusts to support the merger of single academies within Multi Academy Trusts into one single employer, to try and reduce the complexity of scheme data, however this takes time and resource in supporting the changes.

19. A list of new scheme employers 2018-2019 is attached in Appendix 1. This list is split into compulsory bodies, designating bodies, and transfer admitted bodies. The employers have been listed against their administration area. As you will see that vast majority of new employers relate to schools, with a number of applications still to be completed.

Year End and Scheme Valuation Employer Activities

20. The Employer Support and Compliance Team continues to work with employers to improve the submission of pension data to the fund, and this is significantly important in 2019 being the valuation year.

21. There is a statutory requirement for participating scheme employers to provide timely and accurate data and in particular to provide accurate year-end data. For the year 2017-2018, participating employers in the scheme were required to provide accurate year-end data by 2 May 2018 following the processing of the year-end returns, annual benefit statements were issued to active and differed members of the scheme by 31 August 2018. However this year the fund extended the submission date to 13 May to provide more time, to try and support the employers.

22. The following table provides information on employer submissions of year-end data over the last five year-ends.

Year End	Number of submissions received by submission date	Accurate submissions received by submission date	Submission date	Number of Employer returns expected	Percentage of expected returns received by the deadline	Percentages of Accurate returns by the deadline
2014-2015	112	92	31 May 2015	260	43%	35%
2015-2016	162	157	30 April 2016	276	59%	57%
2016-2017	253	166	2 May 2017	310	82%	54%
2017-2018	314	183	14 May 2018	337	93%	54%

2018-2019	272	162	13 May 2019	341	80%	47.5%

As at 1 July 2019 the fund has now received 341submissions, there is still work being undertaken to balance and rectify the data submitted.

23. The Employer Support and Compliance Team has continued to support employers and to simplify the way data is requested, this has been achieved by reviewing communications and improving the content of the year-end briefings. The briefing delivered in March 2019 again targeted new and existing employers to ensure that they understood their responsibilities for year-end but also in respect of the valuation process.

24. The implications of not receiving data from scheme employers can be serious, potentially leading to incorrect pension calculations. Without the correct data, the Pension Fund may not be able to issue annual benefit statements to individual members where the scheme employer has failed to provide the required data. This type of situation would ultimately result in a breach of the statutory regulations and may result in the fund being subject to a fine. Any fines will be passed on to the appropriate non-compliant scheme employers.

25. The Pension Fund has issued 82 % Active Annual Benefit Statements

Performance Data

26. Performance statistics are attached at appendix 2. The Table represents the 4th quarter of 2018/19 and compares the performance of the Administration Team fund KPI's against the Cipfa benchmark legal requirement. The Committee will see that performance against the legal requirement averages around 90% compliance. In addition Cipfa are recommending that this comparison data is used in the Fund Annual Report, in future years. This specification is in the new guidance for LGPS Administration Authorities 2019 edition. The Administration Team are currently working on these reports to be able to provide a full set over the coming financial year.

27. It can also be reported from information extracted from the administration system, in the financial year 2017/18, the Pension Administration Team completed 7617 processes across the year. For the year 2018/19 the Administration Team increased the number of processes to 10,688 which is an increase of 40%.

28. The main increases has been due to work being undertaken on deferred member benefits where the administration team has completed 4403 processes. This has been a focus for the team due to the need to have data updated for the valuation, and resources have been focused on this area of work.

29. Since the changes in Legislation in May 2018, there has been a significant increase in requests from deferred pension members over 55 years of age to seek payment of their pension benefits. The Administration Team have completed 1026 process, the majority of these coming in the 3^{rd} and 4^{th} quarter of the year. It is expected that this will increase again following the issuing of Annual Benefit Statements in July and August 2019.

30. In terms of the performance targets meeting the SLA in 2018/19, these are shown in Appendix 2 the average performance against the fund KPI was 70% against 90% meeting the Cipfa

benchmark, this must be set against an increase in the number of Scheme Employers and Members within the last year. Some of these activities have also been impacted due to statutory changes in government actuary factors, which meant that certain activities were put “on hold” whilst the Pension Administration system was updated with the new factors. This suspension meant a backlog built up which needed to be cleared following updates to the pension administration system.

31. The member death process is the most difficult statistic to gather and measure, and the team is currently reviewing how this process is monitored. The difficulty is the date and timing of when the Pension Administration Team are informed of the death, against when the team receive the appropriate documentation. Where the relevant information is provided Death in Service grants are paid within 5 days to the next of kin.

32. Included in the report is the cost per member, which is based on the Cipfa benchmarking club. It has not been possible to include the 2019 figure, as the data has not yet been collated at the time of writing the report. However in terms of a trend you will see that on average against the average cost within the benchmarking club 30 + LGPS members the cost per member for Nottinghamshire Pension Fund is on average £5.35 below the benchmark over 6 years of data.

Other Options Considered

33. Work will continue on the development of the SLA reports to provide a full range of benchmarking data over the coming financial year.

34. Further development of the Cipfa benchmarking reports in line with the guidance produced by Cipfa in the 2019 edition preparing the annual report.

Reason/s for Recommendation/s

35. This report has been compiled to inform the Nottinghamshire Pension Board of the activities being undertaken by the administration team to improve the performance of employers, and the administration of the fund.

Statutory and Policy Implications

36. 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

37. The administration of the Nottinghamshire Pension Fund Administration is being delivered within existing resources at £1.952m 2017/18.

RECOMMENDATION

It is recommended:

1. That the Nottinghamshire Pension Board consider 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.

Marjorie Toward
Service Director – Customers, Governance, and Employees
For any enquiries about this report, please contact:

Jonathan Clewes, Pension Manager on 01159773434 or jon.clewes@nottscc.gov.uk
Constitutional Comments (02/09/2019KK)

38. The proposal in this report is within the remit of the Nottinghamshire Pension Board.

Financial Comments (02/09/2019KP)

39. The cost of pension's administration is a valid charge to the pension fund and as set out in the report the costs are £1.952m at 2017/18.

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' or start list here

Electoral Division(s) and Member(s) Affected

- 'All' or start list here

Nottinghamshire County Council

Compulsory bodies

Employer / work base	Administration area	Date of entry	Academy proprietor
Two Counties Trust	Ashfield	01.04.2018	Not applicable
St Swithuns C of E Primary Academy	Bassetlaw	01.04.2018	Diocese of Southwell & Nottingham Multi Academy Trust
Gilthill Primary School	Broxtowe	01.04.2018	East Midlands Education Trust
Kimberley Primary School	Broxtowe	01.04.2018	East Midlands Education Trust
Archway Learning Trust	Nottingham	01.04.2018	Not applicable
Diverse Academies Trust	Nottinghamshire	01.04.2018	Not applicable
Robert Mellors Primary School	Gedling	01.05.2018	Redhill Academy Trust
Awsworth Primary School	Broxtowe	01.06.2018	East Midlands Education Trust
Parkdale Primary School	Gedling	01.07.2018	Transform Trust
Alderman Pounder Infants School	Broxtowe	01.09.2018	Flying High Trust
Python Hill Primary	Newark	01.09.2018	Forge Trust
Djanogly Learning Trust	Nottingham	01.09.2018	Not applicable
Our Lady of Lourdes Catholic Multi Academy Trust	Nottinghamshire	01.09.2018	Not applicable
Suther School	Newark	01.09.2018	Nova Education Trust
Larkfields Infant School	Broxtowe	01.11.2018	East Midlands Education Trust
Ellis Guilford School	Nottingham	01.11.2018	Creative Education Trust
Oak Tree Primary School	Mansfield	01.12.2018	Aspire Multi Academy Trust
Ernehale Infant School	Gedling	01.12.2018	Flying High Trust
Minster Trust for Education	Newark	01.12.2018	Not applicable
Hollywell Primary School	Broxtowe	01.03.2019	East Midlands Education Trust
Pending applications;			
Bilborough College	Nottingham	To be confirmed	Better Futures Multi-Academy Trust
Bleasby CE Primary School	Newark	To be confirmed	Minster Trust for Education
Brookside Primary School	Rushcliffe	To be confirmed	Equals Trust
Edwinstowe C of E Primary School	Newark	To be confirmed	To be confirmed
Everton Primary School	Bassetlaw	To be confirmed	To be confirmed
Farnsfield St Michael's C of E Primary	Newark	To be confirmed	Minster Trust for Education

Gamston CE Primary School	Bassetlaw	To be confirmed	Diocese of Southwell & Nottingham Multi Academy Trust
Haggonfields Primary & Nursery School	Bassetlaw	To be confirmed	To be confirmed
Halam C of E Primary School	Newark	To be confirmed	To be confirmed
Hillocks Primary School	Ashfield	To be confirmed	To be confirmed
Holy Trinity Infants School	Newark	To be confirmed	Minster Trust for Education
Langold Dyscarr Community School	Bassetlaw	To be confirmed	Shine Multi Academy Trust
Larkfields Junior School	Broxtowe	To be confirmed	East Midlands Education Trust
Lowes Wong Infants School	Newark	To be confirmed	Minster Trust for Education
Mattersey Primary School	Bassetlaw	To be confirmed	To be confirmed
Rampton Primary School	Newark	To be confirmed	To be confirmed
Richard Bonington Primary	Gedling	To be confirmed	Equals Trust

Consolidated academies

The following establishments existed as separate entities for pension purposes but have been consolidated into a centralised Academy Trust record during 2018-19;

Employer body	Administration area	Academy Trust
Bluecoat Academy	Nottingham	Archway Learning Trust
Nottingham Emmanuel School	Nottingham	Archway Learning Trust
Bluecoat Beechdale Academy	Nottingham	Archway Learning Trust
Bracken Lane Primary Academy	Ashfield	Diverse Academies Trust
East Leake Academy	Rushcliffe	Diverse Academies Trust
Holgate Academy	Ashfield	Diverse Academies Trust
Queen Elizabeth's Academy	Mansfield	Diverse Academies Trust
Redgate Primary Academy	Mansfield	Diverse Academies Trust
Retford Oaks Academy	Bassetlaw	Diverse Academies Trust
Samuel Barlow Primary Academy	Newark	Diverse Academies Trust
Thrumpton Primary Academy	Bassetlaw	Diverse Academies Trust
Tuxford Academy	Bassetlaw	Diverse Academies Trust
Tuxford Primary Academy	Bassetlaw	Diverse Academies Trust
Wainwright Primary Academy	Mansfield	Diverse Academies Trust
Yeoman Park Academy	Mansfield	Diverse Academies Trust
Djanogly Northgate Academy	Nottingham	Djanogly Learning Trust
Djanogly Strelley Academy	Nottingham	Djanogly Learning Trust

Springfield Academy	Nottingham	Djanogly Learning Trust

Designating bodies

Employer body	Administration area	Date of entry
Rampton Parish Council	Bassetlaw	01.04.2018

Transferee admission bodies

Applicant	Scheme employer
Nottingham City Homes (Telecare)	Service contract with Nottingham City Council
Royal Society for the Protection of Birds	Service contract with Nottinghamshire County Council
Pedal Express Limited	Service contract with Culture, Learning and Libraries (Midlands)
OCS Group UK Ltd (Project co 1)	Service contract with Nottingham City Council
OCS Group UK Ltd (Project co 2)	Service contract with Nottingham City Council

Appendix 2

Nottinghamshire Administration Costs compared to the average cost per member within the CIPFA Benchmarking Club						
Process	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total Net Cost (£'000)	£1,549	£1,585	£2,027	£1,475	£1,972	£1,952
Total membership (Nos)	112,443	116,815	127,221	131,923	138,625	143,606
Cost per member	£13.78	£13.57	£15.93	£11.18	£14.23	£13.59
Average cost per member in the cipfa benchmarking club	£19.74	£19.52	£18.73	£18.69	£20.14	£17.59

Appendix 2

4th Quarter 2018/19 01.01.2019 to 31.03.2019 Fund Key Performance Indicators compared to performance of the Cipfa benchmark Key Performance Indicators						
Process	**Fund KPI**	**% of cases completed within the fund KPI**	**No. cases completed**	**Cipfa Benchmark Legal Requirement (from notification)**	**% of cases completed within the CIPFA KPI**	**No. cases completed**
Deaths – Initial letter acknowledging death of member	5 days	33.72	86	2 months	97.73	88
Deaths – letter notifying amount of dependants pension	10 days	75.86	87	2 months	88.35	103
Retirements –letter notifying estimate of retirement benefits	15 days	73.68	19	2 months	94.74	19
Retirements – process and pay pension benefits on time (next available payroll) –	30 days	77.55	579	2 months	91.45	468
Deferment Retirement Quote Letter	2 Months	99.26	544	2 Months	99.26	544
Deferment – calculate and notify deferred benefits	2 months	55.87	1636	2 months	55.87	1636
Transfers in/out – letter detailing transfer quote	1 month	78.16	87	2 months	76.64	137
Refund – Process and pay a refund following election	2 months **	96.09	179	2 months	96.09	179
Divorce quote – letter detailing cash equivalent value and other benefits	2 months **	98.61	72	2 months	98.61	72
Divorce Settlement – Letter detailing implementation of pension sharing order	2 months **	14.29	7	2 Months	14.29	7

** Not yet developed a fund KPI for these activities

Nottinghamshire County Council

Report to Nottinghamshire Pension Board

11 September 2019

Agenda Item: 5

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

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

Purpose of the Report

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

2. The report also seeks approval for additional resources to undertake the next stage of the GMP Project, leading to the rectification of records and the communication of the outcome of the rectification of pension benefits to actual pensioners.

