

# **Nottinghamshire Pension Fund Committee**

**Thursday, 09 December 2021 at 10:30**

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

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## **AGENDA**

- |   |  |              |
|---|--|--------------|
| 1 | Minutes of the last meeting held on 4 November 2021  | 3 - 10       |
| 2 | To note the change in membership with the replacement of Councillor Sam Smith with Councillor Roger Upton  |              |
| 3 | Apologies for Absence  |              |
| 4 | Declarations of Interests by Members and Officers:- (see note below)<br>(a) Disclosable Pecuniary Interests<br>(b) Private Interests (pecuniary and non-pecuniary) |              |
| 5 | Pension Fund Annual Report and Accounts 2020-21  | 11 - 186     |
| 6 | Department of Work and Pensions consultation on climate and investment reporting   | 187 -<br>194 |
| 7 | Independent Adviser's report   | 195 -<br>196 |
| 8 | Work Programme   | 197 -<br>202 |
| 9 | Fund valuation and performance - quarter 2   | 203 -<br>212 |

## 10 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

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

### **Note**

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

### **EXEMPT INFORMATION ITEMS**

## 11 Fund valuation and performance - Exempt Appendix

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

## 12 Investment Manager presentations

- a) Legal and General Investment Managers (LGIM)
- b) LGPS Central

## **Notes**

- (1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.
- (2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

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

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

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

Meeting	NOTTINGHAMSHIRE PENSION FUND COMMITTEE
Date	Thursday 4 November 2021 at 10.30 am

**membership**

Persons absent are marked with 'A'

**COUNCILLORS**

Eric Kerry (Chairman)  
André Camilleri (Vice Chairman)

Stephen Garner  
Mike Introna  
Sheila Place  
Mike Pringle

Sam Smith  
Lee Waters  
Gordon Wheeler

**NON-VOTING MEMBERS:****Nottingham City Council**

Councillor Graham Chapman  
Councillor Anne Peach – **A**  
Councillor Zafran Khan – **A**

**District / Borough Council Representatives**

Councillor David Lloyd, Newark and Sherwood District Council – **A**  
Councillor Gordon Moore, Rushcliffe Borough Council

**Trades Unions**

Mr A Woodward – **A**  
Mr C King

**Scheduled Bodies**

Mrs Sue Reader – **A**

**Pensioners' Representatives**

Vacancy x 2

**Independent Adviser**

William Bourne

## **Officers in Attendance**

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

*As the Chairman was not present at the start of the meeting, the Vice-Chairman assumed the Chair.*

### **1. MINUTES OF THE LAST MEETING HELD ON 9 SEPTEMBER 2021**

The minutes of the last meeting held on 9 September 2021 were confirmed as a correct record for signing by the Chair subject to an amendment to the narrative under minute 6 to state that an item be added to the work programme to review the Fund's investment in tobacco. As the proposed addition to the work programme was not about a specific investment, it was not affected by a later announcement that the Fund's complete holding in British and American Tobacco had been sold, as had been indicated in the draft minute. The corresponding update also needed making to the Committee's work programme.

### **2. TO NOTE THE CHANGE IN NOTTINGHAM CITY COUNCIL REPRESENTATION, WITH THE REPLACEMENT OF COUNCILLOR SAM WEBSTER WITH COUNCILLOR ZAFRAN KHAN**

The Committee noted the change in Nottingham City Council's representation on the Committee.

*10:36am – Councillor Kerry entered the meeting*

### **3. APOLOGIES FOR ABSENCE**

- Sue Reader, Scheduled Bodies Representative
- Councillor David Lloyd, Newark & Sherwood District Council
- Alan Woodward, Union Representative
- Councillor Anne Peach, Nottingham City Council
- Councillor Zafran Khan, Nottingham City Council

### **4. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS**

No interests were disclosed.

### **5. LOCAL GOVERNMENT PENSION SCHEME – BREACHES LOG**

The report informed the Committee of the policy and processes being used by Nottinghamshire Pension Fund to identify, record and report statutory breaches of the Local Government Pension Scheme and related Regulations.

During discussion Members:

- Asked about arrangements for briefing scheme employers about actions that would be taken in the event of a breach
- Were advised that the terminology used within the Policy was that of the Pensions Regulator
- Noted that changes were being made to Pensions administration processes which would replace the current year end process with monthly returns; it was hoped this would help reduce the risk of breaches occurring
- Clarified the arrangements in place for report occurrences classified as amber or red back to the Committee

#### **RESOLVED 2021/040**

That the procedure outlined in the Breaches Policy document to record and report statutory breaches of the Local Government Pension Scheme Regulations be adopted.

*Councillor Kerry assumed the Chair*

#### **6. LOCAL GOVERNMENT PENSION SCHEME – TRANSFORMING PENSION ADMINISTRATION UPDATE**

The report updated members on the data audit and improvement workstream within the “transforming pension administration through digital development and new ways of working programme”. It also sought approval to recharge to the Pension Fund the costs for the final stages of phase three of the project.

During discussion, Members:

- Sought reassurance about ensuring funds committed to the project were achieving value for money
- Requested ongoing updates on the impact of the project and information on how different employers sat over four quartiles in respect of the data quality they have to the fund and any improvements in their performance
- Noted that the Pension Fund was required by the Pensions Regulator to have a data improvement programme

#### **RESOLVED 2021/041**

- 1) That the recharge of the costs of £264,300 for the final stages of phase 3 of the data improvement workstream of the transformation programme to the Pension Fund be approved.
- 2) That ongoing update reports on the progress of the programme be made to the Committee, including performance of scheme employers.

## **7. PENSION FUND TREASURY MANAGEMENT MID-YEAR REPORT 2021-22**

The report outlined the mid-year position of the Pension Fund's treasury management activities in 2021/22 for the 6 months to 30 September 2021.

During discussion, Members:

- Asked whether making medium term investments could provide greater returns than the short-term investments that were being made and whether this would be in line with the Fund's Treasury Management Strategy
- Noted that information on investments was provided to the Committee through the quarterly investment position report
- Asked about the balance between security and return that was acceptable under the Treasury Management Strategy and the types of investments that provided the greatest security with the best return

### **RESOLVED 2021/042**

That the Committee endorsed the actions taken by the Section 151 Officer to date, as set out in the report.

## **8. PROXY VOTING**

The report informed members of the voting on equity holdings in the second quarter of 2021 (calendar year) as part of the Fund's ongoing commitment to supporting best practice in corporate governance.

During discussion, the Committee:

- Commented about the lack of detail around votes cast by Hermes on the Fund's behalf, requesting dialogue between officers and LGPS Central and Hermes about providing snapshot examples with additional narrative
- Noted that greater detail was available within the quarterly engagement reports
- Was informed about voting tactics and when Hermes may abstain, or vote against a board member, as part of the engagement process, for example as a warning to companies who have not made sufficient progress against commitments
- Asked about the voting principles that guided Hermes' voting on behalf of LGPS Central and Nottinghamshire Pension Fund and when they were next due before committee

### **RESOLVED 2021/043**

That, having considered the report, the Committee requires the following actions:

- 1) That members be provided with a copy of the voting principles and that these be included in a future training session.

- 2) That officers continue to work with LGPS Central to push for improvements in reporting arrangements and to make the votes cast and their rationale more transparent

## **9. LOCAL AUTHORITY PENSION FUND FORUM BUSINESS MEETING**

The report updated Committee members on the Local Authority Pension Fund Forum business meetings that were held on 14 July and 6 October 2021.

During discussion, Members:

- Members noted that recent meetings had been held using Zoom; recognising the climate benefits of this they asked whether it was the intention for this to continue

### **RESOLVED 2021/044**

- 1) That no further actions are required in relation to the issues contained within the report.

## **10. CLIMATE RISK ACTION PLAN**

*11:44am to 11:57am - the meeting adjourned as a result of disturbance arising both within public gallery and outside the Council Chamber. When the meeting reconvened, the venue had changed to the Rufford Suite.*

The report updated the Committee on progress against the Climate Action Plan and considered additional items.

During discussion, Members:

- Asked about arrangements for peer review to assess other schemes' commitments and targets for achieving net zero carbon
- Expectations around net zero carbon and the impact of 'greenwashing'
- Referred to the progress that had been made by certain companies to reduce their carbon impact

### **RESOLVED 2021/045**

That the progress that has been made against the Nottinghamshire County Council Pension Fund Climate Action Plan be recognised, together with the fluidity of the proposed actions and the need to act in response to changes that occur.

## **11. CLIMATE RISK ANALYSIS AND TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES**

The report presented the Climate Risk Analysis from LGPS Central Ltd and this year's Task Force on Climate-related Financial Disclosures report to Members.

During discussion, Members:

- Exchanged views on the effectiveness of engagement and disinvestment
- Were advised of modelling produced by DNV that forecasted the future energy mix at specific points
- Considered the possibility of advocating investment in technology and research and development in the upcoming review of the Fund's Investment Strategy

#### **RESOLVED 2021/046**

- 1) That the new actions set out in the Climate Action report be added to the Action Plan.
- 2) That no further actions are required in relation to the issues contained within the report.

### **12. WORK PROGRAMME**

The Committee noted the following changes that needed making to the work programme for December 2021:

- Removal of the listing for the Taskforce on Climate-Related Financial Disclosures, as they had been dealt with during this meeting
- Removal of the Review of the Investment Strategy as Members had agreed during a recent climate workshop that this could be dealt with at a working group in January 2022; this would also include a review of the Fund's investment in tobacco
- The addition of a Department of Work and Pensions consultation on climate and investment reporting

#### **RESOLVED 2021/047**

That the work programme be agreed.

### **13. EXCLUSION OF THE PUBLIC**

#### **RESOLVED 2021/48**

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

*12:35pm – the press and public were excluded from the meeting*



**14. CLIMATE RISK ANALYSIS AND TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES – EXEMPT APPENDIX**

The Committee noted the exempt appendix of the climate risk analysis and Task Force on Climate-related Financial Disclosures.

The meeting concluded at 12.36pm

**CHAIR**



9 December 2021

Agenda Item: 5

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

### **PENSION FUND ANNUAL REPORT AND ACCOUNTS 2020/21**

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

1. To present the Nottinghamshire Pension Fund annual report and accounts for 2020/21.

#### **Information and Advice**

2. The Nottinghamshire Pension Fund Annual Report for 2020/21 is attached. This includes the annual accounts and shows the value of the fund as at 31 March 2021 to be £6,132 million with net returns on investments for 2020/21 of £1,092 million and broadly net nil transactions from dealings with members (the advanced payment of some deficit contributions created a one off net addition in the year which is likely to be offset by the next two years net withdrawals). The overall value of the fund is significantly increased from last year, reflecting the depressed asset values due to the global pandemic in 2020 and the subsequent recovery.
3. The external auditors, Grant Thornton, have completed their audit work and have issued an unqualified audit opinion. No material misstatements or uncorrected audit differences were identified.

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

4. Under the terms of the Council's constitution, the Nottinghamshire Pension Fund Committee is responsible for the administration of the Nottinghamshire Pension Fund and it is best practice to present the accounts to those charged with governance.

#### **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) That members note the Annual Report, annual accounts and audit report for 2020/21.

**Nigel Stevenson**

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

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

### **Constitutional Comments (KK 29/11/21)**

11. This report is within the remit of the Nottinghamshire Pension Fund Committee.

### **Financial Comments (TMR 28/10/2021)**

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

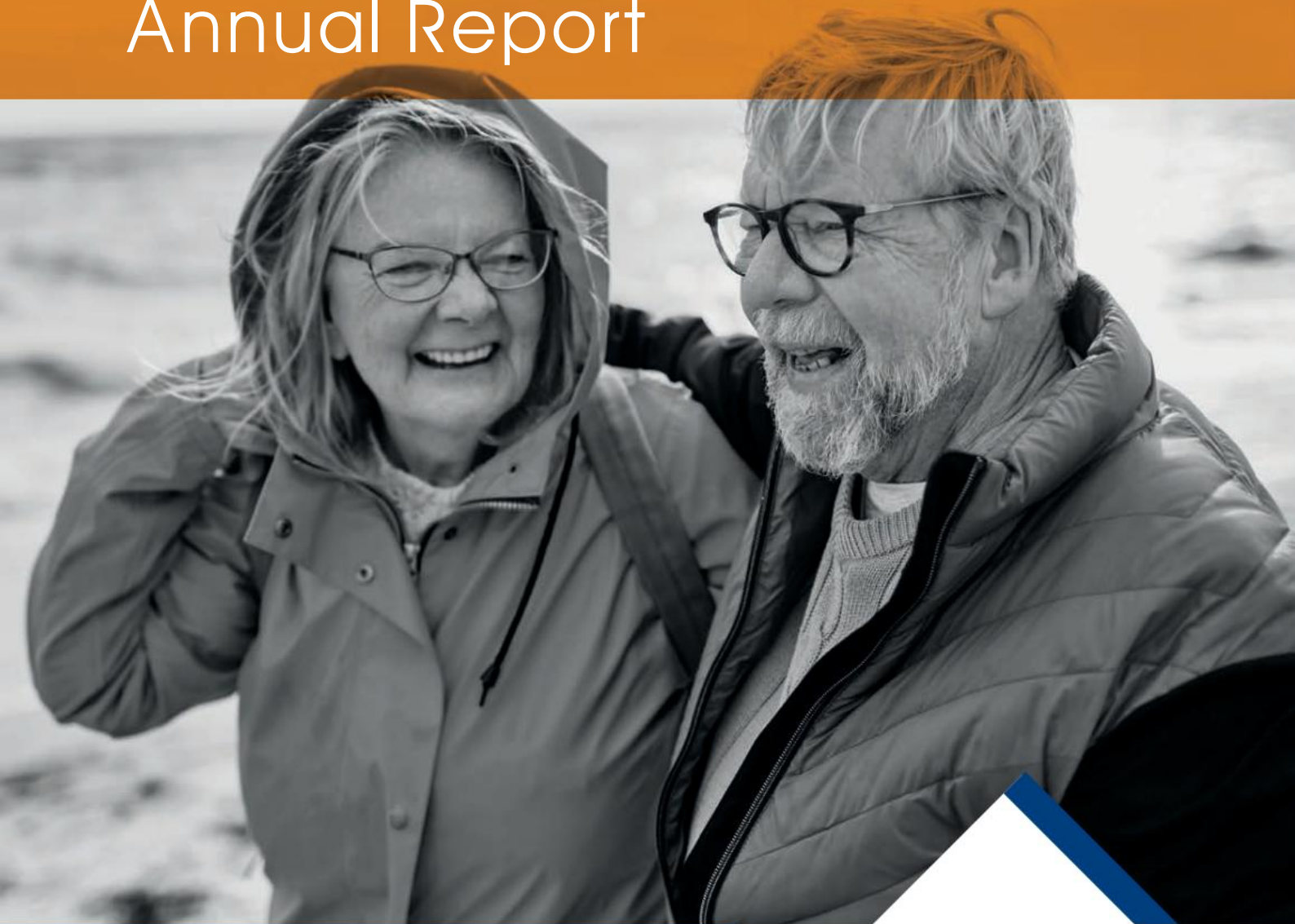
### **Background Papers and Published Documents**

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'

**2020 - 21**

# Annual Report



**The Nottinghamshire  
Local Government Pension Scheme**



administered by



**Nottinghamshire  
County Council**

Page 13 of 212

## **Contents**

Chairman's Foreword	3
Scheme Management	5
List of Active Fund Employers	8
Governance Compliance Statement	14
Funding Strategy Statement	20
Investment Strategy Statement	39
Climate-Related Financial Disclosures Report 2021	51
Financial Performance	68
Actuary's Statement as at 31 March 2021	74
Independent Auditor's Report	78
Pension Fund Accounts, Net Assets Statement and Notes	84
The Pension Fund Accounts	85
Notes to the Accounts	87
LGPS Central (LGPSC) Pool	112
Annual Voting Report	116
Scheme Administrative Arrangements	119
Joint Administration Strategy and Service Level Agreement	126
Communications Strategy Statement	147
Risk Management Strategy	155

## Chairman's Foreword

This year the Fund delivered a portfolio return of 21.8% for the year. This provides recovery of the negative 6.4% return for last year and restores the 3 year returns (6.5%) and 5 year returns (8.8%) to a level comfortably above the target annual return of 5.8% set by the actuary. The Fund will continue to be managed carefully focussing on long term returns.

The exceptional returns in the year to 31 March 2021 were generated both by comparison with the market low amidst the outbreak of the Novel Coronavirus (COVID-19) global pandemic and the subsequent recovery of global markets, and low interest rates driving further growth in equity valuations which generated the majority of the returns. In contrast, the Fund's Property investments have delivered a negative return of 4.9%, underperforming in a difficult market, and the returns from fixed income, infrastructure and private equity have been much more modest although in line with the market.

Planning is beginning for the triennial revaluation as at 31 March 2022. Barnett Waddingham have been reappointed as the Fund's Actuary following a full procurement exercise during the year.

Work continues with LGPS Central Ltd, the multi-asset investment pool Nottinghamshire has formed with seven other Midlands based funds. Investments under Pool management increased during the year as responsibility for the Fund's Gilts was transferred to LGPS Central under a discretionary management arrangement. Work continued on the creation of new funds with the launch of the Infrastructure fund and the Multi Asset Credit (MAC) fund both launched shortly after the year end, to which the Fund has made substantial commitments.

Focussing on fund administration, the Nottinghamshire Pension Fund continues to see changes in employer membership as

employers such as academies look to consolidate into single employers rather than each school being classed as an individual employer.

The service has continued to support scheme employers to meet their statutory requirements through the Administration Strategy which outlines the responsibilities and procedures to be followed by employers. We must emphasise that the administration service is not just the responsibility of the administering authority but is dependent on effective joint working with all scheme employers. Timeliness and accuracy are an important element of delivering a high-quality service to scheme employers and our scheme members. Legislation dictates the minimum standards that pension schemes should meet.

The Pensions Regulator continues to require all Administration Authorities to evidence good practice by reporting on various activities including data quality which is essential in the administration of pension benefits to members. We take this responsibility very seriously.

A number of projects have been progressing over the financial year to improve aspects of the scheme administration through introducing technology, along with continuing work on the scheme requirements of HMRC's guaranteed minimum pension (GMP) reconciliation project, as well as other legislative changes over the coming year.

In accordance with the Investment Strategy Statement, the Fund continues a long-term responsible investment approach, actively engaging with equity holdings by exercising voting rights and engaging with companies through its investment managers, our pooling partners LGPS Central and membership of the Local Authority Pension Fund Forum (LAPFF). This engagement approach continues to highlight and improve the resilience of corporate strategies at global resource companies in the wake of climate change agreements. More details of our engagement

can be found on the Pension Fund website in the Investments section.

Looking forward we will continue to engage with our employer partners and fund members to ensure that we fulfil our obligation to deliver the future secure pensions for our LGPS members.

**Cllr Eric Kerry**

**Chairman of the Nottinghamshire Pension Fund Committee**



## Scheme Management

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

The Authority administers the pension fund for around 300 participating employers and approximately 145,000 members. The employers include the County Council, the City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

The annual report includes the accounts and the published policies as well as information on the performance of the fund. The accounts of the fund are set out over the following pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 requires:

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

The Governance Compliance Statement sets out the governance arrangements of the pension fund and covers:

- the delegation of authority to the Nottinghamshire Pension Fund Committee
- the functions and responsibilities of this committee
- the representation of members, employers and trade unions
- stakeholder engagement
- compliance with best practice.

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

The Nottinghamshire Pension Fund Committee separately approves the Funding Strategy Statement and the Investment Strategy Statement, the most recent versions of which are included in this Annual Report.

The Funding Strategy Statement (FSS) sets out the aims and purpose of the Pension Fund and the responsibilities of the administering authority as regards funding the scheme. Its purpose is to explain:

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

The funding objectives are to:

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

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

The following principles underpin the Fund's investment activity:

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

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

## Nottinghamshire officers responsible for the fund

Service Director – Finance, Infrastructure & Improvement	Nigel Stevenson
Group Manager – Financial Strategy & Accounting	Keith Palframan
Senior Accountant – Pensions & Treasury Management	Tamsin Rabbitts
Service Director – Customers and HR	Marjorie Toward
Group Manager – Business Support Centre	Sarah Stevenson
Pensions Manager	Jon Clewes

## Other organisations/individuals

Main Investment Managers used by the fund	Schroders
	Legal & General Investment Management
	Aegon Asset Management
	abrdn
Regional Pool Operator	LGPS Central Ltd Mander House Mander Centre Wolverhampton WV1 3NB <a href="mailto:enquiries@lgpscentral.co.uk">enquiries@lgpscentral.co.uk</a>
Fund custodian	State Street
Fund AVC providers	Prudential
	Scottish Widows
Fund actuary	Barnett Waddingham Public Sector Consulting
Banker to the fund	Barclays Bank
The fund auditor	Grant Thornton
Independent adviser	William Bourne

Any of these may be contacted via [local.governmentpensions@nottscg.gov.uk](mailto:local.governmentpensions@nottscg.gov.uk)

## List of Active Fund Employers

### Admitted - Admission

Arc Property Services Partnership Limited	Futures Advice, Skills and Employment Ltd
Aspens Services Limited (Becket)	Gedling Homes
Aspens Services Limited (Newark)	Holme Pierrepont Leisure Trust
Aspens Services Limited (Rosslyn)	Independent Cleaning Service
Aspens Services Limited (Sneinton St Stephens)	Innovate Services Ltd
Aspens Services Limited (Sparken Hill)	Institute of Cemetery and Cremation Management (ICCM)
Aspens Services Limited (St Edmund)	Mansfield District Leisure Trust Ltd
Aspens Services Limited (St Patricks)	Marketing Nottingham & Nottinghamshire
Barnsley Premier Leisure	Mellors Catering Services Limited (Arnbrook)
Bassetlaw Citizens Advice Bureau	Mellors Catering Services Limited (Southwark)
BESTWOOD PARTNERSHIP FORUM	Metropolitan Housing Trust
Bulloughs Cleaning Services Ltd	MINT Commercial Services LLP
Capita IT Services (BSF) Limited - Bulwell	Newark Emmaus Trust Ltd
Carers Federation	Nottingham Assoc of Local Councils
Cater Link Limited (Diverse)	Nottingham City Homes (Telecare)
Change Grow Live	Nottingham Community Housing Association
Child Migrants Trust	Nottingham Contemporary Arts
Churchill Contract Services Limited (SAT)	OCS Group UK Ltd (Project co 1)
Compass Contract Services (UK) Limited (ATT)	OCS Group UK Ltd (Project co 2)
Compass Contract Services (UK) Limited (Leamington)	Parkwood Leisure Limited
Culture, Learning and Libraries (Midlands)	Pedal Express Limited
East Midlands Crossroads - Caring for Carers	Royal Society for the Protection of Birds
Fitzroy Support	Royal Society Mencap
Framework Housing Association	SLM Limited
	SSE Contracting Limited
	Tarmac Ltd

Thera East Midlands Ltd

United Response

UPP (Nottingham) Ltd

Via East Midlands Limited

### **Admitted - Others Active**

Ashfield Citizens Advice Bureau

Autism East Midlands

Bramcote Crematorium Joint Committee

Citizens Advice Broxtowe

Clifton Advice Centre

Faith in Families

Greater Nottingham Groundwork Trust

Greenfields Centre Limited

Mansfield Citizens Advice Bureau

Mansfield Road Baptist Housing

Meadows Advice Group

Nottingham Citizens Advice Bureau

Nottingham Ice Centre Ltd.

Nottinghamshire County Scout Association

Nottinghamshire Deaf Society

NTU Union of Students

Pearsons Young Persons Centre

Renewal Trust

Rural Community Action Notts

Sherwood & Newark CAB

Skills & Education Group

Southwell Leisure Centre

### **Schedule 1 - Academies**

Alderman White School

Ambleside Primary School

Archbishop Cranmer CE Academy

Archway Learning Trust

Arnbrook Primary School

Arnold Hill Academy

Ashfield School

Barnby Road Trust

Beech Academy

Believe Academy Trust

Birklands Primary School

Bishop Alexander LEAD Academy

Blue Bell Hill Primary School

Bramble Academy (The)

Bramcote School (The)

Brocklewood Primary School

Brunts Academy (The)

Bulwell Academy

Bulwell St Mary's C of E Primary & Nursery School

Burford Primary & Nursery School

Burntstump Seely C of E Academy

Carlton Academy

Carlton Infant Academy

Carlton Junior Academy

Chetwynd Primary Academy

Colonel Frank Seely Academy

Denewood Learning Centre

Diocese of Southwell & Nottingham M.A.T.

Diverse Academies Trust	Harworth Church of England Academy
Djanogly City Academy Nottingham	Highbank Primary & Nursery School
Djanogly Learning Trust	Hogarth Primary & Nursery School
Dukeries Academy	Hucknall National C of E Primary School
East Bridgford St Peters CE Academy	Huntingdon Academy
East Midlands Education Trust	John Hunt Primary School
Edale Rise Primary and Nursery School	Jubilee LEAD Academy
Edna G Olds Academy	King's Church of England Primary Academy
Elizabethan Academy Trust (The)	Kingston Park Academy
Ellis Guilford School	Kirkby College
Equals Trust	Kirkby Woodhouse School
Fairfield Primary Academy	L.E.A.D. Multi Academy Trust
Farnborough Academy	Landgold Dyscarr Community School
Fernwood Academy	Leverton CE Academy
Firbeck Academy	Magnus Church of England Academy
Florence Nightingale Academy	Manor Academy Trust
Flying High Trust	Mansfield Primary Academy
Forest View Academy	Meden School
Forge Trust	Milford Academy
Foxwood Academy	Minster Trust for Education
Garibaldi College	Nethergate School
George Spencer Academy	Newark Academy (The)
Glaption Academy (The)	Norbridge Academy
Glenbrook Primary School	Nottingham Academy
Greater Nottingham Education Trust	Nottingham Free School
Greenwood Academies Trust	Nottingham Girls Academy
Gunthorpe C of E Primary School	Nottingham University Samworth Academy
Haggonfields Primary School	NUAST (Nottm Uni Academy of Science & Technology)
Hall Park Academy	Oak Tree Primary School

Oakwood Academy	Sir John Sherbrooke Junior School
Old Basford School	Skegby Junior Academy
Our Lady of Lourdes Catholic Multi Academy Trust	Sneinton St Stephen's C of E Primary & Nursery School
Outwood Academy Portland	South Nottinghamshire Academy
Outwood Academy Valley	South Wilford Endowed C of E Primary School
Park Vale Academy	Southwark Primary School
Parkdale Primary School	Sparken Hill Academy
Parkgate Academy	St Ann's Well Academy
Portland Spencer Academy	St John's Church of England Academy
Priory Catholic Vol Academy	St Joseph's Catholic Primary School (Retford)
Python Hill Academy	St Mary Magdalene C of E Primary School
Quarrydale Academy	St Mary's Church of England Primary School
Radford Academy	St Peters Cross Keys C of E Academy
Raleigh Learning Trust	St Swithuns C of E Primary Academy
Ranskill Primary School	St. Peters Primary Academy Mansfield
Redhill Academy	Stonesoup Academy
Redhill Academy Trust	Sunnyside Spencer Academy
Robert Mellors Primary School	Suther School
Robert Miles Infants School	Sutton Community Academy
Robert Shaw Primary & Nursery School	Sycamore Academy
Rosecliffe Spencer Academy	The West Park Academy
Rosslyn Park Primary & Nursery School	Toot Hill School
Rushcliffe Academy	Transform Trust
Samworth Church Academy	Two Counties Trust
Scotholme Primary School	Unity Learning Centre
Selston High School	Victoria Primary School (Formally Riverside Primary)
Serlby Park School	Warren Hill Academy Trust
Shine Multi Academy Trust	Wells Academy
Sir Donald Bailey Academy (The)	Westbury School

Westdale Junior School

Whitegate Primary & Nursery School

Whitemoor Academy

William Booth Primary & Nursery School

Windmill LEAD Academy

Winthorpe Primary School

Woodlands School

Worksop Priory C of E Academy

### **Schedule 1 - Local Authorities**

Ashfield District Council

Bassetlaw District Council

Broxtowe Borough Council

Gedling Borough Council

Mansfield District Council

Newark & Sherwood District Council

Nottingham City Council

Nottinghamshire County Council

Rushcliffe Borough Council

### **Schedule 1 - others active**

Bilborough College

Mansfield & District Crematorium Joint Ctte

Nottingham City Council - EMC

Nottingham City Homes

Nottingham College

Nottingham Trent University (The)

Nottinghamshire Combined Fire Authority

Police & Crime Commissioner

The Chief Constable

West Notts College of FE

### **Schedule 2 - town & parish councils**

Aslockton Parish Council

Balderton Parish Council

Beckingham cum Saundby Parish Council

Bingham Town Council

Blidworth Parish Council

Burton Joyce Parish Council

Calverton Parish Council

Cotgrave Town Council

Cropwell Bishop Parish Council

Dunham & District Parish Council

Eastwood Town Council

Edwinstowe Parish Council

Fernwood Parish Council

Greasley Parish Council

Harworth & Bircotes Town Council

Kimberley Town Council

Laneham Parish Council

Langar Cum Barnstone PC

Misterton Parish Council

Newark Town Council

Nuthall Parish Council

Ollerton & Boughton Town Council

Radcliffe on Trent Parish Council

Rainworth Parish Council

Rampton Parish Council

Ravenshead Parish Council



Ruddington Parish Council

Selston Parish Council

Southwell Town Council

Stapleford Town Council

Trowell Parish Council

Tuxford Town Council

Warsop Parish Council

Woodborough Parish Council

Worksop Charter Trustees

## **Schedule 2 - others active**

Active4Today Ltd

BKSB Limited

Liberty Leisure Limited

Nottingham City Transport Limited

Nottingham Revenues & Benefits Ltd

Scape Group Limited

Streetwise Environmental Ltd

Trent Valley Drainage Board

# **Governance Compliance Statement**

## **Introduction**

This is the governance compliance statement of the Nottinghamshire pension fund which is part of the Local Government Pension Scheme and administered by Nottinghamshire County Council (the council). The statement has been prepared as required by the Local Government Pension Scheme (Administration) Regulations 2013.

## **Governance Arrangements**

Under the terms of the council's constitution, the functions of the council as administering authority of the pension fund are delegated to the Nottinghamshire Pension Fund Committee. This is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

The Nottinghamshire Pension Fund Committee meets eight times a year and its members act in a quasi-trustee capacity. Under the constitution, it is responsible for Administering the Nottinghamshire Pension Fund, including investments and management of pension funds.

The Committee also has responsibility for investment performance management of the Fund Managers. It may appoint a working party to consider future policy and development.

The Committee has the further responsibility for matters relating to the administration of the Pension Fund.

The number of voting members of the Nottinghamshire Pension Fund Committee is determined by the Council at its annual meeting.

The Committee have responsibility for the Fund's Responsible Investment approach, including climate risk management.

## **Functions and Responsibilities**

The Nottinghamshire Pension Fund Committee separately approves the Pension Fund's Funding Strategy Statement, Investment Strategy Statement, Risk Management Strategy, Administration Strategy Statement, Communications Strategy Statement, Approach to Responsible Investment and Climate Strategy.

The Funding Strategy Statement sets out the aims and purpose of the Pension Fund and the responsibilities of the administering authority as regards funding the scheme. Funding is the making of advance provision to meet the cost of accruing benefit promises and the long term objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee.

The Investment Strategy Statement sets out more detailed responsibilities relating to the overall investment strategy of the funds including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also covers the fund's policy on Member training and expenses and states the fund's approach to socially responsible investment and corporate governance issues. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee.

Financial Regulations specify that the Service Director (Finance, Infrastructure & Improvement) is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).

The 'Approach to Responsible Investment' sets out the Fund's responsible investment beliefs and its policy on engagement and the exercise of voting rights. Responsibility for the 'Approach to Responsible Investment' is delegated to the Nottinghamshire Pension Fund Committee.

The Climate Strategy describes the way climate-related risks are managed by the Fund and covers four main elements:

- Governance of climate risk
- Climate-related beliefs
- Objectives
- Strategic actions

Responsibility for the Climate Strategy is delegated to the Nottinghamshire Pension Fund Committee, who review the document on an annual basis.

The Risk Management Strategy aims to reduce or eliminate risks which may jeopardise the achievement of the Fund's key objectives. It includes a risk register that identifies and prioritises the main risks to the operation of the fund. Responsibility for the Risk Management Strategy is delegated to the Nottinghamshire Pension Fund Committee.

The Communications Strategy Statement details the overall strategy for involving stakeholders in the pension funds. The stakeholders identified are:

- trustees
- current and prospective scheme members
- scheme employers
- administration staff
- other bodies.

Responsibility for the communications strategy is delegated to the Nottinghamshire Pension Fund Committee.

## **Representation**

The Nottinghamshire Pension Fund Committee has 9 voting members all of whom are current county councillors. The political make-up of the committee is in line with the current council and the chair is normally appointed by Council. These members have full voting rights.