Information

Background

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

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

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

individual and then advised pension schemes of GMP entitlements when the individuals reach state pension age.

6. There are complex regulations regarding annual inflationary increases to the GMP element of an individual's pension and the dates at which it becomes payable to the scheme member. The Government decided that with effect from 6 April 2016 contracting-out would be abolished, coinciding with the introduction of the new single tier pension, and as a result HMRC are providing a one off service to enable schemes to reconcile the GMP figures they hold with those held by HMRC through a bulk process which ceased in December 2018. However due to delays in the National Project, HMRC have extended their project time lines to November 2019.

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

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

The Reconciliation Process

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

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

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

	Stages of Activities	Activity Description	Project Status	Project Dates
Part 1 – identification and confirmation of liabilities with HMRC	**Discovery Phase** Stage 1 Stage 2	Initial comparison of fund data with HMRC file and an early indication of the potential size of the reconciliation issues In Depth Analysis of results from Stage 1	Complete	October 2017 - January 2018
	Delivery Phase Stage 3 Stage 4 Stage 5 Stage 6	Queries issued to HMRC HMRC query returns analysed and distributed into specific categories Individual investigation	Complete	May 2018

	Stage 7	In-depth analysis and bulk resolution Further individual investigation		- November 2018
	Completion Phase Stage 8 Stage 9	Case Conclusion-Receipt of final file from HMRC Concluded cases uploaded into the pensions administration system	The File from HMRC is now due November. An interim file based on responses so far from HMRC due to be received from CIVICA June 2019.	November 2019
Part 2	**Calculation Phase** – Over payments – Under payments	System and individual calculation to be undertaken using reconciled GMP liability amounts to determine overpayments and underpayments	Final File not due from HMRC until November so another load will be required at that time	June 2019 – Nov 2019
Part 3	**Communication Phase**	Dependant on the outcome of the data from HMRC. A communication strategy will need to be developed to ensure that communication is clear to individual pensioners affected by the reconciliation exercise, and where a pension in payment needs to be adjusted, to enable them to understand the potential impact of any adjustment		Estimated Nov 2019 – March 2020
Part 4	**Rectification and Communication**	Pensioner payroll records to be adjusted to reflect correct payments determined in the Calculation Phase, and communicated to members		Estimated April 2020 - Onwards

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

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

- Identification of false mismatches – reducing the number of queries to be raised with HMRC to save time and money
- Identification of discrepancies which should be queried with HMRC

- Identification of discrepancies where all necessary data is readily available to facilitate a query with HMRC.

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

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

- Pension Fund Data issued to HMRC
- HMRC returned data broken down into specific categories
- Individual investigations of certain data
- Undertook in-depth analysis and bulk resolution of some data
- Individual investigation of certain data types.

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

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

18. The first set of matching data was due to be received back from HMRC and loaded onto the pension's administration system at the end of February. However HMRC have now reviewed their project time line and the fund does not expect a completed file from HMRC until November 2019.

Additional Work with HMRC

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

20. HMRC are expecting funds to review their records of payment, and if in deficit / or surplus then the appropriate adjustment will be made, either the fund will be required to pay up any deficit, or HMRC will return overpaid funds. Therefore work is required on reconciling historic financial data with HMRC records. In November 2018 HMRC issued the fund with an initial notification of a deficit of up to £750,000, calculated over a 30 year + timescale.

21. The administration team challenged this initial figure by writing to HMRC seeking clarification, and HMRC have responded by agreeing that there were discrepancies in their data and

issued the fund with a new data file on the 10 April 2019, this identified that the deficit had reduced to £331,553.59.

22. Although this is a substantial reduction from the initial notification the Administration Team still has concerns over the validity of the data, particularly as we have identified a payment of around £190,000.00 which has been made to HMRC but which has not been credited against our Fund.

23. The Administration Team have continued to challenge this updated figure with the help of Civica due to further incorrect data issued by HMRC. The fund is currently awaiting a further updated reconciliation file in order to continue to check HMRC records against the fund records.

Review of Resources Requirements

24. The work undertaken with Civica in Part 1 of the Project has enabled the fund to agree a position with HMRC relating to the fund's GMP liabilities against the pension records of the fund. This has been achieved using a blended approach by using Pension Administration Resources in the form of a Temporary Project Manager, and supplementing pension administration resources with Civica resources. This phase of the project has been brought in within the budget at a cost of £310,000, along with the cost of the Project Manager at a salary cost of £35,228. These additional resources have enabled the pension administration team to continue with day to day activities. At the Pension Fund Committee Meeting on 7 March 2019 the Committee agreed to the extension of the Project Manager role in order that the Administration Team could continue with the project in line with HMRC time lines up until September 2020.

25. However, as with all automation there will be exceptions, which may be due to other data issues or more complicated scenarios where an automated process is not possible or appropriate. It is with this position that the fund will need further support to complete this stage of the Project.

Solution

26. For part 2 of the project It is proposed to seek further support for the calculation and rectification stage from Civica, and the proposal would be as follows:

    a. An in-depth analysis of the Phase 2 output
    b. Analysis of exceptions/anomalies
    c. Accurate pricing and scope for the rectification
    d. Support the project plan and timescales
    e. Regular reviews of progress
    f. Documentation of the activities and results
    g. Cost benefit analysis.

Rectification

27. The scope of this stage of the project will be determined once the Phase 2 module output analysis stage has been completed. Services which will be on offer will include but not be limited to the below. The services utilised will be decided by the Fund.

    - Manual Calculations for ongoing GMP values

- Calculation of over and under payments
- Payroll reconciliation
- Communications
- Ongoing consultancy
- Attendance from an appropriate Civica representative at audit meeting

Project Governance

28. A plan of work covering this level of complexity requires dedicated project management resource, whose duties will include but will not be limited to:

- Initial planning and resourcing
- Agreement and documentation of project-specific roles and responsibilities
- Communication with NCCPF of timescales and resource requirements
- Walk through of the agreed plan with key stakeholders
- GDPR compliance
- Prioritise work based on the risk to the Fund
- Regular MI updates
- Management of resources to co-ordinate and manage the impact of change, ensuring that timescales are met
- Progress reporting, issue management and escalation
- Attendance from an appropriate

Costs

29. Until the Phase 2 data has been processed, it is not possible to accurately specify the required level of effort to complete the work for this stage of the project, it is therefore proposed a time and material approach should be used.

30. It is estimated that 20 days effort will be sufficient resource to complete the analysis required.

Type	Effort (Days)	Total
Output Analysis	20	£25,900
Rectification	100	£129,500
Total	**120**	**£155,400**

31. It is estimated that the effort required could range significantly depending on numerous factors, including decisions from the fund. However it has been estimated that 100 days effort will provide sufficient resources to complete the rectification activities required.

32. As previously stated whilst it is hoped that the pension administration system will calculate a high proportion of pension benefits, it is highly likely there will be a requirement for manual

calculations, therefore the additional support will be required to undertake the manual calculation work, and therefore the fund seeks to commission Civica to undertake some of this work as outlined above.

Other Options Considered

33. Information from other LGPS Pension Funds across the country is that a number have engaged external providers to manage the project in totality at significantly greater costs, some are relying on internal resources with larger internal project teams.

34. The process and approach that the fund has followed has enabled the reconciliation of data to be completed in a much quicker time, and has kept the fund on schedule. It is only the change by HMRC in their time frame due to their ability to respond to funds that has caused the delay in the project.

Reasons for Recommendations

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

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

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

38. In order to complete the project it will be necessary to engage the support of Civica for Stage 2 of the project.

39. The work also supports the requirements of the Pension Regulator to reconcile and ensure that pension records are accurate and up to date, as the Pension Regulator will be asking funds to report on the accuracy of the fund data part of the Annual Scheme return.

Statutory and Policy Implications

40. 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

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

Civica, the software provider. However, a data impact assessment has been completed for the project overall to reflect the aspects of the data sharing, and updating of data, along with ensuring the mitigation of risks arising from the project activity itself.

Financial Implications

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

43. As stated in the body of the report It is difficult to estimate the support costs for the rectification stage where the fund will require support from Civica as we do not have the final file from HMRC which will enable the fund to understand how much work will be required to be undertaken.

44. Therefore it is proposed to undertake the output analysis using 20 days of effort at a cost of £25,900.

45. As stated in the body of the report it is estimated that the rectification stage will cost approximately £129,500 however this will only be confirmed following the completion of the output analysis.

46. Other costs will relate to the number of overpayments and underpayments identified following the calculation of benefits in payment, as stated in the body of the report given what is known about the data so far has been estimated at approximately £3 million.

47. Additionally there is now the financial reconciliation activity with HMRC which may require a deficit payment to HMRC. As previously stated the project has been able to reduce the deficit from £750,000 to £331,000 with the support of Civica to potentially reduce this amount even further.

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

RECOMMENDATIONS

It is recommended that the Nottinghamshire Pension Board:

1) Consider the progress of the GMP reconciliation project to date and agree to receive an update report.

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 (02/09/2019KK)

49. The proposals in this report are within the remit of the Nottinghamshire Pension Board.

Financial Comments (02/09/2019KP)

50. As set out in the report the costs to date are £309k, with possible additional costs of £30k for the initial work and up to a further £130k for rectification. These costs are a valid charge to the pension fund.

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 Nottinghamshire Pension Board

September 2019

Agenda Item: 6

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

UPDATE ON THE LOCAL GOVERNMENT SCHEME INCLUDING THE SCHEME ADVISORY BOARD

Purpose of the Report

1. The purpose of this report is to provide the Nottinghamshire Pension Board with a high level summary the main topics being considered by the National Local Government Scheme Advisory Board and other national initatives that are being proposed by Ministry of Housing, Communities & Local Government (MHCLG).

Information

2. The Local Government Scheme Advisory Board is a body set up under section 7 of the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations (LGPS).

3. The purpose of the board is to be both reactive and proactive, and seeks to encourage best practice, increase transparency and co-ordinate technical and standards issues. It will consider items passed to it from the Ministry for Housing, Communities, & Local Government ("MHCLG"), the board's sub-committees and other stakeholders as well as items formulated within the board. Recommendations may be passed to the MHCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.

4. The board will from time to time be asked by the local government minister to develop options for scheme developments.