In addition the Committee also has 10 members consisting of the following representatives:

- Nottingham City Council (3)
- Nottinghamshire Local Authorities' Association (2)
- Scheduled and admitted bodies (1)
- Trade unions (2)

- Pensioner representatives (2)

Meetings of the Committee are also attended by officers of the County Council and an independent adviser. This ensures the Committee has access to “proper advice” as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Proper advice is defined as the advice of a person who is reasonably believed to be qualified by their ability in and practical experience of financial matters. This includes any such person who is an officer of the administering authority.

## Stakeholder Engagement

An annual meeting of the Pension Fund is held in the autumn to which all employer representatives and scheme members are welcome. The purpose of the meeting is to report on investment performance and current issues of concern to the Pension Fund.

A number of other initiatives to involve stakeholders are currently in place including:

- Annual year end employer’s meetings
- meetings between employers and actuaries as and when required
- Nottinghamshire Finance Officers meetings
- the annual report for the pension fund
- dedicated pension fund website.

## Review and Compliance with Best Practice

This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Pension Fund.

The regulations required a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. The guidance contains best practice principles and so are shown below with the assessment of compliance.

Ref.	Principles	Compliance and Comments
<b>A</b>	<b>Structure</b>	
a.	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	<b>Fully compliant</b>
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	<b>Fully compliant</b>

c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	<b>Not applicable</b>
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	<b>Not applicable</b>
<b>B</b>	<b>Representation</b>	
a.	That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :-  i) employing authorities (including non-scheme employers, eg, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	<b>Fully compliant</b>
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	<b>Fully compliant</b>
<b>C</b>	<b>Selection and role of lay members</b>	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	<b>Fully compliant</b>  All members of the Nottinghamshire Pension Fund Committee are aware of their responsibilities for the oversight of the funds.
<b>D</b>	<b>Voting</b>	
a.	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	<b>Fully compliant – a full review of voting has been undertaken and will be presented to Committee</b>

<b>E</b>	<b>Training/facility time/expenses</b>	
a.	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	<b>Fully compliant</b>  Members are encouraged to receive suitable training to help them discharge their responsibilities including attending training courses, conferences and meetings. Travel and subsistence arrangements are those which prevail for the County Council.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	<b>Fully compliant</b>
<b>F</b>	<b>Meetings (frequency/quorum)</b>	
a.	That an administering authority's main committee or committees meet at least quarterly.	<b>Fully compliant</b>  The Nottinghamshire Pension Fund Committee meets 7 or 8 times a year.
b.	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	<b>Not applicable</b>
c.	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	<b>Not applicable</b>
<b>G</b>	<b>Access</b>	
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	<b>Fully compliant</b>
<b>H</b>	<b>Scope</b>	

a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	<b>Fully compliant</b>
<b>I</b>	<b>Publicity</b>	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	<b>Fully compliant</b>  The governance compliance statement is published on the pension fund website and is included with the relevant committee report (available on the County Council website).

# **Funding Strategy Statement**

## **Introduction**

This is the Funding Strategy Statement (FSS) for the Nottinghamshire County Council Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”) and describes Nottinghamshire County Council’s strategy, in its capacity as Administering Authority, for the funding of the Nottinghamshire County Council Pension Fund (“the Fund”).

This statement has regard to the guidance set out in the document “Preparing and Maintaining a Funding Strategy Statement” published by CIPFA in February 2016. The statement also has regard to the Investment Strategy Statement published by the Administering Authority.

The Statement describes a single strategy for the Fund as a whole. The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

## **Purpose of the Funding Strategy Statement**

The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:

- Establish a clear and transparent fund-specific strategy that will identify how employers’ pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

## **Aims and purpose of the Fund**

The aims of the Fund are to:

- Manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- Achieve and maintain Fund solvency and long-term cost efficiency at reasonable cost to taxpayers, scheduled, resolution and admitted bodies, and enable contribution rates to be kept as nearly constant as possible where practical
- Seek returns on investment within reasonable risk parameters

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits provided under the Regulations
- Meet the costs associated in administering the Fund
- Receive contributions, transfer values and investment income.

## **Funding objectives**

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.



The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the long-term solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures/approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations
- In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the fund and the long-term cost efficiency of the scheme so far as relating to the pension fund. The review also looks at compliance and consistency of the actuarial valuations.

## **Key Parties**

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

### **The Administering Authority**

The Administering Authority for the Pension Fund is Nottinghamshire County Council. The main responsibilities of the Administering Authority are to:

- Collect employee and employer contributions
- Invest the Fund's assets, while ensuring cash is available to meet liabilities as and when they fall due
- Pay the benefits due to Scheme members
- Take measures to safeguard the Fund against the consequences of employer default
- Manage the actuarial valuation process in conjunction with the Fund Actuary, and enable the Local Pensions Board to review the valuation process as they see fit
- Prepare and maintain this FSS and the Investment Strategy Statement (ISS) after consultation with other interested parties as appropriate
- Monitor all aspects of the Fund's performance and funding
- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

### **Scheme Employers**

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

- Collect employee contributions and pay these together with their own employer contributions certified by the Fund Actuary to the Administering Authority within the statutory timescales, including any exit payments on ceasing participation in the Fund
- Notify the Administering Authority of any new Scheme members and any other membership changes promptly
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures
- Notify the Administering Authority of significant changes in the employer's structure or membership; and

### **Fund Actuary**

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

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

### **Solvency Issues, Target Funding Levels and Long-term Cost Efficiency**

#### **Funding Strategy**

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

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

The last actuarial valuation was carried out as at 31 March 2019 with the assets of the Fund found to be 93% of the accrued liabilities of the Fund.

## **Funding Method**

The key objective in determining employer's contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new staff access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities, while a funding level of less than 100 per cent indicates a deficit.
- The primary rate which is the level of contributions required from the individual employers which, in combination with employee contributions, is expected to support the cost of benefits accruing in future.

The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.

For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

## **Valuation Assumptions and Funding Model**

The value of accrued or past service benefits (allowing for future salary and pension increases) are referred to as the past service liabilities, or simply the liabilities.

Using the valuation assumptions set out below, an estimate is made of the future cash flows which will be made to and from the Fund throughout the future lifetime of existing members. These projected cashflows are then discounted using the discount rate which is essentially a calculation of the amount of money which, if invested now, would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called the present value (or, more simply, the value) of members' benefits. Separate calculations are made in respect of benefits arising in relation to membership before the valuation date (past service) and for membership after the valuation date (future service).

To produce the future cashflows and therefore an estimate of the value of the liabilities, the fund actuary needs to make assumptions about the factors affecting the Fund's future finances such as inflation, salary increases, investment returns, life expectancy and retirements.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic assumptions which are essentially estimates of the likelihood of benefits and contributions being paid
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value. The base market statistics used for the financial assumptions are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the three months before and the three months after the valuation date.

A summary of the key assumptions is included in the following table and can be found in the actuarial valuation report as at 31 March 2019. Further details regarding the derivation of these assumptions can be found in the Fund Actuary's initial results and assumptions advice to the Fund dated 7 October 2019.

Assumption	Derivation	Value at 31 March 2019
Future Price Inflation (RPI)	Smoothed 20-year point on the Bank of England implied Retail Price Index inflation curve as at 31 March 2019	3.6% p.a.
Future Price Inflation (CPI)	RPI less 1.0% per annum to reflect the differences in the indices	2.6% p.a.
Salary increases	Assumed to be in line with CPI plus 1.0% p.a.	3.6% p.a.
Discount rate	Based on the long-term investment strategy of the Fund, with deductions for expenses and prudence	4.8% p.a.
Post-retirement mortality	S3PA tables with a multiplier of 110% for males and 105% for females, projected into the future with the 2018 CMI Model with a long-term rate of improvement of 1.25% p.a. and initial addition parameter of 0.5%	n/a

The assumption for RPI was reviewed following the Chancellor's November 2020 announcement on the reform of RPI. From 31 March 2021 RPI inflation is assumed to be 0.4% p.a. lower than the 20-year point on the inflation curve. This adjustment accounts for both the shape of the curve in comparison to the Fund's liability profile and the view that investors are willing to accept a lower return on investments to ensure inflation linked returns.

The assumption for CPI was also reviewed in light of the Chancellor's announcement on the reform of RPI mentioned above. From 31 March 2021 CPI inflation is assumed to be 0.4% p.a. lower than the RPI assumption (i.e. a total of 0.8% p.a. below the 20-year point on the Bank of England implied RPI inflation curve). This reflects the anticipated reform of RPI inflation from 2030 following the UK Statistics Authority's proposal to change how RPI is calculated to bring it in line with the Consumer Prices Index including Housing costs (CPIH). This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.

### **Future Investment Returns/Discount Rate**

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

For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer becomes an exiting employer under Regulation 64. The Fund Actuary may incorporate such an adjustment after consultation with the Administering Authority.

The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

### **Asset Valuation**

- For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.
- The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received, and benefits paid).

## **McCloud/Sargeant judgement and cost cap**

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the Government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by Government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published, which are expected.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits



being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than the impact of reducing the discount rate assumption by 0.1% p.a.

### **Guaranteed Minimum Pension (GMP) indexation and equalisation**

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a guaranteed minimum pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found at:

<https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes>

On 22 January 2018, the Government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found at

<https://www.gov.uk/government/publications/indexation-of-public-service-pensions>.

On 7 October 2020, the government published its Public Service Pensions: Guaranteed Minimum Pension Indexation consultation. The consultation was published to seek views on a proposal to extend the current interim solution beyond 5 April 2021 for dealing with GMP indexation in public service pension schemes, including the LGPS. The consultation closed on 30 December 2020 and an outcome is awaited.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

### **Deficit Recovery/Surplus Amortisation Periods**

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different from the value of accrued liabilities, depending on how the actual experience of the Fund differs from the actuarial assumptions. Accordingly, the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation reveals a deficit in respect to a particular employer then the levels of required employer contributions will include an adjustment to fund the deficit over a specified period. Each employer's recovery period is considered individually unless they are part of a pool (see Pooling of Individual Employers). Past service deficit contributions are

generally paid as monetary amounts but may be paid as a percentage of payroll, subject to the Administering Authority agreeing this approach. The maximum deficit recovery period is 20 years.

Where an employer's funding position has improved in the inter-valuation period, but the employer is still in deficit, the employer may be required to maintain the previous total contribution level so that the expected deficit recovery period reduces.

Incremental phasing-in (stepping) of contribution increases may be considered for some employer types where proposed increases are large, with target rates to be achieved in no more than 3 years. Where stepping is agreed to, employers are instructed that the difference between the employer contributions with stepping and the employer contributions without stepping will need to be repaid later in the recovery period.

Employers in surplus on their funding method will generally pay the future service rate although the surplus may be released back to the employer through an adjustment to their contribution rate. The Fund Actuary will consider each employer separately when deciding whether surplus amortisation is appropriate.

### **Pooling of Individual Employers**

The general policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

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

Currently, other than Scheme employers that are already legally connected, there are the following pools:

- Small Scheduled Bodies pool
- Grouped Admission Bodies pool
- Fund Academies pool

### **New employers joining the Fund**

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

### **Admission bodies**

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations).



Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

### **Funding at start of contract**

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

### **Contribution rate**

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

### **Security**

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative guarantee in a form satisfactory to the administering authority.

### **New academies**

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

## **Funding at start**

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

The deficit is transferred to the Academy pool and the new academy will become part of the Academy pool and will be allocated assets based on the funding level of the pool at the conversion date.

## **Contribution rate**

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academy pool at the 2019 valuation.

## **Contribution reviews between actuarial valuations**

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

- (i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- (ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
- (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out in the Fund's separate Contribution review policy which is attached. This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to

carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

## **Cessation Valuations**

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It is agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer will transfer within the Fund to another participating employer; or
- the employer's exit is deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Further details are given below.

## **Managing exit payments**

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as

active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring, and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document attached. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the financial position on termination, the Fund Actuary may adopt a discount rate and adopt different assumptions from those used at the previous funding valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

The cessation valuation of the liabilities attempts to ensure there are sufficient assets to meet all the liabilities over time. In the event that the assets of a ceased employer are insufficient to meet all the employer's residual liabilities then these liabilities will fall to the ceding employer who originally awarded the contract.

## **Exit credits**

MHCLG made an amendment to the 2018 Regulations which came into force on 20 March 2020, with effect from 14 May 2018. These regulations enable administering authorities to determine at their absolute discretion the amount of any exit credit payment due having regard to the following relevant considerations:-

- The extent to which the employer's assets are in excess of its liabilities
- The proportion of the excess of assets which has arisen because of the value of employer's contributions
- Any representations made by the exiting employer and its letting authority/guarantor
- Any other relevant factors.

Nottinghamshire County Council Pension Fund's approach aims to protect the interests of the members and employers as a whole and will apply the following approach to the payment of exit credits.

### **The extent to which the employer's assets are in excess of its liabilities**

The Fund's Actuary will calculate the assets and liabilities relevant to the exiting employer. The approach will depend on the specific details surrounding the employer's cessation scenario. Further details of the most likely approach are given in the section "Cessation Valuations"

## **The proportion of the excess of assets which has arisen because of the value of employer's contributions**

Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements. This is on the basis that these employers would not have been asked to pay an exit payment had a deficit existed at the time of exit, and therefore it is not appropriate to pay an exit credit if there is a surplus.

On the other hand, if an employer commenced fully funded and was liable for any deficits arising as a result of adverse experience (for example, investment returns less than anticipated) then this employer has borne risk and so an exit debt or credit would be payable on exit.

Any exit payment will be limited to the total contributions paid over the period of participation into the Fund.

## **Any representations made by the exiting employer and its letting authority/guarantor and any other relevant factors.**

Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and will seek legal advice where appropriate.

The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. If the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.

## **Links to Investment Policy**

The investment strategy and the funding strategy are linked by the strategic asset allocation of the Fund, which has been set following advice from the Fund's investment advisor and with regard, amongst other considerations, the maturity profile of the Fund.

The actuarial valuation involves a projection of future cashflows from the Fund and these cashflows are discounted to the current time, using the discount rate, to obtain a single figure for the value of the past service liabilities. This figure is the amount of money, which if invested now, would be sufficient to make those payments in future provided that the assumptions made during the valuation were borne out in practice (in particular, if the future investment return was equal to the discount rate used).

The discount rate is based on the expected long-term future investment return, using the long-term strategic allocation set out in the Investment Strategy Statement, with a deduction for expenses and for prudence. This ensures consistency between the funding strategy and investment strategy.

## **Risks and Counter Measures**

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised

that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks, and governance risks.

### **Financial Risks**

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the valuation of the liabilities by 2%, and decrease/increase the required employer contribution by around 0.6% of payroll p.a.

However, the Nottinghamshire Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from officers and independent advisers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters. In addition, the Fund Actuary may provide funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

### **Demographic Risks**

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements. However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

### **Maturity risk**

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.



The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the **Error! Reference source not found.** section below.

## Regulatory Risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. Regulations also place certain limitations on how the assets can be invested. The tax status of the invested assets is also determined by the Government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism, and the timing of future funding valuations consultation. These are discussed in the sections below.

## McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members, e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

### **Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk**

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three-year (triennial) to a four-year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and



- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. So far, two partial responses to the consultation have been issued:

- On 27 February 2020, a partial response was issued relating to policy changes to exit credits
- On 26 August 2020, a partial response was issued relating to review of employer contributions and flexibility on exit payments

This FSS has been updated in light of these responses and will be revisited again once the outcomes are known for the remaining items.

Detail of the outstanding policy proposals are outlined below:

### **Timing of future actuarial valuations**

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

### **Changes to employers required to offer LGPS membership**

At the time of drafting this FSS, under the current Regulations, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are relatively few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

### **Employer Risks**

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

Structural changes in an individual employer's membership

An individual employer deciding to close the Scheme to new employees

An employer ceasing to exist without having fully funded their pension liabilities.

The Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined and takes advice from the Fund Actuary when required.

In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

### **Monitoring and Review**

This FSS is reviewed formally, in consultation with the key parties as appropriate, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

# Investment Strategy Statement

## Introduction

The County Council is an administering authority of the Local Government Pension Scheme (the “Scheme”) as specified by the Local Government Pension Scheme Regulations 2013 (“the LGPS Regulations”). It is required by Regulation 53 of the LGPS Regulations to maintain a pension fund for the Scheme.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Investment Regulations”) govern the management of the Pension Fund and the investment of fund money. According to Regulation 7 of the Investment Regulations an administering authority must formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. It must publish a statement of its investment strategy and must review, and if necessary revise, its investment strategy at least every three years.

The investment strategy statement must include:

- a) A requirement to invest fund money in a wide variety of investments.
- b) The authority’s assessment of the suitability of particular investments and types of investments.
- c) The authority’s approach to risk, including the ways in which risks are to be assessed and managed.
- d) The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services.
- e) The authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
- f) The authority’s policy on the exercise of the rights (including voting rights) attaching to investments.

## Purpose and Principles

The purpose of the Fund is to:

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

The following principles underpin the Fund’s investment activity:

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

## Key Parties

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

### **The Administering Authority**

The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council's constitution, the functions of the Council as administering authority are delegated to the Nottinghamshire Pension Fund Committee. The full governance arrangements of the Fund are detailed in the Fund's Governance Compliance Statement.

The members of the Committee are not trustees (as the LGPS is a statutory scheme) but do have fiduciary duties towards the scheme members and employers.

### **LGPS Central**

LGPS Central ("the Pool") is the asset pool which Nottinghamshire Pension Fund jointly owns with seven other LGPS funds in order to meet the government's criteria for investment reform issued in November 2015. The Pool has obtained FCA authorisation and manages collective investment vehicles on behalf of the participating funds.

### **Committee Members**

The Committee Members recognise their full responsibility for the oversight of the Fund and operate to a Code of Conduct. They shall:

- Determine the overall asset allocation and investment strategy of the Fund.
- Determine the type of investment management to be used and, until funds are transferred to the Pool, appoint and dismiss the main fund managers.
- Receive regular reports on performance from the main fund managers and question them regularly on their performance.
- Receive independent reports on the performance of fund managers on a regular basis.
- Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.
- Approve and monitor the Fund's approach to responsible investment and the financial risks of climate change.

### **Chief Finance Officer**

Under the Council's constitution, the Service Director (Finance, Infrastructure & Improvement) is designated the Council's Chief Finance Officer (also known as the Section 151 Officer). The Group Manager (Financial Services) is the deputy Section 151 Officer. Financial Regulations specify that the Section 151 Officer is responsible for arranging the investment of the Pension Fund. Day to day implementation of investment arrangements is delegated to the Senior Accountant (Pensions & Treasury Management).

Authorised signatories for execution of pension fund investments (including signing on behalf of Pension Fund investments) are:

- Service Director (Finance, Infrastructure & Improvement)
- Group Manager (Financial Services)
- Senior Accountant (Pensions & Treasury Management)

- Investments Officer

Representatives of the Service Director (Finance, Infrastructure & Improvement) provide advice to Committee members and attend meetings of the Nottinghamshire Pension Fund Committee as required.

### **Independent Adviser**

The Fund has an Independent Adviser who attends meetings of the Nottinghamshire Pension Fund Committee and Pensions Working Party as required. This is considered best practice in accordance with the requirements for “proper advice” in the governing regulations. The Independent Adviser is appointed by the Adminstrating Authority following appropriate consultation with the Committee.

The independent adviser is engaged to provide advice on:

- The objectives and policies of the Fund.
- Investment strategy and asset allocation.
- The Fund’s approach to responsible investment.
- Choice of benchmarks.
- Investment management methods and structures.
- Choice of managers and external specialists.
- Activity and performance of investment managers including the Pool and the Fund.
- The risks involved with existing or proposed investments.
- The Fund’s current property portfolio and any proposals for purchases, sales, improvement or development.
- New developments and opportunities in investment theory and practice.
- Amendment and review of statutory policy documents.

### **Asset Allocation**

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

Employers contributions are determined as part of the regular actuarial valuation of the Fund. Historically these have taken place every three years and the last valuation took place as at March 2019. The actuarial valuation involves a projection of future cash flows to and from the Fund. Its main purpose is to determine the level of employers’ contributions that should ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. This is the main funding objective as set out in the Funding Strategy Statement.

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

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

The discount rate is based on the expected long term future investment returns from various asset classes. Based on the March 2019 valuation, these are as follows:

<b>Asset class</b>	<b>Expected return (p.a.)</b>
Equities	6.7%
Gilts	1.7%
Other bonds	2.6%
Property & infrastructure	6.1%
Cash	0.8%
Inflation linked fund	5.6%
<b>Discount rate</b>	<b>4.8%</b>
<b>Fund Target Return</b>	<b>5.8%</b>

At the March 2019 valuation, the Fund was assessed to have a deficit of £405m and a funding level of 93%. Deficit recovery contributions have been certified for the majority of employers but any returns in excess of the discount rate will help to recover the Fund to a fully funded position. The Fund therefore sets its asset allocation to target an annual return rate of 5.8%.

The agreed asset allocation ranges for the Fund are shown below, along with the Fund's long-term strategic target allocations.

<b>Outcome</b>	<b>Asset class</b>	<b>Allocation ranges</b>	<b>Strategic benchmark</b>	
Growth	Listed and Private Equity	55% to 65%	65% FTSE World ex UK. 35% FT Allshare	60%
Inflation protection (income)	Property, Infrastructure* and Index linked fund	18% to 35%	CPI	28%
Income only	Fixed income	5% to 15%	FTSE UK All Stock	10%
Liquidity	Cash, short term bonds	0% to 10%	SONIA	2%

\*The target allocation to infrastructure is 8%.

This asset allocation is aimed at achieving appropriate returns to meet the Fund Target Return within acceptable risk parameters. The Fund's actual allocation may vary from this according to market circumstances, relative performance and cash flow requirements. The ranges will be kept under regular review and, if it appears likely that these limits might be breached because of market movements, reference will be made to a meeting of the Pensions Working Party for advice.

The asset allocation currently favours "growth" assets, primarily equities, as they are expected to deliver higher returns to help the Fund achieve the Fund Target Return. The Fund also invests in "income" assets to deliver secure and predictable income over the long term. These may include infrastructure, property and fixed income. Inflation is a long-term risk factor and the Fund explicitly seeks investments in this category which will help to mitigate that. Finally, the Fund allocates to liquid assets such as cash and short-term bonds in order to ensure cash

is always available to pay benefits at any time. This allows the Fund to continue to implement a long-term investment strategy.

The asset allocation is regularly reviewed to consider whether it is appropriate to change the mix of assets. This was last done in January 2021.

## **Investment Strategy**

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

In setting asset allocation to deliver the Fund Return Target the Fund will seek as far as possible to invest in a diversified range of uncorrelated assets in order to reduce the level of investment risk.

### **Types of investments**

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

### **Approach to investment**

The Fund bases its approach to investment on the investment beliefs set out in Appendix A. As the Pool takes over implementation of the investments, some of them will become less relevant to the Nottinghamshire Pension Fund Committee's decisions but they should be seen as the fundamental core of how the Fund's assets are invested.

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

The risk tolerance of the Fund is agreed with the Nottinghamshire Pension Fund Committee, the investment team and independent adviser through the setting of investment beliefs, funding and investment objectives. The Fund will only take sufficient risk in order to meet the Fund Target Return set out above, currently 5.8%.

The risks the Fund is exposed to include investment (including the financial risks of climate change), operational, governance, currency, demographic and funding risks. These risks are identified, measured, monitored and then managed. Plans are put in place to mitigate these risks so far as that is possible. Details are given in Appendix B.

### **Approach to pooling investments**

The Fund is entering the Pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability, improved ability to act as a responsible investor and access to more uncorrelated asset classes. As a better resourced and FCA authorised and regulated investment manager, LGPS Central Ltd is expected to



provide improved governance, transparency and reporting giving the Pension Fund assurance that its investment strategy is being carried out effectively.

It is expected that most of the Fund's assets will be transferred to the Pool over a period of time. The Pool is setting up sub-funds which the Fund and other partners expect to invest in. It is likely that this process will take place over a number of years, with the timing being dependent on market conditions and operational circumstances. Where there are financial or other barriers to transfers, assets may remain in the Fund's ownership.

Governance of the Pool is primarily through the Shareholders Forum, governed by a Shareholders Agreement and operating under company law, which has formal decision making powers. Nottinghamshire Pension Fund has equal voting rights alongside the other participating funds and unanimous decisions are required on key strategic matters. These are specified in the Shareholders Agreement and Articles of Association and include the appointment and dismissal of the company's senior executives, approval of the company's strategic plan and any significant financial transactions, such as major acquisitions, lending or borrowing.

The degree of control to be exercised by the Shareholders through their reserved powers is be greater than is generally the case, in order to satisfy the Teckal exemption criteria and allow the company to undertake services on behalf of the investor funds without a formal procurement process.

The Joint Committee, established by an Inter-Authority Agreement, is the forum for dealing with common investor issues and for collective monitoring of the performance of the pool against the agreed objectives of the Pool. However, it has no formal decision-making powers and recommendations require the approval of individual authorities, in accordance with their local constitutional arrangements.

The government has made clear their expectation that pooled entities should be regulated by the Financial Conduct Authority (FCA) to ensure appropriate safeguards over the management of client monies. As such LGPS Central Ltd will be subject to ongoing oversight by the FCA and those holding key management positions, including the company directors, need to be approved persons, able to demonstrate appropriate knowledge, expertise and track record in investment management. The Directors of LGPS Central Ltd will also be personally liable for their actions and decisions.

Comprehensive programme governance arrangements are in place to ensure that costs and savings are managed in accordance with the agreed business case. The Section 151 Officers, or their nominated representatives, of each of the participating funds sit on the Practitioners Advisory Forum and regular meetings are held with the Chair and Vice-Chair of the Pension Fund Committee to ensure effective member oversight of progress and delivery. The Nottinghamshire Pension Fund Committee and the Local Pension Board are also being updated regularly on key developments and decisions.

### **Assessment of the suitability of investments**

The policy of the Fund will be to treat the equity allocation (both listed and private) as a block aimed at maximising the financial returns to the funds (and thus minimising employers' contributions) consistent with an acceptable level of risk. Other investments, such as property,



fixed income, infrastructure or cash are aimed at mitigating risks which the Fund are exposed to, such as inflation, cashflow shortage, interest rate changes etc.

The Fund has a target allocation towards infrastructure, currently 8%, which is intended to deliver secure long term income and some level of inflation protection. These assets may be either equity-like or bond-like in their nature and either listed or unlisted. The Committee monitors this weighting on a quarterly basis.

The Fund allocates a maximum of 20% to a range of illiquid assets including infrastructure, equity and credit where there may be no exit until the end of a fund's life. The Fund expects these to provide superior returns or risk mitigation in order to compensate for the lack of liquidity. Allocation to these assets are based on committed amounts and, owing to the nature of these vehicles, the actual net investment level may be lower, perhaps significantly so.

Cash will be managed and invested on the Fund's behalf by the County Council in line with the Pension Fund's treasury management policy. The policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield. If losses occur the Fund will bear its share of those losses.

Pension Fund cash is separately identified in a named account and specific investment decisions will be made on any surplus cash identified, based on the estimated cash flow requirements of the Fund. Part of the cash balance is allocated to individual investment managers and may be called by them for investment at short notice, so the majority of cash will be placed on call or on short-term fixed deposits. Unallocated balances may be placed directly with the Fund's custodian.

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

Social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments by both the Pension Fund and underlying managers on the Fund's behalf. Non-financial factors may be considered to the extent that they are not significantly detrimental to the investment return and the Committee is satisfied that members share their concerns.

It is recognised that Environmental, Social, and Governance ("ESG") factors including current and future impacts of climate change are important to long term investment performance and the ability to achieve long term sustainable returns. The Nottinghamshire Pension Fund Committee considers the Fund's approach to ESG in three key areas:

- Selection – considering the financial impact of ESG factors on its investments.
- Stewardship – acting as responsible and active owners, through considered voting of shares and engaging with investee company management as part of the investment process. The Committee supports the Stewardship Code.
- Transparency & Disclosure – commitment to reporting the outcomes of the Fund's stewardship activities.

In combination these three matters are often referred to as "Responsible Investment" or "RI" and this is the preferred terminology of the Fund. Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term.

The Committee bases its decisions in this area on its RI Investment Beliefs, which are set out within Appendix A.

The Fund has developed a Climate Strategy which was approved by the Committee in December 2020. The Climate Strategy describes the way climate-related risks are managed by the Fund and covers four main elements: governance of climate risk, climate-related beliefs, objectives and strategic actions. The Committee will review the Climate Strategy on an annual basis.

The Pool has a fully developed set of RI policies, which are in line with the Committee's own investment beliefs. This includes a Responsible Investment & Engagement Framework, a Statement of Compliance with the UK Stewardship Code, and Voting Principles. The Fund, through the Pool's Practitioners Advisory Forum, contributes to the development of these policies. LGPS Central Ltd is responsible for ensuring that underlying managers in the Pool meet with the requirements of this policy. LGPS Central Ltd will also engage directly with investee companies to promote sustainable business practices that reward long-term investors. Voting rights will be instructed according to the Pool's agreed Voting Principles. LGPS Central Ltd will be required to report on its RI policy to the Committee on a regular basis in order to demonstrate the implementation of the agreed RI policies.

The Fund has articulated an investment belief on the relevance of climate change for financial markets (see Appendix A). In line with this belief, the Fund will actively look for investments which can be expected to benefit as a result of the long-term impacts of climate change.

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

Membership of the Local Authority Pension Fund Forum (LAPFF) helps Nottinghamshire Pension Fund to engage with companies to understand issues and to promote best practice. LAPFF was set up in 1990 and is a voluntary association of the majority of Local Authority pension funds based in the UK with combined assets of over £300bn. It exists to protect the long-term investment interest of local authority pension funds, and to maximise their influence as shareholders by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

The Committee believes that voting is an integral part of the responsible investment and stewardship process. The Fund manages its ownership responsibilities through its partnership with LGPS Central Ltd, Hermes EOS and via its investment managers. Hermes EOS is a major independent corporate governance and shareholder advisory consultancy procured by LGPS Central Ltd. Hermes EOS exercises all the Fund's voting rights in line with the shared proxy voting guidelines.

The Pool is a Tier 1 signatory to the Stewardship Code.

Hermes EOS reports quarterly on its voting activity, and these reports are available to Committee Members and the membership through the website. The availability of this information is stated in the Annual Report.

### **Other Issues**

The Fund's assets are held in custody by a combination of an independent custodian, investment managers and in-house. The performance of fund managers will be measured

against individual benchmarks and the overall fund, including cash returns, against the Fund Target Return. Performance will be measured by an independent agency. The statement of accounts will be audited by the County Council's external auditors.

The investment management arrangements of the Fund can be found in the latest annual report (available on the Fund's website, [www.nottspf.org.uk](http://www.nottspf.org.uk)). The Fund also publishes details of its holdings on the website on a quarterly basis.

This Investment Strategy Statement will be kept under review and will be revised following any material changes in policy.

## **APPENDIX A - Statement of Investment Beliefs**

The Fund's investment beliefs outline key aspects of how it sets and manages its exposures to investment risk. They are as follows:

### **Financial market beliefs**

- Return is related to risk but taking calculated risks does not guarantee returns. The actual outcome may be higher or lower than that expected.
- The Fund has a long term investment horizon and is able to invest in volatile and/or illiquid investment classes in order to generate higher returns.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.

### **Investment strategy/process beliefs**

- Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy. Risk should be viewed both qualitatively and quantitatively. Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.
- Strategic asset allocation is a key determinant of risk and return, typically more important than manager or stock selection.
- Equities are expected to generate superior long-term returns relative to Government bonds.
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time, but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty and reputational risk need assessment and management, in addition to investment risk.
- Managing fees and costs matter, especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

### **Organisational beliefs**

- Clear investment objectives are essential.
- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- The Nottinghamshire Pension Fund Committee's fiduciary duty is to the members of the Pension Fund. While they are not trustees, they have trustee-like responsibilities.

### **Responsible investment beliefs**

- Responsible investment is supportive of risk-adjusted returns over the long term, across all asset classes. As a long-term investor, the Fund should seek to invest in assets with sustainable business models across all asset classes.

- Responsible investment should be integrated into the investment processes of the Fund, the Pool, and underlying investment managers.
- A strategy of engagement rather than exclusion is more compatible with fiduciary duty and is more supportive of responsible investment.
- Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There is risk but also opportunity in holding companies which have weak governance of financially material ESG issues. Opportunities can be captured so long as decisions are based on sufficient evidence and they are aligned with the Fund's objectives and strategy.
- Climate change and the response of policy makers has the potential to have a serious impact on financial markets. Engagement, using partnerships of like-minded investors where feasible, can mitigate this risk.

## Appendix B - Risk Management

The Fund has adopted a Risk Management Strategy to:

- a) Identify key risks to the achievement of the Funds objectives.
- b) Assess the risks for likelihood and impact.
- c) Identify mitigating controls.
- d) Allocate responsibility for the mitigating controls.

Officers are responsible for maintaining a risk register detailing the risk features in a)-d) above, for reviewing and updating it on a regular basis, and reporting the outcome of the review to the Nottinghamshire Pension Fund Committee.

The Risk Register is a key part of the strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.

A key part of managing the investment risk is by ensuring that the Fund is invested through an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets. As the Pool takes over implementation of the assets, Nottinghamshire Pension Fund Committee's role will increasingly be to hold them to account.

The correlation between UK and overseas markets has increased significantly over recent time, reflecting the increasing globalisation of the market. The Fund will take into account exchange rate risks when deciding the balance between holding of UK and overseas equities. As a long-term investor, the Fund does not undertake currency hedging itself. Individual managers may hedge currency risks but only with prior approval from the Fund.

In addition, the following advisory guidelines will apply. These guidelines will be reviewed from time to time and if changes are made these will be incorporated into a revised Investment Strategy Statement, and amendments will be published.

- Not more than 20% of the Fund to be invested in unlisted securities (this excludes real estate).
- No direct underwriting without prior approval.
- No direct involvement in derivatives (including currency options) without prior approval.

# Climate-Related Financial Disclosures Report 2021

## Introduction to the TCFD

The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total 930 organisations representing a market capitalisation of over \$11 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice.

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

Figure 1



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

## About this report

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

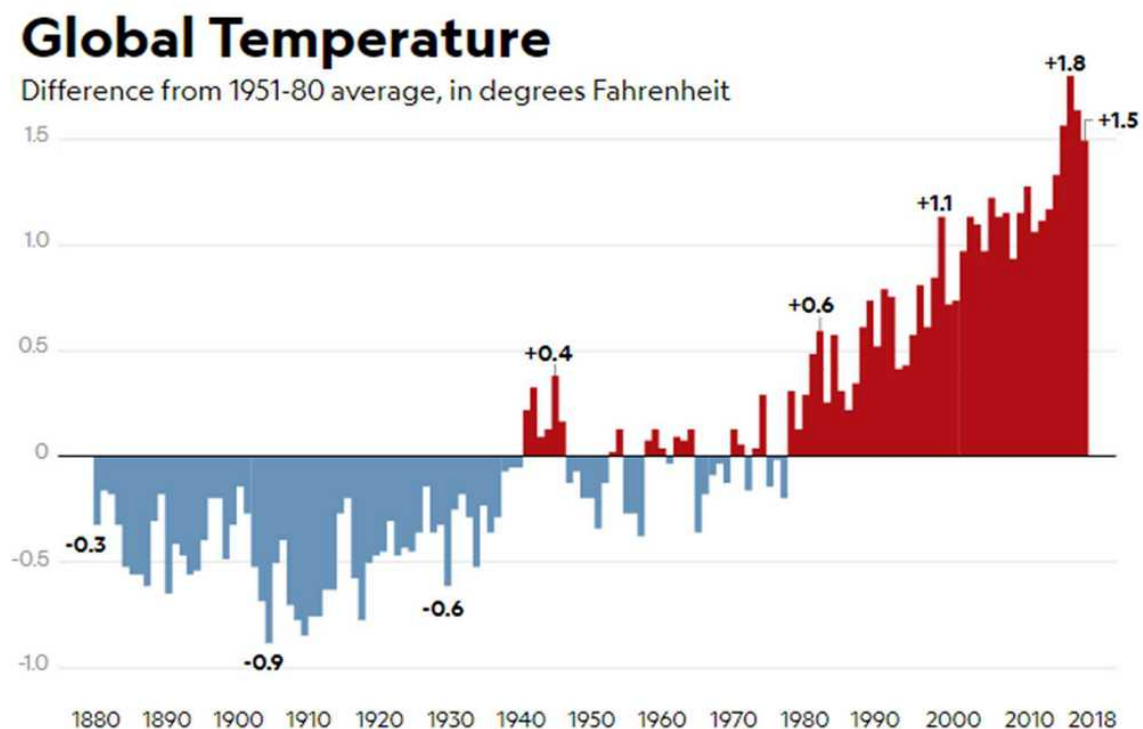
The report follows the release of NPF's Climate Strategy and Climate Stewardship Plan in 2021. Both documents were developed based on the findings of the Fund's first Climate Risk Report; an in-depth review of the Fund's climate risks under different climate change scenarios from the Fund's pooling company, LGPS Central Ltd. The Fund has since received its second Climate Risk Report from LGPS Central Ltd.

This climate-related disclosure report aims to provide an up-to-date overview of the Fund's approach to managing climate risk, encompassing both the recent changes to the Fund's climate strategy and the findings of the 2021 Climate Risk Report. In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, this report also discloses the Fund's most recent Carbon Risk Metrics analysis.

## Climate-related risks

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. Most of this warming has occurred in the past 35 years, with the five warmest years on record taking place since 2010. Between the years 2006-2015, the observed global mean surface temperature was 0.87°C higher than the average over the 1850-1990 period. The overwhelming scientific consensus is that the observed climatic changes are the result primarily of human activities including electricity and heat production, agriculture and land use change, industry, and transport.

Figure 2 Graph showing Global Temperature Difference from 1951-80 average. Source: NASA





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

Figure 3: Selected extracts from the Paris Agreement on climate change. Source:

Paris Agreement Article 2(1)a

Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

Paris Agreement Article 2(1)c

Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Paris Agreement Article 4(1)

In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.

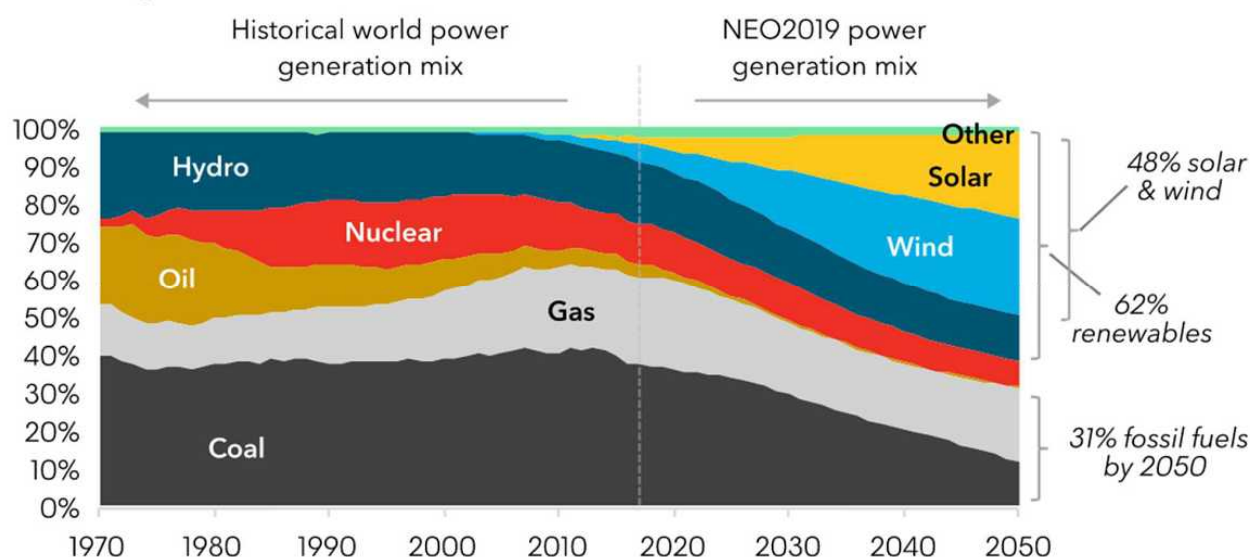
UNFCCC.

Given its contribution to global GHG emissions, the energy sector is expected to play a significant role in the long-term decarbonisation of the economy. Figure 4 suggests that in one climate scenario the proportion of coal, oil, and gas in the global power generation mix will shrink to 31% of total by 2050. It is important to recognise however that not only is the supply of energy expected to be a factor in global decarbonisation, but the demand for energy plays a crucial role too. In addition, the behaviour of private and state-owned energy companies (not commonly invested in by UK pension funds) is as important as their publicly traded counterparts.

The issue faced by diversified investors (such as pension funds) is not limited to the oil & gas and power generation sectors, but also to downstream sectors. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors. Research suggests that the oil & gas sector is not homogeneous with regards to climate risk: were climate policies to affect the oil price, those companies with assets lower down the cost curve are less likely to be financially compromised by those companies with higher cost assets. Investors that assume each fossil fuel company bears an equal magnitude of climate-related risk could be led towards sub-optimal decision-making.

The Fund recognises that climate-related risks can be financially material and that the due consideration of climate risk falls within the scope of the Fund's fiduciary duty. Given the Fund's long-dated liabilities and the timeframe in which climate risks could materialise, a holistic approach to risk management covering all sectors and all relevant asset classes is warranted.

Figure 4: The Bloomberg New Energy Outlook global power generation mix. Source: BloombergNEF.



## Disclosure Pillars

The TCFD Recommendations set out four disclosure pillars; Governance, Strategy, Risk Management and Metrics and Targets. This TCFD Report is structured in line with Asset Owner TCFD Recommendations by each pillar as follows.

### Governance

#### TCFD Recommended Disclosure

##### a) Describe the board's oversight of climate-related risks and opportunities

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

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

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

The Local Pensions Board has an oversight role in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with the LGPS

Regulations and any other legislation relating to the governance and administration of the Scheme.

## TCFD Recommended Disclosure

### **b) Describe management's role in assessing and managing climate-related risks and opportunities.**

The Service Director for Finance, Infrastructure and Improvement, Group Manager Financial Services and Senior Accountant Pensions and Treasury Management have primary day-to-day responsibility for the way in which climate-related investment risks are currently managed. Where appropriate, the Fund's pooling company, LGPS Central Ltd, assists in assessing and managing climate-related risks. As detailed in the Climate Change Strategy, the Fund leverages partnerships and initiatives – including the Institutional Investors Group on Climate Change (IIGCC) – to identify and manage climate risk. The Service Director for Finance, Infrastructure and Improvement, the Group Manager Financial Services, and the Senior Accountant Pensions and Treasury Management are accountable to the Pensions Committee for delivery of the Climate Change Strategy.

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

Ref	Category	Action	Timing	Notes
	<b>Governance</b>			
1	Governance	Publish a TCFD Disclosure. This will incorporate the key elements of the Carbon Risk Report.	December 20	LGPS Central to provide support
2	Policies	Develop a Climate Strategy. This should be consistent with the TCFD recommendations and include a Climate Stewardship Plan, monitored regularly by the Nottinghamshire Pension Fund Committee	March 21	LGPS Central to provide support
3	Governance	Schedule agenda time at Nottinghamshire Pension Fund Committee meetings at least annually for discussion of progress on climate strategy  Additionally report 6 monthly on progress for the first two years of the Action Plan.	An annual review will take place to coincide with the annual update of metrics	LGPS Central to advise on timing of metric updates

Ref	Category	Action	Timing	Notes
4	Governance	Schedule one training session on general RI matters and one climate-specific training per year	6 months	LGPS Central to provide training
5	Policies	<p>Update policies to reflect climate risk e.g. consider:-</p> <ul style="list-style-type: none"> <li>communications on climate risk into communications strategy</li> <li>make clear the roles of key governance committees, especially the Pension Fund Committee, in approving and monitoring the Fund's approach to responsible investment and climate change in the ISS</li> <li>Update the Governance Policy Statement to explain how climate risks are governed</li> <li>Review as part of the FSS the extent to which climate risks could affect other risks noted in the FSS</li> <li>Update the Fund's "Approach to Responsible Investment" in the ISS to include the six responsible investment beliefs.</li> <li>Consider incorporating the Fund's "Approach to Environmental Risk within this disclosure"</li> </ul>	July 21	
6	Reporting	In the Annual Report include a summary of this Climate Risk Report in a manner consistent with the TCFD Recommendations and a summary of the Fund's annual voting activities.	Oct 21	LGPS Central to provide support with this
<b>Strategy</b>				
7	Asset Allocation	Notwithstanding other factors in the Fund's asset allocation process, seek to move towards the Long Term Target Strategic Asset Allocation weightings	Ongoing	
8	Asset Allocation	The Fund should attempt to take a view on the likelihood of different climate scenarios, drawing on its suppliers and advisers.	Ongoing	With the support of LGPS Central

Ref	Category	Action	Timing	Notes
9	Asset Allocation	Monitor fund managers, discussing with equity managers the influence of climate factors on their sector positioning and with real assets managers their physical risk resilience & GRESB participation. Use IIGCC's "Addressing climate risks and opportunities in the investment process"	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central
10	Asset Allocation	Explore the potential for additional allocations to Global Sustainable Equities and Infrastructure if evidence suggests there could be asymmetrical return profiles (i.e. with expected relative upside in a 2°C scenario and no meaningful relative downside)	Will be reviewed as part of the annual review of asset allocation	Initial and current allocations to be explored first...
11	Asset Allocation	Explore potential investments in sustainable private equity, green bonds and low-carbon passive equities.	Ongoing	Longer term consideration
12	Policy Engagement	Continued public support for the Paris Agreement and join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies via LGPS Central	Ongoing	With the support of LGPS Central
<b>Risk Management</b>				
13	Company Stewardship	Create an annual stewardship plan	April 21	With the support of LGPS Central
14	Company Stewardship	Through LGPS Central, engage corporate bond managers on their approach to assessing climate risk within their portfolio in the absence of reported GHG emissions data	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central
15	Company Stewardship	Prioritise the most material/ strategic real assets investment manager exposure for dialogue on climate risk. Consider using the recent IIGCC guide for this endeavour.	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central

Ref	Category	Action	Timing	Notes
16	Company Stewardship	Continue to engage the companies highlighted in the Climate Stewardship Plan through selected stewardship partners	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central
17	Company Stewardship	Report progress on the Climate Stewardship Plan to the Nottinghamshire Pension Fund Committee on an annual basis.	July 22	With the support of LGPS Central
17a	Company Stewardship	Ensure that the Fund's voting behaviour supports and enhances engagements highlighted in the Climate Stewardship Plan.	Ongoing – will form part of the annual stewardship plan	With the support of LGPS Central and Hermes EOS
	<b>Metrics and Targets</b>			
18	Metrics	Repeat Carbon Risk Metrics analysis annually	Timescale dependent on LGPS Central availability	Timescale dependent on LGPS Central availability
19	Metrics	Repeat Climate Scenario Analysis every 2-3 years	Summer 22-23	
20	Metrics	Report annually on progress on climate risk using the TCFD framework	Autumn 21	Timescale dependent on LGPS Central availability

## Strategy

### TCFD Recommended Disclosure

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

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

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

	Short & Medium Term	Long Term
<b>Risks</b>	Carbon prices Technological change Policy tightening Consumer preferences	Resource scarcity Extreme weather events Sea level rise
<b>Asset class</b>	Listed equities Growth assets Energy-intensive industry Oil-dependent sovereign issuers Carbon-intensive corporate issuers	Infrastructure Property Agriculture Commodities Insurance

Short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this. Long-term risks include physical damages to real assets and resource availability. Examples would include increase sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

#### TCFD Recommended Disclosure

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

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

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

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

#### TCFD Recommended Disclosure

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



In 2020 the Fund engaged the expertise of an external contractor, Mercer LLC<sup>1</sup>, to understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at fund and asset-class level). All asset classes are included in this analysis. The climate scenarios considered are 2°C, 3°C and 4°C. This analysis is carried out every 2 to 3 years and the results of the 2020 analysis is provided below.

Table 2: Annualised climate change impact on portfolio returns – to 2030 and 2050<sup>2</sup>.

Scenario	Timeline	Estimated climate impact on returns
2°C	2030	0.13%
	2050	0.01%
3°C	2030	-0.02%
	2050	-0.07%
4°C	2030	-0.06%
	2050	-0.11%

The Climate Scenario Analysis suggests that the lowest outcome is, according to the model used, the best climate scenario from a returns perspective (adding 0.13% in annual returns to the Asset Allocation on a timeline to 2030) while a 4°C outcome is the worst of the three considered (detracting by 0.06% annually over the same period). The Fund is using the analysis to shape a climate strategy which will be agreed in due course.

Translating Climate Scenario Analysis into an investment strategy is a challenge because there is a wide range of plausible climate scenarios; the probability of any given scenario is hard to determine, and; the best performing sectors and asset classes in a 2°C scenario tend to be the worst performers in a 4°C and vice versa. Despite the challenges, the Fund believes in seeking out the best available climate-related research in order to make its portfolio as robust as possible.

## Risk Management

### TCFD Recommended Disclosure

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

The Fund seeks to identify and assess climate-related risks at the total Fund level and at the individual asset level. The Fund's 2020 and 2021 Climate Risk Reports include a combination

<sup>1</sup> Via LGPS Central Limited

<sup>2</sup> Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated 03 July 2020 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Nottinghamshire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.



of both top-down and bottom-up analyses<sup>3</sup>. The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

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

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

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

#### TCFD Recommended Disclosure

##### **b) Describe the organisation's process for managing climate-related risks.**

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

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




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

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

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<sup>3</sup> Climate Scenario Analysis only included in the 2020 Climate Risk Report.

Table 3: The Fund's Stewardship Partners

Organisation	Remit
	<p>The Fund is a 1/8<sup>th</sup> owner of LGPS Central.</p> <p>Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website.</p> <p>The Responsible Investment Team at LGPS Central engages companies on the Fund's behalf, including via the Climate Action 100+ initiative.</p>
	<p>EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies.</p> <p>In 2020, EOS conducted engagements on 258 climate change issues across its company universe.</p>
	<p>The Fund is a long-standing member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds.</p>

The instruction of shareholder voting opportunities is an important part of climate stewardship. The Fund's votes are executed by its asset pool (LGPS Central) according to a set of Voting Principles, to which the Fund contributes during the annual review process. LGPS Central's Voting Principles incorporate climate change, for example by voting against companies that do not meet certain thresholds in the Transition Pathway Initiative (TPI) scoring system. LGPS Central has co-filed shareholder resolutions that relate to climate change. LGPS Central recently co-filed climate-related shareholder resolutions at the meetings of BP Plc, Barclays Plc, and Citigroup.

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

Based on its first Climate Risk Report, the Fund has developed a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, investment managers, EOS at Federated Hermes, and LAPFF, includes targeted engagement with eight investee companies of particular significance to the Fund's portfolio. Wherever feasible, the engagement objectives are designed to be SMART (Specific, Measurable, Actionable, Relevant and Time-bound) to enable the Fund to adequately assess a company's progress. The Fund believes that all companies should align their business activities with the Paris Agreement on climate change.

Table 4: Companies included in the Climate Stewardship Plan

Company	Sector
BHP	Materials
BP	Energy
CRH	Materials
ExxonMobil	Energy
Glencore	Materials
Rio Tinto	Diversified Mining
Royal Dutch Shell	Energy
TotalEnergies	Energy

#### TCFD Recommended Disclosure

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

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

Climate risk is further managed through the Fund's Climate Stewardship Plan.

#### Metrics & Targets

#### TCFD Recommended Disclosure

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

The Fund has recently received a report from LGPS Central Limited on carbon risk metrics for its listed equities portfolios. An attempt was made to assess corporate fixed income portfolios, but the coverage of fixed income portfolios - i.e. the proportion of securities in the portfolios which report their GHG emissions data, or for which a reasonable estimation can be made – is low (ranging between 30.5% to 62.3%). The poor availability of data in asset classes other than listed equities prevents a more complete analysis at this time.

The carbon risk metrics analysis include:

- portfolio carbon footprints<sup>4</sup>,
- weight of portfolios invested in companies with fossil fuel reserves
- weight of portfolios invested in companies with thermal coal reserves
- weight of portfolios invested in companies whose products and services include clean technology
- metrics assessing the management of climate risk by portfolio companies

Carbon risk metrics aid the Fund in assessing the potential climate-related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. The Fund additionally monitors stewardship data (see above).

#### TCFD Recommended Disclosure

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

In line with the TCFD guidance and following receipt of a report from LGPS Central Limited we provide below the carbon footprints of our equity portfolio<sup>5</sup>:

Table 4: Carbon risk metrics for the equity portfolios<sup>6</sup>

Portfolio Name	Benchmark	Carbon Footprint (tCO <sub>2</sub> e/\$M revenue)			Weight in Fossil Fuel Reserves %			Weight in Thermal Coal Reserves %			Weight in Clean Technology %		
		PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff
Total Quoted Equities	Total Quoted Equity Blended Benchmark	124.0	151.5	-18.11%	7.86%	9.19%	-1.32%	3.73%	3.69%	0.04%	30.9%	33.2%	-2.24%
Core Index portfolio	N/A	151.3	N/A	-	9.07%	N/A	-	3.65%	N/A	-	33.5%	N/A	-

<sup>4</sup> Following TCFD guidance we use weighted average portfolio carbon footprints.

<sup>5</sup> Analysis undertaken on the listed equities portfolios within holdings data as of 31 March 2021. The information in Table 5 was provided to the Fund in a report authored by LGPS Central Limited. In LGPS Central Limited's Reports the Total Equities portfolio comprises the Core Index, Schroders, Specialist and LGPS Central portfolios weighted according to their size in GBP. The Core Index portfolio contains 7 underlying passive portfolios managed for the Fund by LGIM. As the core Index is passively managed the carbon risk metrics of the portfolios are almost identical to those of the respective index. For this reason no benchmark comparison is provided. The Schroders portfolio contains 9 underlying active portfolios managed by Schroders, and the results are presented next to a blended benchmark (a pro-rata composition of the regional benchmarks). The Specialist portfolio contains two active portfolios managed by RWC, and the results are presented next to a blended benchmark. The rest of the Specialist portfolios were excluded from the analysis due to (i) low market value of the portfolios (ii) limited data availability. The LGPS Central portfolio contains two active managed multi manager funds and two passively managed funds and the results are presented next to a blended benchmark.

<sup>6</sup> Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission.

		Carbon Footprint (tCO2e/\$M revenue)			Weight in Fossil Fuel Reserves %			Weight in Thermal Coal Reserves %			Weight in Clean Technology %		
Portfolio Name	Benchmark	PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff
Schroders portfolio	Schroders Blended Benchmark	108.2	144.4	-25.04%	8.09%	9.53%	-1.44%	4.57%	3.72%	0.85%	29.9%	30.9%	-1.09%
Specialist portfolio equities	Specialist Blended Benchmark	34.2	118.2	-71.09%	0.00%	7.29%	-7.29%	0.00%	3.99%	-3.99%	20.1%	43.1%	-23.06%
LGPS Central portfolio equities	LGPS Central Blended Benchmark	159.0	275.6	-42.30%	7.60%	8.96%	-1.36%	1.30%	3.11%	-1.81%	37.9%	39.4%	-1.48%

The Fund's Total Quoted Equities portfolio is around 18% more carbon efficient than the benchmark. This means that, on average, for every \$m of economic output companies produce, the Fund's investee companies emit 18% fewer greenhouse gas emissions than the companies in the index. The report received from LGPS Central Limited shows that the equities in the Schroders portfolio, the Specialist portfolio and the LGPS Central portfolio are all more carbon efficient than their respective blended benchmarks. The exposure of the Total Quoted Equity portfolio to fossil fuel producers is 1.32% lower than the benchmark.

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

#### TCFD Recommended Disclosure

##### **c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.**

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

As per the Climate Change Strategy the Fund has articulated a number of Strategic Actions within the following areas: (1) Measurement & Observation (2) Policy Review (3) Asset Allocation (4) Selection, Due Diligence and Monitoring (5) Purposeful Stewardship (6) Transparency and Disclosure.

## **Appendix 1**

TCFD Recommendations for Asset Owners (source: TCFD)

### **Governance**

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

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

### **Strategy**

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

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

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

### **Risk Management**

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

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

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

### **Metrics and Targets**

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

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

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

## Appendix 2: Important Information

Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated 03 July 2020 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Nottinghamshire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

The following notices relate to Table 5 (above), which are produced for the Fund by LGPS Central Limited based on a product licensed by MSCI ESG Research LLC. This report confers no suggestion or representation of any affiliation, endorsement or sponsorship between LGPS Central and MSCI ESG Research LLC. Additionally:

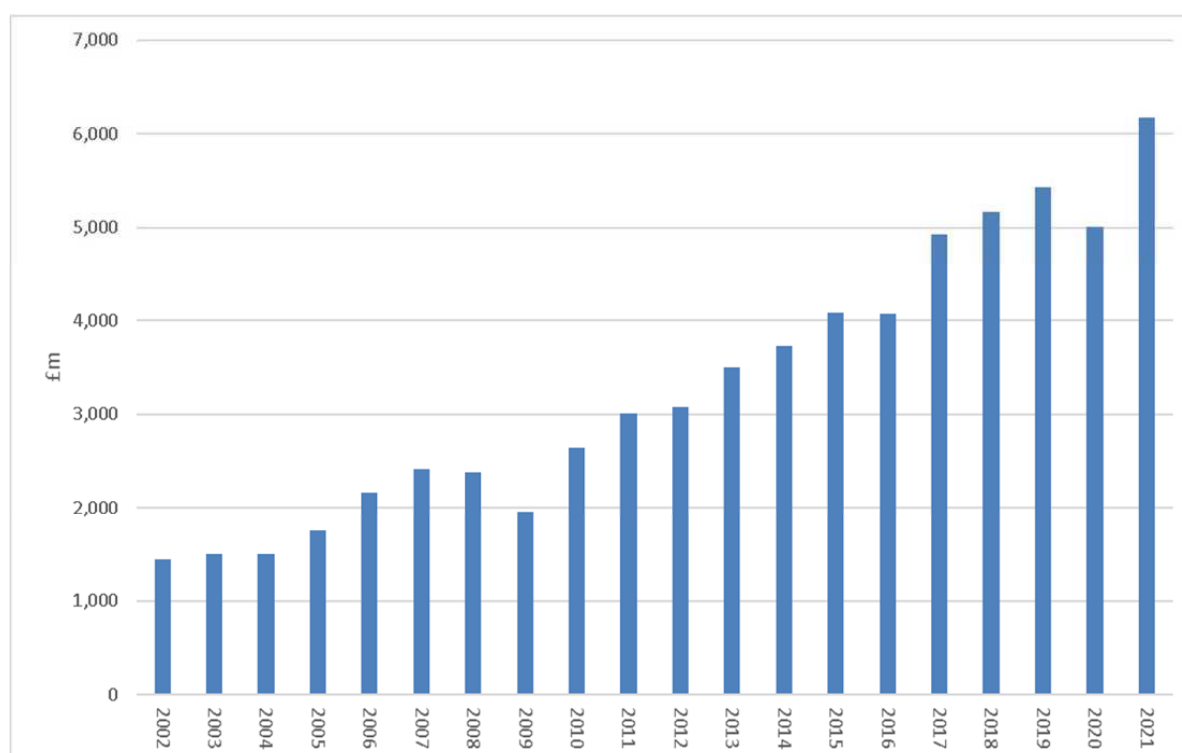
Although LGPS Central's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness,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

## Financial Performance

The in-house team of four, led by the Senior Accountant (Pensions and Treasury Management) monitors all externally-managed investments. The team also records and accounts for all the Pension Fund investments, producing quarterly valuations for the Pension Fund Committee as well as the annual report and accounts.

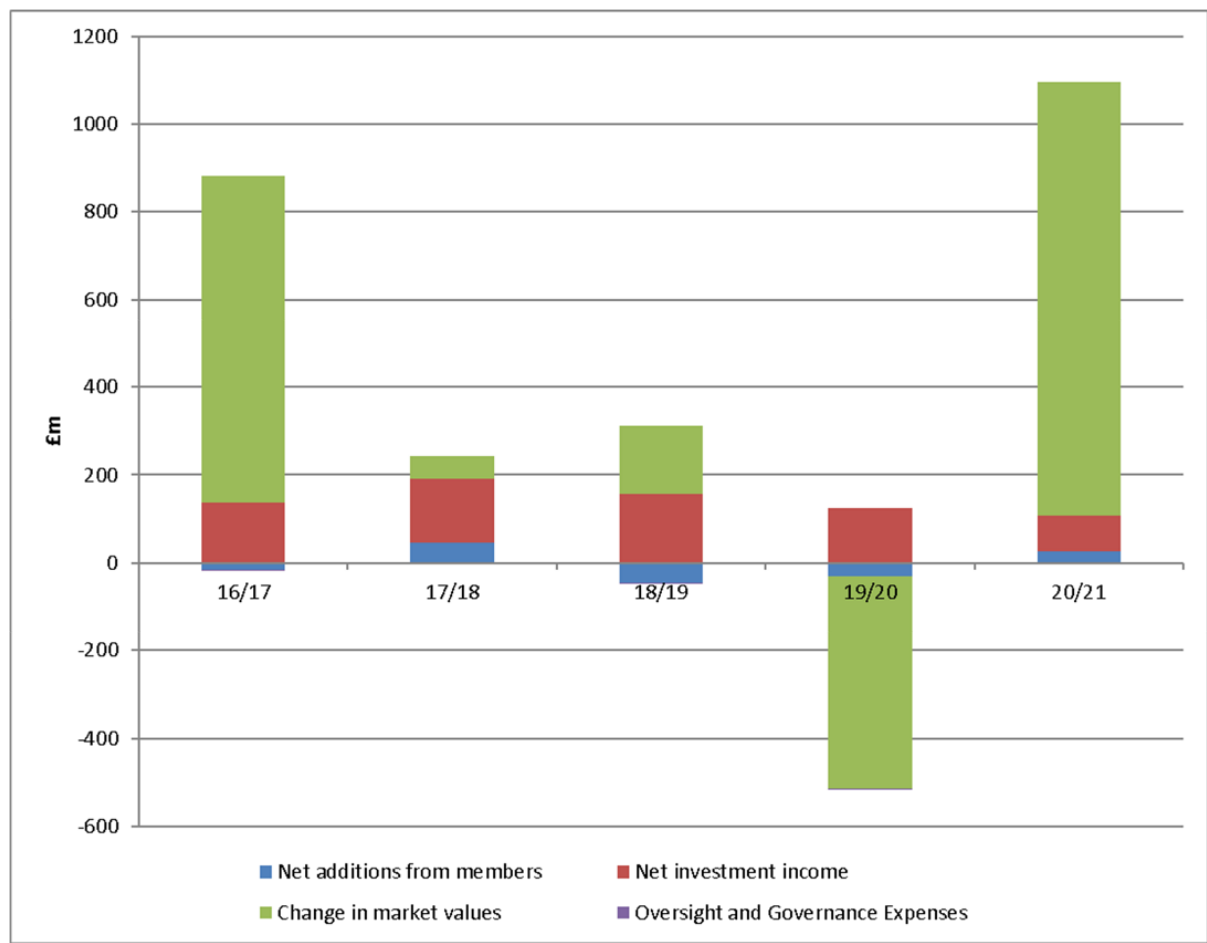
The Pension Fund accounts are shown in detail elsewhere in the Annual Report.

The Fund Account for 2020/21 shows a net inflow of £27m from dealings with members. Investment income for the year was £80m, a decrease on the previous year's figure of £125m. However, to be set against this reduction in income is an increase of £1,471m in the market value of the Fund's investments as a result of the markets rebounding from the Covid-19-related lockdowns, so the overall return on investments (income plus growth) for the year is £1,068m. Overall, the value of the fund has increased by £1,162m over the year to stand at £6,172m, as shown in the chart below:

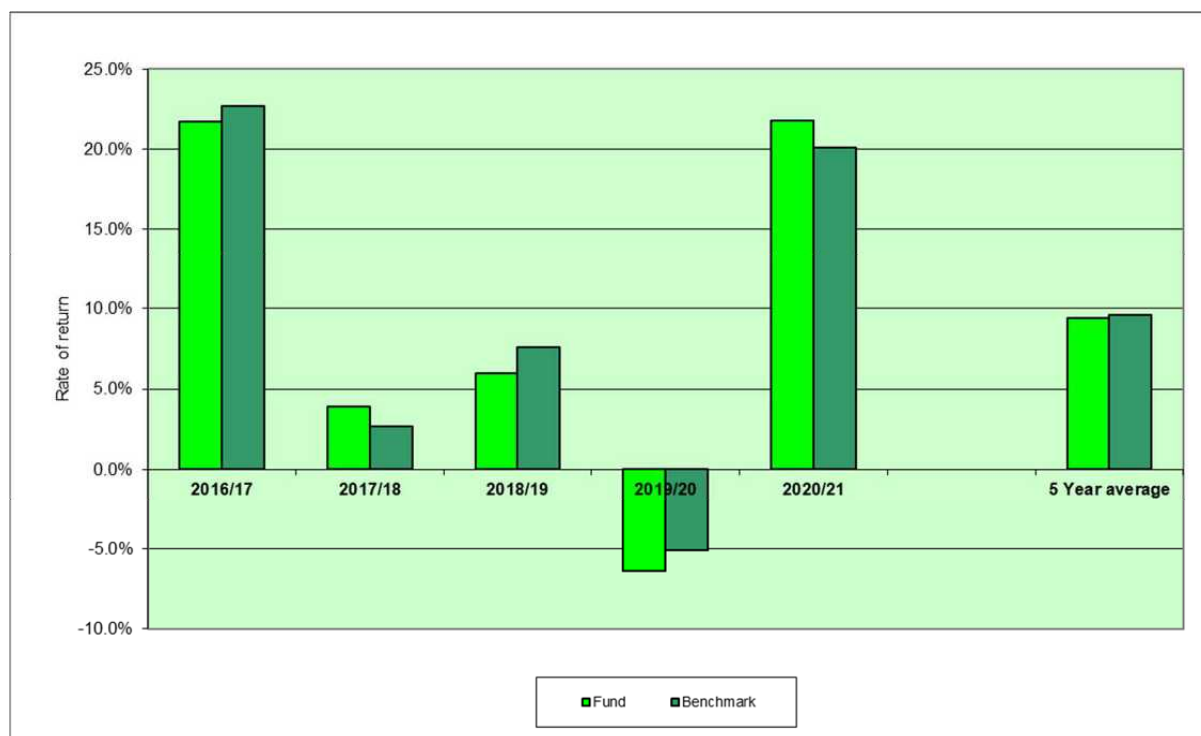




The chart below shows in greater detail how the three main components have contributed to the Fund's value over the last 5 years.