5. As well as responding to requests from government the board can also develop options and recommendations of its own in order to improve the efficiency and effectiveness of the scheme. This has included recommendations to clarify regulations and initiatives outside of the regulations such as investment cost transparency.

6. Finally the board can play a vital role in providing a route for ideas for development from the various stakeholders in the LGPS and a conduit for feedback from government to those ideas. In doing so it seeks to work closely with existing LGPS forums such as CIPFA Pensions Panel, the LGPS Technical Group and the Local Authority Pension Fund Forum.

Current Work Activities of the Scheme Advisory Board and MHCLG

7. The Scheme Advisory Board Website is: www.lgpsboard.org/

8. Attached in Appendix 1 is a report prepared by the Pension Board Advisor highlighting the main topics being considered.

Other Options Considered

24. It was agreed that the Nottinghamshire Pension Board be updated on Topics affecting the LGPS in Nottinghamshire.

Reasons for Recommendation

25. This report has been compiled to inform the Nottinghamshire Pension Board of the activities of the LGPS Scheme Advisory Board and how they impact on the work of the Administration Authority in its governance of the Nottinghamshire Pension Fund. The implications of the work of the Scheme Advisory Board can then be considered and reflected in the work of the Pension Board in its work plan.

Statutory and Policy Implications

26. 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

27. There are none arising directly for the Nottinghamshire Fund as a result of the contents of the report as this is for Member information only.

Financial Implications

28. There are no direct financial implications of the issues outlined in the report.

RECOMMENDATION

It is recommended:

1) That the Nottinghamshire Pension Board consider the activities of the Scheme Advisory Board and is appropriate update its work programme to reflect the recommendations of the Scheme Advisory Board.

Marjorie Toward
Service Director – Customers and HR

For any enquiries about this report please contact:

Jonathan Clewes, Pension Manager on 01159773434 or Jon.Clewes@nottscc.gov.uk

Constitutional Comments (To be reported)

29. The proposal in the report is within the remit of the Nottinghamshire Pension Board.

Financial Comments (KP 02/09/2019)

30. There are no direct financial implication contained within the report.

Human Resources Comments ([initials and date xx/xx/xx])

31. N/A

Background Papers and Published Documents

None

Electoral Division(s) and Member(s) Affected

All

Appendix 1

JOHN RAISIN FINANCIAL SERVICES LIMITED

Nottinghamshire Local Pension Board

LGPS Update

A paper by the Advisor to the Pension Board August 2019

Introduction

The purpose of this paper is to inform the Pension Board of developments in respect of a range of important issues in the Local Government Pension Scheme (LGPS) since the Board last met on 4 December 2018. This paper does not seek to address every significant issue that has occurred but focusses on four major areas – Scheme Governance, developments relating to the Scheme Cost Control process, proposals relating to the Valuation Cycle and associated matters, national guidance relating to Investment (Asset) Pooling.

In respect of the Scheme Advisory Board project – Good Governance in the LGPS together with The LGPS Cost Control process this paper updates information provided, to the Board, in the report which formed Agenda Item 5 of the 4 December 2018 Pension Board meeting (under the sub headings (SAB 'separation project' and The National 'Cost Cap'). Investment (Asset) Pooling guidance from Government was a topic covered in the training provided by the Advisor to the Pension Board on 14 June and 4 December 2018. This paper provides an update on the situation regarding Government guidance in respect of Investment Pooling.

The issues covered in this paper are:

- Scheme Advisory Board project – Good Governance in the LGPS
- The LGPS Cost Control process, "McCloud" and its potential implications
- LGPS Consultation: Changes to the Local Valuation Cycle and the Management of Employer Risk
- Investment Pooling –The present situation regarding national Guidance

Consideration of each issue commences at the top of a new page.

1. Scheme Advisory Board project – Good Governance in the LGPS

At the Pension Board meeting held on 4 December 2018 (Agenda Item 5) it was reported that the Scheme Advisory Board (SAB) had issued a tender to interested parties to help it to develop options to improve the governance of the LGPS in England and Wales. At that time this workstream was referred to as the 'separation' project but has subsequently been renamed 'Good governance in the LGPS.'

Hymans Robertson were appointed to undertake work to develop possible future options for the governance of the LGPS. Following an initial fact-finding stage involving a sample of key stakeholders from across the LGPS Hymans Robertson issued an online survey to over 300 stakeholders on four models in respect of possible governance structures.

These four models were further developments of the two broad options of ***Separation within existing structures*** and ***Separation via new structures*** referred to in the report which formed Agenda Item 5 of the meeting of the Pension Board held on 4 December 2018. The four models which were subject to consultation with stakeholders may be summarised as:

1. **Model 1 – Improved Practice:** Introduce guidance or amendments to the LGPS Regulations 2013 to enhance the existing LGPS governance arrangements by making more explicit recommendations regarding the operation of local LGPS Funds. This might include Scheme Advisory Board (SAB) guidance on minimum expected levels of staffing and resourcing and representation on Pensions Committees together with amendments to the LGPS regulations to enhance the consultation in respect of the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS).

2. **Model 2 – Greater ring fencing of the LGPS within existing structures:** Greater separation of the Pension Fund management from the host authority (Administering Authority). This would likely include a Pension Fund Budget set by the Pensions Committee at the start of the year with reference to the Pension Fund's Business Plan and needs. Any changes to the budget would need to be approved by the Pensions Committee. The Section 151 Officer could remain responsible for the pensions function but recommendations on the Pension Fund Budget would be made by a Pension Fund Officer to the Pensions Committee. Provision for charges from the host authority such as legal support or HR would be in the Pension Fund Budget and not be simply recharged at the host authority's discretion. Under this model decisions over certain Human Resource matters could potentially be taken by the Pensions Committee.

3. **Model 3 – use of new structures: Joint Committee (JC):** Rather than the existing arrangement where the decision making is exercised by the Administering Authority (in this case Nottinghamshire County Council) usually through a Pensions Committee, responsibility for all LGPS functions would be delegated to a Joint Committee consisting of the existing Administering Authority and the other Councils in the Fund.

4. **Model 4 – use of new structures: New Local Authority body/ Combined Authority (CA):** Under this model an independent structure with the Scheme Manager function (equivalent to the Administering Authority responsibility) would be established. This might be through a "Combined Authority" and all Pension decision making would be made by this "Combined Authority (CA)." The CA would be a local authority in its own right and a separate legal entity but responsible only for LGPS matters. The CA would consist of Councillors from Councils within the geographical area covered by the CA. Other Employer and Employee representatives could also be included in decision making. There is one example of a Combined Authority in the LGPS at present which is the South Yorkshire Pension Fund which covers the geographical areas of Barnsley, Doncaster, Rotherham and Sheffield Metropolitan Borough Councils.

The survey was supplemented by Hymans Robertson through other activities including interviews, seminars and conversations with professional bodies. 140 responses were received to the online survey by the closing date. One to one interviews were carried out with both individuals and organisations. Organisations included the National Audit Office, CIPFA, Unite and Unison. Representatives of all 87 LGPS Funds (Administering Authorities) in England and Wales were invited to respond to the consultation undertaken by Hymans Robertson and direct feedback from representatives of 76 of these was received. Hymans Robertson sought views from not only Councils which are LGPS Administering Authorities (such as Nottinghamshire County Council) but also representatives of a selection of non Administering Authority Councils.

The findings from this activity formed the basis of a final draft report presented to the Scheme Advisory Board at its meeting held on 8 July 2019. The final report was subsequently published by the SAB on 31 July 2019. In responding to the online survey respondents were asked whether each of the four models would have a positive or negative impact on each of six criteria:

- Standards
- Clarity
- Conflict
- Consistency
- Representation
- Cost

The online survey indicated a preference for Model 2 (greater ring fencing of the LGPS within existing structures) followed by Model 1 (improved practice) while the Hymans Robertson report states that *"Model 2 was also the clear preference in additional surveys at the PLSA conference in May and other events (Models 1 and 2 between them had more than 70% support).*

In their feedback to Hymans Robertson *"many stakeholders pointed out that their existing models provided many of the features and benefits of Models 1 and 2."* Also, however, respondents *"recognised that in order to achieve governance improvements through Models 1 and 2, the governance regime needs to include independent monitoring or review of local fund arrangements......"*

There was little support for Model 3 (Joint Committee), which was the least favoured option. This was perceived to be both complex to establish and manage, and unlikely to provide improved governance outcomes. Model 4 (New Local Authority/Combined Authority) received minority support but with the majority of respondents considering this model to be *"very expensive and disruptive to implement."*

The feedback received by Hymans Robertson resulted in them concluding that:

- *"………..governance structure is not the only determinant of good governance……*

- *"Survey respondents were also clear that establishment of new bodies is not required………. Instead the focus should be on greater specification of required governance outcomes from within the existing structures and a process to hold funds to account for this."*

- *"Respondents favour developing a set of standards that all funds are required to achieve, drawing on current best practice and not……disrupting current practices that deliver good outcomes already."*

- *"Respondents emphasised that independent review is needed to ensure consistency in application of standards."*

Consequently, Hymans Robertson did not favour or propose specific consideration of any of the four Models of governance in respect of which stakeholders had been asked to provide feedback. Rather Hymans Robertson *"informed by feedback from stakeholders"* made four proposals for consideration by the SAB also stating *"many are things which well-run funds already do."* In respect of each proposal Hymans Robertson explained why it was made and listed "*Suggested actions"* for SAB, CIPFA or the MHCLG. The proposals are:

1. **‘Outcomes-based’ approach** to LGPS governance with minimum standards rather than a prescribed governance structure.

2. **Critical features of the ‘outcomes based’ model** to include:
   a. Robust conflict management including clarity on roles and responsibilities for decision making.
   b. Assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget.
   c. Explanation of policy on employer and scheme member engagement and representation in governance.
   d. Regular independent review of governance.

3. **Enhanced training requirements** for Section 151 (Chief Finance Officers) and Section 101 (Pension) Committee members with training requirements for Pension Committee members on a par with Local Pension Board members.

4. **Update relevant guidance and better sign-posting** including suggestions that CIPFA review and update guidance for Section 151 (Chief Finance) Officers in respect of LGPS governance and that the MHCLG review and update Statutory Guidance on LGPS governance issued in 2008.

At the meeting of the Board of the SAB held on 8 July 2019 it was agreed that the SAB Secretariat (Officers) should in liaison with the project team from Hymans Robertson and Scheme stakeholders develop a detailed plan to implement the conclusions from the Hymans Robertson report for presentation to the November meeting of the SAB. Scheme stakeholders will be given the opportunity to comment on the SAB recommended implementation plan prior to any formal approach to the MHCLG for changes to the LGPS Regulations or Statutory Guidance.

It is pleasing to observe that Hymans Robertson clearly very carefully considered the feedback they received from many LGPS stakeholders and rather than seeking to simply promote or recommend one (or more) particular Model(s) chose to utilise the feedback received to conclude that there should be a focus on *“…….greater specification of required governance outcomes…….and a process to hold funds to account for this”* The Proposals made by Hymans Robertson in their report seek to enable such an approach to be successfully implemented and improvements made without disrupting current good practice.

Given that a further report on Good Governance in the LGPS will be presented to the SAB in November 2019 it is clear that the implementation of any changes to the governance of the LGPS arising from this project will be subject to a very significant time delay. This is because not only do both the SAB and CIPFA need to undertake material work in relation to the Proposals made by Hymans Robertson but any Proposal which involves a change to the LGPS Regulations or Statutory Guidance would need to be referred to the MHCLG.

The MHCLG would have to consider the suggested changes and then formulate amendments to the LGPS Regulations and/or Statutory Guidance. The amendments proposed by MHCLG would then require to be consulted on through a Consultation which is normally open for 12 weeks. The MHCLG would then need to consider all responses received, publish a response and issue the final Statutory Guidance, or if amendments to the LGPS Regulations are required publish a Statutory Instrument. Under Government Consultation Principles issued in 2018 a period of up to 12 weeks is normally allowable for a Government Department to respond to a Consultation. Consequently, it is highly unlikely that changes to the governance of the LGPS arising from the Hymans Robertson report Proposals will come into effect until well into 2020 at the very earliest.