In 2020/21, the fund achieved an overall return from its investments of 21.8%, outperforming its strategic benchmark return by 1.7% over the year. This can be seen in the chart below:



A breakdown of investment performance across the different asset classes during 2020/21 can be seen in the table below:

To 31 March	1 yr %	3 yr %	5 yr %
Equities	38.4	8.3	11.2
Bonds	2.1	3.6	4.0
Property	-4.9	0.4	3.6
Alternatives	7.8	11.0	9.9
<b>Total</b>	<b>21.8</b>	<b>6.5</b>	<b>8.8</b>

*Information on investment returns is provided by Portfolio Evaluation Ltd*

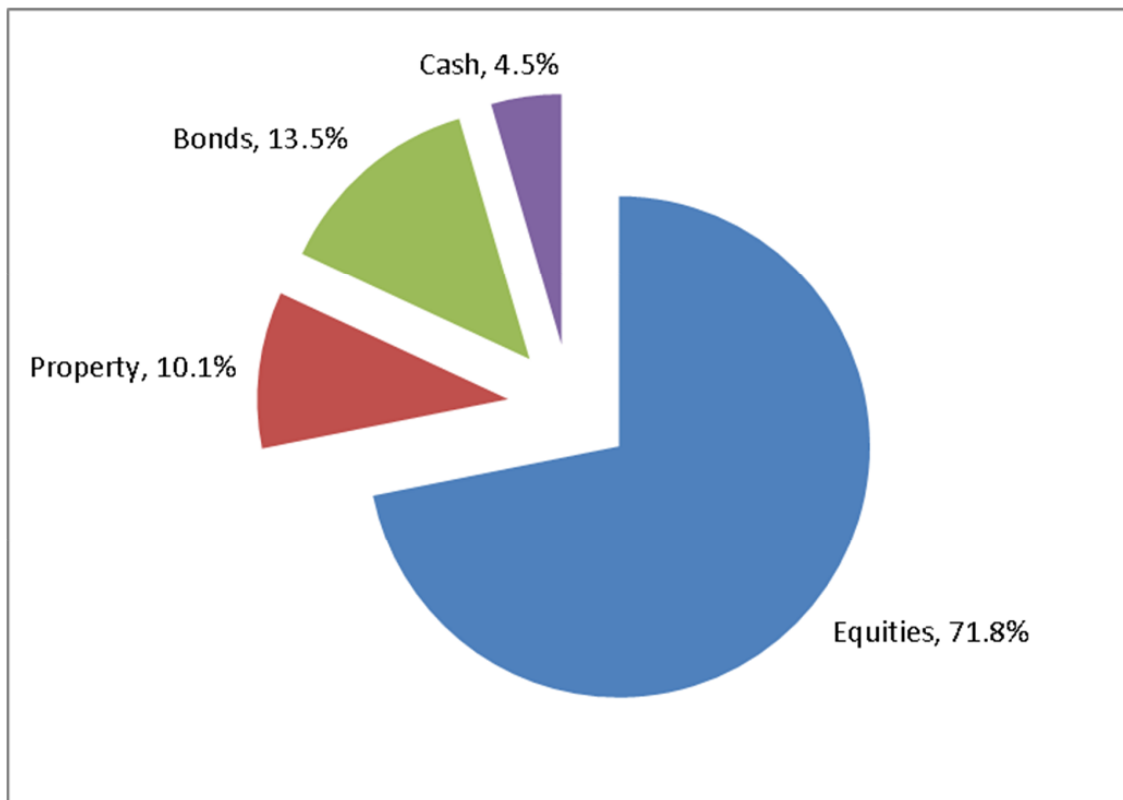
## Asset Allocation

The Fund's asset allocation currently favours 'growth assets' (equities and property) over 'defensive assets' (bonds and cash), as the former are expected to outperform the latter over the long-term. High levels of investment income obviate the need for the Fund to sell assets in

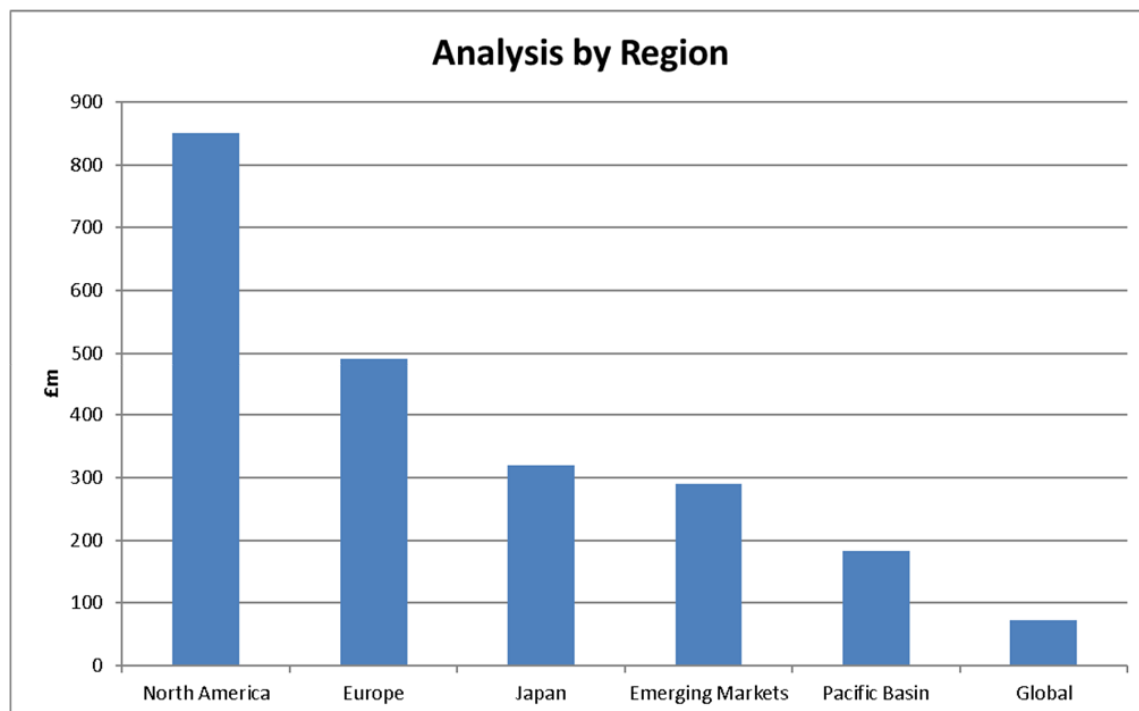
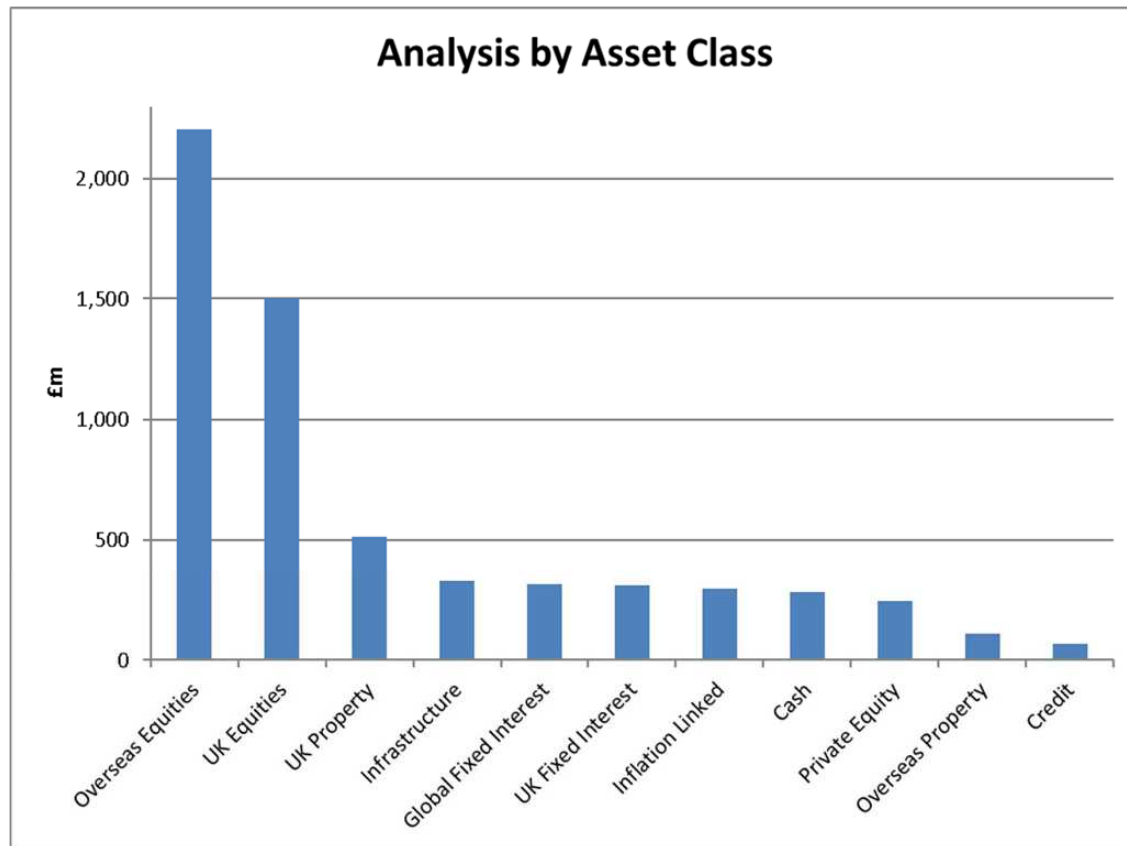
order to pay benefits, and thereby allows the Fund to implement a long-term investment strategy.

The agreed asset allocation ranges are those aimed at achieving best returns within acceptable risk parameters. These are shown below, together with the actual allocation as at the year-end:

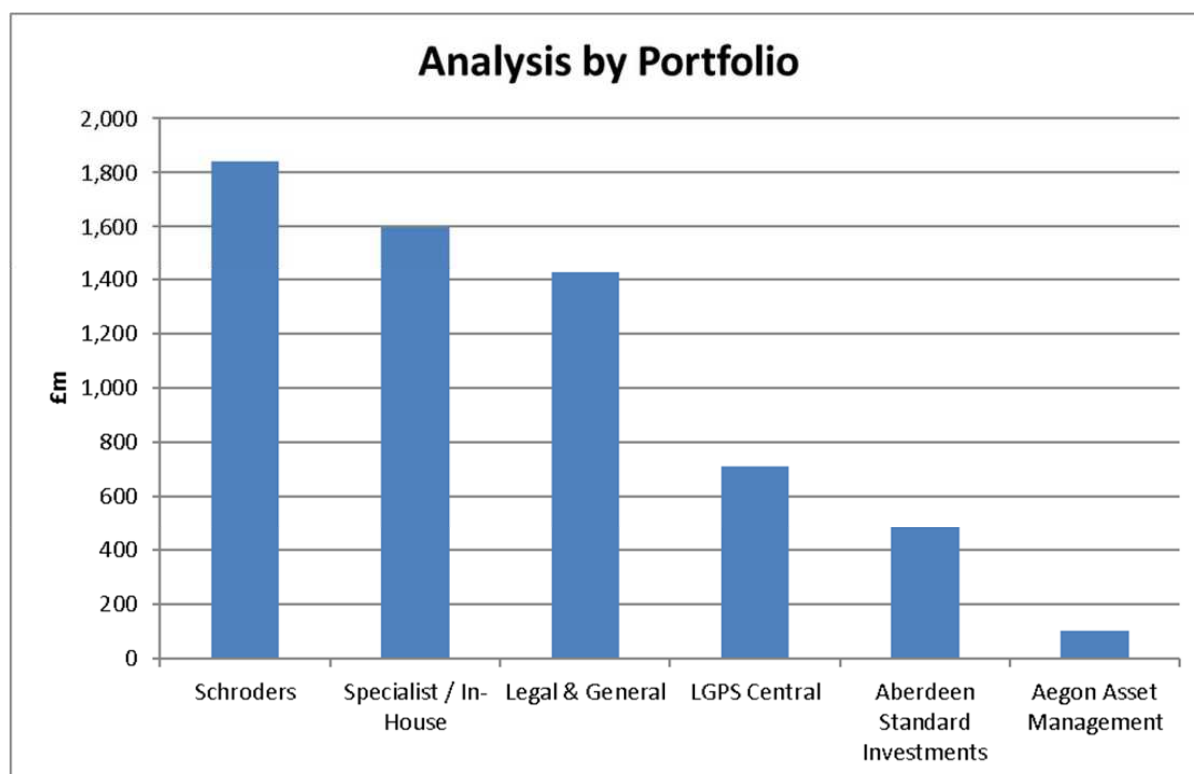
Asset Class	Allocation Range	Value (£000)	Allocation as at 31 Mar 2021
Equities	55% to 75%	4,434,099	71.8%
Property	5% to 25%	623,425	10.1%
Bonds	10% to 25%	834,884	13.5%
Cash	0% to 10%	279,433	4.5%
Total		6,171,841	100.0%



The charts below show the asset allocation of the Fund at 31 March 2021 in further detail, across classes and regions:



The Pension Fund Committee also determines the investment management arrangements to implement the agreed strategy. The assets of the Fund are managed within six portfolios and a breakdown of these as at 31 March 2021 is shown below:



The list of the Fund's 20 largest holdings is shown below. Combined, these represent 47% of the overall value of the Fund.

	£m
1 LEGAL & GENERAL UK EQUITY INDEX	558.3
2 LEGAL & GENERAL NORTH AMERICA EQUITY INDEX	330.1
3 LGPS CENTRAL GLOBAL ACT CORP BD MULTI MGR FD	315.5
4 AEGON KAMES DIVERSIFIED GROWTH FUND (CLASS B ACC)	295.3
5 LEGAL & GENERAL EUROPE (EX UK) EQUITY INDEX	204.1
6 RWC EURO FOCUS FUND CLASS 3SR - 2018	145.4
7 LEGAL & GENERAL ASIA PAC EX JAP DEV EQTY INDEX	126.3
8 LEGAL & GENERAL JAPAN EQUITY INDEX	124.2
9 LGPS CENTRAL EMERGING MKTS EQ ACT MULTI FUND A	116.1
10 RWC JAPAN STEWARDSHIP FUND PERF FEE CLASS 2 (2017)	114.1
11 ABERDEEN STANDARD EUROPEAN PROPERTY GROWTH	108.5
12 SCHRODER INSTL DEV MKTS FUND A UNITS	87.5
13 LEGAL & GENERAL WORLD EMERGING MARKETS	85.9
14 SCHRODER UT LTD INSTIT PACIFIC FUND INC	54.8
15 DORCHESTER CREDIT	48.2
16 SCHRODER INSTL UK SMALLER COS FUND X INCOME	47.1
17 GLAXOSMITHKLINE PLC ORD 25P	41.6
18 RENEWABLES INFRASTRUCTURE GR (TRIG)	41.5
19 BHP GROUP PLC COMM STK	40.0
20 DARWIN LEISURE DEVELOPMENT FUND A ACCUM UNITS	39.1
<b>Total</b>	<b>2,923.5</b>

## **Actuary's Statement as at 31 March 2021**

### **Introduction**

The last full triennial valuation of the Nottinghamshire County Council Pension Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

### **Asset value and funding level**

The results for the Fund at 31 March 2019 were as follows

The smoothed market value of the Fund's assets as at 31 March 2019 for valuation purposes was £5,415m.

The Fund had a funding level of 93% i.e. the assets were 93% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £405m.

### **Contribution rates**

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;

plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 17.9% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## Assumptions

The key assumptions used to value the benefits at 31 March 2019 are summarised below:

Assumption	31 March 2019
Discount rate	4.8% p.a.
Pension increases (CPI)	2.6% p.a.
Salary increases	3.6% p.a.
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Mortality	The post retirement mortality assumptions adopted are the S3PA tables with a multiplier of 110% for males and 105% for females, making allowance for CMI 2018 projected improvements and a long-term rate of improvement of 1.25% p.a. with additional initial rate of improvement of 0.5% p.a. and smoothing parameter of 7.5.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

## **Updated position since the 2019 valuation**

### **Assets**

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

### **Liabilities**

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

Please note that, from 31 March 2021, we have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.



## **Overall position**

On balance, we estimate that the funding position is likely to have fallen slightly when compared on a consistent basis to 31 March 2019 (allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate. Deficit contributions would also be slightly higher as a result of the worsening in the funding position.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There are also the other uncertainties around future benefits, relating to the McCloud and Sargeant cases and the ongoing cost cap management process.

The next formal valuation will be carried out as at 31 March 2022 with new contribution rates set from 1 April 2023.

**Barry McKay FFA**

**Partner, Barnett Waddingham LLP**

# Independent Auditor's Report

## Opinion

We have audited the financial statements of Nottinghamshire Pension Fund (the 'Pension Fund') administered by Nottinghamshire County Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Service Director - Finance, Infrastructure & Improvement's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Service Director - Finance, Infrastructure & Improvement's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of

practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Service Director - Finance, Infrastructure & Improvement's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Service Director - Finance, Infrastructure & Improvement with respect to going concern are described in the 'Responsibilities of the Authority, the Service Director - Finance, Infrastructure & Improvement and Those Charged with Governance for the financial statements' section of this report.

### **Other information**

The Service Director - Finance, Infrastructure & Improvement is responsible for the other information. The other information comprises the information included in the Annual Financial Report, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Annual Financial Report, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

## **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

## **Responsibilities of the Authority, the Service Director – Finance, Infrastructure & Improvement and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Service Director - Finance, Infrastructure & Improvement. The Service Director - Finance, Infrastructure & Improvement is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Service Director - Finance, Infrastructure & Improvement is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Governance and Ethics Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

This description forms part of our auditor's report.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Governance and Ethics Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Governance and Ethics Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, misstatement of significant estimates due to fraud and related party transactions. We determined that the principal risks were in relation to:
  - The use of journal entries and in particular;
  - Estimates and the use of unsupported or favourable assumptions which demonstrate indications of potential management bias;
  - Related party transactions undertaken outside the normal course of business.
- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Service Director - Finance, Infrastructure & Improvement has in place to prevent and detect fraud.
- journal entry testing, with a focus on all manual postings, journal entries that directly impacted on the net increase in net assets available for benefits, journal entries posted in the closing and accounts preparation period, postings made by unexpected users, frequency of postings by users and the use of suspense and net nil balance accounts.
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and level 3 investments and IAS 26 pensions liability valuations. In all cases, management adopted assumptions applied by management's expert in the calculations of estimates
- Review for undisclosed related parties and agreement of related party transactions to underlying evidence and consideration of these in line with our understanding of the operations of the pension fund; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations.
- Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*J Gregory*

John Gregory, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
Birmingham

**8 November 2021**



## **Pension Fund Accounts, Net Assets Statement and Notes**

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

The Authority administers the pension fund for over 330 participating employers and approximately 140,000 members. The employers include the County Council, the City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

The operation of the Fund is set out in published policy statements. Under the Governance Compliance Statement, the functions as administering authority of the Fund are delegated to the Nottinghamshire Pensions Fund Committee assisted in compliance matters by the Pensions Board. The Funding Strategy Statement sets out the aims and purpose of the Fund and details the responsibilities of the administering authority as regards funding the scheme.

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

The Administration Strategy which sets out the quality and performance standards expected of Nottinghamshire County Council in its role of administering authority and scheme employer, and those expected of other scheme employers within the Fund.

The Communications Strategy Statement details the overall strategy for involving stakeholders in the Fund. A key part of this strategy is a dedicated Fund website ([www.nottspf.org.uk](http://www.nottspf.org.uk)). This annual report, along with previous years' reports, is accessible via the pension fund website.

The annual report includes the accounts and the published policies as well as information on the performance of the fund. The accounts of the fund are set out over the following pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 requires:

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



## The Pension Fund Accounts

NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND			
FUND ACCOUNT			
	Notes	2019/20 £000	2020/21 £000
<b>Contributions</b>	4		
Employer contributions		(137,261)	(201,395)
Member contributions		(47,906)	(49,638)
		<b>(185,167)</b>	<b>(251,033)</b>
Transfers in from other pension funds		(9,655)	(5,581)
<b>Benefits</b>	5		
Pensions		171,375	179,425
Commutation of pensions and lump sum retirement benefits		35,699	31,607
Lump sum death benefits		5,050	5,237
		<b>212,124</b>	<b>216,269</b>
Payments to and on account of leavers	6	13,657	13,086
<b>Net (additions)/withdrawals from dealings with members</b>		<b>30,959</b>	<b>(27,259)</b>
Administration expenses	7	2,176	2,692
Oversight and governance expenses	8	1,460	1,804
Investment management expenses	9	4,995	4,370
<b>Net (additions)/withdrawals after fund management expense</b>		<b>39,590</b>	<b>(18,393)</b>
Investment Income	10	(130,410)	(84,822)
(Profits)/losses on disposal of investments & changes in value		483,224	(988,631)
Taxes on income		247	172
<b>Net Returns on Investments</b>		<b>353,061</b>	<b>(1,073,281)</b>
<b>Net (increase)/decrease in net assets available for benefits during the year</b>		<b>392,651</b>	<b>(1,091,674)</b>
Opening net assets of the Fund		5,433,063	5,040,412
<b>Closing net assets of the Fund</b>		<b>5,040,412</b>	<b>6,132,086</b>
The notes below form part of these Financial Statements.			

# NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

## NET ASSETS STATEMENT FOR THE YEAR ENDED

	Notes	31 March 2020 £000	31 March 2021 £000
Investment Assets	11 & 15		
Fixed Interest Securities		384,727	307,787
Equities		846,815	1,716,831
Pooled Investment Vehicles		3,145,087	3,517,348
Property		481,379	350,442
Cash deposits		151,744	210,083
Other Investment Balances	13	28,575	24,710
Investment liabilities	13	(5,387)	(4,762)
		<b>5,032,940</b>	<b>6,122,439</b>
Current assets	14	15,760	21,345
		<u>5,048,700</u>	<u>6,143,784</u>
Current liabilities	14	(8,288)	(11,698)
<b>Closing net assets of the Fund</b>		<b><u>5,040,412</u></b>	<b><u>6,132,086</u></b>

The actuarial present value of promised retirement benefits, as required by the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21*, is shown at note 2c.

# Notes to the Accounts

## NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

### NOTES TO THE ACCOUNTS

#### 1. Accounting Policies

##### (a) Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* (the Code). On issues where there is no clear guidance in the Code, reference has been made under the hierarchy of standards to *Financial Reports of Pension Schemes: a Statement of Recommended Practice 2018* (the Pensions SORP) or to individual International Accounting Standards (IAS). Disclosures required by IFRS 9 and 15 have been reflected in the accounts where material. Disclosures in the Pension Fund accounts have been limited to those required by the Code. Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. Three accounting standards have been issued but are not yet in force. These are IFRS 16, IAS 28 and IAS 19 - the impact of these on the Fund accounts would be immaterial.

The accounts have been prepared on a going concern basis.

The 2020 accounts were prepared amidst the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation on 11 March 2020 as a "Global Pandemic". This impacted global financial markets with significant volatility in valuations both before and after year end, and increased the uncertainty of fair value assessments at 31 March 2020.

Market activity was impacted in many sectors. The property valuation was reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global as the valuers do not consider that they can rely upon previous market evidence to fully inform opinions of value at the valuation date.

Furthermore private assets are based on valuations generally a quarter earlier and did not reflect the market impact of the pandemic, however the extent of this was not measurable at year end. Consequently the assessed valuation range in note 15b) was increased for 31 March 2020 to reflect the additional uncertainty.

The market situation recovered gradually over the last year with trading having returned in all sectors. Consequently the uncertainty over fair value valuations has returned to close to normal levels at 31 March 2021.

##### (b) Debtors and Creditors

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

##### (c) Investments

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

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

- Equities traded through a stock exchange are valued at the latest quoted price. Where more than one price is quoted the 'bid' price is used.
- Unit Trusts and managed funds are valued at the closing single price or the bid price where applicable. These reflect the market value of the underlying investments.

- Unquoted securities and pooled private equity investments are valued at fair value by the fund managers based on earnings, revenues and comparable valuations in accordance with industry accepted guidelines.
- The market value of fixed interest investments is based on the 'clean price', i.e. excludes income accrued at 31 March but not yet due for payment.
- Property investments are stated at open market value based on a quarterly independent external valuation in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards at the Net Assets Statement date based on lease terms, nature of tenancies, covenant strength, vacancy levels, estimated rental growth and discount rate.

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

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

Forward foreign exchange contracts are "over the counter contracts" under which two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. These are used to manage the economic exposure to bond markets and hedge against foreign currency movements. These contracts are included at fair value by determining the gain or loss that would arise from closing out the contract at the Net Assets Statement date by entering into an equal and opposite contract at that date. The movements on these contracts during the year are shown in the reconciliation of opening and closing balances of investments at note 11(b).

#### **(d) Investments Income**

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

- interest on cash deposits and fixed interest securities is accrued on a daily basis
- dividends from equities are accrued when the stock is quoted ex-dividend
- Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

#### **(e) Taxes on Income**

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

#### **(f) Foreign Currencies**

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at the rate ruling on the date of the transaction. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

**(g) Contributions**

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

**(h) Benefits Payable**

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

**(i) Transfers to and from Other Schemes**

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

**(j) Other Expenses**

Management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Nottinghamshire County Council charges the Fund with the costs it incurs in administering the scheme and the Fund. Fees and charges within pooled investment vehicles have the effect of reducing the fair value of those investments. These embedded costs are disclosed at note 10.

**(k) Property related income**

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

## 2. Operation of the Fund

**(a) General**

Nottinghamshire County Council is the Administering Authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire. The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

The Authority administers the Pension Fund for over 510 participating employers and over 145,000 members. The employers include Nottinghamshire County Council, Nottingham City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

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

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

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

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

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

The accounts of the Fund are set out in these pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 requires:

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

## **(b) Contributions and Solvency**

With effect from 1 April 2008 The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 were introduced. The principal changes from the 1997 regulations were: the replacement, for future service, of the existing benefits structure (based on a pension of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump sum of three times this amount) by one based on 1/60th of pensionable pay for each year of pensionable service and no automatic lump sum. Under the 2008 scheme, employees were required to make percentage contributions by deduction from earnings at a rate between 5.5% and 7.5% depending on salary.

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

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

### (c) Actuarial Valuations

As required by the Regulations an Actuarial Valuation of the Fund was carried out as at 31 March 2019. The market value of the Fund's assets at the valuation date was £5,433 million. The Actuary has estimated that the value of the Fund was sufficient to meet 93% of its expected future liabilities in respect of service completed to 31 March 2019. The certified contribution rates are expected to improve this to 100% within a period of 19 years. The full actuarial valuation report is available on the Fund's website at [www.nottspf.org.uk](http://www.nottspf.org.uk).

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

<b>31 March 2019</b>	
	<b>% pa</b>
Expected investment returns:	
Equities	6.7
Gilts	1.7
Property and Infrastructure	6.1
Discount Rate	4.8
Retail price inflation (RPI)	3.6
Consumer price inflation (CPI)	2.6
Long term pay increases	3.6
Pension Increases	2.6

The 2019 valuation produced an average employer contribution rate of 21.6%. Employer contributions were certified by the actuaries for the years 2020/21 to 2022/23. For the majority of employers, the rate for future service accrual was certified as a percentage of salary with an additional cash amount specified for deficit recovery. The following list shows the contributions payable by the main employers as certified in the final report:

<b>Certified employer contributions</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
Nottinghamshire County Council	18.7%	18.7%	18.7%
Plus:	£7,424,000	£7,695,000	£7,975,000
Nottingham City Council	17.9%	17.9%	17.9%
Plus:	£8,544,000	£8,855,000	£9,178,000
Ashfield District Council	18.0%	18.0%	18.0%
Plus:	£1,546,000	£1,603,000	£1,661,000
Bassetlaw District Council	19.6%	19.6%	19.6%
Plus:	£919,000	£953,000	£988,000
Broxtowe Borough Council	18.0%	18.0%	18.0%
Plus:	£264,000	£273,000	£283,000
Gedling Borough Council	18.2%	18.2%	18.2%
Plus:	£413,000	£428,000	£443,000
Mansfield District Council	19.5%	19.5%	19.5%
Plus:	£1,789,000	£1,855,000	£1,922,000
Newark and Sherwood District Council	17.5%	17.5%	17.5%
Plus:	£771,000	£800,000	£829,000
Rushcliffe Borough Council	17.6%	17.6%	17.6%
Plus:	£950,000	£985,000	£1,021,000

A number of employers have made accelerated payments for their future years' deficit recovery amounts.

#### (d) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits has been calculated by the Fund's actuaries in accordance with IAS 26. To do this, the actuaries rolled forward the value of the Employers' liabilities calculated for the Triennial valuation as at 31 March 2019 allowing for the different financial assumptions required under IAS 26. The assumptions used for the purposes of the IAS 26 calculations (which are consistent with IAS 19) are as follows:

	31 March 2019		31 March 2020		31 March 2021	
	% pa	Real % pa	% pa	Real % pa	% pa	Real % pa
RPI Increases	3.4	-	2.7	-	3.2	-
CPI increases	2.4	(1.0)	1.9	(0.8)	2.9	(0.3)
Salary Increases	3.9	0.5	2.9	0.2	3.9	0.7
Pension Increases	2.4	(1.0)	1.9	(0.8)	2.9	(0.3)
Discount Rate	2.4	(1.0)	2.4	(0.3)	2.0	(1.2)
Mortality assumptions:						
Longevity at 65 for current pensioners						
Men (years)			21.8		21.6	
Women (years)			24.4		24.3	
Longevity at 65 for future pensioners						
Men (years)			23.2		22.9	
Women (years)			25.8		25.7	
Estimated return on assets			-7%		22%	

Members will exchange half of their commutable pension for cash at retirement.

The net liability under IAS 26 is shown below.

	31 March 2019 £000	31 March 2020 £000	31 March 2021 £000
Present value of funded obligation	8,769,711	8,315,005	10,909,533
Fair value of Fund assets	5,406,638	5,009,752	6,102,491
<b>Net Liability</b>	<b>3,363,073</b>	<b>3,305,253</b>	<b>4,807,042</b>

The present value of funded obligation consists of £10,703.2 million in respect of vested obligation and £206.3 million in respect of non-vested obligation.

A ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. The ruling will have implications for the Local Government Pension Scheme which also moved from a final salary to a career average salary scheme. The IAS 26 figures included in the accounts reflect the estimated impact of the McCloud Judgement.

**These figures are presented only for the purposes of IAS 26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.**



#### **(e) Investment Strategy**

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

During 2020/21 the Nottinghamshire Pension Fund Committee, was responsible for determining the investment strategy of the Fund and the type of investment management to be used. The Pension Fund Committee consisted of nine elected County Councillors (voting members), three representatives of Nottingham City Council, two representatives of the District Councils, two representatives of the Trade Unions, a representative elected by the other scheduled and admitted bodies and two appointed pensioner representatives (non voting members). Meetings were also attended by an independent adviser and representatives of the Chief Financial Officer.

The investments were managed by officers of the Authority or by organisations specialising in the management of pension fund assets. The Pension Fund Committee was responsible for monitoring performance of the fund and met on a quarterly basis to review the Fund's main investment managers and their performance.

#### **(f) Critical Judgements**

The Fund's investment portfolio includes a number of directly owned properties which are leased commercially to various tenants. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg if there is a premium paid at the inception of the lease).

#### **(g) Major sources of estimation uncertainty**

In applying the accounting policies set out in Note 1 above, the Authority has had to make certain estimates about complex transactions or those involving uncertainty about future events. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

**Pension Fund Liability** - The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 2 c). The impact of a 0.1% change in the discount rate is shown in Note 15 c). Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

**Property Investments** - Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data. The impact of a variation of 5% on valuation is shown in Note 15 b).

**Level 3 Investments** - Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation. The impact of a variation of 15% on valuation is shown in Note 15 b).

#### (h) External Audit

A separate fee is payable to Grant Thornton UK LLP for audit of the Pension Fund. All fees have been included in the accounts for the period to which they relate. The fee for 2020/21 is £35,293 (£27,293 for 2019/20).

Non-audit fees in respect of IAS 19 assurance for 2020/21 are £7,500 (2019/20: £7,500).

### 3. Contributors and Pensioners

	Members at 31 March 2021				Total
	County Council	City Council	District Councils	Other	
Contributors	14,404	7,405	3,328	18,820	43,957
Deferred Beneficiaries	25,405	12,834	4,386	18,310	60,935
Pensioners	18,393	8,233	5,039	8,816	40,481
					<b>145,373</b>

	Members at 31 March 2020				Total
	County Council	City Council	District Councils	Other	
Contributors	15,879	8,064	3,428	20,685	48,056
Deferred Beneficiaries	24,150	12,507	4,358	14,987	56,002
Pensioners	17,793	7,826	4,938	8,197	38,754
					<b>142,812</b>

### 4. Analysis of Contributions

	Employers		Members		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
County Council	31,371	60,057	12,267	12,717	43,638	72,774
Scheduled Bodies	98,961	133,910	33,378	34,676	132,339	168,586
Admitted Bodies	6,929	7,428	2,261	2,245	9,190	9,673
	<b>137,261</b>	<b>201,395</b>	<b>47,906</b>	<b>49,638</b>	<b>185,167</b>	<b>251,033</b>

### 5. Analysis of Benefits

	2019/20 £000	2020/21 £000
Pensions	171,375	179,425
Commutation and lump sum	35,699	31,607
Lump sum death benefits	5,050	5,237
	<b>212,124</b>	<b>216,269</b>
Comprising of:		
County Council	79,575	80,726
Scheduled Bodies	122,965	126,936
Admitted Bodies	9,584	8,607
	<b>212,124</b>	<b>216,269</b>

**6. Payments to and on account of leavers**

	2019/20 £000	2020/21 £000
Refunds to members leaving the Fund	497	444
Payments for members joining state scheme	162	(109)
Group transfers to other funds	-	-
Individual transfers to other funds	12,998	12,751
	<b>13,657</b>	<b>13,086</b>

**7. Administration Expenses**

	2019/20 £000	2020/21 £000
Printing and stationery	8	8
Legal fees	16	27
Other external fees	398	502
Bad debts	-	252
Administering Authority Costs	1,754	1,903
	<b>2,176</b>	<b>2,692</b>

**8. Oversight and Governance Expenses**

	2019/20 £000	2020/21 £000
Training and conferences	2	-
Printing and stationery	2	-
Subscriptions and membership fees	40	24
Actuarial fees	70	35
Audit fees	27	35
Legal fees	-	-
Other external fees	965	1,337
Administering Authority Costs	354	373
	<b>1,460</b>	<b>1,804</b>

Other external fees include the Fund's share of the running costs of LGPS Central Ltd.

## 9. Investment Management Expenses

	2019/20 £000	2020/21 £000
Legal fees	-	11
Custody fees	299	274
Investment management fees	4,614	4,059
Other external fees	65	10
Administering Authority Costs	17	16
	<b>4,995</b>	<b>4,370</b>

The investment management fees shown above are those fees attributable to external managers and charged directly to the Fund. Additional fees and charges are incurred through pooled investment vehicles. These have the effect of reducing the fair value of the investments. The estimated embedded costs within pooled investment vehicles were £13.3 million in 2020/21 (£13.3 million in 2019/20).

## 10 Investment Income

Analysis by type of investment	2019/20 £000	2020/21 £000
Interest from fixed interest securities	(21,980)	(8,856)
Dividends from equities	(42,287)	(43,080)
Income from pooled investment vehicles	(35,880)	(6,735)
Income from property pooled vehicles	(6,005)	(5,095)
Net rents from property	(22,011)	(19,491)
Interest on cash deposits	(1,335)	(333)
Other	(912)	(1,232)
	<b>(130,410)</b>	<b>(84,822)</b>
Directly held property		
Rental income	(23,989)	(21,850)
Less operating expenses	1,978	2,359
<b>Net rents from property</b>	<b>(22,011)</b>	<b>(19,491)</b>

The future minimum lease payments receivable by the Fund are as follows:

	2019/20 £000	2020/21 £000
Within one year	23,909	18,606
Between one and five years	82,690	65,893
Later than five years	213,681	193,200
<b>Future lease payments due under existing contracts</b>	<b>320,280</b>	<b>277,699</b>

## 11. Investments

(a) Investment Analysis	31 March 2020 £000	31 March 2021 £000
Fixed Interest Securities		
UK Public Sector	208,155	205,032
UK Other	176,572	102,755
Overseas Other	-	-
Equities		
UK	667,552	979,966
Overseas	174,959	734,865
Unlisted	4,304	2,000
Pooled Investment Vehicles		
Unit Trusts	1,252,280	1,176,296
Other Managed Funds	1,627,204	2,068,069
Pooled Vehicles Invested in Property		
Property Unit Trusts	116,997	112,721
Other Managed Funds	148,606	160,262
Property	481,379	350,442
Cash and Currency	151,744	210,083
<b>Total Investments</b>	<b>5,009,752</b>	<b>6,102,491</b>

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

	31 March 2020 £000	31 March 2021 £000
Market Value	5,009,752	6,102,491
Original Value	4,733,655	5,195,947
<b>Excess of Market Value over Original Value</b>	<b>276,097</b>	<b>906,544</b>

### (b) Reconciliation of Opening and Closing Values of Investments 2020/21

	Value at 1 April 2020 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2021 £000
Fixed Interest Securities	384,727	80,582	(141,508)	(16,014)	307,787
Equities	846,815	1,010,580	(485,477)	344,913	1,716,831
Pooled Investment Vehicles	2,879,484	260,526	(615,780)	720,135	3,244,365
Property Pooled Vehicles	265,603	14,747	(843)	(6,524)	272,983
Property	481,379	670	(77,728)	(53,879)	350,442
	<b>4,858,008</b>	<b>1,367,105</b>	<b>(1,321,336)</b>	<b>988,631</b>	<b>5,892,408</b>
Cash deposits	151,744				210,083
	<b>5,009,752</b>				<b>6,102,491</b>

## Reconciliation of Opening and Closing Values of Investments 2019/20

	Value at 1 April 2019 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31 March 2020 £000
Fixed Interest Securities	677,054	324,838	(639,019)	21,854	384,727
Equities	1,008,561	290,444	(249,355)	(202,835)	846,815
Pooled Investment Vehicles	2,858,772	565,989	(259,910)	(285,367)	2,879,484
Property Pooled Vehicles	248,361	16,164	(1,551)	2,629	265,603
Property	483,262	28,517	(9,350)	(21,050)	481,379
	<b>5,276,010</b>	<b>1,225,952</b>	<b>(1,159,185)</b>	<b>(484,769)</b>	<b>4,858,008</b>
Forward Foreign Exchange	(25)	92,166	(93,686)	1,545	-
	<b>5,275,985</b>	<b>1,318,118</b>	<b>(1,252,871)</b>	<b>(483,224)</b>	<b>4,858,008</b>
Cash deposits	130,653				151,744
	<b>5,406,638</b>				<b>5,009,752</b>

Transaction costs are included in the cost of purchases and sale proceeds. The costs charged directly to the Fund, such as fees, commissions and stamp duty, amounted to £2.3 million in 2020/21 (£1.8 million in 2019/20). In addition, indirect costs are incurred through the bid-offer spread on investments. This amount is not separately provided.

### (c) Management Arrangements

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

	31 March 2020 £000		31 March 2021 £000	
Core Index	1,110,544	22.2%	1,445,553	23.7%
Schroder Active Equities	1,297,411	25.9%	1,840,496	30.1%
LGPS Central			713,069	11.7%
Fixed Interest	681,429	13.6%	102,755	1.7%
Aberdeen Property	610,486	12.2%	487,880	8.0%
Specialist	1,309,882	26.1%	1,512,738	24.8%
<b>Total</b>	<b>5,009,752</b>	<b>100.0%</b>	<b>6,102,491</b>	<b>100.0%</b>

Investments managed by LGPS Central Ltd were brought together in a new portfolio during the year. The majority of the Fund's Fixed Interest investments are now managed by LGPS Central Ltd.

A breakdown of material pooled holdings managed by external managers within the Core Index, Schroders, LGPS Central and Specialist portfolios is shown below:

	31 March 2020 £000	31 March 2021 £000
<b>Core Index</b>		
Legal & General	1,065,133	1,428,946
<b>Schroders</b>		
Schroders	533,940	227,251
<b>LGPS Central</b>		
LGPS Central	283,738	507,991
<b>Specialist</b>		
Aegon Asset Management*	265,908	371,778
RWC Capital	177,543	266,767
Darwin	79,444	82,752

\* previously Kames Capital

The following investments represent over 5% of the net assets of the Fund.

	Market Value 31 March 2020 £000	% of Fund	Market Value 31 March 2021 £000	% of Fund
Legal & General UK Equity Index	439,566	8.7%	558,323	9.1%
Legal & General North America Equity Index	231,170	4.6%	330,087	5.4%
Schroder North American Equity Fund	409,042	8.1%	-	-
LGPS Central Global Corporate Bonds Fund	283,738	5.6%	315,508	5.2%

The Schroder North American Equity Fund was replaced with directly held stocks during the year.

#### (d) Asset Allocation

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

	31 March 2020 £000		31 March 2021 £000	
UK Fixed Interest	384,727	7.7%	307,787	5.0%
Overseas Fixed Interest	283,738	5.7%	315,508	5.2%
UK Equities	1,082,969	21.6%	1,502,972	24.6%
Overseas Equities:				-
US	641,947	12.8%	851,016	14.0%
Europe	362,238	7.2%	490,939	8.0%
Japan	241,134	4.8%	319,747	5.2%
Pacific Basin	120,864	2.4%	183,321	3.0%
Emerging Markets	197,797	3.9%	289,497	4.8%
Global Equities	26,085	0.5%	72,112	1.2%
UK Property	636,890	12.7%	514,046	8.4%
Overseas Property	110,092	2.2%	109,379	1.8%
Private Equity	218,264	4.4%	243,328	4.0%
Infrastructure	311,677	6.2%	330,065	5.4%
Credit	52,421	1.0%	67,402	1.1%
Multi-Asset	187,165	3.7%	295,289	4.9%
Forward Foreign Exchange	-	-	-	-
Cash	151,744	3.0%	210,083	3.4%
<b>Total</b>	<b>5,009,752</b>	<b>100.0%</b>	<b>6,102,491</b>	<b>100.0%</b>

**(e) Property**

Direct property is shown at open market value (as defined by the International Valuation Standards Committee) as determined by Savills Commercial Limited. The valuation for 31 March 2020 was provided subject to a material uncertainty clause.

	31 March 2020 £000	31 March 2021 £000
Freehold	455,029	342,542
Leasehold more than 50 years	26,350	7,900
	<b>481,379</b>	<b>350,442</b>
Original Value	410,348	323,203

Details of movements on directly owned properties are as follows:-

	31 March 2020 £000	31 March 2021 £000
<b>Opening balance</b>	<b>483,262</b>	<b>481,379</b>
Additions:		
Purchases	201	-
New construction	27,605	(2)
Subsequent expenditure	711	663
Disposals	(9,000)	(87,150)
Net (decrease) in market value	(21,400)	(44,448)
Other changes in fair value	-	-
<b>Closing balance</b>	<b>481,379</b>	<b>350,442</b>



**(f) Analysis of Pooled Investment Vehicles**

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

	31 March 2020 £000	31 March 2021 £000
Global Fixed Interest	283,738	315,508
UK Equities	512,668	645,457
Overseas Equities:		
US	640,212	330,507
Europe	249,090	356,770
Japan	181,059	241,783
Pacific Basin	120,864	181,099
Emerging Markets	197,797	289,497
Global	26,085	72,112
UK Property	155,511	163,603
Overseas Property	110,092	109,379
Private Equity	213,961	241,328
Infrastructure	214,424	207,614
Credit	52,421	67,402
Multi-Asset	187,165	295,289
<b>Total</b>	<b><u>3,145,087</u></b>	<b><u>3,517,348</u></b>

**(g) Private Equity and Infrastructure Funds**

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

	<b>Currency</b>	<b>Commitment</b> millions
<b>Private Equity Funds</b>		
Wilton Private Equity Fund	USD	13
Pantheon Europe Fund III	EUR	10
East Midlands Regional Venture Capital Fund	GBP	4
Schroders Private Equity Fund of Funds III	EUR	22
DCM Private Equity Fund II	USD	18
Pantheon Europe Fund V	EUR	15
Coller International Partners V	USD	18
Catapult Growth Fund	GBP	4
Altius Associates Private Equity Fund	USD	10
Partners Group Secondary 2008	EUR	13
DCM Private Equity Fund III	USD	16
Coller International Partners VI	USD	16
Altius Associates Private Equity Fund II	USD	15
Foresight Nottingham Fund	GBP	10
Aberdeen SVG Private Equity	USD	15
DCM Private Equity Fund IV	USD	16
Coller International VII	USD	16
Pantheon Multi-Strategy	EUR	14
Capital Dynamics CPEV 15-16	GBP	10
Capital Dynamics CPEV 16-17	GBP	10
Capital Dynamics CPEV 17-18	GBP	10
YFM Equity Partners Buyout Fund I	GBP	10
Darwin Leisure Development Fund	GBP	30
Darwin Leisure Property Fund	GBP	20
Capital Dynamics CPEV 17-18	GBP	10
Darwin Bereavement Services Fund	GBP	20
Capital Dynamics CPEP 18-19	GBP	10
YFM Buyout Fund II	GBP	15
LGPS Central PE Primary Fund 2018	GBP	10
LGPS Central PE Co-Investments 2018	GBP	5
Coller International VIII	USD	35
Dorchester Capital Secondaries Offshore V	USD	50
BGF	GBP	7
<b>Infrastructure Funds</b>		
Partners Group Global Infrastructure	EUR	12
Altius Real Assets Fund I	USD	15
Hermes GPE Infrastructure Fund	GBP	25
AMP Capital Global Infrastructure Fund	USD	34
SL Capital Infrastructure	GBP	15
JP Morgan IIF UK 1	USD	22
Green Investment Bank Offshore Wind Fund	GBP	15
MacQuarie European Infrastructure Fund 5	EUR	30
Equitix Fund IV LP	GBP	20
Hermes GPE Infrastructure II	GBP	25
Equitix Fund V	GBP	10
SL Capital Infrastructure II	EUR	30
Capital Dynamics Clean Energy and Infrastructure VIII	GBP	20

These commitments are drawn by the funds over time as investments are made in underlying companies or assets. The undrawn commitments as at 31 March 2021 were £167.2 million (£190.4 million at 31 March 2020). Of the funds above, the following were new commitments made during 2020/21:-

	Currency	Commitment millions
BGF	GBP	7
Capital Dynamics Clean Energy and Infrastructure VIII	GBP	10
SL Capital Infrastructure II	EUR	10

#### (h) Analysis of derivatives

There were no derivatives held at 31 March 2021 or 31 March 2020.

### 12. Contingent Liabilities

The Fund has no contingent liabilities.

### 13. Other Investment Balances and Liabilities

	31 March 2020 £000	31 March 2021 £000
Other investment balances		
Outstanding investment transactions	-	-
Investment income	28,575	24,710
	<u>28,575</u>	<u>24,710</u>
Investment Liabilities		
Outstanding investment transactions	-	-
Investment income	(5,387)	(4,762)
	<u>(5,387)</u>	<u>(4,762)</u>

### 14. Current Assets and Liabilities

	31 March 2020 £000	31 March 2021 £000
Current assets		
Contributions due from employers	12,065	17,273
Other	3,696	4,072
	<u>15,760</u>	<u>21,345</u>
Current Liabilities		
Payments in advance	-	-
Sundry creditors	(7,809)	(11,097)
Other	(479)	(601)
	<u>(8,288)</u>	<u>(11,698)</u>

## 15. Financial Instruments and Property Investments

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

31 March 2021				
	Financial assets measured at Fair Value through profit and loss £000	Assets at amortised cost £000	Financial liabilities at amortised cost £000	Totals £000
<b>Financial Assets</b>				
Fixed Interest Securities	307,787	-	-	307,787
Equities	1,716,831	-	-	1,716,831
Pooled Investment Vehicles	3,244,365	-	-	3,244,365
Property Pooled Vehicles	272,983	-	-	272,983
Cash deposits	-	210,083	-	210,083
Other investment balances	-	24,710	-	24,710
Current Assets	-	21,345	-	21,345
	<b>5,541,966</b>	<b>256,138</b>	<b>-</b>	<b>5,798,104</b>
<b>Financial Liabilities</b>				
Investment Liabilities	-	-	(4,762)	(4,762)
Current Liabilities	-	-	(11,698)	(11,698)
	-	-	(16,460)	(16,460)
	<b>5,541,966</b>	<b>256,138</b>	<b>(16,460)</b>	<b>5,781,644</b>

31 March 2020				
	Financial assets measured at Fair Value through profit and loss £000	Assets at amortised cost £000	Financial liabilities at amortised cost £000	Totals £000
<b>Financial Assets</b>				
Fixed Interest Securities	384,727	-	-	384,727
Equities	846,815	-	-	846,815
Pooled Investment Vehicles	2,879,484	-	-	2,879,484
Property Pooled Vehicles	265,603	-	-	265,603
Cash deposits	-	151,744	-	151,744
Other investment balances	-	28,575	-	28,575
Current Assets	-	15,760	-	15,760
	<b>4,376,629</b>	<b>196,079</b>	<b>-</b>	<b>4,572,708</b>
<b>Financial Liabilities</b>				
Investment Liabilities	-	-	(5,387)	(5,387)
Current Liabilities	-	-	(8,288)	(8,288)
	-	-	(13,675)	(13,675)
	<b>4,376,629</b>	<b>196,079</b>	<b>(13,675)</b>	<b>4,559,033</b>

No financial assets were reclassified during the accounting period.

## (b) Valuation of financial instruments and Property Investments carried at fair value

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

- Level 1 Fair values derived from quoted market price.  
- this includes all quoted equity, fixed interest and index linked instruments.
- Level 2 Fair values derived from valuation techniques based significantly on observable inputs.  
- this includes all pooled property investments.
- Level 3 Fair values derived from valuation techniques where at least one significant input is not based on observable market data.  
- this includes unlisted shares and investments in private equity funds.  
- following guidance from IFRS13 Property is included in level 3.

The basis of valuation, inputs and key sensitivities for level 2 and 3 investments are described below.

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments – property funds	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Freehold and leasehold properties	Property investments are stated at open market value based on a quarterly independent external valuation in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards at the Net Assets Statement date.	<ul style="list-style-type: none"><li>• lease terms</li><li>• nature of tenancies</li><li>• covenant strength</li><li>• vacancy levels</li><li>• estimated rental growth</li><li>• discount rate</li></ul>	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Unquoted equities	Unquoted securities and pooled private equity investments are valued at fair value by the fund managers in accordance with industry accepted guidelines.	<ul style="list-style-type: none"><li>• earnings</li><li>• revenue</li><li>• comparable valuations</li></ul>	Valuations could be affected by post balance sheet events, changes to expected cashflows, or by any differences between audited and unaudited accounts

As at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial Assets</b>				
Fair value through profit and loss				
Financial instruments	4,750,639	272,983	518,344	5,541,966
<b>Non Financial Assets</b>				
Fair value through profit and loss				
Freehold and leasehold property	-	-	350,442	350,442
<b>Total</b>	<b>4,750,639</b>	<b>272,983</b>	<b>868,786</b>	<b>5,892,408</b>
<b>Financial Liabilities</b>				
Liabilities	-	-	-	-
Financial liabilities	(16,460)	-	-	(16,460)
<b>Total</b>	<b>(16,460)</b>	<b>-</b>	<b>-</b>	<b>(16,460)</b>
<b>Net</b>	<b>4,734,179</b>	<b>272,983</b>	<b>868,786</b>	<b>5,875,948</b>

As at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial Assets</b>				
Fair value through profit and loss				
Financial instruments	3,625,917	265,603	485,109	4,376,629
<b>Non Financial Assets</b>				
Fair value through profit and loss				
Freehold and leasehold property	-	-	481,379	481,379
<b>Total</b>	<b>3,625,917</b>	<b>265,603</b>	<b>966,488</b>	<b>4,858,008</b>
<b>Financial Liabilities</b>				
Liabilities	-	-	-	-
Financial liabilities	(13,675)	-	-	(13,675)
<b>Total</b>	<b>(13,675)</b>	<b>-</b>	<b>-</b>	<b>(13,675)</b>
<b>Net</b>	<b>3,612,242</b>	<b>265,603</b>	<b>966,488</b>	<b>4,844,333</b>

#### Reconciliation of Fair Value measurements within Level 3

	Freehold and leasehold property £000	Private equity and unlisted shares £000
<b>Market value 1 April 2020</b>	<b>481,379</b>	<b>485,109</b>
Transfers into level 3	-	-
Transfers out of level 3	-	-
Purchases during the year	670	12,081
Sales during the year	(77,728)	(6,705)
Unrealised gains / (losses)	(43,793)	5,111
Realised gains / (losses)	(10,086)	22,748
<b>Market value 31 March 2021</b>	<b>350,442</b>	<b>518,344</b>

### Sensitivity of assets valued at level 3

	Assessed valuation range (+/-)	Value at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Freehold and leasehold property	5%	350,442	367,964	332,920
Private equity and unlisted shares	15%	518,344	596,096	440,592
<b>Total</b>		<b>868,786</b>	<b>964,060</b>	<b>773,512</b>

### (c) Nature and extent of risks arising from financial instruments

The aims of the Fund are to:

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

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

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

The Risk Register identifies the highest risks as arising from:

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

Actions have been agreed to mitigate these risks.

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

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

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

Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present Value of Total Obligation (£000)	10,682,987	10,909,533	11,141,113

The Fund deficit at the last triennial valuation was £405 million.

For the first time in 2013/14 there was a net withdrawal from dealings with members. Since then the net withdrawal/contribution has generally been relatively small. In 2020/21 the Fund experienced a net increase from dealings with members due to employer lump sum deficit contributions.

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

The investment strategy is aimed at achieving best returns in line with the requirements of the triennial valuation whilst minimising risk and overall variability in future employers' contribution rates. Specific risks arising from financial instruments include market risk, interest rate risk, currency risk, credit risk and liquidity risk (described in more detail below). These risks are managed within the Fund through diversification of assets, careful selection of managers and counter parties, and prudent treasury management. The level of risk in the equities block is managed by a balance between passive and active management.

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

### **Market risk**

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

### **Interest rate risk**

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

### **Currency risk**

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling.

### **Credit risk**

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high-quality counterparts, brokers and financial institutions minimises credit risk that may occur through the failure of third parties to settle transactions in a timely manner. The Fund has also set limits as to the maximum sum placed on deposit with individual financial institutions. Money market funds chosen all have AAA rating.

The Pension Fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

### **Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The pension fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. The Fund's cash holding under its treasury management arrangements at 31 March 2021 was £210.1m (31 March 2020: £151.7m).



## 16. Members Additional Voluntary Contributions

The Nottinghamshire Fund provides an additional voluntary contribution (AVC) scheme to enable members to purchase additional benefits. Contributions are paid over to, and invested separately by, the two scheme providers, Prudential and Scottish Widows. The contributions are not included in the Fund's accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The value of the separately invested AVCs is shown below:

	31 March 2020 £000	31 March 2021 £000
Prudential	32,559	32,559
Scottish Widows	3,275	3,528
	<u>35,834</u>	<u>36,087</u>

## 17. Related Party Transactions

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

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

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

Disclosures are required for:

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

Nottinghamshire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire and is one of the major employers within the scheme. Information regarding key management personnel is provided within the main accounts of Nottinghamshire County Council. The proportion recharged to the Pension Fund is as follows:-

#### 2020-21

Post Holder information (Post title and name (where applicable))	Note	Salary (including fees & allowances) £	Expenses £	Compensation for Loss of Office £	Employer Pension contributions* £	Total Remuneration £
Service Director (Customers, Governance and Employees)	1	15,446	-	-	3,429	18,875
Service Director (Finance, Infrastructure & Improvement)	2	20,595	-	-	4,572	25,167

\*Pension Contributions are estimated at 22.2% to account for the pensions deficit and are adjusted in accordance with IAS19

1. The Service Director for Customers, Governance and Employees has the statutory responsibility of the Monitoring Officer.
2. The post of Service Director (Finance, Infrastructure and Improvement) has the statutory responsibility of S151 Officer.

Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Nottinghamshire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.

LGPS Central Ltd has been established to manage investment assets on behalf of eight LGPS funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the Pool and is a joint venture in accordance with IFRS 11. Control of LGPS Central Ltd is primarily through the Shareholders Forum, governed by a Shareholders Agreement and operating under company law, which has formal decision making powers. Nottinghamshire Pension Fund has equal voting rights alongside the other participating funds and unanimous decisions are required on key strategic matters. These are specified in the Shareholders Agreement and Articles of Association, and include the appointment and dismissal of the company's senior executives, approval of the company's strategic plan and any significant financial transactions, such as major acquisitions, lending or borrowing.

£1,315,000 has been invested in share capital and £685,000 in a loan to LGPS Central Ltd. This is held at historic cost and are the balances at year end, unchanged from 2019/20. The Fund earned £32,000 in interest during the year (£36,000 in 2019/20) and £32,000 was owed to the Fund at the end of the year (£36,000 in 2019/20).

LGPS Central Ltd has charged £1,057,000 in operating and investment management costs during the year (2019/20 £966,000), of which £195,000 (2019/20 £297,000) was outstanding at year end.

Nottinghamshire Pension Fund has guaranteed a share of the pension liability relating to employees of LGPS Central Ltd that transferred into the company on creation.

Over time, LGPS Central Ltd will manage an increasing proportion of the Pension Fund's investments. At 31 March 2021 investments worth £713.02 million (31 March 2020 £398.41 million) were invested in LGPS Central Ltd funds.

## 18. Post Balance Sheet Events

No post balance sheet events have been identified.

The year end valuation of assets may be significantly different from the valuation of assets at any date after 31 March 2021 due to volatility in the markets. The value of assets as reported in the quarterly valuation report to 30 June 2021 has risen by £285.6m (4.6%). This is considered to be a non-adjusting post balance sheet event that does not change the valuation on 31 March 2021

## LGPS Central (LGPSC) Pool

Nottinghamshire County Council - in conjunction with the administering authorities of Cheshire, Derbyshire, Leicestershire, Shropshire, Staffordshire, West Midlands and Worcestershire - has established of a multi asset investment pool called LGPS Central (LGPSC). LGPSC has a structure that allows participating funds to exercise control (both individually, and collectively), not only as investors in the pooled funds, but also as shareholders (or 'Partner Funds') of the operator company, LGPS Central Ltd. It opened for business with the launch of 3 new mandates on 3 April 2018, and operates out of Wolverhampton, West Midlands, and Matlock, Derbyshire.

The information set out below reflects the information required by Partner Funds to meet the CIPFA Annual Report Pooling Disclosures in 2020/21. Please note that the information request reflects the start-up nature of LGPSC, and the level and complexity of the disclosures required will increase in future years.

The analysis provided by LGPSC relates to Nottinghamshire as a specific Partner Fund. The provision of the information by LGPSC to each Partner Fund ensures consistent reporting across Partner Funds, and allows LGPSC to aggregate, and reconcile back the individual Partner Fund disclosures, to the Company's financial statements.

### Set-Up Costs

Cumulative 2014/15 to 2018/19	Total £000
Set Up Costs	
Recruitment	27
Procurement	2
Professional Fees	187
IT	97
Staff Costs	142
Other Costs (provide details)	
Premises	49
Staffing-Related Costs	5
Travel and Expenses	1
Training and Events	1
FCA Fees	1
General Admin Costs	2
<b>Set-Up Costs Before Funding</b>	<b>514</b>
Share Capital	1,315
Debt	685
Other Costs	-
<b>Set-Up Costs After Funding</b>	<b>2,514</b>

These remain unchanged since those reported in the 2018/19 Annual Report. The Pool is operational so no further set up costs are anticipated.

## Governance, Operator and Product Development Charged by LGPSC to Partner Funds

£000	At 1 April-2020	Charges in Year	Settled in Year	At 31 March-2021
Total	155	966	(800)	321

## Other Transactions between Partner Funds and LGPSC (e.g. service support provided by West Midlands to LGPSC / rent payable by LGPSC to Derbyshire County Council)

£000	At 1 April-2020	Charges in Year	Settled in Year	At 31 March-2021
Interest Payable	36	32	(36)	32
<b>Total</b>	<b>36</b>	<b>32</b>	<b>(36)</b>	<b>32</b>

## LGPSC Investment Management Expenses Charged to Partner Funds

	£000	Direct	Indirect	Total	Bps Charge
1	Ad Valorem	744		744	11.43
2	Performance	-		-	-
3	Research	-		-	-
4	PRIIPS Compliance	-		-	-
5	Other (provide details)	-		-	-
	<b>Management Fees</b>	<b>744</b>	<b>-</b>	<b>744</b>	<b>11.43</b>
6	Commissions	55		55	0.84
7	Acquisition/issue costs	-		-	-
8	Disposal costs	-		-	-
9	Registration/filing fees	-		-	-
10	Taxes and Stamp Duty	68		68	1.04
11	Other (provide details)	-		-	-
	Implicit Costs	2,358		2,358	36.22
	<b>Transaction Costs</b>	<b>2,481</b>	<b>-</b>	<b>2,481</b>	<b>38.11</b>
					-
12	<b>Custody/Depository</b>	<b>43</b>		<b>43</b>	<b>0.66</b>
13	<b>Other (provide details)</b>				
	Fund Accounting	12		12	0.18
	Transfer Agent	2		2	0.03
	External Audit	3		3	0.05
	Performance Reporting	4		4	0.06
	MACS Fees	14		14	0.22
	<b>Total Costs</b>	<b>3,303</b>	<b>-</b>	<b>3,303</b>	<b>50.74</b>

## Investment Management Expenses by Product / Service

£000	1	6	10	11	12	13	Total 2020/21 Costs	AUM At 31 March 2021 £m	2020/21 Bps Charge
UK Passive	2	-	5	(17)	1	-	(9)	10	(10.00)
Global Passive	2	1	-	1	1	-	5	12	4.55
Global Multi-Manager	49	7	7	37	3	1	104	26	47.27
EM Equities	379	47	56	44	9	10	545	116	55.05
Corporate Bonds	275	-	-	2,282	29	16	2,602	316	82.60
EM Debt	8	-	-	11	-	8	27	19	54.00
<b>ACS Sub-Funds</b>	<b>715</b>	<b>55</b>	<b>68</b>	<b>2,358</b>	<b>43</b>	<b>35</b>	<b>3,274</b>	<b>499</b>	
Private Equity 2018 Vintage	12						12	15	8.00
<b>Alternative Vehicles</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>15</b>	
UK Gilts	17						17	196	0.97
<b>Discretionary Mandates</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>196</b>	
<b>Total</b>	<b>744</b>	<b>55</b>	<b>68</b>	<b>2,358</b>	<b>43</b>	<b>35</b>	<b>3,303</b>	<b>710</b>	<b>50.74</b>

Items 1, 6, 7, 10, 11, 12, 13 relate to items listed in the Direct Column of 'Investment Management Expenses Charged to Partner Funds' table above

## Asset Under Management & Performance by Product / Service

	AUM At 1 April-20 £m	AUM At 31 March-21 £m	One Year Net Performance %	Passive Benchmark Used
UK Passive	7	10	26.36%	FTSE All Share (UK) Total Return Index
Global Passive	8	12	38.03%	FTSE World Europe ex UK TR 33.33%; FTSE All World North America TR 33.33%; FTSE All World Japan TR 16.67%; FTSE All World Pacific ex Japan TR 16.67%
Global Multi-Manager	17	26	47.89%	FTSE All World Index
Emerging Market Equity	74	116	41.07%	FTSE Emerging Markets Index
Corporate Bonds	285	316	11.15%	ICE BofAML Sterling Non-Gilt Index 50%; ICE BofAML Global Corporate Index 50%
Emerging Market Debt	-	19	-4.16%	FTSE All Share (UK) Total Return Index
<b>ACS Sub-Funds</b>	<b>391</b>	<b>499</b>		

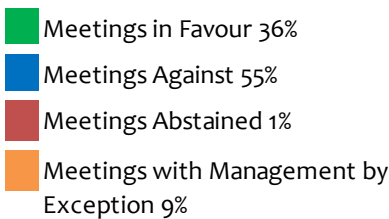
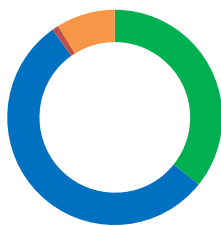
Private Equity 2018 Vintage	15	15		
<b>Alternative Vehicles</b>	<b>15</b>	<b>15</b>		
UK Gilts		196		
<b>Discretionary Mandates</b>		<b>196</b>		
<b>Total</b>	<b>406</b>	<b>710</b>		

# Annual Voting Report

Over the year to 31 March 2021 the Pension Fund, via Hermes EOS, voted at **2,891** meetings (**36,266**) resolutions. At **1,576** meetings we opposed one or more resolutions. We voted with management by exception at **256** meetings and abstained at **27** meetings. We supported management on all resolutions at the remaining **1,032** meetings.

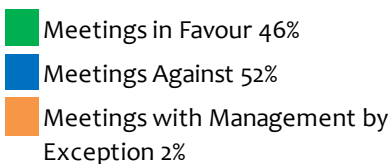
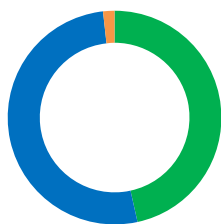
## Global

We voted at 2891 meetings (36266 resolutions) over the last year.