2. The LGPS Cost Control process, "McCloud" and its potential implications

At the Pension Board meeting of 4 December 2018 (Agenda Item 5) an overview of the 'Cost Cap' mechanism was provided. This included an explanation of how the Cost Cap (cost control) mechanism works in the LGPS. At this date the results and proposed actions arising from the first cost control review were unclear. An announcement in relation to this was made by the SAB on 21 December 2018. This announcement has, however, since been superseded by the result and consequent implications of two legal challenges (referred to collectively as "McCloud") which although they concerned the Judges' and Firefighters' Pension Schemes have implications for the cost of the LGPS.

The Public Service Pensions Act 2013 introduced into the major public service pension schemes, including the LGPS, a cost control mechanism to seek to ensure the cost of providing pensions is kept within a cost range. The Cost control mechanism is primarily concerned with calculating the cost of providing benefits to Employees of each of the major public service pension schemes.

For the LGPS in England and Wales there are two cost control mechanisms:

- The employer cost cap (ECC) process as operated by HM Treasury
- The future service cost (FSC) process as operated by the LGPS Scheme Advisory Board (SAB).

Either process can result in changes to the Scheme design and/or Employee contribution rates if the costs of the LGPS move sufficiently from a "target cost." A review of the 2016 LGPS Actuarial Valuation results (on a national basis) was undertaken by the Government Actuary Department (GAD) which determined that the costs of the LGPS had fallen below the future service "target cost" of 19.5%. Therefore, SAB proposed a series of improvements to the Scheme to bring costs back within the target cost. On the 21 December 2018 SAB issued a statement to LGPS stakeholders setting out the cost control process, proposed SAB package of changes to the Scheme, and the recommendations to MHCLG Ministers to bring costs back within the "target cost." The proposed improvements were due to be implemented from 1 April 2019 and included:

- Minimum Death-in-Service lump sum of £75,000 per member (not Employment)
- Revised member contribution rates and bandings, which take account of varying tax relief
- A 2.75% contribution rate for salaries between £0 and £12,850

- An expansion of Band 2, to cover salaries between £12,851 and £22,500, and a contribution rate reduction from 5.8% to 4.4%

- An expansion of the 6.8% contribution band from £45,200 to £53,500

On 30 January 2019, however, the Government announced a pause in the implementation of the cost cap process across public service pension schemes. The reason for this was that in December 2018 the Government had lost two cases in the Court of Appeal (the McCloud case relating to the Judicial Pension Scheme and the Sargeant case relating to the Firefighters' Pension Scheme) which potentially had a direct impact on the cost of all public service pension schemes. On 7 February 2019 the SAB received confirmation that the cost cap pause and the uncertainty caused by the McCloud and Sargeant cases announced by the Government on 30 January 2019 applied equally to the LGPS as to the unfunded public service pension schemes. Given that confirmation the SAB considered it had no option but to pause the SAB LGPS cost management process pending the outcome of the McCloud and Sargeant cases.

This challenge which is referred to collectively as the 'McCloud Case' concerned the transitional protections given to members of the Judges' and Firefighters' Pension Schemes when their pension schemes were revised consequent to the Public Service Pensions Act 2013. On 20 December 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination. The Government applied to the Supreme Court for permission to appeal the decision. However, on 27 June 2019 the Supreme Court denied the Government's request. Consequently, the Government made clear (through a written statement by the Chief Secretary to the Treasury, on 15 July 2019) that the discrimination identified in the Judges' and Firefighters' schemes will need to be remedied. In her statement the Chief Secretary to the Treasury stated that as *"transitional protection"* deemed unlawful in the case of the Judges' and Firefighters' Schemes was applied across all the main public sector schemes, including the LGPS, a remedy will need to be put in place for each scheme.

As the "transitional protection" incorporated into the 2014 LGPS has now been deemed unlawful, those members who have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. Such remedies will need to be 'upwards' - that is the benefits of unprotected members will need to be raised rather than the benefits of protected members being reduced. Protections were initially applied to all members within 10 years of retirement in all public service schemes.

Given the Government's response to the decision of the Court of Appeal in the 'McCloud Case' the cost of providing public service pension schemes, including the LGPS, will increase. Therefore, is it therefore absolutely logical that the implementation of any amendments to public service pension schemes, including the LGPS, proposed under the cost control mechanisms be put on hold.

As a result of the Court of Appeal decision in “McCloud” the matter will now be referred back to an Employment Tribunal for a remedy hearing. Once the Tribunal determines a remedy the individual public sector pension schemes, including the LGPS, will be amended as appropriate. It could likely be mid 2020 or later before the Employment Tribunal reaches its decision. Alternatively, the parties may mutually agree a remedy. Once the LGPS has been duly amended it is expected that the Treasury cost cap process will be re-run. The cost control process operated by the SAB will also need to be considered in the light of the amendment to the LGPS. This may result in the SAB resubmitting the proposals for improvements originally announced on 21 December 2018 or making an amended proposal taking into account the remedy applied to the LGPS to overcome the age discrimination originally present in the 2014 LGPS.

Both the timing and remedy to be applied in the LGPS is presently unknown but will have an effect on the liabilities, and therefore the cost, of the LGPS to Employers. As each individual LGPS Fund is currently undergoing a full Actuarial Valuation the LGPS Scheme Advisory Board (SAB) issued advice (on 14 May 2019) under Regulation 110(3) of the Local Government Pension Scheme Regulations 2013 entitled ***“Guidance for the 2019 Valuation in respect of cost cap process and the McCloud and Sargeant age discrimination case (McCloud).”*** With regard to the approach LGPS Funds should take to the 2019 Actuarial Valuation the SAB Guidance includes the following advice:

I. If there is no finalised outcome on Cost cap/McCloud (in the form of a formal notification by MHCLG to administering authorities including a commitment by government to detailed benefit changes) by 31st August 2019 then the scheme benefit design used in the valuation should be as set out in current regulations.

II. In setting employer contributions for 2020 each administering authority should, with their Actuary, consider how they approach (and reflect in their Funding Strategy Statement) the risk and potential extra costs around this matter in the same way as they would for other financial, employer and demographic risks. This should be to allow employers to be aware of and make provision for the potential cost even though any additional contributions may not commence until after the outcome is known.

III. Once the outcome of Cost cap/McCloud is known and appropriate benefit changes are made, administering authorities should re-visit employer contributions under such statutory guidance or provision in regulation as may be available at that time….

It is very helpful that the SAB has issued advice/guidance to LGPS Funds with respect to the 2019 Actuarial Valuation given the present uncertainty regarding the remedy and amendments to the LGPS that will be implemented arising from the “McCloud case.”

3. LGPS Consultation: Changes to the Local Valuation Cycle and the Management of Employer Risk

On 8 May 2019 the MHCLG issued a (29 page) Consultation entitled ***"Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk"*** This Consultation remained open until 31 July 2019. In brief, proposals in the Consultation include:

- To change the local Fund Valuation cycle of the LGPS from the existing three year (triennial) cycle to a four year (quadrennial) one with effect from 2024 – so as to align future LGPS Valuations at both local level and nationally (for Cost Control process purposes) with the Valuation timetable for other public service pension schemes.

- That the 2019 local Fund Valuations result in Employer Contribution rates for three years (1 April 2020 to 31 March 2023) and a further local Fund Valuation be undertaken in 2022 resulting in Employer Contribution Rates for two years (1 April 2023 to 31 March 2025). Thereafter LGPS Valuations would take place in 2024 and every four years afterwards. The 2024 Valuation would result in Employer Contribution Rates for 1 April 2025 to 31 March 2029.

- The introduction of a power for LGPS Funds to undertake interim Valuations of a full or partial nature – this recognises the fact that the introduction of a longer Valuation period of four years increases the scope for changes in assets and liabilities between Valuations with a consequent potential increase in risks for LGPS Funds and their Employers.

- A widening of the power that allows LGPS Funds (Administering Authorities) to amend an Employer's Contribution Rate in between Valuations – this is a recognition that the introduction of a four yearly Actuarial Valuation timetable provides, in the words of the Consultation *"fewer opportunities to respond to changes in the financial health of scheme employers"*

- To allow LGPS Funds (Administering Authorities) to permit Employers which are ceasing to employ any active members and are exiting the LGPS the flexibility to spread exit payments over a period, where this would be in the interests of the LGPS Fund and other Employers as well as the Employer in question.

- Introducing a ‘deferred employer’ status that would allow LGPS Funds to defer the triggering of an exit payment for certain Employers who are ceasing to employ any active members and who are considered to have a sufficiently strong covenant and make an ongoing commitment to meet their existing liabilities through a deferred employer debt arrangement. This commitment is intended to protect the LGPS Fund and other Employers. The Consultation suggests that *“this will be of particular help to smaller employers (such as charities) in managing their obligation to make an exit payment when they cease to employ an active member of the scheme”*

- A review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an Employer.

- Removing the requirement for Further Education Corporations, Sixth Form College Corporations and Higher Education Corporations in England (but not in Wales) to offer membership of the LGPS to their new, (non-teaching), Employees.

Given the Consultation closed on 31 July 2019 a response and proposed changes to the LGPS regulatory framework should be issued by the MHCLG before the end of October 2019.

4. Investment Pooling –The present situation regarding national Guidance

As explained in the Training provided to the Pension Board in June and December 2018 the Government announced in 2015 that while individual LGPS Funds (such as Nottinghamshire) would, in the future, remain responsible for setting their Investment Strategy the implementation of that strategy would need to be delegated to Investment (Asset) Pools. In November 2015 the Government issued a document entitled ***"Local Government Pension Scheme: Investment Reform Criteria and Guidance."*** This set out a broad framework within which individual LGPS Funds were asked to come together with other LGPS Funds of their choosing to bring forward proposals for the creation of Asset Pools to implement the Investment Strategy of each Fund and *"to deliver significantly reduced costs while maintaining overall investment performance. T*he Government subsequently approved 8 Asset Pools across England and Wales. The Nottinghamshire Fund is a member of the LGPS Central pool.

The 8 Pools approved by the Government are significantly diverse in terms of their governance, nature and structure. This has resulted in a wide spectrum of approaches to investment pooling by both the 8 Asset Pools and by the (now) 87 LGPS Funds in England and Wales. Consequently, on 3 January 2019 the MHCLG issued draft ***"Statutory Guidance on Asset Pooling*** and commenced an informal Consultation which closed on 28 March 2019. In essence this draft guidance provided in one document clear and enforceable guidelines for Asset Pooling. The proposals included:

- **Definitions** and **Reporting** requirements to enable the MHCLG to monitor progress and so, over time, enforce Asset Pooling, if necessary.

- Requirements in relation to **Structure and Scale** including: That *"the selection, appointment, dismissal and variation of investment managers" "must"* be a matter for the Asset Pool not individual Administering Authorities (LGPS Funds); A Pool Company (which is the body that undertakes the selection, appointment, dismissal and variation of terms of investment managers) *"must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities"*; and that individual LGPS Funds together with their Asset Pool *"regularly review the balance between active and passive management…."*

- The section on **Governance** was absolutely clear that Asset Pools are and must be accountable to their constituent LGPS Funds stating that *"Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to* *account."* This section also specifically stated that it is the pool governance body that is ultimately, though in consultation with the Pool, responsible for deciding which aspects of asset allocation are strategic and should remain with the Administering Authority, and which are tactical and to be undertaken by the Pool. This confirms that Asset Pools, which exist only to serve their constituent LGPS Funds, should not seek to set the framework within which they interact with them. The section on Governance also included the statement "*Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight."*

- The section on **Transition of assets to the pool** is clear that individual LGPS Funds must implement asset pooling and leaves no discretion for individual LGPS Funds to unnecessarily or unduly delay the pooling of the vast majority of their assets. The draft Statutory Guidance was however also clear that *"In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle,"* and that individual LGPS Funds *"may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include…. some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members."*

- The section on **Making new investments outside the pool** sought to clarify and in effect minimise the ability of individual LGPS Funds to themselves procure asset manager services and included the statement *"Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale……. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances."* The practicality of this requirement is, however, dependent upon the ability of Asset Pools to offer investment options to their constituent LGPS Funds to enable them to implement their own individual Investment Strategy.