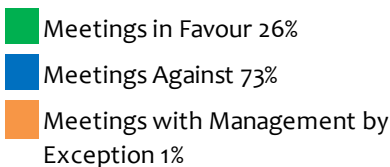
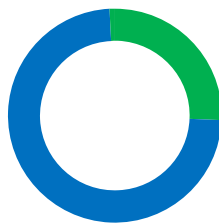
## Developed Asia

We voted at 809 meetings (8316 resolutions) over the last year.



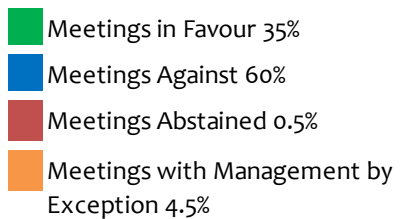
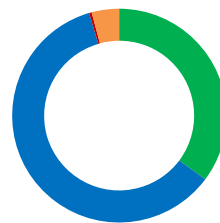
## Australia and New Zealand

We voted at 121 meetings (717 resolutions) over the last year.



## Emerging and Frontier Markets

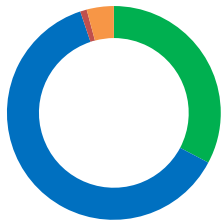
We voted at 294 meetings (3100 resolutions) over the last year.





Europe Ex-UK

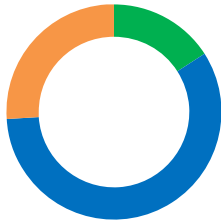
We voted at 612 meetings (9897 resolutions) over the last year.



- Meetings in Favour 33%
- Meetings Against 62%
- Meetings Abstained 1%
- Meetings with Management by Exception 4%

North America

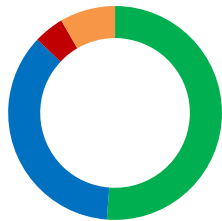
We voted at 614 meetings (7581 resolutions) over the last year.



- Meetings in Favour 16%
- Meetings Against 58%
- Meetings with Management by Exception 26%

United Kingdom

We voted at 441 meetings (6655 resolutions) over the last year.

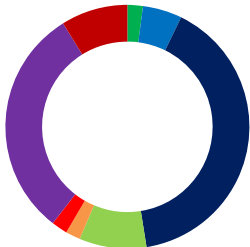


- Meetings in Favour 51%
- Meetings Against 36%
- Meetings Abstained 5%
- Meetings with Management by Exception 8%

The Issues on which we voted against management or abstaining on resolutions are shown below.

Global

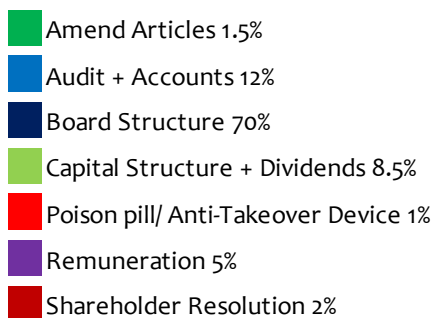
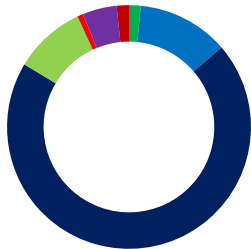
We voted against or abstained on 4475 resolutions over the last year.



- Amend Articles 2%
- Audit + Accounts 5%
- Board Structure 40.5%
- Capital Structure + Dividends 9%
- Other 2%
- Poison pill/ Anti-Takeover Device 2%
- Remuneration 31%
- Shareholder Resolution 8.5%

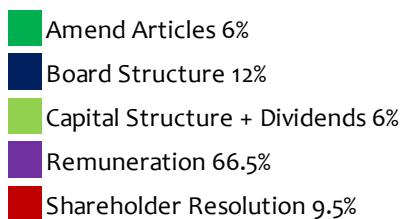
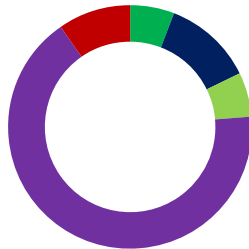
## Developed Asia

We voted against or abstained on 905 resolutions over the last year.



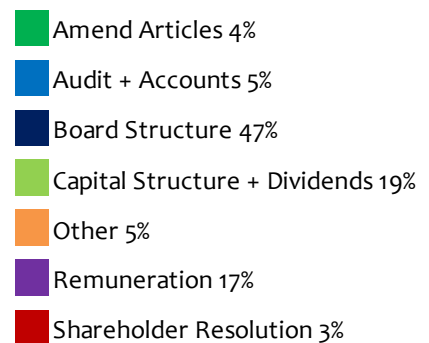
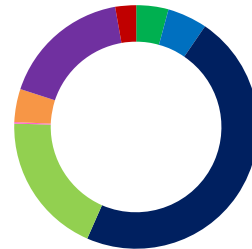
## Australia and New Zealand

We voted against or abstained on 186 resolutions over the last year.



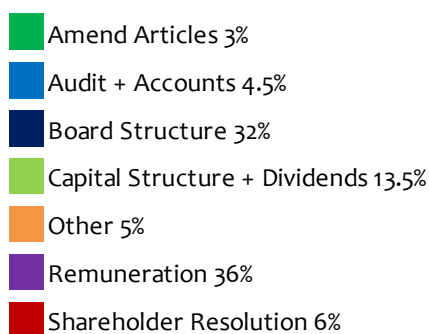
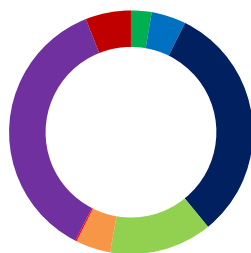
## Emerging and Frontier Markets

We voted against or abstained on 587 resolutions over the last year.



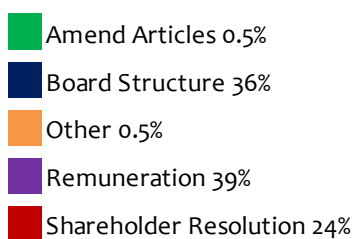
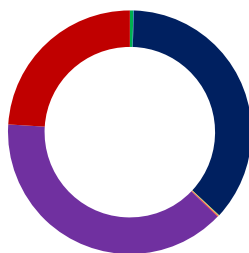
## Europe Ex-UK

We voted against or abstained on 1340 resolutions over the last year.



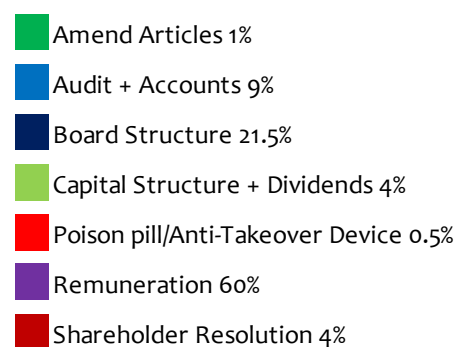
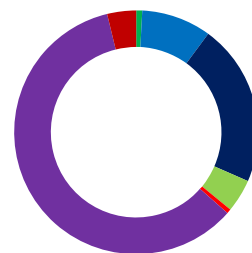
## North America

We voted against or abstained on 1090 resolutions over the last year.



## United Kingdom

We voted against or abstained on 367 resolutions over the last year.



# Scheme Administrative Arrangements

## Introduction

Responsibility for the administration of the Pension Fund is delegated to the County Council's Pension Fund Committee.

The Fund is administered in-house on a day today basis by the Pensions Team which is part of the Nottinghamshire County Council Business Services Centre.

The LGPS (Local Government Pension Scheme) is a statutory scheme with regulations made under the Superannuation Act 1972 and the Public Service Pensions Act 2013. The LGPS is a defined benefits scheme based, since 1 April 2014, on 'Career Average Revaluated Earnings' (CARE). Members benefits are determined strictly in accordance with the scheme regulations and are not affected by the value of Fund assets. Where members joined the scheme before 1 April 2014, protections are in place for their benefits to be based on accrued scheme membership to that date and their full-time equivalent pensionable pay at retirement.

During 2020-21, scheme members were required to pay a contribution rate of between 5.5% and 12.5% of their pensionable pay, depending on their pay banding. Employer contribution rates, also expressed as a percentage of pensionable pay, and tailored specifically to each employer in the scheme, were applied to cover the accrual of new benefits earned by members. The contribution to fund any past service deficit was expressed as a cash sum or supplementary percentage of pensionable pay.

## The Pensions Office

The Pensions Office is the part of the Nottinghamshire Pension Fund responsible for the administration of the Nottinghamshire Local Government Pension Scheme (LGPS), including the Councillors' LGPS.

Pension Administration broadly comprises:

- Maintaining a database of:
  - Active members (i.e.) contributors
  - Pensioners, including widows, widowers and dependants
  - Those with deferral benefits that will become payable in the future
- Providing Annual Benefit Statements to active and Deferred scheme members
- Providing estimates of benefit
- The calculation and payment of retirement benefits
- The calculation and payment of transfer values to other schemes
- Processing transfer values from "club" and local government schemes
- Providing valuations, a splitting of pensions in divorce cases
- communicating with employers and scheme members on scheme changes and pensions issues.
- Onboarding new scheme employers
- Supporting employers to carry out their responsibilities under the LGPS Regulations

- Reconciling employers' monthly and annual contribution rates
- Providing pension savings statements to scheme members as appropriate
- Providing data for triennial valuations and the annual FRS102 for all but large bodies who report in accordance with AIS19.
- Replying to questions and issues raised by scheme members and employers
- In addition, the office also undertakes some of the employer related work of the LGPS on behalf of Nottinghamshire County Council.

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

- Pensions Administration
- Employer Support and Compliance
- Technical/Communications
- Technical/Performance
- Pension System Team ( Part of the BSC Competency Centre)

The Pensions Team has Full Time Equivalent Staff FTE:

<b>At 31.03.2021</b>	<b>Established</b>	<b>Actual in Post</b>
Pension Team	26.20	25.77
Pension System Team	3.0	2.0
GMP Project (Temp)	1.0	1.0
McCloud Project Manager	1.0	1.0

The Pensioner payroll is provided by Nottinghamshire County Council Business Services Centre

The Total cost of administration expressed as a cost per member for the Past five years was:

<b>£ per member</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
The Fund cost per member	£11.18	£14.23	£13.59	£14.37	£14.08
Average cost per member in the benchmarking club	£18.69	£20.14	£21.85	£21.34	£20.02

The Pension Fund Membership Profile is as follows:

Type of Member	2018-2019	2019-2020	2020-2021
Active Members	47,189	48,056	43,957
Deferred members	54,628	56,002	60,935
Pensioners	36,925	38,754	40,481
Total Membership	138,742	142,812	145,373

#### 4 Quarters 2020-2021 1.04.2020 to 31.03.2021

#### Pension Administration KPI Compared against the Cipfa Benchmark Key Performance Indicators

Process	No. cases completed Within the Year	Cipfa Benchmark Legal Requirement (from notification)	% of cases completed within the CIPFA KPI
<b>Deaths</b> – Initial letter acknowledging death of member	432	2 Months	95%
<b>Deaths</b> – letter notifying amount of dependant's pension	517	2 months	88%
<b>Retirements</b> –letter notifying estimate of retirement benefits	102	2 months	90%
<b>Retirements</b> – process and pay pension benefits on time (next available payroll) –	2736	2 months	78%
<b>Deferment Retirement Quote Letter</b>	2245	2 Months	96%
<b>Deferment</b> – calculate and notify deferred benefits	2937	2 months	37%

<b>Transfers in/out</b> – letter detailing transfer quote	736	2 months	50%
<b>Refund</b> – Process and pay a refund following election	544	2 Months	97%
<b>Divorce quote</b> – letter detailing cash equivalent value and other benefits	320	2 Months	98%
<b>Divorce Settlement</b> – Letter detailing implementation of pension sharing order	11	2 Months	81%
<b>Provision of Estimate of Benefits</b>	1143	2 Months	97%

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

### **Complaints, Appeals & Ombudsman Escalations**

Set out below are three tables which outline the number of written complaints received by the Administering Authority in 2020-2021 along with the number of formal appeals at stage 1 and stage 2 of the Internal Dispute Resolution Procedure process along with the number of appeals that the Administering Authority is aware of that have been submitted to the Pension Ombudsman in respect of cases escalated following the two stage adjudication process.

The Pension Team have also been dealing with numerous complaints related to our in house Additional Voluntary Contributions (AVC) provider, Prudential. In November the Prudential changed its administration system. This has created difficulties for members, either paying their contributions, or being able to claim their benefits at retirement. The fund has been raising complaints on members behalf and trying to resolve the problems. The Fund has also been working with other LGPS funds in the East Midlands network to bring the Prudential to account. The Pension Regulator is aware of the issues being raised. The fund continues to raise complaints.

Recorded Written Complaints						
Date	Total	Closed	Outstanding	Justified	Partial Justified	Not Justified
2020/21	26	24	2	14	3	9
2019/20	25	23	2	4	6	13

## Main Reasons

- Transfers in and out - timescales
- Deferred record future review dates
- AVC complaints related to the Prudential
- Benefit calculations

The Pension Fund also recorded 24 subject access requests made by claims companies seeking information relating to members who transferred their benefits out of the Pension Fund in past years. We are currently reviewing our process to ensure that it is robust and in accordance with the regulations.

## Independent Disputes Resolution Procedure (IDRP)

### IDRP -Stage 1 Appeals against the Administering Authority and Employers 2020-2021

Total	Appeals upheld	Appeals dismissed	Progressed to stage 2	Awaiting Decision
13	2	7	5	4

### IDRP - Stage 2 Appeals against the Administering Authority

Total	Appeals upheld	Appeals dismissed	Progressed Ombudsman	Awaiting Decision
5	0	4	0	1

## Pensions Administration System

The Pension Administration system used by the Nottinghamshire Pension Fund is the Universal Pensions Management (UPM) system, provided by Civica UK. UPM was implemented in 2015 and is an 'on premise' system with the servers located at the County Hall Data Centre and the Node 4 site in Derby, for resilience. The infrastructure is managed by Nottinghamshire County Council ICT and regular co-ordination with the Pensions Systems team. Maintenance and upgrades are undertaken on a regular basis to ensure the system remains compliant. All new developments and upgrades from the software supplier are evaluated, tested, and deployed in line with the requirements of the Pension Office

Over the last year several developments have been progressed, one the main development has been the implementation of an Employer portal which is currently being rolled out to a number

of scheme employers and will be rolled out further over the year. The objective of the Portal is to support employers manage their data and provide access to some specific employee pension information. The other main activity has been the ongoing work to ensure the accuracy of pension data within the pension administration system and this will continue in line with the requirements of the Pensions Regulator. The Pension Administration Team will continue to develop further administration processes over the coming year..

## **Communications**

The Communications Strategy Statement (see elsewhere in this Annual Report) details the overall strategy for involving stake holders in the pension fund. A key part of this strategy is a dedicated pension fund website. This is available at <http://www.nottspf.org.uk> and includes all of the policy statements as well as a great deal more information about the investments and benefits of the pension fund.

## **Benefit Statements**

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

## **Website**

The pension's website ([www.nottspf.org.uk](http://www.nottspf.org.uk)) covers all aspects of the LGPS and has information for all different types of stakeholders including active members, councillor members, deferred members, pensioners, their dependants, and employers. There is also a section which gives details on the investment performance of the Fund and related matters.

The website improves communication to pensioners, members of the scheme and employers.

The website helps to answer questions, and provide up to date information on the LGPS, and support communication with the Pensions administration team. The website meets modern website design criteria, and is accessible via multiple devices, that will encourage members and pensioners to use the site, making it easy to find the information that they need. There are plans to update the site to make sure it remains relevant in these changing times

A future development will be to provide members with restricted access to their own pension record enabling them through secure access to update personal details such as address, complete online forms and against certain criteria simulate pension estimates. This will have the advantage of reducing direct administration contact to more priority cases, and therefore reducing administration costs. Until this development is implemented the Pension Fund continue to improve access to information for members and Employers through the website..



## **Employer Support and Compliance Function**

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

- Supporting employers in undertaking their responsibilities;
- Communicating Regulation and process changes to LGPS employers;
- Resolving problems in relation to the quality of information supplied by LGPS employers;
- The development of improved communication methods between the Pensions Office and LGPS employers;
- Work on Employer acceptance into the scheme, plus also employer closures.
- The review and improvement of information and administrative systems.

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

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

The administration strategy has now been in circulation with scheme employers since May 2017 and has supported the work of the Pensions Team and Scheme Employers. The Strategy has helped in providing a framework to ensure that the administering authority, and scheme employers work together for the benefit of members to ensure statutory compliance and efficiency in the administration of the scheme, and update on the strategy is planned for this year.

## **COVID-19**

In response to the continuing COVID-19 emergency the Pensions Team has continued to work to ensure that critical services in terms of calculating and continuing to pay pension benefits to scheme members. The Pensions Team continue to work from home and are continuing to maintain and even develop services for scheme members.

## **Membership**

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

# **Joint Administration Strategy and Service Level Agreement**

## **1.0 Introduction**

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

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

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

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

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

From 1 April 2015 the Pensions Regulator (tPR) took responsibility for setting the standards of administration and governance requirements on all administrative aspects of the Local Government Pension scheme (LGPS).

In addition the Nottinghamshire Local Pension Board has now been established to provide an independent scrutiny role which will assist the Nottinghamshire Local Government Pension Fund to achieve regulatory compliance, effective and efficient administration and governance of the pension fund.

## **2.0 Background**

The LGPS represents a significant benefit to scheme members. Much of the success in promoting the scheme to members and ensuring a high quality service depends upon the relationship between the administering authority and scheme employers in the day to day administration of the scheme.

The administering authority also reminds or alerts employers to the value of the LGPS, thereby helping with recruitment, retention and motivation of employees.

The fund comprises of over 485 scheme employers with active members, and approximately 146,060 (at October 2016) scheme members in relation to the Local Government Pension Scheme (LGPS).

The efficient delivery of the benefits of the LGPS is dependent on sound administrative procedures being in place between the administering authority and scheme employers.

### 3.0 Strategic aims

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

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

### 4.0 Regulatory framework

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

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

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

In addition, Regulation 59(6) of the administration regulations also requires that where a Pension Administration Strategy is produced, a copy is issued to each of the relevant employing authorities as well as to the Secretary of State. Similarly, when the strategy is revised at any future time the administering authority (following a material change to any

policies contained within the strategy) must notify all of its relevant employing authorities and also the Secretary of State.

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

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

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

## **5.0 Nottinghamshire Local Pension Board**

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

## **6.0 Key objectives**

The key objectives of this strategy are to ensure that:

- the Nottinghamshire Local Government Pension Fund and Scheme employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in the Pensions Administration Service Level Agreement attached to this document)
- the Nottinghamshire Local Government Pension Fund operates in accordance with LGPS Regulations and is aligned with the Pensions Regulator's requirements by demonstrating compliance and scheme governance
- communication processes are in place to enable both the fund and scheme employers to proactively and responsively engage with each other through the new website and the Employer Support and Compliance Team
- accurate records are maintained for the purpose of calculating pensions entitlements and scheme employer liabilities, ensuring all information and data is communicated accurately, on a timely basis and in a secure and compliant manner
- the fund and scheme employers have appropriate skills and that training is in place to deliver a quality service and advise scheme employers on the changing pensions agenda;

- standards are set and monitored for the delivery of specified activities in accordance with LGPS Regulations standards as set out in the Pension Administration Service Level Agreement attached to this document.

## **7.0 Establishing levels of performance.**

### **Performance standards**

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

## **8.0 Quality**

### **Legislation**

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

- Pension Act 1995 and associated disclosure legislation
- Freedom of information Act 2000
- Age Discrimination Act 2006
- Data Protection Act 1998
- Equality Act 2010
- Finance Act 2004and
- Health and Safety legislation.
- General Data Protection Regulations (GDPR) 2018

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

## **9.0 General Data Protection Regulations (GDPR)**

On 25 May 2018 the EU's General Data Protection Regulation (GDPR) comes into force containing new standard of protection of individual's personal data in the European Economic Area. The change will impact on the way pensions scheme can lawfully collect, use, retain and share information. GDPR applies to organisations that handle the personal data of EU residents and will replace the UK's Data Protection Act 1998 (DPA)

## **10.0 Administration standards**

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

- compliance with all requirements set out in the information provided on the LGPS website

- work is to be completed in the required format, using the appropriate forms contained on the LGPS Website
- information to be legible, accurate and in the required format
- communications to be easy to read and understand
- information provided to be checked for accuracy
- information to be authorised by an agreed signatory in line with the scheme employers audit requirements
- actions are carried out, or information is provided, within the timescales set out in this strategy and Service Level Agreement document.

## **11.0 Performance standards**

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

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

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

## **12.0 Procedures for compliance**

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

- audit
- performance monitoring

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

## **13.0 Liaison and communication**

### **13.1 Authorised contact for employers**

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

- a strategic contact for valuation, scheme consultation and, discretionary statements
- an internal disputes resolution procedure lead officer for stage 1
- an administration contact for day to day administration of the Nottinghamshire Pension Fund, undertaking the completing of forms and responding to day to day queries
- a year-end activities lead officer.
- a finance contact for completion and submission of the monthly postings and co-ordination of exception reports.

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

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

### **13.2 Liaison and communication with employers**

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

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

### **14.0 Improving employer performance**

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

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

- the Pensions Team will contact and/ or meet with the employer to discuss the area(s) of concern and how they can be addressed
- where no improvement has been demonstrated by the employer, or where there has been a failure to take agreed action by the employer, the Pensions Team will issue a formal written notice to the employer setting out area(s) of poor performance that has been identified and, the steps taken to resolve it. The letter will provide notice that the additional costs are now to be reclaimed.



- Nottinghamshire Local Government Pension Fund will clearly set out the calculations of any loss or additional costs, taking account of time and resources in resolving the specific area of poor performance
- Nottinghamshire Local Government Pension Fund will make a claim against the scheme employer, setting out the reasons for doing so, in accordance with the regulations.

#### **15.0 Circumstances where the Administering Authority may levy costs associated with the Employing Authority's poor performance**

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

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

#### **16.0 Circumstances where costs might be recovered**

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

- persistent failure to provide relevant information to the administering authority, scheme member or other interested party in accordance with specified performance targets (either as a result of timeliness of delivery or quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets
- failure to deduct and pay over correct employee and employer contributions to the Nottinghamshire Local Government Pension fund within stated timescales
- instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pension Regulator, Pensions Ombudsman or other regulatory body.

#### **17.0 Calculation of costs incurred**

For a persistent failure to resolve an isolated case satisfactorily the Fund will recharge costs from the point in time at which a formal letter is issued to the scheme employer until the case is resolved, at a rate of £37 for each hour an officer spends trying to resolve the matter.

For persistent and ongoing failure to meet targets, following the intervention to assist the employer concerned, the Fund will recharge the additional costs due to the employer's poor



performance at the rate of £37 for each hour, see appendix B the schedule of charges which identifies the main employer activities where a charge maybe made for poor performance.

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

## **18.0 Disputes**

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

## **19.0 Consultation**

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

## **19.0 Review process**

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

## **Appendix A: Service Level Agreement**

### **Administering Authority duties and responsibilities**

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

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

### **Discretionary powers**

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

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

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

### **Fund performance levels**

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

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

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

<b>Scheme administration task</b>	<b>Timeline</b>
New Starters – make all administration decisions in relation to a new scheme member	Within two months from receipt of all necessary information.
General enquiries - provide a response	10 days from receipt of all necessary information.
Provide transfer in quote to scheme member	Two month from receipt of all the necessary information
Confirm receipt of transfer in payment and update pension record	One month from receipt of all necessary information.  Scheme member responsibility to chase the transfer.
Arrange for the transfer of scheme member additional voluntary contributions into in-house arrangement	Two months from receipt of all necessary information.
Provide requested estimates of benefits to employees/ employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency	Two months from receipt of all necessary information  Subject to the demands of the service, prioritisation and statutory requirement to provide information'
Notify leavers of deferred benefit entitlements	Within two months of receipt of all necessary information.
Details of transfers out quotation	Within two month of receipt of all necessary information
Payment of transfers out	One Month from receipt of all necessary information
Notify retiring employees of options following request from member (as per retirement pack)	One month of receipt of all necessary information
Payment of retirement lump sum and pension	Lump sum paid within 30 days of retirement subject to receipt of necessary information. Pension to be paid in the next available pay run. Into the nominated bank account

Death notifications – issue initial information, requesting certificates	Within 10 working days following notification of death
Notification of survivor benefits	10 working days following receipt of all necessary information
Undertake Life Certificates checks with the DWP	Periodic
Operate the Tell us Once service	

## **Scheme employer duties and responsibilities**

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

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

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

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

### **Discretionary powers**

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

### **Member contribution bands**

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member. The employer must also inform the member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

### **Payments and charges**

#### **Payments by employing authorities**

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

#### **Paying contributions**

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

#### **AVC deductions**

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

## **Payment method**

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

## **Early retirement and augmentation costs**

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

## **Interest on late payment**

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

## **Employer contributions**

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

## **Actuarial valuation**

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

## **Administration charge**

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



## Employer activities

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

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

statements, annual allowance and lifetime allowance calculations	
Provide the administering authority with all material (personal and contract) changes in employee's details	Within 10 days of the change
Provide scheme leavers details to administering authority	Within 10 days of leaving

<b>Employer responsibilities-task</b>	<b>Timescale</b>
Provide retirement notification and pay details. Following the issue of retirement pack to retiring member.	No later than 10 days prior to the date of retirement. In order that all information is in place to allow the processing of retirement benefits.
Provide member estimate details	At the point of request from the member
To have access to an independent medical practitioner qualified in Occupational health medicine, in order to consider all ill health retirement applications as an employer	Within one month of commencing participation in the scheme, and having arrangements in place on an ongoing basis
Appoint a nominated person for stage 1 of the pension dispute process and provide full details to the administering authority	Within 10 working days following the resignation of the current/ new employer to the fund "appointed person"

## **Measuring performance**

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

## **Unsatisfactory performance**

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

## Appendix B – Schedule of Charges

Employer Activities	Reason for Charge	Basis of Charge
Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employee, if the total overpaid is more than £50.		Actual amount overpaid (could include Lump Sum and Pension) + admin charge based on the following :  £37.00 Total per hour spent.  This may also include the cost of other recovery actions (court and legal fees)
Contributions to be paid anytime but latest date by 17 <sup>th</sup> month.(weekends and bank holidays on the last working day before 17 <sup>th</sup> ).	Due by 17 <sup>th</sup> month-late receipt of funds, plus cost of additional time spent chasing payment	Number of day's late interest charged at base rate plus 1%.
Monthly scheme employer contribution return provided at the latest by 17 <sup>th</sup> , errors on the return i.e. employer/employee rate deducted incorrectly, exception reporting errors to be resolved within 2 months	Due by 17 <sup>th</sup> month, any additional work caused by late receipt of information, incorrect information, incorrect contributions.	Failure to provide appropriate information, resulting in significant work will result in an admin charged at £37.00 per hour + VAT.
Change in member details to be notified as per the administration strategy for example:-  a. New Starters b. Leavers c. Material change in pension records		Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
Early leaver's information to be notified as per the administration strategy.		Failure to provide correct information on the appropriate pension admin form, resulting in significant work will result in an admin charge at £37.00 per hour + VAT

<b>Employer Activities</b>	<b>Reason for Charge</b>	<b>Basis of Charge</b>
Retirement notifications	Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
Death in Service Payment	Due within 7 working days of the notification – additional work caused by late receipt of information from employer	Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
AVC deducted from pay to be paid anytime but latest date by 17 <sup>th</sup> of the month.	Additional investigative work caused through lack of compliance by employer.	Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
Re-issue of invoices	Charge based on number of request	Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT
Member requests estimate	The first estimate provided in each financial year is free, then subsequent estimates are chargeable	1 <sup>st</sup> request in each financial year is free. Additional request is charged at a notional charge of £50 + VAT is made.
Pension sharing order	For pension sharing order work, each party will be charged according to the instruction in the court order	The charge is £607 incl VAT. Total payment to be received prior to work being completed.
Miscellaneous items: <ul style="list-style-type: none"> <li>Benefit recalculation.</li> </ul>	Where information is requested by members that is in addition to routine	£37.00 per hour + VAT.

Employer Activities	Reason for Charge	Basis of Charge
<ul style="list-style-type: none"> <li>• Members file search and record prints.</li> <li>• Supplementary information requests.</li> </ul>		

# Communications Strategy Statement

## Introduction

This is the communication strategy of the Nottinghamshire Pension Fund, administered by Nottinghamshire County Council (the Administering Authority).

This statement provides an overview of how the fund will communicate with its customers (members and employers) and stakeholders. An effective communication strategy is vital for the fund to meet its objective of providing a high quality and consistent service.

Scheme communications are a critical activity; they are the external face of the fund and provide a key link with its customers and stakeholders. The fund has 292 active employers with contributing members and a total membership of over 145,373 scheme members, these members are split into the following categories and with the following numbers of members in each category at January 2020.

Types of Pension Fund membership	Totals
Active members	43,957
Deferred	60,935
Pensioners	40,481
Total	145,373

The Fund continuously looks at ways to enhance its communications, and this policy statement will be reviewed regularly.

## Regulatory Framework

This strategy has been produced in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013. This regulation states that:

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with-

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers

(2) The statement must set out its policy on-

- (a) the provision of information and publicity about the scheme to members, representatives of members and scheme employers;

- and
- (b) the format, frequency and method of distributing such information or publicity;
  - (c) the promotion of the scheme to prospective members and their employers.

The strategy must be revised and published by the administering authority following a material change in their policy on any matters referred to in paragraph (2).

### **Minimum Standards**

Under the Occupational Pension Schemes (Disclosure of Information Regulation) 1996, administrators of the Local Government Pension Scheme (LGPS) are required to provide the following:

- A copy of the scheme regulations and any overriding legislation, on request, - either through providing a personal copy, a copy for inspection or details of how to obtain a copy; members, employers, prospective members, their spouses, beneficiaries and recognised trade unions are entitled to this information.
- Basic information about the scheme must be given automatically to every prospective member before starting, or, if this is not practical, within two months of joining. This information must be provided on request – unless issued within the previous 12 months – to current members, prospective members, spouses, beneficiaries and recognised trade unions within two months of receipt of a written request.
- Details of any material changes to the LGPS notified to all members and beneficiaries (except excluded persons, that is, deferred pensioners whose present address is unknown) where possible before the change takes effect. Otherwise the change must be notified not later than three months after it has taken effect.
- An annual benefit statement to all active, deferred and pension credit members.

### **Key Objectives**

The Nottinghamshire Pension Fund recognise that communicating with scheme stakeholders and customers is a critical activity for the fund and has established communication practices.

The fund has identified the following key objectives of its communication strategy:

- Provide clear, and timely communication to its customers and stakeholders.
- Recognise the requirement for different methods of communication for different customers and stakeholders.
- Seek continuous improvement in the way the fund communicates.
- Inform customers and stake holders to enable them to make the decisions regarding pension matters.
- Inform customers and stakeholders about the management and administration of the fund.



- Consult major stakeholders about the management and administration of the fund.
- Promote the LGPS as an attractive benefit to scheme members and an important tool in recruitment to employers.
- Support employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the scheme.
- Treat information security with importance and in line with the current data protection legislation.

## **Stakeholders of the Fund**

The Strategy outlines the scope of communications and sets out the mechanisms which are to be used to meet those communication needs. The Pensions Office will use the most appropriate communication medium for the audiences receiving information. This may involve using more than one method of communication.

There are several key stakeholder groups with whom the Pensions Office needs to communicate. These are:

- a) Active Scheme members
- b) Prospective Scheme members
- c) Deferred Scheme members
- d) Pensioners and dependants
- e) Scheme Employers
- f) Pension Fund Staff
- g) Trustees of the Fund, which includes the Pensions Committee and the Pensions Board
- h) External bodies

## **Active Scheme members**

The Pensions Office have a website containing extensive details of the scheme and the Pension Fund and from where scheme leaflets, forms and guides may be downloaded. There are links on the website to other organisations which are relevant to scheme members, such as contacts for Employers, AVC Providers and bodies that may provide independent help for members.

Communications with pensioners are being continually developed using the website to communicate on pertinent issues, the most current issues relate to such subjects as Finances, Pension Regulator initiatives on Pension Scams, and news relating to AVC Provision by the Fund providers. The Pensions Office also liaises with the Fund's Scheme Employers to ensure that member's information is kept up to date.

The Pensions Office send benefit statements to all active members on an annual basis, subject to the members Scheme Employer providing timely year end information to the Pensions Administration Team. The statements are sent as soon as the year end data is reconciled but before the 31 August which is the statutory deadline.

A dedicated telephone help line has been established and is widely publicised in the Scheme literature.

There are other miscellaneous actions taken for scheme members, such as dealing with specific customer complaints and commendations, and using appropriate process in the tracking and contacting of deferred beneficiaries.

### **Prospective Scheme members**

As part of the Government's aim to encourage the public to save for the future, the Pensions Office targets prospective members through scheme employers. This is done by ensuring that all new appointees receive the scheme booklet and are referred to the Fund's website for further information.