- The section on **Infrastructure investment** clarifies that while asset pooling was intended to facilitate infrastructure investing and the government expects pools to provide increased *"capability and capacity"* for infrastructure investment *"there is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area……"*

It is understood that the MHCLG received approximately 100 responses to the informal Consultation and that many of these were very detailed. Amongst the issues raised were views that the Consultation had been carried out in a manner contrary to Cabinet Office Principles, was an *"unlawful consultation"* and that some of the content of the draft Statutory Guidance was in reality a matter of Regulation rather than Statutory Guidance and therefore inappropriate for inclusion in the informal Consultation. The MHCLG has now announced that a formal Consultation will take place sometime during 2019.

No formal Consultation on Statutory Guidance (or Regulation) relating to Asset Pooling had been issued by the time Parliament went into recess for the summer on 25 July 2019. In addition, a new Minister responsible for Local Government including the LGPS (Luke Hall MP) was appointed on 31 July 2019 and August is the main "holiday" month. Therefore, any formal consultation on Asset Pooling is likely to commence in September 2019 at the earliest. Even if a formal Consultation were to commence in early September given a 12 week consultation period the Consultation would close no earlier than the end of November 2019. This would be followed by MHCLG consideration of responses and the issuing of final Statutory Guidance which would likely mean that new Statutory Guidance is extremely unlikely to become operative until February or March 2020 at the very earliest.

Delays to issuing the formal Consultation beyond early September 2019 or the need to amend the LGPS Regulations as well as issue new Statutory Guidance on Asset Pooling will further delay the implementation of clear and enforceable (national) guidelines for Asset Pooling into the Spring or even Summer of 2020.

John Raisin

7 August 2019

Nottinghamshire County Council

Report to Nottinghamshire Pension Board

11 September 2019

Agenda Item: 7

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

LOCAL GOVERNMENT PENSION SCHEME – TRANSFORMING PENSION ADMINISTRATION

Purpose of the Report

1. To update Pension Board on a report presented to Pension Committee seeking Committee approval to the development of a programme of work to transform pension administration through digital development and implementation of new ways of working.

Information

Background

2. Nottinghamshire County Council is the Administering Authority for the Nottinghamshire Local Government Pension Fund. In its capacity as Administering Authority the Council provides a pension administration service to 146,060 members (active, deferred and pensioners, figures as at 31 March 2019) and 341 active scheme employers. There has been a substantial increase in the number of scheme employers from 260 in 2014-2015 to 341 in 2018-2019, which is a 31% increase.

3. The LPGS is under greater scrutiny through the enhanced role given to the Pensions Regulator which requires Funds to demonstrate that compliance has been achieved across a wide range of activities on an ongoing basis.

4. The LGPS has become increasingly complex due to the frequent changes in legislation, regulation and best practice guidance. A significant number of members of the scheme have service which covers several LGPS regulations - the pre and post 2008 final salary scheme and the post 2014 career average scheme which brings a level of complexity to their pension calculations.

5. A key requirement to pension administration is good quality data, without it the administrators are unable to process requests from scheme employers or members. Nottinghamshire Pension Fund collects and holds large amounts of data and is reliant on the timely receipt of quality data from employers to administer the pension fund and pay the correct benefits to members when they become due. Continual issues with poor quality and missing data provided by scheme employers can impact funds in several ways including reputational risk

and fines from the Pension Regulator, valuation risks, which effect members and impact on administration.

Digital Transformation

6. The County Council has been reviewing its approach to digital transformation. We live in a digital age. Customers expect to be able to interact with organisations online, 24/7 and self-serve. The Council has drafted its Digital Strategy for 2019 -2021 and outlined a cross council programme “Improving Customer Experiences through Digital Development”. This programme of work will build on digital good practice in Nottinghamshire and elsewhere and ensure that work is undertaken, and new developments are consistently applied across the Council to improve efficiency, maximise value for money and improve the customer experience for all.

7. The Pension Regulator has stipulated that it expects Pension Funds to enable scheme employers and members to interact with the Fund via digital platforms.

8. To align with the Council’s draft digital strategy and to address the Pension Regulator’s requirement for digital interaction, the Pension Administration Service has taken the opportunity to review and reflect on its own digital journey and look at what other LGPS administration services are doing to improve their administration service.

9. As part of its digital journey the Pension Administration Service has already launched a redesigned website, providing members and scheme employers with a wealth of information and access to a significant number of forms for members to use in their interaction with the Fund.

10. Work has progressed on improving data held by the Fund, following approval of the data improvement plan by Pension Committee in April 2018. The GMP Reconciliation project will also contribute to the data improvement work as the final stages of this project are completed.

11. Another project is already underway in configuring a scheme employers portal which will provide a “digital front door” for scheme employers to interact with the pension administration service. This is due to be piloted with a large scheme employer during the summer.

12. Work has also been undertaken to look at what other LGPS administration services are doing. A number have already developed or are in the process of developing a “digital first” programme which will enable them to interact on a digital platform with scheme employers and members, introduce new ways of working which will improve efficiency, maximise value for money and improve the customer experience for both scheme employers and members.

Benefits to be delivered from transforming the delivery of pension administration

13. Maximising the use of technology, in particular new functionality which has recently become available within the Civica UPM pension administration system such as process automation, system validation, self-service portals and monthly returns from scheme employers, would result in high percentages of work being completed in a “batch approach” taking minutes to process rather than individual cases being processed. Resulting in data improvement and a much more efficient use of skilled administrators.

14. The advantages of implementing secure self-service portals for both scheme employers and members is that they would be able to do more for themselves online which would result in the removal of paper processes and double keying of data leading to increased efficiency and ultimately reduced cost to the Fund.

15. The benefits for members is that they would be able to self-serve. Accessing online services including personal information, viewing annual benefit statements, applying to access estimate and their benefits and other services to enable them to manage their pension.

16. Through improved data quality and increased automation, it would enable the Nottinghamshire Pension Fund administration service to move towards "administration by exception" and transform the pension administration service offering. Ensuring the right people are doing the right tasks at the right time. Making optimal use of resource enabling our skilled administrators to concentrate on dealing with complex issues, whilst the automation takes care of the very day tasks where possible.

17. This programme will support the Fund to meet increasing regulatory compliance requirements and standards on reporting for example, the Pension Regulator requirement for Funds to improve the quality of their data quality and the Regulators expectation that Funds enable scheme employers and members to interact with the Fund via digital platforms.

18. It is now recommended that all aspects of the Pension Administration digital journey are pulled together under one overarching programme - "Transforming Pension Administration through Digital Development". This programme will provide a focus to align synergies between existing and new projects to be commissioned, ensuring that the interdependencies are understood, and benefits exploited through the use of digital tools to maximise automation, remove manual and duplicative steps, also align with benefits from the wider corporate programme where possible.

19. This programme will ensure that the Nottinghamshire Pension Fund Administration Service can operate as a leading-edge administration service through improving the customer experience, ensuring regulatory compliance whilst delivery an efficient and cost-effective service.

Next Steps

20. It is proposed that a programme is scoped for consideration by Nottinghamshire Pensions Committee at a subsequent meeting. This would include details of resources that would be required to deliver a phased programme of transformation and digital development and also indicate savings that would be realised through the delivery of the programme.

Other Options Considered

21. 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.

Reason/s for Recommendation/s

22. With increasing number of scheme employers and members; as well as increasing compliance requirements the service would need to look at increasing the number of skilled administrators within the team. A digital programme would enable all stakeholders of the services to benefit from interacting with the administration team via digital services. As well as meeting the Pension Regulator expectation for stakeholders to interact with the Fund via digital platforms.

Statutory and Policy Implications

23. 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

24. An overall high-level Data Privacy 'impact Assessment will be completed for the programme and kept under regular review. The potential data protection impacts of specific developments will be considered and reviewed on an ongoing basis as the work of the programme progresses.

Financial Implications

25. At this point it is not possible to quantify the level of any potential savings which could be delivered or the potential costs of the programme. This level of detail would be included within a further report to Pension Committee detailing the scope of the digital programme.

Human Resources Implications

26. It is not possible to identify the potential implications for employees in any great details at this stage. These could include changes to the work undertaken by our skilled administrators and new more flexible ways of working.

RECOMMENDATION/S

It is recommended that Pension Board

1) Consider and comment on the report regarding the scoping and development of a programme of work to transform pension administration through digital development and new ways of working.

2) Agree to receive update reports.

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 09/07/2019)

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

Financial Comments (RWK 08/07/2019)

28. The report proposes the scoping and development of a project initiation document proposing a programme of transforming pension administration through digital development and new ways of working. This programme of work will incur a number of costs and result in potential savings which will be detailed in a future report to Committee. Any costs incurred and savings arising will accrue to the Pension Fund.

HR Comments (JP 08/07/2019)

29. Any potential changes in working practices as a result of the digital development programme will be introduced in line with the appropriate policies and procedures.

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' or start list here

Electoral Division(s) and Member(s) Affected

- 'All' or start list here

Nottinghamshire County Council

Report to Local Pension Board

11 September 2019

Agenda Item: 8

REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT

PENSION FUND - RISK REGISTER

Purpose of the Report

1. To provide the Pensions Board with a report on the Risk Management on the Risk Register of the Nottinghamshire Pension Fund.

Information and Advice

2. The Risk Register was last formally reviewed by the Pension Fund Committee in May 2019. Good practice is for the Strategy to be reviewed at Pension Board Meeting, and the Pension Fund Committee reviews the risk register on an annual basis.

3. Minor changes have been made to update the register to reflect the changes in risks and were presented to the Pensions Committee.

4. The Risk Register is attached as an appendix to this report.

5. The risks as outlined in the Register are as follows:

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

Inv5e	Inadequate controls - Stewardship

6. As a rule those classed as 'Administrative' are managed by Pensions Admin under Group Manager (BSC), those classed as 'Investments' are managed by the Pensions & Treasury Management team in Finance under Group Manager (Financial Strategy & Accounting), and those classed as 'Governance' may involve either Admin or Finance, with additional support from Legal Services. However, there is some degree of overlap.

7. The review of the Risk Register has two aims: (i) to separate out and clarify these key risks/responsibilities; (ii) to consider what action is required to maintain or improve current risk levels and set specific and measurable objectives accordingly.

8. A copy of the Risk Register has been approved by the Pension Fund Committee and is posted to the Fund website alongside other Fund policies.

Statutory and Policy Implications

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

RECOMMENDATION/S

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

Report Author: Ciaran Guilfoyle
Investments Officer, Pensions and Treasury Management

For any enquiries about this report please contact: Ciaran Guilfoyle

Constitutional Comments

10. This is an updating information report and Pension Board 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 (CG)

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

Background Papers and Published Documents

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

- ‘None’

Objectives

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

Risk Assessment

2. Identified risks are assessed separately and for each the following is determined:
   - the likelihood of the risk materialising
   - the severity of the impact/potential consequences if it does occur.

3. Each factor is evaluated on a sliding scale of 1 to 5 with 5 being the highest value i.e. highest likelihood/most severe impact/consequences. The risk evaluation tables below have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value.

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

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

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

Risk Rating Matrix

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

Relative Likelihood

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

   Red = Very High Priority
   Take urgent action to mitigate the risk.
   Orange = High Priority
   Take action to mitigate the risk.
   Yellow = Medium Priority
   Check current controls and consider if others are required.
   Green = Low Priority
   No immediate action other than to set a review date to re-consider your assessment.

NOTTINGHAMSHIRE PENSION FUND
RISK REGISTER - SUMMARY

Key to risk rating change since previous version of Risk Register: ⬆ Increase ⬇ Decrease ⬌ No Change ★ New

Risk Description	Inherent Risk			Current Risk		
	Rating		Change	Rating		Change
Risk Gov4 Inadequate resources are available to manage the pension fund.	20	VERY HIGH	⬌	12	HIGH	⬌
Risk Inv3 Fund assets are assessed as insufficient to meet long term liabilities.	16	VERY HIGH	⬌	9	HIGH	⬌
Risk Adm1 Standing data & permanent records are not accurate.	16	VERY HIGH	⬌	9	HIGH	⬌
Risk Adm2 Inadequate controls to safeguard pension fund records	15	VERY HIGH	⬌	6	MEDIUM	⬌
Risk Inv4 Significant variations from assumptions used in the actuarial valuation	12	HIGH	⬌	9	HIGH	⬌
Risk Inv1 Inappropriate investment strategy is adopted.	12	VERY HIGH	⬌	6	MEDIUM	⬌
Risk Inv5b Custody arrangements	12	VERY HIGH	⬌	6	MEDIUM	⬌
Risk Inv6 LGPS Central incurs net costs or decreases investment returns	12	VERY HIGH	⬌	9	HIGH	⬌
Risk Gov5 Failure to adhere to relevant legislation and guidance.	12	HIGH	⬌	6	MEDIUM	⬌
Risk Gov3 An effective performance management framework is not in place.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Gov1 Pension Fund governance arrangements are not effective	9	HIGH	⬌	6	MEDIUM	⬌
Risk Gov2 Pension Fund objectives are not defined and agreed.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv2 Fund cash is insufficient to meet its current obligations.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv5a Fund manager mandates	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv5d Financial Administration	9	HIGH	⬌	6	MEDIUM	⬌
Risk Adm3 Failure to communicate adequately with all relevant stakeholders.	9	HIGH	⬌	6	MEDIUM	⬌
Risk Inv5c Accounting arrangements	6	MEDIUM	⬌	4	LOW	⬌
Risk Inv5e Stewardship	6	MEDIUM	⬌	4	LOW	⬌

Governance					
Risk description: Gov1 - Pension Fund governance arrangements are not effective					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• The Council's constitution clearly delegates the functions of administering authority of the pension fund to the Nottinghamshire Pension Fund Committee.				
	• Under the LGPS Regulations the Administering Authority has established a Pension Board				
	• The terms of reference of the Pension Fund Committee are agreed. • The terms of reference of the Pension Board are agreed.				
	• The Fund publishes a Governance Compliance Statement which details the governance arrangements of the Fund and assesses compliance with best practice. This is kept regularly under review.				
	• A training policy is in place which requires Members to receive continuing training and encourages all new Members to attend the Local Government Pension Scheme Fundamentals training course. • Pension Board Members are also required to undertake training				
	• Officers of the Council attend meetings of the Pension Fund Committee and the Pension Board.				
	• The Fund has a formal contract for an independent adviser to give advice on investment matters. They are contracted to attend each Pension Fund Committee meeting.				
	• The Administering Authority has a formal contract for an independent adviser to give advice on LGPS regulations to the Pension Board				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services) Group Manager (BSC) Group Manager (Legal Services) Pension Manager Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Governance					
Risk description: Gov2 - Pension Fund objectives are not defined and agreed					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Purpose and objectives are outlined in the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). Both documents are				

	approved by the Pension Fund Committee and reviewed on a regular basis.		
Action Required:	• Continue to monitor via existing processes.		
Responsibility:	Pension Fund Committee; Group Manager (Financial Services)	**Timescale:**	On-going

Governance					
Risk description: Gov3 - An effective performance management framework is not in place.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**12**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Investment performance is reported quarterly to the Pension Fund Committee. The Fund's main investment managers attend each quarter and officers receive regular updates from the Fund's other investment managers.				
	• Poor investment performance is considered by the Pension Fund Committee. The Pension Fund Committee's actions are monitored by the Pension Board				
	• A Fund strategic benchmark has been implemented to improve monitoring of decisions regarding asset allocation and investment management arrangements.				
	• Performance of the administration function is managed through an Administration Strategy				
Action Required:	• Consider performance monitoring framework for Fund Administration.				
Responsibility:	NPF Committee Group Manager (Financial Services); Group Manager (BSC) Pension Manager Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Governance					
Risk description: Gov4 - Inadequate resources are available to manage the pension fund.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	5	4	**20**	**VERY HIGH**	⬌
Current Risk:	4	3	**12**	**HIGH**	⬌
Current Controls:	• The pension fund investments are managed by the Pensions & Treasury Management team.				
	• Pension administration is managed by the Pension Team Manager within the BSC				

	• Operating costs are recharged to the pension fund in accordance with regulations. • Staffing levels and structures are kept under regular review. • Pension Costs and resources monitored against the CIPFA Benchmarking club		
Action Required:	• Continue to monitor via existing processes.		
Responsibility:	Group Manager (Financial Services); Group Manager (BSC) Pension Manager Senior Accountant - Pensions & TM	**Timescale:**	On-going

Governance					
Risk description: Gov5 - Failure to adhere to relevant legislation and guidance.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	3	**12**	**HIGH**	⬌
Current Risk:	3	2	**6**	**MEDIUM**	⬌
Current Controls:	• An established process exists to inform members and officers of statutory requirements and any changes to these. • An Administration Strategy was introduced in 2017 to monitor the Administration of the Fund, along with monitoring Employer compliance. • Sufficient resources are put in place to implement LGPS changes while continuing to administer the scheme. • Membership of relevant professional groups ensures changes in statutory and other requirements are registered before the implementation dates. • Any breaches in statutory regulations must be reported to the Pension Regulator.				
Action Required:	• Review Resources against statutory requirements • Continue to monitor requirements via appropriate sources. • Continue to monitor resources to ensure adherence to legislation and guidance.				
Responsibility:	Group Manager (Financial Services); Group Manager (BSC); Senior Accountant - Pensions & TM Pension Manager		**Timescale:**	On-going	

Investments					
Risk description: Inv1 - Inappropriate investment strategy is adopted.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	4	**12**	**VERY HIGH**	⬌

Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• The investment strategy is in accordance with LGPS investment regulations and is documented, reviewed and approved by the Pension Fund Committee.				
	• The Strategy takes into account the expected returns assumed by the actuary at the triennial valuation.				
	• Investment performance is monitored against the Fund's strategic benchmark.				
	• A regular review takes place of the Fund's asset allocation strategy by the Pension Fund Working Party.				
	• An external adviser provides specialist guidance to the Pension Fund Committee on the investment strategy.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Investments					
Risk description: Inv2 - Fund cash is insufficient to meet its current obligations.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls	• Fund cash flow is monitored daily and a summary fund account is reported to Pension Fund Committee each quarter				
	• Annual accounts are produced for the pension fund and these show the movements in net cash inflow				
	• Regular assessment of Fund assets and liabilities is carried out through actuarial valuations.				
	• The Fund's Investment and Funding Strategies are regularly reviewed				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Pension Committee; Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Investments					
Risk description: Inv3 - Fund assets are assessed as insufficient to meet long term liabilities.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	4	**16**	**VERY HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌

Current Controls:	• Fund assets are kept under review as part of the Fund's performance management framework.			
	• Regular assessment of Fund assets and liabilities is carried out through Actuarial valuations.			
	• The Fund's Investment and Funding Strategies are regularly reviewed.			
	• An external adviser provides specialist guidance to the Pension Fund Committee on the investment strategy.			
Action Required:	• Continue to monitor via existing processes. • Review cash flow projections prepared by actuaries on a regular basis.			
Responsibility:	Pension Committee Group Manager (Financial Services); Senior Accountant - Pensions & TM	**Timescale:**	On-going	

Investments					
Risk description: Inv4 - Significant variations from assumptions used in the actuarial valuation occur					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	3	**12**	**HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• Actuarial assumptions are reviewed by officers and discussed with the actuaries				
	• Sensitivity analysis is undertaken on assumptions to measure impact				
	• Valuation are undertaken every 3 years				
	• Monitoring of cash flow position and preparation of medium term business plan.				
	• Contributions made by employers vary according to their member profile.				
Action Required:	• Continue to monitor via existing processes. • Review cash flow projections prepared by actuaries on a regular basis.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM	**Timescale:**	On-going		

Investments					
Risk description: Inv5 - Inadequate controls to safeguard pension fund assets.					
Inv5a - Investment managers					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌

Current Controls:	• Complete and authorised client agreements are in place. This includes requirement for fund managers to report regularly on their performance. Mandate managers attend Pension Fund Committee on a quarterly basis.				
	• Investment objectives are set, and portfolios must be managed in accordance with these				
	• AAF 01/06 (or equivalent) reports on internal controls of service organisations are reviewed for mandate managers.				
	• In-House Fund has a robust framework in place which is regularly tested by internal audit				
	• Fund Managers maintain an appropriate risk management framework to minimise the level of risk to Pension Fund assets.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5b - Custody arrangements					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	4	**12**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• Complete and authorised agreements are in place with the external custodian.				
	• AAF 01/06 (or equivalent) report on internal controls is reviewed for external custodian.				
	• Regular reconciliations carried out to check external custodian records.				
	• Where assets are custodied in-house, physical stock certificates are held in a secure cabinet to which access is limited.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	
Inv5c - Accounting arrangements					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	2	**6**	**MEDIUM**	⬌
Current Risk:	2	2	**4**	**LOW**	⬌
Current Controls:	• Pension Fund accounting arrangements conform to the Local Authority Accounting Code, relevant IFRS/IAS and the Pensions' SORP.				
	• The Pension Fund subscribes to the CIPFA Pensions Network and Technical Information Service and officers attend courses as appropriate.				
	• Regular reconciliations are carried out between in-house records and those maintained by the external custodian and investment managers.				

	• Internal Audits are carried out regularly.
	• External Audit review the Pension Fund's accounts annually.
Action Required:	• Continue to monitor via existing processes.

Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM	**Timescale:**	On-going

Inv5d - Financial Administration

	Likelihood:	Impact:	Risk Rating:		
Inherent Risk:	3	3	**9**	**HIGH**	↔
Current Risk:	2	3	**6**	**MEDIUM**	↔

Current Controls:	• The pension fund adheres to the County Council's financial regulations with appropriate separation of duties and authorisation limits for transactions.
	• Daily cash settlements are made with the external custodian to maximise returns on cash.
	• Investment transactions are properly authorised, executed and monitored.
	• Contributions due to the fund are governed by Scheme rules which are implemented by the Pensions Manager
	• The Pension fund maintains a bank account which is operated within regulatory guidelines.
Action Required:	• Continue to monitor via existing processes.

Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM	**Timescale:**	On-going

Inv5e – Stewardship -

	Likelihood:	Impact:	Risk Rating:		
Inherent Risk:	3	2	**6**	**MEDIUM**	↔
Current Risk:	2	2	**4**	**LOW**	↔

Current Controls:	• The pension fund aims to be a long term responsible investor and plans to adopt the FRC's Stewardship code.
	• The Fund is a member of Local Authority Pension Fund Forum (LAPFF) and National Association of Pension Funds (NAPF), and supports their work on shareholder engagement.
	• The pension fund has a contract in place for a proxy voting services. Voting is reported to the Pension Fund Committee each quarter and published on the Fund website.
Action Required:	• Continue to monitor via existing processes.