There are several factsheets on the website that provide more detail on topics such as increasing benefits and making nominations. These factsheets can be sent out to individual members and are also available to download from the website.

The Pensions Fund has two Additional Voluntary Contribution (AVC) providers (Prudential and Scottish Widows) who provide a choice on AVC benefits.

### **Deferred members**

A yearly summary of each member's details held including a current valuation of their deferred pension benefits is issued by 31 August each year and sent by post to their home address. This also acts as a prompt to notify the fund of any change of circumstances including current nominations. Undelivered statements which are returned to the fund allow us to trace missing members before their benefits are due for payment.

Deferred members can contact the fund helpline to discuss any issues or specific points regarding membership. The Pensions Office offer information on all aspects of scheme membership and benefits for all active, deferred and pensioner members.

### **Pensioners and Dependants**

Pay advices are issued to pensioners 4 times a year March to June by the Pension Fund Payroll provider which is the County Council Payroll Services, this coincides with the annual pension increase and the annual HMRC tax notification changes. Throughout the rest of the year, a pay advice is only sent if the net pension changes by more than £5. Returned pay advice alerts the Fund to a change in circumstances, allowing the fund to trace missing members. Each member also receives a P60 by post by the end of May each year.

There is a dedicated section on the fund's website that is available for pensioner members. This provides detailed and informative links allowing members to be kept up to date with the latest news and changes. There is also a quick link which allows pensioners to contact the fund using an electronic form.

Pensioners can also send correspondence including changes details, such as address or bank details to both the fund and the pension Payroll by e-mail and post.

## **Scheme Employers**

The Pensions Office aims to work in partnership with Scheme Employers to assist them in the application of the Scheme. The Pension Fund attends regular quarterly meetings with District Councils and arranges meetings with other group Employers when required to pass across information and identify and resolve cases. An Administration Strategy is in place with Scheme Employers which includes a Service Level Agreement which outlines the requirements of employers and the Pensions Administration Team.

A password protected section on the fund's website is available for our employers, this provides detailed and informative links allowing employers to be kept up to date with latest news and changes. Electronic copies of all relevant forms, scheme literature, policies and reports are also available to download, along with training documents and tools, plus links to other organisations e.g. Local Government Employers.

Administration forms are available with guidance notes to notify the fund of key events affecting pension benefits.

Annual meetings are arranged inviting employers to enable the fund to update employers on the requirements of the year end activities.

We currently utilise the website to inform our Scheme Employers of their administration responsibilities. This is available on the employer's part of the website.

The Pensions Office uses the 'CIVICA UPM' database to hold member records. Future developments include achieving greater web compatibility and the transmission of data electronically. Following the success of a pilot project on the development of an Employer Portal, the employer Portal is now being rolled out to scheme employers. This development will allow employers to have access through the internet to the pension records of their employees, and will enable employer to undertake a number of tasks, plus provide data to the Pension Fund electronically.

## **Pension Fund Staff**

The Pensions Office currently ensures that all new staff receive induction and training, so that they can undertake their duties and responsibilities effectively. The Pensions Office has Team Meetings and Management Team Meetings to discuss issues ranging from planning to communications.

The Pensions website site is also a resource centre for the Administration team as it has links to the National website, and all employer /member documents are available on the site.

## **Trustees of the Fund, which includes the Pensions Committee and the Pensions Board**

The Pensions website contains relevant information for Trustees and Scheme Employers with regards to information about their respective roles. The development of knowledge and training is also provided by the Fund's Investment & Administration Officers and this is also supplemented by attendance at relevant external training sessions, conferences, and seminars. In addition to the Pensions Committee, following the Public Service Pensions Act

2013 a local Pensions Board has been set up to support the governance and administration of the Nottinghamshire Pension Fund which helps to ensure effective and efficient governance and administration of the Local Government Pension Scheme. The respective Committee and Pensions Board members are provided with information and reports on all relevant pension matters as required.

## **External Bodies**

The fund communicates with additional external bodies these include:

- The Ministry of Housing, Communities and Local Government (MHCLG) who are the owners of the LGPS and are responsible for drafting and laying the LGPS regulations before parliament.
- The scheme also communicates with the Department for Work and Pensions (DWP) and communicates in relation to the contracting out details of scheme members and combined pension benefit forecasts.
- The Nottinghamshire Fund ensures it pays all benefits in compliance with both the lifetime allowance and annual allowance
- The fund is also represented at the East Midlands Pension Officers Group, which meets quarterly to discuss all aspects of the LGPS knowledge sharing and collaborative working are key features of this group's discussion.
- The Pension Administration Manager also attends the Pension Managers Group within the Central Pool.
- The Pensions Office is a member of the Pensions Administration Benchmarking Club which is run by the Chartered Institute of Public Finance and Accountancy (CIPFA). We provide information on membership numbers and administration costs and subsequently benchmark our costs and service with all members and specified members of the Club.
- The Local Government Pension 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 110-113. The purpose of the Board is to be both reactive and proactive. It seeks to encourage best practice, increase transparency and coordinate technical and standards issues across the Local Government Pension Scheme.
- The Local Government Association
- HM Revenue and Customs
- The Government Actuaries Department works on behalf of the Government to provide actuarial skills that help decision makers take account of risk and uncertainty. Their mission is to improve the stewardship of Public Sector Finances by supporting effective decision making and robust financial reporting through actuarial analysis, modelling and advice.

## **Unscheduled Communication**

There will be times throughout the year when the Pension fund will be required to communicate information to fund stakeholders which is unscheduled and ad hoc. This could include changes to LGPS regulations, or other pension information which may have an impact on employers or members of the scheme.

## **Other Relevant Documentation**

In addition to the communication documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers the Fund publishes several key documents relating to the administration and governance of the Fund. These are as follows: -

### **a. Funding Strategy Statement**

LGPS Regulations require that all Administering Authorities publish a Funding Strategy Statement (FSS). The Fund's FSS sets out our commitment to meeting our liabilities while at the same time maintaining stable employer rates.

### **b. Governance Compliance Statement**

LGPS Regulations require all Administering Authorities to publish a Governance Policy Statement. The fund's compliance statement sets out how it delegates its responsibilities including duties and terms of reference and stakeholder representation.

### **C. Administration Strategy**

LGPS Regulations require the Administering Authority to have a Administration Strategy which details responsibilities, standards, levels of performance and policies required to deliver statutory requirements for the LGPS and comply with requirements of the Pension Regulator.

## **Equality**

Our communications are tailored to the individual needs of our stakeholders. We will make every effort to provide communications to our stakeholders in their preferred language or format on request.

## **Freedom of Information**

This communication strategy identifies the classes of information that each Fund publishes or intends to publish in compliance with the Freedom of Information Act. Anyone has a right under the Freedom of Information Act to request any information held by the Fund which is not already made available. Requests should be made in writing to the Pension Administration Manager at the address at the end of this document.

A fee may be charged, and the Fund reserves the right to refuse if the cost of providing the information is disproportionately high; if following prompting the request is unclear; and when the requests are vexatious or repeated.

## **Contact us:**

Tel: 0115 9772727 Option 3  
Or Email: [lgpensions@nottscg.gov.uk](mailto:lgpensions@nottscg.gov.uk)  
Or visit our website: <http://www.nottspf.org.uk>

Or write to us at:

**Nottinghamshire Pension Fund  
Nottinghamshire County Council  
County Hall  
West Bridgford  
Nottingham  
NG2 7QP**

# **Risk Management Strategy**

## **Introduction**

1. This is the Risk Management Strategy for the Nottinghamshire County Council Pension Fund. Risk Management is a key element in the Fund's overall framework of internal control and its approach to sound governance. However, it is not an end in itself, but a means of minimising the costs and disruption to the Fund caused by undesirable or unexpected events. The aim is to eliminate or reduce the frequency of risk events occurring (where possible and practicable) and minimise the severity of the consequences if they do occur.
2. Risk can be defined as any event or action which could adversely affect the Fund's ability to achieve its purpose and objectives. Risk management is the process by which:
  - risks are systematically identified
  - the potential consequences are evaluated
  - the element of risk is reduced where reasonably practicable
  - actions are taken to control the likelihood of the risk arising and reducing the impact if it does

## **Purpose and Objectives of the Fund**

3. The purpose of the Fund is to:
  - Pay pensions, lump sums and other benefits provided under the LGPS Regulations
  - Meet the costs associated in administering the Fund
  - Receive contributions, transfer values and investment income
  - Invest any Fund money not needed immediately to make payments.
4. The funding objectives are to:
  - Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund
  - Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.
5. The following principles underpin the Fund's investment activity:
  - The Fund will aim to maintain sufficient assets to meet all its obligations on a continuing basis.
  - The Fund will be invested in a diversified range of assets.
  - Proper advice on the suitability of types of investment will be obtained and considered at reasonable intervals.
  - The Fund will aim to conduct its business and to use its influence in a long term responsible way.

## **Key Parties**

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

### **The Administering Authority**

7. The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council's constitution, the functions of the Council as administering authority

are delegated to the Nottinghamshire Pension Fund Committee. The full governance arrangements of the Fund are detailed in the Fund's Governance Compliance Statement. The main responsibilities of the Administering Authority are to:

- Collect employee and employer contributions
- Invest the Fund's assets
- Pay the benefits due to Scheme members
- Manage the actuarial valuation process in conjunction with the Fund Actuary
- Prepare and maintain the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) after consultation with other interested parties as appropriate
- Monitor all aspects of the Fund's performance.

### **Committee members**

8. The members of the Committee are not trustees (as the LGPS is a statutory scheme) but do have fiduciary duties towards the scheme members and employers. The main responsibilities of the Committee are to:

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

### **Scheme Employers**

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

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

### **Fund Actuary**

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

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



### **Chief Finance Officer**

11. Under the Council's constitution, the Service Director Finance, Infrastructure & Improvement is designated the Council's Chief Finance Officer (also known as the Section 151 Officer). The Group Manager (Financial Management) is the deputy Section 151 Officer. Financial Regulations specify that the Section 151 Officer is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).
12. Representatives of the Service Director Finance, Infrastructure & Improvement provide advice to the Committee on investment matters and attend meetings of the Nottinghamshire Pension Fund Committee as required.

### **Service Director Customers, Governance and Employees**

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

### **Independent Adviser**

15. The Fund has an Independent Adviser who attends meetings of the Nottinghamshire Pension Fund Committee and Pensions Working Party as required.
16. The Independent Adviser is engaged to provide advice on:
- the objectives and policies of the fund
  - investment strategy and asset allocation
  - the fund's approach to responsible investment
  - choice of benchmarks
  - investment management methods and structures
  - choice of managers and external specialists
  - activity and performance of investment managers and the fund
  - the risks involved with existing or proposed investments
  - the fund's current property portfolio and any proposals for purchases, sales, improvement or development
  - new developments and opportunities in investment theory and practice

### **Risk Management Strategy**

17. The risk tolerance of the Fund is agreed with the Nottinghamshire Pension Fund Committee, the investment team and independent adviser through the setting of the investment beliefs, funding and investment objectives. The Fund will only take sufficient risk in order to achieve its long term funding objectives described in paragraph 4.

18. The Pension Fund's Risk Management Strategy is to:
- identify key risks to the achievement of the Fund's aims
  - assess the risks for likelihood and impact
  - identify mitigating controls
  - allocate responsibility for the mitigating controls
  - maintain a risk register detailing the risk features in a)-d) above
  - review and update the risk register on an annual basis
  - report the outcome of the review to the Nottinghamshire Pension Fund Committee.
19. The Risk Register is a key part of the Risk Management Strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.
20. All staff involved in the Pension Fund and Members of the Nottinghamshire Pension Fund Committee need to have an appropriate level of understanding of risk and how risks affect the performance of the Fund. To consolidate the risk management process, the Nottinghamshire Pension Fund Committee will be asked to:-
- agree the Risk Management Strategy
  - approve the Risk Register and agreed actions
  - receive and approve the Annual Governance Statement, which will comment upon the Fund's risk management process.
21. By adopting this approach, the Pension Fund will be able to demonstrate a clear commitment, at a strategic level, to the effective management of Pension Fund risks. The Risk Management Strategy and Risk Register will be kept under review and will be revised following any material changes in policy.

## Pension Fund Risk Register

### Objectives

22. 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

23. 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.

24. 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

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

26. 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	
<b>Risk Gov4</b> Inadequate resources are available to manage the pension fund.	20	VERY HIGH	↔	12	HIGH	↔
<b>Risk Adm1</b> Standing data & permanent records are not accurate.	16	VERY HIGH	↔	9	HIGH	↔
<b>Risk Inv3</b> Fund assets are assessed as insufficient to meet long term liabilities.	16	VERY HIGH	↔	9	HIGH	↔
<b>Risk Inv6</b> LGPS Central incurs net costs or decreases investment returns	12	HIGH	↓	9	HIGH	↓
<b>Risk Adm2</b> Inadequate controls to safeguard pension fund records	15	VERY HIGH	↔	6	MEDIUM	↔
<b>Risk Adm4</b> Scheme employers may fail to administer the scheme efficiently, leading to disruption to the discharge of administering authority functions (employer Risk) Potential data quality issues.	15	VERY HIGH	↔	6	MEDIUM	↔
<b>Risk Adm5</b> Serious breach of law regarding the management of data/information, including an unauthorised release requiring notification to ICO, leading to disruption to the discharge of administering authority functions (Administrative Risk).	15	VERY HIGH	↔	6	MEDIUM	↔
<b>Risk Inv4</b> Significant variations from assumptions used in the actuarial valuation	12	HIGH	↔	9	HIGH	↔
<b>Risk Inv7</b> Financial risk of climate change	12	HIGH	↔	8	MEDIUM	↔
<b>Risk Inv1</b> Inappropriate investment strategy is adopted.	12	VERY HIGH	↔	6	MEDIUM	↔
<b>Risk Inv5b</b> Custody arrangements	12	VERY HIGH	↔	6	MEDIUM	↔
<b>Risk Gov5</b> Failure to adhere to relevant legislation and guidance.	12	HIGH	↔	6	MEDIUM	↔
<b>Risk Gov3</b> An effective performance management framework is not in place.	9	HIGH	↔	6	MEDIUM	↔

<b>Risk Gov1</b> Pension Fund governance arrangements are not effective	9	HIGH	↔	6	MEDIUM	↔
<b>Risk Gov2</b> Pension Fund objectives are not defined and agreed.	9	HIGH	↔	6	MEDIUM	↔
<b>Risk Inv2</b> Fund cash is insufficient to meet its current obligations.	9	HIGH	↔	6	MEDIUM	↔
<b>Risk Inv5a</b> Fund manager mandates	9	HIGH	↔	6	MEDIUM	↔
<b>Risk Inv5d</b> Financial Administration	9	HIGH	↔	6	MEDIUM	↔
<b>Risk Adm3</b> Failure to communicate adequately with all relevant stakeholders.	9	HIGH	↔	6	MEDIUM	↔
<b>Risk Inv5c</b> Accounting arrangements	6	MEDIUM	↔	4	LOW	↔
<b>Risk Inv5e</b> Stewardship	6	MEDIUM	↔	4	LOW	↔

<b>Governance</b>				
<b>Risk description: Gov1 - Pension Fund governance arrangements are not effective</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	3	3	9	<b>HIGH</b> ↔
<b>Current Risk:</b>	2	3	6	<b>MEDIUM</b> ↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>• The Council's constitution clearly delegates the functions of administering authority of the pension fund to the Nottinghamshire Pension Fund Committee.</li> </ul>			
	<ul style="list-style-type: none"> <li>• Under the LGPS Regulations the Administering Authority has established a Pension Board</li> </ul>			
	<ul style="list-style-type: none"> <li>• The terms of reference of the Nottinghamshire Pension Fund Committee are agreed.</li> <li>• The terms of reference of the Nottinghamshire Pension Board are agreed.</li> </ul>			
	<ul style="list-style-type: none"> <li>• 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.</li> </ul>			
	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Nottinghamshire Pension Board Members are also required to undertake training</li> </ul>			
	<ul style="list-style-type: none"> <li>• Officers of the Council attend meetings of the Nottinghamshire Pension Fund Committee and the Nottinghamshire Pension Board.</li> </ul>			
	<ul style="list-style-type: none"> <li>• The Fund has a formal contract for an independent adviser to give advice on investment matters. They are contracted to attend each Nottinghamshire Pension Fund Committee meeting.</li> </ul>			
	<ul style="list-style-type: none"> <li>• The Administering Authority has a formal contract for an independent adviser to give advice on LGPS regulations to the Nottinghamshire Pension Board</li> </ul>			
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> <li>• Confirmation of Pension Board meetings</li> <li>• Pension Board Vacancies to be filled</li> </ul>			
<b>Responsibility:</b>	Group Manager (Financial Services) Group Manager (BSC) Group Manager (Legal Services) Pension Manager Senior Accountant - Pensions & TM		<b>Timescale:</b>	On-going

Governance				
<b>Risk description: Gov2 - Pension Fund objectives are not defined and agreed</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	3	3	9	HIGH ↔
<b>Current Risk:</b>	2	3	6	MEDIUM ↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>Purpose and objectives are outlined in the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). Both documents are approved by the Nottinghamshire Pension Fund Committee and reviewed on a regular basis.</li> </ul>			
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>Continue to monitor via existing processes.</li> </ul>			
<b>Responsibility:</b>	Nottinghamshire Pension Fund Committee; Group Manager (Financial Services)		<b>Timescale:</b>	On-going

Governance				
<b>Risk description: Gov3 - An effective performance management framework is not in place.</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	3	3	9	HIGH ↔
<b>Current Risk:</b>	2	3	6	MEDIUM ↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>Investment performance is reported quarterly to the Nottinghamshire Pension Fund Committee. The Fund's main investment managers attend each quarter and officers receive regular updates from the Fund's other investment managers.</li> <li>Poor investment performance is considered by the Nottinghamshire Pension Fund Committee. The Nottinghamshire Pension Fund Committee's actions are monitored by the Nottinghamshire Pension Board</li> <li>A Fund strategic benchmark has been implemented to improve monitoring of decisions regarding asset allocation and investment management arrangements. This was reviewed at a Working Party in August 2021.</li> <li>Performance of the administration function is managed through an Administration Strategy</li> </ul>			
	<ul style="list-style-type: none"> <li>Performance of the Administration function is managed through a set of performance indicators and reported to Pension Committee and Pension Board</li> </ul>			
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>Continue to review the performance monitoring framework for Fund Administration.</li> </ul>			
<b>Responsibility:</b>	Nottinghamshire Pension Fund Committee; Group Manager (Financial Services); Group Manager (BSC)		<b>Timescale:</b>	On-going



	Pension Manager Senior Accountant - Pensions & TM			
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.			
	• Additional resources have been requested to meet new requirements across the LGPS			
Action Required:	• Pension Costs and resources monitored against the CIPFA Benchmarking club			
	• Continue to monitor resource requirements via existing processes.			
	Responsibility:		Timescale:	On-going
		Group Manager (Financial Services); Group Manager (BSC) Pension Manager Senior Accountant - Pensions & TM		

<b>Governance</b>				
<b>Risk description: Gov5 - Failure to adhere to relevant legislation and guidance.</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	4	3	12	HIGH ↔
<b>Current Risk:</b>	3	2	6	MEDIUM ↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>An established process exists to inform members and officers of statutory requirements and any changes to these.</li> <li>An Administration Strategy was introduced in 2017 to monitor the Administration of the Fund, along with monitoring Employer compliance.</li> <li>Sufficient resources are required to implement LGPS changes while continuing to administer the scheme.</li> <li>Membership of relevant professional groups ensures changes in statutory and other requirements are registered before the implementation dates.</li> <li>Any breaches in statutory regulations must be reported to the Pension Regulator.</li> </ul>			

<b>Action Required:</b>	<ul style="list-style-type: none"> <li>• Review Resources against statutory requirements</li> <li>• Continue to monitor requirements via appropriate sources.</li> <li>• Continue to monitor resources to ensure adherence to legislation and guidance.</li> <li>• Update Breaches Policy</li> </ul>		
<b>Responsibility:</b>	Group Manager (Financial Services); Group Manager (BSC); Senior Accountant - Pensions & TM Pension Manager	<b>Timescale:</b>	On-going

Investments				
<b>Risk description: Inv1 - Inappropriate investment strategy is adopted.</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	3	4	12	VERY HIGH ↔
<b>Current Risk:</b>	2	3	6	MEDIUM ↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>• The investment strategy is in accordance with LGPS investment regulations and is documented, reviewed and approved by the Nottinghamshire Pension Fund Committee.</li> </ul>			
	<ul style="list-style-type: none"> <li>• In setting asset allocation to deliver the Fund Return Target the Fund will seek as far as possible to invest in a diversified range of uncorrelated assets in order to reduce the level of investment risk.</li> </ul>			
	<ul style="list-style-type: none"> <li>• The Strategy takes into account the expected returns assumed by the actuary at the triennial valuation.</li> </ul>			
	<ul style="list-style-type: none"> <li>• Investment performance is monitored against the Fund's strategic benchmark.</li> </ul>			
	<ul style="list-style-type: none"> <li>• A regular review takes place of the Fund's asset allocation strategy by the Pension Fund Working Party.</li> </ul>			
	<ul style="list-style-type: none"> <li>• An Independent Adviser provides specialist guidance to the Nottinghamshire Pension Fund Committee on the investment strategy.</li> </ul>			
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> </ul>			
<b>Responsibility:</b>	Group Manager (Financial Services); Senior Accountant - Pensions & TM	<b>Timescale:</b>	On-going	

Investments				
<b>Risk description: Inv2 - Fund cash is insufficient to meet its current obligations.</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	3	3	9	HIGH ↔
<b>Current Risk:</b>	2	3	6	MEDIUM ↔

<b>Current Controls</b>	• Fund cash flow is monitored daily and a summary fund account is reported to the Nottinghamshire 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		
<b>Action Required:</b>	• Continue to monitor via existing processes.		
<b>Responsibility:</b>	Nottinghamshire Pension Fund Committee; Group Manager (Financial Services); Senior Accountant - Pensions & TM	<b>Timescale:</b>	On-going

<b>Investments</b>				
<b>Risk description: Inv3 - Fund assets are assessed as insufficient to meet long term liabilities.</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	4	4	16	VERY HIGH ↔
<b>Current Risk:</b>	3	3	9	HIGH ↔
<b>Current Controls:</b>	• 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.			
	• Strength of covenant of new employers carefully assessed			
	• Risks relating to existing employers are reviewed periodically			
<b>Action Required:</b>	• Continue to monitor via existing processes. • Review cash flow projections prepared by actuaries on a regular basis.			
<b>Responsibility:</b>	Nottinghamshire Pension Fund Committee Group Manager (Financial Services); Senior Accountant - Pensions & TM	<b>Timescale:</b>	On-going	

<b>Investments</b>				
<b>Risk description: Inv4 - Significant variations from assumptions used in the actuarial valuation occur</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	4	3	12	HIGH ↔
<b>Current Risk:</b>	3	3	9	HIGH ↔

<b>Current Controls:</b>	• 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.		
	• Contributions made by employers vary according to their member profile.		
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> <li>• Review cash flow projections prepared by actuaries on a regular basis.</li> </ul>		
<b>Responsibility:</b>	Group Manager (Financial Services); Senior Accountant - Pensions & TM	<b>Timescale:</b>	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. The main managers attend Nottinghamshire Pension Fund Committee on a regular 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 main managers.				
	• Internal decisions have a robust framework in place which is 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.				

	<ul style="list-style-type: none"> <li>• AAF 01/06 (or equivalent) report on internal controls is reviewed for external custodian.</li> </ul>		
	<ul style="list-style-type: none"> <li>• Regular reconciliations carried out to check external custodian records.</li> </ul>		
	<ul style="list-style-type: none"> <li>• Where assets are custodied in-house, physical stock certificates are held in a secure cabinet to which access is limited.</li> </ul>		
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> </ul>		
<b>Responsibility:</b>	Group Manager (Financial Services); Senior Accountant - Pensions & TM	<b>Timescale:</b>	On-going
<b>Inv5c - Accounting arrangements</b>			
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>
<b>Inherent Risk:</b>	3	2	6 <b>MEDIUM</b> ↔
<b>Current Risk:</b>	2	2	4 <b>LOW</b> ↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>• Pension Fund accounting arrangements conform to the Local Authority Accounting Code, relevant IFRS/IAS and the Pensions' SORP.</li> <li>• The Pension Fund subscribes to the CIPFA Pensions Network and Technical Information Service and officers attend courses as appropriate.</li> <li>• Regular reconciliations are carried out between in-house records and those maintained by the external custodian and investment managers.</li> <li>• Internal Audits are carried out regularly.</li> <li>• External Audit review the Pension Fund's accounts annually.</li> </ul>		
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> </ul>		
<b>Responsibility:</b>	Group Manager (Financial Services); Senior Accountant - Pensions & TM	<b>Timescale:</b>	On-going
<b>Inv5d - Financial Administration</b>			
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>
<b>Inherent Risk:</b>	3	3	9 <b>HIGH</b> ↔
<b>Current Risk:</b>	2	3	6 <b>MEDIUM</b> ↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>• The Pension Fund adheres to the County Council's financial regulations with appropriate separation of duties and authorisation limits for transactions.</li> <li>• Daily cash settlements are made with the external custodian to maximise returns on cash.</li> <li>• Investment transactions are properly authorised, executed and monitored.</li> <li>• Contributions due to the fund are governed by Scheme rules which are overseen by Pensions Administration Contributions checked at the beginning of the year and the end of the year, and reconciled and balanced at the year-end.</li> </ul>		

	<ul style="list-style-type: none"> <li>The Pension Fund maintains a bank account which is operated within regulatory guidelines.</li> </ul>		
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>Continue to monitor via existing processes.</li> </ul>		
<b>Responsibility:</b>	Group Manager (Financial Services); Senior Accountant - Pensions & TM	<b>Timescale:</b>	On-going
<b>Inv5e – Stewardship -</b>			
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>
<b>Inherent Risk:</b>	3	2	6 <b>MEDIUM</b> ↔
<b>Current Risk:</b>	2	2	4 <b>LOW</b> ↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>The Pension Fund aims to be a long term responsible investor.</li> <li>Effective management of financially material social, environmental and corporate governance (ESG) risks should support the requirement to protect investment returns over the long term. ESG considerations are taken into account in the selection, non-selection, retention and realisation of investments by both the Pension Fund and underlying managers on the Fund's behalf</li> <li>The Fund has a Climate Stewardship Plan which is implemented and reported on with the support of LGPS Central</li> <li>The Fund is a member of Local Authority Pension Fund Forum (LAPFF) and supports their work on shareholder engagement.</li> <li>The pension fund has a contract in place for a proxy voting services. Voting is reported to the Nottinghamshire Pension Fund Committee each quarter and published on the Fund website.</li> </ul>		
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>Continue to monitor via existing processes.</li> </ul>		
<b>Responsibility:</b>	Group Manager (Financial Services); Senior Accountant - Pensions & TM	<b>Timescale:</b>	On-going
<b>Inv6 - LGPS Central incurs net costs or decreases investment returns</b>			
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>
<b>Inherent Risk:</b>	4	3	12 <b>HIGH</b> ↓
<b>Current Risk:</b>	3	3	9 <b>HIGH</b> ↓
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>We are shareholders in LGPS Central and have significant influence on them through involvement in Shareholders Forum, Joint Committee and PAF</li> <li>Costs and performance will be monitored</li> </ul>		
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>Continue to attend meetings relevant meetings</li> <li>Continue to monitor via existing processes.</li> </ul>		
<b>Responsibility:</b>	Nottinghamshire Pension Fund Committee Group Manager (Financial Services); Senior Accountant - Pensions & TM	<b>Timescale:</b>	On-going

Inv7 – Climate change affects the financial returns of the Fund.					
	Likelihood:	Impact:	Risk Rating:		
Inherent Risk:	4	3	12	HIGH	↔
Current Risk:	4	2	8	MEDIUM	↔
Current Controls:	<ul style="list-style-type: none"> <li>The financial impact of climate change on the fund can be mitigated. Businesses and individuals will have to change their behaviour and consumption to reduce their carbon footprint and this presents both opportunities and threats as investors.</li> </ul>				
	<ul style="list-style-type: none"> <li>We engage with management of the companies we own through LGPS Central, LAPFF and Hermes EOS to influence them to consider climate change and their sustainability.</li> </ul>				
	<ul style="list-style-type: none"> <li>Climate change risks are already considered as part of the purchasing and holding decision</li> </ul>				
	<ul style="list-style-type: none"> <li>Climate risk analysis undertaken on an annual basis with the assistance of LGPS Central.</li> </ul>				
	<ul style="list-style-type: none"> <li>The Fund has a Climate Risk strategy and a Climate Stewardship plan</li> </ul>				
Action Required:	<ul style="list-style-type: none"> <li>The current impacts of climate change are affecting particular industries and regions and the Pension Fund will look to reduce exposure to these.</li> <li>Continued move towards our long term asset allocation.</li> </ul>				
Responsibility:	Nottinghamshire 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:	<ul style="list-style-type: none"> <li>Business processes are in place to identify changes to standing data.</li> </ul>				
	<ul style="list-style-type: none"> <li>Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input.</li> </ul>				
	<ul style="list-style-type: none"> <li>Documentation is maintained in line with agreed policies.</li> <li>The Administration Strategy supports the monitoring of employer compliance.</li> </ul>				
	<ul style="list-style-type: none"> <li>A change of details form is sent out to members alongside their annual statement.</li> </ul>				
	<ul style="list-style-type: none"> <li>Data matching exercises (National Fraud Initiative) help to identify discrepancies.</li> </ul>				

	• Mortality Screening is being performed		
	• The Data Improvement Plan is being implemented as reported to committee.		
	• The GMP Reconciliation Project including Payroll and Pensions Data matching exercise with HMRC is continuing		
	• Employer annual returns are reviewed and monitored. Breaches are reported to committee.		
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> <li>• Improve monitoring of returns from major fund employers</li> <li>• Implementation of Data Improvement plan</li> <li>• Update Breaches Policy.</li> <li>• Progress GMP rectification</li> <li>• Progress Mc Cloud project</li> </ul>		
<b>Responsibility:</b>	Group Manager (BSC) Pension Manager	<b>Timescale:</b>	On-going

Administration					
<b>Risk description: Adm2 - Inadequate controls to safeguard pension fund records.</b>					
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>		
<b>Inherent Risk:</b>	3	5	15	VERY HIGH	↔
<b>Current Risk:</b>	2	3	6	MEDIUM	↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>• ICT Disaster Recovery Plan and Security Plan are agreed and in place</li> <li>• The Administration Authority has an Operational Security and Risk Team, a Security Architect providing strategic direction, an Information Governance Team headed by the Data Protection Officer and an Information Governance Board, chaired by the SIRO, providing oversight. The network has been certified as PSN Code of Connection compliant for the last decade and comprises internal and perimeter firewalls, anti-virus software, intrusion detection and response platforms, secure baseline operating system builds, annual penetration tests, multi-factor authenticated remote access and offline backups, aligning with National Cyber Security Centre best practice at all points.</li> <li>• New back up arrangements are in place</li> <li>• Software is regularly updated to meet LGPS requirements.</li> <li>• Audit trails and reconciliations are in place.</li> <li>• GDPR awareness training and documentation is in place</li> <li>• Pension Administration Documentation is maintained in line with agreed policies.</li> <li>• Physical records are held securely in the Pension Office.</li> </ul>				



	<ul style="list-style-type: none"> <li>Pensions and other related administration staff undertake data management training as required.</li> </ul>		
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>Continue to monitor via existing processes.</li> </ul>		
<b>Responsibility:</b>	Group Manager (BSC) Pension Manager	<b>Timescale:</b>	On-going

Administration					
<b>Risk description: Adm3 - Failure to communicate adequately with all relevant stakeholders.</b>					
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>		
<b>Inherent Risk:</b>	3	3	9	<b>HIGH</b>	↔
<b>Current Risk:</b>	2	3	6	<b>MEDIUM</b>	↔
<b>Current Controls:</b>	<ul style="list-style-type: none"> <li>A communications strategy is in place and is regularly reviewed.</li> </ul>				
	<ul style="list-style-type: none"> <li>The Fund website is periodically updated.</li> </ul>				
	<ul style="list-style-type: none"> <li>Member information guides are reviewed.</li> </ul>				
	<ul style="list-style-type: none"> <li>The Fund has an annual meeting aimed at all participating employers.</li> </ul>				
	<ul style="list-style-type: none"> <li>The Nottinghamshire Pension Fund Committee has representatives of the County Council, City Council, Nottinghamshire Local Authorities, Trade Unions, Scheduled and Admitted Bodies.</li> </ul>				
	<ul style="list-style-type: none"> <li>Meetings are held regularly with employers within the Fund.</li> <li>District and City Council employers and other adhoc employer meetings take place as required</li> <li>A briefing for employers takes place in February or March each year in preparation for year end</li> </ul>				
	<ul style="list-style-type: none"> <li>Benefit Illustrations are sent annually to contributing and deferred Fund members.</li> <li>Annual report, prepared in accordance with statutory guidelines, is published on the website.</li> </ul>				
<b>Action Required:</b>	<ul style="list-style-type: none"> <li>Continue to monitor via existing processes.</li> </ul>				
<b>Responsibility:</b>	Group Manager (BSC) Pension Manager	<b>Timescale:</b>	On-going		

Administration				
<b>Risk description: Adm4 Scheme employers may fail to administer the scheme efficiently, leading to disruption to the discharge of administering authority functions (employer risk)</b> <b>Potential data quality issues.</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	3	5	15	VERY HIGH ↔
<b>Current Risk:</b>	2	3	6	MEDIUM ↔
<b>Current Controls:</b>	• Clear communication of requirements to scheme employers.			
	• Employer data is being reviewed as part of the data improvement plan.			
	• Planned roll out of the employer portal to improve the transfer of data to the Pension Fund.			
	• Actuary makes prudent assumptions at valuation.			
<b>Action Required:</b>	• Continue to monitor via existing processes.			
<b>Responsibility:</b>	Group Manager (BSC) Pension Manager		<b>Timescale:</b>	On-going

Administration				
<b>Risk description: Adm5 Serious breach of law regarding the management of data/information, including an unauthorised release requiring notification to ICO, leading to disruption to the discharge of administering authority functions.</b>				
	<b>Likelihood:</b>	<b>Impact:</b>	<b>Risk Rating:</b>	
<b>Inherent Risk:</b>	3	5	15	VERY HIGH ↔
<b>Current Risk:</b>	2	3	6	MEDIUM ↔
<b>Current Controls:</b>	• Information Governance oversee policies and procedures			
	• Data breach procedure in place			
	• Assurance obtained from third party providers and contractors on compliance with relevant legislation.			
	• Identified Data Protection Officer			
	• Appropriate access levels in the Pension Administration system.			
<b>Action Required:</b>	• Continue to monitor via existing processes.			
<b>Responsibility:</b>	Group Manager (BSC) Pension Manager		<b>Timescale:</b>	On-going

**REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT****DEPARTMENT OF WORK AND PENSIONS (DWP) CONSULTATION****Purpose of the Report**

1. To approve the response to the DWP consultation on climate and investment reporting.

**Information and Advice**

The DWP has made policy proposals to require relevant trustees to measure - as far as they are able - and report on their investment portfolios' Paris alignment. The LGPS would initially be outside the scope of these changes, but they would be regarded as best practice and so the rules of the Local Government Pension Scheme 2013 in England and Wales may also be amended in a similar way. It covers the following areas:

- Measuring and reporting Paris alignment
  - Stewardship and the Implementation Statement
2. Officers plan to submit a response on behalf of Nottinghamshire Pension Fund.
  3. The draft response is attached in Appendix A.
  4. The consultation closes on 6<sup>th</sup> January 2022.