Responsibility:	Group Manager (Financial Services); Senior Accountant - Pensions & TM	**Timescale:**	On-going

Investments					
Risk description: Inv6 - LGPS Central incurs net costs or decreases investment returns					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	4	**12**	**VERY HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• We are shareholders in LGPS Central and have significant influence on them through involvement in Shareholders Forum, Joint Committee and PAF				
	• Costs and performance will be monitored				
Action Required:	• Continue to attend meetings relevant meetings • Continue to monitor via existing processes.				
Responsibility:	Pension Fund Committee Group Manager (Financial Services); Senior Accountant - Pensions & TM		**Timescale:**	On-going	

Administration					
Risk description: Adm1 - Standing data and permanent records are not accurate.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	4	4	**16**	**VERY HIGH**	⬌
Current Risk:	3	3	**9**	**HIGH**	⬌
Current Controls:	• Business processes are in place to identify changes to standing data.				
	• Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input.				
	• Documentation is maintained in line with agreed policies. • The Administration Strategy supports the monitoring of employer compliance.				
	• A change of details form is sent out to members alongside their annual statement.				
	• Data matching exercises (National Fraud Initiative) help to identify discrepancies.				
	• Mortality Screening is being performed				
	• The Data Improvement Plan presented to Pension Fund Committee is being implemented.				
	• The GMP Reconciliation Project including Payroll and Pensions Data matching exercise with HMRC has commenced				
Action Required:	• Continue to monitor via existing processes.				

	• Improve monitoring of returns from major fund employers • Implementation of Data Improvement plan and GDPR Action Plan

Responsibility:	Group Manager (BSC) Pension Manager	**Timescale:**	On-going

Administration					
Risk description: Adm2 - Inadequate controls to safeguard pension fund records.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	5	**15**	**VERY HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• ICT Disaster Recovery Plan and Security Plan are agreed and in place				
	• New back up arrangements are in place				
	• Software is regularly updated to meet LGPS requirements.				
	• Audit trails and reconciliations are in place. • GDPR plan is in place				
	• Documentation is maintained in line with agreed policies.				
	• Physical records are held securely. • Pensions and other related administration staff undertake data management training as required.				
Action Required:	• Continue to monitor via existing processes.				
Responsibility:	Group Manager (BSC) Pension Manager		**Timescale:**	On-going	

Administration					
Risk description: Adm3 - Failure to communicate adequately with all relevant stakeholders.					
	Likelihood:	**Impact:**	**Risk Rating:**		
Inherent Risk:	3	3	**9**	**HIGH**	⬌
Current Risk:	2	3	**6**	**MEDIUM**	⬌
Current Controls:	• A communications strategy is in place and is regularly reviewed.				
	• The Fund website is periodically updated. • Member information guides are reviewed.				
	• The Fund has an annual meeting aimed at all participating employers.				
	• The Pension Fund Committee has representatives of the County Council, City Council, Nottinghamshire Local Authorities, Trade Unions, Scheduled and Admitted Bodies.				
	• Meetings are held regularly with employers within the Fund.				

	• District and City Council employers and other adhoc employer meetings take place as required • A briefing for employers takes place in February or March each year in preparation for year end		
	• Benefit Illustrations are sent annually to contributing and deferred Fund members.		
	• Annual report, prepared in accordance with statutory guidelines, is published on the website.		
Action Required:	• Consider employer risk analyses to safeguard contributions to the Fund.		
Responsibility:	Group Manager (BSC) Pension Manager	**Timescale:**	On-going

Report to Nottinghamshire Pension Board

11 September 2019

Agenda Item: 9

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

LGPS CENTRAL LIMITED UPDATE

Purpose of the Report

1. To provide information on the latest position in respect of LGPS Central Ltd.

Background

2. A number of reports have previously been presented setting out progress on the pooling arrangements required to meet the criteria set out by the government. In particular a detailed report to Full Council on 12 January 2017 set out the approach being taken by the constituent pension funds of LGPS Central. The report also set out the proposed governance arrangements required to ensure that Nottinghamshire Pension Fund Committee continued to have the oversight required to be responsible for monitoring the overall management, performance and administration of the fund, and for setting investment strategy, including the overall allocation of assets, which is the critical factor in determining investment performance.

Information

3. The Company and all partner funds continue to work well together, and Nottinghamshire Pension Fund has invested in LGPS Central Limited funds as set out below

   - £10m each in the UK passive and the Global ex UK passive funds last summer
   - £20m in the Global Active Equity fund in April
   - £15m to the Private Equity 2018 fund, which is in the process of being drawn down.
   - £12m in the Global Emerging Markets fund

4. The Nottinghamshire Pension Fund Committee on 9 May 2019 approved the transfer of the corporate bonds within the fixed income portfolio to the LGPS Central Global Active Investment

Grade Corporate Bond Multi Manager fund, and work on preparing for this transition is underway.

5. The initial Company Chief Executive, Andrew Warwick-Thompson, stepped down in spring 2019. He was succeeded by Mike Weston who was appointed in March 2019. Mike was previously the Chief Executive of the Pensions Infrastructure Platform (PiP).

6. The Company website provides information on the Company and the key personnel and is available here.

   https://www.lgpscentral.co.uk/

   The 2018/19 Annual Report and Accounts are available here

   https://www.lgpscentral.co.uk/lgps-central-limited-annual-report-2018-19/

   In addition the website provides a great deal of information around the Responsible Investment activities it undertakes on behalf of Partner Funds. This information will be regularly updated and can be found here

   https://www.lgpscentral.co.uk/responsible-investment/

7. The most recent Shareholder Forum took place on 21 June 2019 and Councillor Eric Kerry, Chair of the Nottinghamshire Pension Fund, was appointed Chair of the Joint Committee. The LGPS Central Limited update presented to the Joint Committee is attached to this report as Appendix A.

Other Options Considered

8. None.

Reasons for Recommendation

9. This report has been compiled to provide the Pension Board with an update on the activities of LGPS Central Ltd and how they impact on the Nottinghamshire Pension Fund.

Statutory and Policy Implications

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

RECOMMENDATION/S

1) It is recommended that Pension Board consider the report and continues to monitor the activities of LGPS Central Limited through regular update reports.

Report Author:
Keith Palframan, Group Manager – Financial Services

For any enquiries about this report please contact: Keith Palframan

Constitutional Comments (KK 02/09/19)

11. The proposal in this report is within the remit of the Nottinghamshire Local Pension Board.

Financial Comments (KRP 27/08/19)

12. The financial implications are as set out 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.

Electoral Division(s) and Member(s) Affected

- 'All'

LGPS Central Limited

Joint Committee Meeting

21st June 2019

Nottingham

1.0 INTRODUCTION

1.1 It is now over 12 months since LGPS Central Limited (LGPSCL) was launched in April 2018.Much work has been done during that period, and with the collaboration of its 9 Partner Funds, much has been achieved. However, LGPSCL is aware that there is still plenty to do.

1.2 LGPSCL is responsible for approximately £17bn of assets under its stewardship including Pooled, Discretionary, Advisory, Advisory & Execution and Execution-only mandates.

1.3 To date, the Company has launched 4 ACS funds – 3 of which are Passive and 1 of which is Active. It has also launched the Private Equity 2018 Vintage Fund, which sits within a Scottish Limited Liability Partnership structure. The launch of 2 further Active ACS Funds (Global Emerging Markets and Corporate Bonds) is well under way. Through the Company's Product Development Protocol, it plans to launch more products over the coming year, ensuring that its products are designed to meet the investment needs of its Partner Funds and, ultimately, the requirements of those pensioners who are members of the Local Government Pension Scheme.

1.4 During this period, LGPSCL has also grown its staff from a handful at start, to over 50 today. The Team includes a mixture of those who have experience in both the Public and Private Sectors and who have considerable experience of working in the field of investments and pension fund management.

1.5 Since launch, global financial markets have faced many geo-political challenges ranging from Brexit to international trade wars. Market volatility increases the importance of regular performance reporting to our Clients, and LGPSCL has in place a regular schedule of reporting to keep Clients fully informed.

1.6 Equally, the Company has identified key performance areas of the business which impact upon its Clients. A series of Key Performance Indicators will be used to monitor and measure how the Company serves its Clients.

2.0 KEY PERFORMANCE INDICATORS

2.1 LGPSCL has identified 14 Key Performance Indicators (KPIs).

2.2 8 of these KPIs have an impact on The Company's Clients. Other KPIs have an impact on its Shareholders.

2.3 The 8 KPIs which impact Clients are –

-The delivery of superior investment returns, net of costs

- The reduction of Asset Management Costs in each asset class

-Timely performance reporting

- Client service

-Meeting agreed product delivery schedules

-Integrating Responsible Investment & Engagement policies within all products

-Recruiting and retaining highly qualified staff

3.0 ASSETS UNDER STEWARDSHIP

3.1 Total assets under the stewardship of LGPSCL is currently approximately £17bn

3.2 The total assets under management include those which are Pooled, Discretionary, Advisory, Advisory & Execution and Execution Only mandates.

4.0 INVESTMENT PERFORMANCE

The Investment Performance of the 3 Passive ACS Funds, and the single Active ACS Fund is included in the presentation to the Joint Committee.

5.0 COST SAVINGS

5.1 LGPSCL's key goal is to ensure that it saves costs for its Clients.

5.2 Instrumental in achieving this goal is to ensure that external fund management fees are fully scrutinised. The Company is fully cognisant, however, that low management fees should not be detrimental to investment performance

5.3 The appointment of an independent third party to manage and monitor costs will assist the Company in achieving its cost savings goals on behalf of its Clients.

5.4 Transitioning assets can be a complex and lengthy process. In order to ensure that Clients are transitioning their assets into the LGPS Central Pool in the most cost effective and efficient manner, the appointment of external Transition Advisers and Transition Managers has been adopted. Pre and Post-Transition analysis is available to all Clients as a result.

6.0 PRODUCT DEVELOPMENT PROTOCOL

6.1 In close collaboration with its Partner Funds, LGPSCL has introduced a Product Development Protocol to support new product launches. This helps to ensure that the products which are developed meet the investment needs of the Company's Clients.

6.2 The Product Development Protocol is a 9-phase process which includes 9 "touch points" that involve close engagement between LGPSCL and its Clients.

6.3 The Product Development Cycle can take between 6 to 9 months. The length of the cycle is dependent upon a number of fund characteristics such as whether it is Active or Passive, sits within an ACS or SLP structure, is managed in-house or externally etc.

6.4 There are currently 10 products that sit within the Product Development pipeline. The most advanced products, nearest launch, are Global Emerging Markets (Phase 8), Global Corporate Bonds (Phase 6), and the All World Climate Change Factor Based Fund (Phase 6). Other products in the pipeline include;

- Global Factor Based Strategy (Phase1)

-Multi Asset Credit (Phase 1)

-Emerging Market Debt (Phase1)

-Targeted Return (Phase1)

-UK Active Equity (Phase2)

-Private Equity, 2019 Vintage (Phase 3)

-Infrastructure (Phase 4)

7.0 RESPONSIBLE INVESTMENT & ENGAGEMENT

7.1 LGPSCL works in partnership with a number of organisations who share its values in respect of Responsible Investment & Engagement

7.2 There are 4 Key RI& E Themes for 2019/20. These are;

- Climate Change
- Technology & Disruptive Industries
- Single Use Plastics
- Tac Transparency

8.0 Conclusion

8.1 Good progress is being made -but there is plenty still to do!

8.2 Progress would not have been possible without the collaborative support of all LGPSCL's Partner Funds / Clients

8.3 LGPSCL goals continue to be to save costs for our Clients, but not at the expense of investment performance

8.4 LGPSCL's business model is based upon economies of scale. Greater benefits can be achieved by Partner Funds the sooner, and the greater, the amount of investment assets are transferred into the LGPS Central Pool.

Nottinghamshire County Council

Report to Nottinghamshire Pension Board

11 September 2019

Agenda Item: 10

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

FINANCIAL RISKS OF FOSSIL FUEL INVESTMENTS QUERY

Purpose of the Report

1. The purpose of this report is to inform the Pension Board of queries from the public regarding fossil fuel investments.

Information and Advice

Background

2. A query was received by the Chair of Nottinghamshire Local Pensions Board on 12 May 2019 regarding the pension funds investments in equities of companies exposed to fossil fuels. This email can be seen in Appendix A.

3. A response was provided to Mr Lee on 24th May 2019. This response is Appendix B.

4. Further emails have been received by Pension Fund Committee Members and the Chair of the Pensions Board in respect of fossil fuel investment. These emails have been sent by Extinction Rebellion Nottingham on behalf of individual pension fund members. An example email is shown in Appendix C.

5. The Pension Fund Committee takes Responsible Investment very seriously and the financial implications of environmental, social and governance issues are considered for every investment. All the Pension Funds investment managers are expected to demonstrate high standards of responsible investment. The Pension Fund Committee regularly receives training on responsible investment issues and reviews reports on responsible investment by our main investment managers.

6. The fund's responsible investment beliefs are set out in the Investment Strategy Statement which can be found on the fund website https://www.nottspf.org.uk/media/1738354/iss-april-2019.pdf . The committee reviews the Investment Strategy Statement on an annual basis, most recently at the May Committee meeting https://www.nottinghamshire.gov.uk/dms/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/4405/Committee/526/SelectedTab/Documents/Default.aspx .

7. The fund is conscious of the risks of climate change and works with partners to engage with oil and gas companies through LAPFF, PIRC, LGPS Central, LGIM and Schroders in particular.

8. The Pension Fund Committee reviewed benchmarking policy alongside asset allocation at the Working Party in November. A report on the recommendations from this meeting went to committee in January. https://www.nottinghamshire.gov.uk/dms/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/4224/Committee/526/SelectedTab/Documents/Default.aspx The Committee believes the current indices are the most appropriate benchmarks for the Pension Fund investments.

Reason/s for Recommendation/s

9. This report has been compiled to inform the Pension Board of the queries received.

10. Statutory and Policy Implications

11. 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

12. There are no financial implications arising from this report.

RECOMMENDATION

It is recommended:

1. That the Pension Board consider the emails and decide whether they require further information regarding responsible investment in general or the financial risks of fossil fuel investments.

Nigel Stevenson
Service Director – Finance, Infrastructure and Improvement

For any enquiries about this report please contact:

Tamsin Rabbitts, Senior Accountant Pension Fund and Treasury management
tamsin.rabbitts@nottscc.gov.uk

Constitutional Comments (KK 23/08/19)

13. The proposal in this report is within the remit of the Nottinghamshire Local Pension Board

Financial Comments (TMR 13/08/19)

14. There are no financial implications arising from this report.

Background Papers and Published Documents

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

- None

Electoral Division(s) and Member(s) Affected

- All

Appendix A

To: James Lacey, Chair of Nottinghamshire Local Pensions Board
From: Nigel Lee, Nottingham Friends of the Earth

Dear Mr Lacey,

Notts Pension Fund - financial risks of fossil fuel investments

I am writing to you as Chair of Notts Local Pensions Board.

You will be aware of advice from the Bank of England and others about the risks of investment in fossil fuels - which may become 'stranded assets' with consequent reduction in value of shares.

You will also be aware that any future deficit on Notts Pension Fund will have to be met by contributing employers, including NTU.

We have been told that the Pension Fund must invest in fossil fuel companies because they are a significant component of the FTSE All Share World Index which is used to benchmark the Fund's investment in equities.

However, looking at in-house investment in equities as at 31 December 2018, it seems that over 12% of around £810m is in oil and gas companies (see analysis below), whereas only 6.22% of the FTSE All Share World Index is in oil and gas. A further 5% or so is in mining companies with a significant interest in coal. (We don't know what proportion of the £2.3bn in 'pooled equities' is in fossil companies.) An obvious question is: why the excess investment in fossil fuel companies?

Can you please let us know:
(1) Has the Pensions Board reviewed how the Pension Fund assesses the financial risks of investing in fossil fuel equities?
(2) Has the Pensions Board reviewed benchmarking policy, including the possibility of benchmarking equities against an ex-fossil index?

Yours sincerely,

Nigel Lee
Nottingham Friends of the Earth
[personal contact details removed for report]

Notts Pension Fund - Equities (valuation date 31/12/2018)

Total Equities Holdings (market value): £3,135m
including:
Pooled Equities: £2,325m
Other Equities: £810m

The £810m direct investment in equities included:
Oil & Gas
Royal Dutch Shell A: £10,464,875
Royal Dutch Shell B: £54,970,190
BP £33,921,785
Total £1,927,299
Galp Energia £1,359.058
Mining
Rio Tinto £17,363,582
BHP £21,474,219

Appendix B

Subject: RE: Notts Pension Fund - financial risks of fossil fuel investments

Dear Mr Lee,

Thank you for your enquiry.

The investments you refer to are part of the Pension Fund's active equity portfolio managed by Schroders. Schroders choose specific stocks to invest in where they think there is the potential for realising value rather than investing based on market sector, and these particular investments delivered nearly £13m in growth for the pension fund over the quarter.

Schroders have assessed Shell and BP as at the better end of the industry in terms of being pro-active on climate change issues. Shell, for example, has recently committed to cutting the carbon intensity of its energy products by 50% by 2050 and continues to diversify away from oil. Carbon reduction targets are also built into executive pay. Schroders have engaged extensively with both companies and others in the sector to influence their strategy and ensure they are well placed for a lower carbon world.

The Pensions Board is responsible for reviewing the work of the Pension Fund Committee.

The fund's responsible investment beliefs are set out in the Investment Strategy Statement which can be found on the fund website https://www.nottspf.org.uk/media/1738354/iss-april-2019.pdf. The committee reviews the Investment Strategy Statement on an annual basis, most recently at the May Committee meeting. The fund is conscious of the risks of climate change and works with our partners to engage with oil and gas companies through LAPFF, PIRC, LGPS Central, LGIM and Schroders in particular.

The Pension Fund Committee reviewed benchmarking policy alongside asset allocation at the Working Party in November. A report on the recommendations from this meeting went to committee in January. The Committee believes the current indices are the most appropriate benchmarks for the Pension Fund investments.

The Board reviews the decisions of the Pension Fund Committee at each board meeting, however the Board has not met since either of these meetings. These issues will be considered at the next meeting.

Yours sincerely,

James Lacey

Appendix C

Dear Pension Fund Committee Members, Chair of the Local Pension Board

Please note that this email is being sent on my behalf by Extinction Rebellion Nottingham. Please reply to me at my personal email address shown above.

I am writing to you as a member of the Pension Fund regarding investments in fossil fuels.

You may have seen news reports on the unprecedented forest fires which have burnt in Siberia - many within the Arctic Circle - over the last two months, fuelled by summer temperatures 8-10 degrees higher than average. Clouds of smoke from these fires have appeared as far away as Canada. The fires threaten to fuel climate feedback effects which will accelerate warming and in turn fuel more fires. This is just one example of the climate breakdown we are beginning to experience. The record breaking temperatures we experienced in the UK last month are a further one, while July 2019 was globally the hottest month ever recorded.

It is estimated that the Pension Fund currently holds £310m-£607m in fossil fuel shares. In light of the extreme impacts we are already experiencing and the Climate Emergency recently acknowledged by the UK Parliament I do not believe the Pension Fund should be supporting further fossil fuel extraction.

As a member of the Pension Fund I am also very concerned about the financial risks that these investments pose to the value of my pension. My local Council underwrites the Pension Fund and as a local Council Tax payer and service user I am further concerned about the financial risk to the Council.

International efforts to reduce carbon emissions will mean that most known fossil fuel reserves must stay "in the ground" to avoid catastrophic climate change. The market value of fossil fuel companies is based largely on the notion that all known reserves can be exploited. This means that as global efforts to combat climate change ramp-up there will soon be a large reduction in their share prices, reducing the value of the Pension Fund.

I would like to highlight that information produced regularly by FTSE shows that investment portfolios which exclude fossil fuel company shares perform at least as well as those that include them. Investments in fossil fuels produce financial risks but no additional rewards.

I believe that the Pension Fund is currently failing in its fiduciary duty towards me as a member.

The Pension Fund often says it can maintain fossil fuel investments because it "engages" with fossil fuel companies to get them to reduce emissions. However, this engagement does not work: even the plans of Shell - seen as the "best" of the fossil fuel companies on reducing emissions - are completely inadequate in meeting the scale of the challenge we face. The UN's Intergovernmental Panel on Climate Change says that to avoid catastrophic impacts we must reduce global emissions by 45% by 2030, and to net zero around 2050. Shell's plans amount to a less than 50% reduction in their emissions by 2050. Divestment from all fossil fuels and investment in clean alternatives is the only answer.

I would like to see the hundreds of millions of pounds currently invested in global fossil fuel corporations used instead to make low carbon investments, including in the green economy and in local sustainable projects within Nottinghamshire. Local investments would help the environment, local organisations and businesses.

I am writing both in a personal capacity and in support of Extinction Rebellion Nottingham's fossil fuel divestment campaign. In summary, the campaign's demands are that the Pension Fund:

1. Create a culture of transparency in relation to the investments held by the Fund, so it is possible for members to identify the value and location of investments in companies that extract and trade fossil fuels
2. Declare divestment from all fossil fuel-related assets over the next three years.
3. Produce a plan for this and for the alternative positive investments as soon as possible.

Will you take action to ensure the Pension Fund meets these demands?

Nottinghamshire County Council

Report to Nottinghamshire Pension Board

11 September 2019

Agenda Item: 11

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

WORK PROGRAMME

Purpose of the Report

1. To consider the Nottinghamshire Pension Board work programme for 2019/20.

Information

2. In line with the Pension Committee, attached is a draft work programme for the Nottinghamshire Pension Board. The work programme will assist the Nottinghamshire Pension Board in the management of the Board's agenda, the scheduling of the Board's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and Board meeting. Any member of the Board is able to suggest items for possible inclusion.

3. The attached work programme in appendix 1 has been drafted in consultation with the Chair, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

4. It is anticipated that the Board may wish to commission periodic reports on particular elements of Pension Administration and Investments. The Board is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the Nottinghamshire Pension Board in preparing its work programme.

Statutory and Policy Implications

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

RECOMMENDATION/S

1) That the Nottinghamshire Pension Board considers whether any amendments are required to the Work Programme.

Marjorie Toward
Customers, Governance and Employees

For any enquiries about this report please contact: Martin Gately, x72826

Constitutional Comments (KK02/09/2019)

8. The proposal in this report is within the remit of the Nottinghamshire Local Pension

Financial Comments (NS)

9. There are no direct financial implications arising from the contents of this report. Any future reports to the Nottinghamshire Pension Board 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

Report Title	Brief Summary of Agenda item	Author
11 September 2019		
Pension Administration Performance	Report on year end and Pensions Administration Performance	Jon Clewes
LGPS Central Pool Update	Report to update the Pension Board on the Central Pool	Tamsin Rabbitts/ Keith Palframan
GMP Reconciliation and Financial Reconciliation update	Up-date on the GMP Reconciliation and Financial Reconciliation project along with costs and next steps	Jon Clewes
Risk Register	Update on the Pension Fund Risk Register	Tamsin Rabbitts
Scheme advisory board Update	Report to update the Pension Board on the main activities of the Scheme advisory board, including a number of the main projects currently being undertaken	John Raisin/ Jon Clewes
Pension Board Chair report	Pension Board Report by the chair – for discussion?	Board Chair
Next Meeting to be confirmed (12 December 2019 – TBC)		
Pension Administration Performance	Report on and Pensions Administration Performance	Jon Clewes
Risk Register	Update on the Pension Fund Risk Register	Tamsin Rabbitts
Update on the Pool	Report to update the Pension Board on the Central Pool	Keith Palframan
Pension Board Report	Report of the Chair of Pension Board	Board Chair
Frequency of Meetings	Report of the Chair of Pension Board	Board Chair