**Statutory and Policy Implications**

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

**RECOMMENDATION**

- 1) The submission of the attached response on behalf of Nottinghamshire Pension Fund is approved.

**Nigel Stevenson**

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

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

Tamsin Rabbitts, Senior Accountant – Pensions and Treasury Management

**Constitutional Comments (KK 29/11/21)**

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

**Financial Comments (TMR 25/11/21)**

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.

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

Climate Change and Responsible Investment Team  
Department for Work and Pensions

[pensions.governance@dwp.gov.uk](mailto:pensions.governance@dwp.gov.uk)

Dear Sirs,

XX December 2021

RE: Climate and investment reporting - open consultation

Dear Sirs,

**Local Government Pension Scheme – changes to the local valuation cycle and management of employer risk**

The Nottinghamshire County Council Pension Fund have comments on the consultation on the proposed amendments as follows:

**1 Measuring and Reporting Paris Alignment**

**Question 1 – We propose to amend the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 to require trustees of schemes in scope to measure and report their scheme's Paris alignment by adding a requirement for them to select and calculate a portfolio alignment metric and to report on that metric in their TCFD report.? Do you agree with this policy proposal?**

Nottinghamshire Pension Fund already publishes a TCFD report, although this is not yet a requirement under the LGPS regulations. We think this metric will provide a valuable additional data point for stakeholders interested in the impact of their investment portfolio and how climate related risks are being managed, but feel insufficient attention is being given to the quality and availability of data for reporting. The government should be working to ensure that reported data is more consistent and reliable and required by all organisations above a certain size, not just listed companies. The LGPS has a diverse range of investments, but for a significant proportion of them the required information is not available.

However there are no metrics which communicate full information about climate risk and the transition to net zero, so there will be a challenge in communicating what this metric shows and what it doesn't show.

**Question 2 - We propose that:**

**(a) trustees who are subject to the requirements in Part 1 of the Schedule to the Climate Change Governance and Reporting Regulations on or after 1 October 2022 (including trustees to whom the requirements are re-applied in accordance with regulation 3(4), 4(4) or 5(4)) will be required to select, calculate and report on a portfolio-alignment**

metric and to publish the findings in their TCFD report within 7 months of the relevant scheme year end date in the same way as they are for other metrics. This will apply to:

- trustees of a trust scheme which had relevant assets equal to, or exceeding, £5 billion on their first scheme year end date which falls on or after 1st March 2020, and who remain subject to the requirements in Part 1 of the Schedule on 1 October 2022
- trustees of a trust scheme which has relevant assets equal to, or exceeding, £1 billion on a scheme year end date which falls on or after 1st March 2021
- trustees of all authorised master trusts and authorised collective defined contribution schemes

#### **After 1 October 2022**

(b) trustees will cease to be subject to the requirements to select, calculate and report on a portfolio alignment metric in accordance with regulations 3(4), 4(3), 4(5), 5(3) and 5(5) of the Climate Change Governance and Reporting Regulations:

- trustees of a scheme with relevant assets of less than £500 million on a scheme year end date which falls after 1 October 2022 will cease to be subject to the requirements to select and calculate a portfolio alignment metric with immediate effect, but must still report on their selected portfolio alignment metric in their TCFD report for the scheme year which has just ended, unless the relevant assets on the scheme year end date were zero
- trustees of an authorised scheme which ceases to be authorised after 1 October 2022 (a “formerly authorised scheme”) and which had relevant assets of less than £500 million on the scheme year end date immediately preceding the scheme year in which authorisation ceased, will cease to be subject to the requirements to select, calculate and report on a portfolio alignment metric with immediate effect
- trustees of a formerly authorised scheme which has relevant assets of less than £500 million on a scheme year end date after authorisation ceased, will cease to be subject to the requirements to select and calculate a portfolio alignment metric with immediate effect, but must still report on their selected portfolio alignment metric in their TCFD report for the scheme year which has just ended, unless the relevant assets on the scheme year end date were zero

**Do you agree with these policy proposals?**

As these questions relate to the scope of these requirements and the LGPS is currently outside the scope we have no comments to make.

**Question 3 - We propose to incorporate the requirements to measure and report a portfolio-alignment metric into the existing Climate Change Governance and Reporting Regulations so that the requirements are subject to the same disclosure and enforcement provisions as the other metrics requirements.**

**Do you agree with this policy proposal?**

Again, the LGPS is regulated in a different way so this is not directly relevant to us. There is concern that the proposal is focussed on the existence of a disclosure rather than on the quality or completeness of the report, but understand the difficulty in assessing this. There is a reference for

reporting on 'all' the assets of the Pension Fund and we would refer you to the response in Q1 about the difficulty in obtaining data on many less liquid asset classes.

**Question 4 - (a) Do you have any comments on the draft amendments to the Regulations?**

**(b) Do you have any comments on the draft amendments to the statutory guidance?**

**Please include in your answer any comments you have on whether you consider that they meet the policy intent stated in this chapter.**

**We particularly welcome comments on the definition of a portfolio alignment metric and whether respondents think it reflects the policy intent??**

The LGPS will have different regulation and guidance specific amendments. Our main concerns relate to the accuracy and availability of the underlying data. Without significant improvements in this it is possible, even likely, that the metrics disclosed may give a misleading impression of the investments of the Pension Fund, and the trend over time.

**Question 5 - Do you have any comments on the new regulatory burdens to business and benefits of requiring schemes to measure and report their Paris alignment??**

Although this is an additional burden to business, (which we would like to see extended to further types of investment), we feel that the process of measuring emissions and other climate related metrics will focus management's mind on the environmental and financial risks and so this will be of benefit to them over the longer term.

The aspect of making companies aware and engage with these issues is the major benefit of this proposal. The requirement for Pension Funds to report may also have the beneficial effect of encouraging them to engage with companies and organisations to further manage these risks where this is not already happening.

However there is a risk that as a result of this additional reporting, Pension Funds will be incentivised to divest from carbon intensive stocks in order to improve portfolio metrics. This could have a detrimental impact on those companies who will end up owned by different organisations with no motivation to influence a long term transition, who may wish to extract the maximum value in the short term which could have a significant environmental impact. The risk of this unintended consequence should at least be explicitly acknowledged.

The largest burden may well be in ensuring that these metrics are explained properly to stakeholder groups and in dealing with queries and questions around methodology, data and alignment.

**Question 6 - Do you have**

**(a) any comments on the impact of our proposals on protected groups and/or how any negative effects may be mitigated?**

**(b) any evidence on existing provision made by trustees in response to requests for information in alternative accessible formats?**

**(c) any other comments about any of our proposals??**

No further comments.

**2 Stewardship and the Implementation Statement**

**Question 7 – Should DWP include a vote reporting template in its implementation statement guidance which trustees are expected to use? If so, should such a template be based on the PLSA's vote reporting template? What changes, if any, would be needed to the PLSA template if it were to be adopted?**

**What are your views on the adoption of an engagement reporting template? Should it be separate from any vote reporting template or integrated with it, so that – in relation to equities – both voting and engagement activities are described for the same set of assets?**

Nottinghamshire Pension Fund already publishes details of voting on our segregated mandates, and quarterly engagement and voting reports for significant equity managers. Prescribing the format of such reporting could create an additional overhead without adding any value.

The Fund works with multiple partners on engagement initiatives, each of which publish quarterly reports which are uploaded to our website. Again requiring this information to be reported in a particular way could generate additional work for no benefit.

**Question 8 – Do you have any comments on our cross-cutting proposals for the draft Guidance on Statements of Investment Principles and Implementation Statements, in particular that:**

**(a) they are written for members?**

**(b) these are trustees' statements, not their consultants'?**

**(c) Implementation Statements should set out how the approach taken was in savers' interests?**

**(d) trustees should be able to include material from voluntary disclosures, such as Stewardship Code reporting, as long as they meet the requirements in the Regulations??**

The LGPS has different guidance which is incorporated into our Investment Strategy Statement, and different stakeholders in that the investment performance of our fund has an impact not just on members, but on employers and local tax payers. The LGPS guidance is felt to be sufficient.

As these proposals do not apply to the LGPS we have no comments.

**Question 9 – (a) Do you have any comments on our proposed Guidance on stewardship policies?**

**(b) Do you have any comments on our proposed Guidance on significant votes?**

Nottinghamshire Pension Fund has long believed that Responsible Investment and Stewardship were core to achieving long term returns, managing risk, and using our influence to achieve both financial and non financial benefits for all. Consequently our Fund, and most LGPS funds are already undertaking stewardship in line with your stated beliefs.

The low standards of asset manager voting policies being vague and unambitious, and failure to engage on climate issues are not recognised by this Fund. Any such managers would not be considered as appropriate investment managers for our assets.

We currently disclose all of our direct voting activity. A requirement to identify 'significant votes' would add an additional overhead to this reporting but might be very useful.

Guidance will be required to define 'significant votes'.



**Question 10 – Do you have any comments on our proposed Statutory Guidance on the information to be included in the Implementation Statement with regard the requirements under the Disclosure Regulations, Schedule 3, paragraph 30(f)(i)-(iv)?**

The LGPS does not require an IS. However the fund is expected to consistently operate in accordance with our Investment Strategy as set out in the Investment Strategy statement.

**Q11. Do you have any comments on our proposed Statutory Guidance on meeting the Implementation Statement requirements in the Disclosure Regulations relating to choosing investments?**

The LGPS does not require an IS. However the fund is expected to consistently operate in accordance with our Investment Strategy as set out in the Investment Strategy statement.

**Q12. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to investment strategy?**

The LGPS has different guidance which is incorporated into our Investment Strategy Statement,

**Q13. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to financially material considerations (including ESG and climate change)?**

This is already reflected in the guidance to the LGPS.

**Q14. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to non-financial matters?**

This feels more appropriate for DC schemes than DB. For DC schemes it is appropriate that members have the option to make decisions relating their non-financial beliefs as the consequences of those decisions will fall directly to those members. For DB schemes those risks impact other stakeholders and decisions based on non-financial matters should not purely relate to members views.

Should any decisions be made relating to non-financial beliefs it is important that it is clearly disclosed the basis on which those decisions were made, justification of the immateriality of financial impact, and explanation of how members and other stakeholders views were incorporated. However there should be no implication that decisions should or will be made based on non-financial beliefs. The beliefs of members and all stakeholders are likely to be diverse and disparate, and making non-financial decisions for the entirety of such a group is fraught with danger.

**Q15. Do you have any comments on our proposed Guidance on meeting requirements in the Investment Regulations and Disclosure Regulations relating to arrangements with asset managers?**

Nottinghamshire Pension Fund has a diverse range of investments held with a significant number of managers. Although we can see the potential benefit of such disclosure, the overhead of reporting this for all asset managers would be significant. Were this to be introduced it would be helpful to limit it to material investments only.

Yours faithfully,





## Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne

30<sup>th</sup> November 2021

### Market commentary

1. When I last wrote in September, I warned that financial markets look increasingly vulnerable to a fall. I suggested that the key to what happens will be the reaction of Chinese authorities to the slowdown in their economy. If they choose to ease policy in order to generate growth, that will help global recovery. If they choose to focus on stability, that suggests a more muted trend in global economic growth. The spurt in inflation creates extra dangers in both these scenarios.
2. U.S. consumer inflation data showed a 6.2% annualised rise in October, the highest since 1990. The surge in oil and gas prices was the major input, caused by a mixture of demand from China, limited investment in new capacity, and some manipulation of supply by Russia. But other supply-side blockages such as shipping container shortages and changes in work habits are also playing a part.
3. The trajectory of global economic growth is slowing down. The most recent quarterly US growth figure (on an annualised basis) was 2%, down from 6.7% previously. U.K. growth has now slowed to 1.3% and has only just recovered to the pre-COVID level of activity. China's economy in the most recent quarter only grew by 0.2% quarter on quarter and 4.9% from the period a year earlier. This reflects both their earlier recovery in 2020 and the slowing down this year. The Japanese economy contracted slightly.
4. The staging of COP26 in Glasgow has put the focus on the transition to a lower carbon planet. There is increasing alignment among investors around Net Zero by 2050 as a target. However, this does not mean that all countries and all companies will be net zero; some will still emit carbon, and others will have to move to negative emissions. Between 20% and 50% of power will be generated from fossil fuels even in 2050; and substitutes for plastics and cement, for example, are yet to be identified.
5. The latest COVID-19 variant, called omicron, has led to new shutdowns and restrictions in many parts of the world. Government actions may turn out to be over-compensating for their previous slowness to act but, justified or not, the new uncertainty will have an impact on consumer behaviour generally. Businesses in areas such as entertainment, tourism and travel will be particularly impacted.
6. Monetary and fiscal support was withdrawn by the authorities earlier in the year, but recent monetary data shows a relaxation, perhaps in response to the slowing economy and the new omicron COVID variant. This is in line with central bank reluctance to raise interest rates. On the other hand, the UK autumn budget firmly put the burden of paying for the Government's largesse on the taxpayer, both corporate and individual. Even without a rise in interest rates, the squeeze on disposable income from

this and the hike in energy costs is likely to reduce UK consumer spending substantially.

7. Markets continue to be remarkably sanguine about events. Bond yields rose during the last three months in anticipation of a rise in interest rates but have fallen back since. Western equity markets paused earlier in the summer, but reached new highs in the autumn after better than expected earnings numbers.
8. Behind this lies the assumption, correct over 25 years, that central banks will yet again ride to the rescue if the problems get worse. Markets are also supported by the heavy skew (60% in total, 70% of Developed Markets) to the U.S., and within that to tech and consumer tech stocks, which may be less affected by a traditional economic downturn. Finally private equity managers have also been deploying their capital to bid for and acquire a swathe of quoted companies across the world (e.g. in the U.K. there have been offers for TSB, William Morrison, and Meggitt).
9. In contrast, Asian and Emerging Markets, where Chinese policy is now the dominant influence, have gone sideways over the last 12 months. The well-flagged defaults in the Chinese property sector (Evergrande etc) contributed to weaker performance as well as the slowing economy and a resurgence in COVID prevalence.
10. One important question for investors is whether the current inflation level will be sustained or is simply a short-term blip. Energy prices look set to remain high and supply side bottlenecks from COVID and (for the UK) BREXIT are adding to the inflationary pressures. The authorities have little room for manoeuvre if these continue to build, and the risk of a policy error is growing.
11. Public equity markets have so far been resilient, but it remains hard to see a painless exit in the longer term. If policy is kept loose, the excess stimulus will probably continue to flow into markets for the time being. However, that cannot be continued for ever. I think it is more likely that central banks err on the side of raising interest rates too soon to counter inflation, and consequently tip western economies into recession.
12. The Fund invests for the long-term and its assets are diversified across a range of assets. For a number of years we have deliberately looked to invest in assets such as infrastructure which should mitigate the risk of inflation. However, I repeat my comment from last time that in the more adverse scenarios the 'snap-shot' funding level might well fall.

**REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE  
AND EMPLOYEES****WORK PROGRAMME****Purpose of the Report**

1. To consider the Committee's work programme.

**Information**

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.
3. The attached work programme has been drafted in consultation with the Chair and Vice-Chairs, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.
4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

**Other Options Considered**

5. None.

**Reason/s for Recommendation/s**

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

**Statutory and Policy Implications**

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users,

sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required

## **RECOMMENDATION/S**

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

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

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

Jo Toomey, Advanced Democratic Services Officer

E-mail: [jo.toomey@nottsc.gov.uk](mailto:jo.toomey@nottsc.gov.uk)

Tel: 0115 977 4506

### **Constitutional Comments (HD)**

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

### **Financial Comments (NS)**

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

### **Background Papers**

None

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

All

**PENSION FUND COMMITTEE – WORK PROGRAMME (updated 25 November 2021)**

<b>Report Title</b>	<b>Brief summary of agenda item</b>	<b>Report Author</b>
<b>27 January 2022</b>		
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Treasury Management Strategy 22/23	Strategy for forthcoming financial year	Ciaran Guilfoyle
Conferences and training report	Planned training and conferences for 22/23	Tamsin Rabbitts
Report on the LAPFF conference	Report on the presentations attended at the LAPFF conference in December	Keith Palframan
Mortality and the impact of COVID-19 on the pension fund	Presentation by Scheme Actuary	Jon Clewes
Update on valuation process	Update from Scheme Actuary	Jon Clewes
<b>10 March 2022</b>		
Fund Valuation & Performance – Qtr 3	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	Schroder & Aberdeen
Strategic Asset Allocation Working party report	Report on the discussions and any decisions arising from the January working party meeting on our Strategic Asset Allocation and Investment Strategy and any other issues discussed	Tamsin Rabbitts
Investment in tobacco		
<b>28 April 2022</b>		

Review of progress on the Climate Risk Action plan	6 monthly report	Tamsin Rabbitts
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
<b>9 June 2022</b>		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central and guest manager
<b>14 July 2022</b>		
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Treasury Management outturn 21/22	Summary of TM activity for year ended 31 March 2022	Ciaran Guilfoyle
Update on LGPS Central Ltd	Presentation from LGPS Central Ltd on developments in pooling and in the company	Keith Palframan
Annual Administration Performance Report		Jon Clewes
Pension Administration and transformation update report		Sarah Stephenson
<b>To be placed</b>		
Monitoring of the Fund Membership Death Process	Update report	Jon Clewes
Review of Work of the Pension Fund Committee and Pension Board		Marjorie Toward



Good governance project		Jon Clewes / Keith Palframan
McCloud Judgment update report		Jon Clewes
GMP Update report		Jon Clewes
Pension Fund Review of Cyber Security – Pension Regulator Requirement		Sarah Stephenson / Jon Clewes

### **Nottinghamshire Pension Fund Annual General Meeting**

The Nottinghamshire Pension Fund Annual General Meeting will take place on Monday 17 January 2022 at 1.30pm. Please note, this is the AGM for the Fund and not a meeting of the Nottinghamshire Pension Fund Committee.



**9 December 2021**
**Agenda Item: 9**

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

### **FUND VALUATION AND PERFORMANCE**

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

1. To report on the total value and performance of the Pension Fund to 30 September 2021.

#### **Information and Advice**

2. This report is to inform the Nottinghamshire Pension Fund Committee of the value of the Pension Fund at the end of the latest quarter and give information on the performance of the Fund. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendices.
3. The table below shows a summary of the total value of the investment assets of the Fund as at 30 September 2021 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark is a long-term target which the fund will move towards over the next year.

	<b>Latest Quarter</b>		<b>Long term</b>	<b>Previous Quarter</b>		<b>Previous Year</b>	
	<b>30 September 2021</b>		<b>Benchmark</b>	<b>30 June 2021</b>		<b>30 September 2020</b>	
	£m	%		£m	%	£m	%
Growth	4,172	64.3%	60%	4,208	65.9%	3,396	61.2%
Income & inflation protection	1,023	15.8%	23%	1,001	15.7%	863	15.5%
Income only	698	10.8%	10%	632	9.9%	719	13.0%
Inflation only	322	5.0%	5%	306	4.8%	214	3.9%
Liquidity	271	4.2%	2%	241	3.8%	359	6.5%
	<b>6,486</b>	<b>100.0%</b>	<b>100%</b>	<b>6,388</b>	<b>100.0%</b>	<b>5,551</b>	<b>100.0%</b>

4. Within Income & inflation protection are investments in Infrastructure assets amounting to £352.7m or 5.5% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 8.1% of the fund. There is a long term target for investments in infrastructure to be 8% of the fund.
5. The table below shows the detailed breakdown by portfolio of the Fund as at 30 September 2021 together with the total value of each portfolio at the previous quarter end.

	Core Index		Schroders		LGPS Central		Kames S		Aberdeen		Specialist		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
<b>UK Bonds</b>														
Gilts					204.2	25%	0.0	0%					204.2	3%
Corporate Bonds							139.3	100%					139.3	2%
					<b>204.2</b>	25%	<b>139.3</b>	100%					<b>343.5</b>	<b>5%</b>
<b>Overseas Bonds</b>														
Corporate Bonds					321.1	39%	0.0	0%					321.1	5%
					<b>321.1</b>	39%	<b>0.0</b>	0%					<b>321.1</b>	<b>5%</b>
<b>Inflation Linked</b>											322.0	21%	322.0	<b>5%</b>
<b>UK Equities</b>	535.3	37%	917.0	45%	10.3	1%					0.0	0%	1,462.6	<b>23%</b>
<b>Overseas Equities</b>														
North America	303.5	21%	647.0	32%							0.0	0%	950.5	15%
Europe	248.8	17%	141.6	7%							164.6	11%	555.0	9%
Japan	132.2	9%	68.9	3%							117.9	8%	319.0	5%
Pacific	125.9	9%	55.0	3%									180.9	3%
Emerging Markets	86.3	6%	96.2	5%	130.0	16%					0.0	0%	312.5	5%
Global	0.0	0%	81.4	4%	41.2	5%					0.0	0%	122.6	2%
	<b>896.7</b>	63%	<b>1,090.1</b>	54%	<b>171.2</b>	21%					<b>282.5</b>	18%	<b>2,440.5</b>	<b>38%</b>
<b>Private Equity</b>					11.9	1%					257.3	17%	269.2	<b>4%</b>
<b>Infrastructure</b>					.6	0%					351.1	23%	352.7	<b>5%</b>
<b>Credit</b>					100.0	12%					72.3	5%	172.3	<b>3%</b>
<b>Property</b>														
UK Commercial									360.7	68%			360.7	6%
UK - Local									21.7	4%			21.7	0%
UK Strategic Land									3.9	1%			3.9	0%
Pooled - UK									29.3	6%	140.2	9%	169.5	3%
Pooled - Overseas									113.9	22%	0.8	0%	114.7	2%
									<b>529.5</b>		<b>141.0</b>	9%	<b>670.5</b>	<b>10%</b>
<b>Cash/Currency</b>	0.0	0%	15.4	1%	0.1	0%	0.0	0%	0.0		115.7	8%	131.2	<b>2%</b>
<b>Total</b>	<b>1,432.0</b>	22%	<b>2,022.5</b>	31%	<b>820.4</b>	13%	<b>139.3</b>	2%	<b>529.5</b>	8%	<b>1,541.9</b>	24%	<b>6,485.6</b>	
Previous Qtr	1,528.4	24%	1,949.0	31%	782.3	12%	80.7	1%	516.2	8%	1,531.7	24%	6,388.3	

6. The Fund investments have increased by £97.3 million (1.5%) since the previous quarter as the market has continued to grow, if unevenly. Fund investments have increased by £934.7 million (16.8%) over the last 12 months. Valuations at 30 September 2020 were depressed after a weak recovery from the market impact of the Covid-19 pandemic.

7. The table below shows the half year Fund Account for 2021/22 with the full year figures for 2020/21.

<b>Summary Fund Account</b>	<b>Q2 2021/22 £000</b>	<b>Full Year 2020/21 £000</b>
Employer contributions	(76,633)	(201,395)
Member contributions	(21,788)	(49,638)
Transfers in from other pension funds	(3,435)	(5,580)
Pensions	92,627	179,425
Commutation of pensions and lump sums	18,606	31,607
Lump sum death benefits	3,964	5,237
Payments to and on account of leavers	4,059	13,086
<b>Net (additions)/withdrawals from dealings with members</b>	<b>17,400</b>	<b>(27,258)</b>
<b>Administration Expenses</b>	<b>696</b>	<b>2,692</b>
<b>Oversight &amp; governance expenses</b>	<b>(247)</b>	<b>1,804</b>
Investment Income	(27,991)	(84,822)
Profits & losses on disposals & changes in value	(1,046,096)	(988,631)
Taxes on income	171	172
Investment management expenses	1,326	4,370
<b>Net Returns on Investments</b>	<b>(1,072,590)</b>	<b>(1,073,281)</b>
 <b>Net (increase)/decrease in net assets</b>	 <b>(1,054,741)</b>	 <b>(1,091,672)</b>

### Sustainable investments and fossil fuels

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

	<b>Latest Quarter</b>		<b>Previous Quarter</b>		<b>Previous Year</b>	
	<b>30 September 2021</b>		<b>30 June 2021</b>		<b>30 September 2020</b>	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	85.7	1.32%	71.4	1.12%	50.0	0.91%
Other Fossil fuel	84.2	1.30%	84.4	1.32%	68.9	1.26%
Total Fossil fuel	170.0	2.62%	155.7	2.44%	118.9	2.17%
Sustainable & Renewable	291.3	4.49%	257.0	4.02%	155.1	2.83%

10. In the most recent quarter the value of Fossil Fuel investments increased in absolute terms and as a small proportion of the fund in the Schroders portfolio. Schroders increased their sector holdings in the quarter and delivered a gain of £7.18m on these holdings.
11. Schroders hold a number of Oil and Gas companies within the Active Equity portfolio. Sustainability forms part of their criteria in assessing companies for investment. For example one of their holdings, Neste has a strong line-up of low carbon energy products, including recycled biofuels. European countries are introducing tighter blending requirements for sustainable aviation fuel, of which Neste is the largest European producer.
12. The 'Other Fossil fuel' category is almost entirely the Energy sector in our passive portfolio and will reflect the share of the index relating to Energy. It increased because of the increase in share prices of oil and gas companies in this quarter. The amount invested in passive equities has decreased during the quarter as a result of rebalancing. It should be noted that the Energy sector includes any renewable energy companies within the index, and that some oil and gas producers are also involved in the production of biofuels, hydrogen, wind power and solar energy, so have a renewables element. As a result of these two factors the figure for fossil fuels is likely to be overstated, and the figure for renewables understated.
13. Equally there will be some companies such as those in the mining sector which do not fall within this category but may produce for example coal which would not be included in these figures.
14. For this reason, this indicator does not provide the full picture of our exposure to fossil fuels, but forms only part of our risk monitoring. However as an indicator it should show a reducing trend in exposure over time.
15. A more thorough assessment of our equity investments is provided by LGPS Central's carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves. The metric for exposure to clean technology is less informative as most of our investment in this area is through infrastructure funds which are not covered by the analysis. This analysis confirmed that our carbon footprint and fossil fuel and coal reserves are lower than the benchmark. The projection is that as we implement our long term investment strategy that these figures will reduce reflecting a reduction of risk.
16. The 'sustainable and renewable energy' investment figure contains more estimates. The figure includes five specific investments – the Renewables Infrastructure Group, Impax Environmental, and four renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank's Offshore Wind Fund, Langar Lane Solar Farm and the LGPS Central Infrastructure fund where the first investment is in a renewable energy infrastructure fund.
17. An estimate of the renewable energy investments within the Fund's other infrastructure funds was added to these identified investments. Not all funds identified this as a sector in their reporting so this data is incomplete. Furthermore because of the longer reporting cycle for unlisted investments the estimate was based on both valuations and percentages from earlier in the year, so this figure can only be considered indicative, but is likely to be an underestimate.
18. It can be seen that the Fund's investments in Sustainable Equities and Renewable Energy now significantly exceed those in Fossil Fuel investments. A gradual increase in the amount invested in this area has been demonstrated over the last year and this will increase as our Strategic Asset allocation is implemented.
19. Because of the way they are calculated, these numbers will only ever be indicative, but are helpful for the pension fund in identifying risk and progress.

## Core Index Portfolio

20. Below are detailed reports showing the valuation of the Core Index portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation and compares it to the portfolio benchmark (and a comparison with the previous quarter). The benchmark changed at the Pension Fund Committee in the summer to reduce UK equities to 35% of the fund which will be reflected in the Core Index portfolio. This will be a gradual change over the rest of the year.

	30 September 2021			30 June 2021	
	Portfolio	B/Mark		Portfolio	
	£000	%	%	£000	%
UK Equities	535,290	37.4%	35%	591,537	38.7%
Overseas Equities:	896,493	62.6%	65%	936,835	61.3%
North America	303,454	21.2%	20%	362,183	23.7%
Europe	248,751	17.4%	20%	228,291	14.9%
Japan	132,155	9.2%	10%	123,542	8.1%
Pacific Basin	125,882	8.8%	10%	132,567	8.7%
Emerging Markets	86,251	6.0%	5%	90,252	5.9%
Cash	0	0.0%	0%	0	0.0%
<b>Total</b>	<b>1,431,783</b>			<b>1,528,372</b>	

21. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	-160	70,000	-70,160
Overseas Equities			
North America	73	70,000	-69,927
Europe	20,000		20,000
Japan			0
Pacific Basin			0
Emerging Markets	0	0	0
<b>Totals</b>	<b>19,913</b>	<b>140,000</b>	<b>-120,087</b>

There majority of the purchases and sales in the quarter reflected the rebalancing activity in the quarter as we reduce our passive holdings and our allocation to the UK.

## Schroder Investment Management Portfolio

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

	30 September 2021		B/Mark	30 June 2021	
	Portfolio			Portfolio	
	£000	%	%	£000	%
UK Equities	917,028	45.3%	45.0%	950,088	48.7%
Overseas Equities	1,090,026	53.9%	54.5%	979,934	50.3%
North America	646,957	32.0%	32.1%	566,401	29.1%
Europe	141,621	7.0%	6.9%	146,870	7.5%
Japan	68,903	3.4%	3.5%	81,014	4.2%
Pacific Basin	55,039	2.7%	2.6%	59,117	3.0%
Emerging Markets	96,152	4.8%	5.4%	90,437	4.6%
Global Small Cap	81,354	4.0%	4.0%	36,095	1.9%
Cash	15,431	0.8%	0.5%	18,952	1.0%
Total	<b>2,022,485</b>			<b>1,948,974</b>	

23. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	35,279	64,232	-28,953
Overseas Equities			
North America	105,460	46,205	59,255
Europe	24,327	32,690	-8,363
Japan	10,730	28,532	-17,802
Pacific Basin	0	2,776	-2,776
Emerging Markets	11,115	0	11,115
Global Small Cap	44,445		44,445
<b>Totals</b>	<b>231,356</b>	<b>174,435</b>	<b>56,921</b>

## LGPS Central

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

	30 September 2021		30 June 2021	
	Portfolio		Portfolio	
	£000	%	£000	%
UK Passive	10,314	1%	10,091	1%
Global equity	41,165	5%	40,238	5%
EM equity active	130,025	16%	135,753	17%
Corporate bonds	321,148	39%	322,589	41%
Gilts	204,174	25%	208,989	27%
Private Equity	11,855	1%	12,839	2%
Infrastructure	1,645	0.2%	1,459	0%
Credit	100,011	12%	50,320	6%



Cash	58	0%	52	0%
<b>Total</b>	<b>820,395</b>		<b>782,330</b>	

25. The table below summarises transactions within the quarter.

<b>Sector</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Net Purchases £000</b>
<b>Bonds</b>			
Gilts	5,482	4,734	748
Corporate Bonds	0		0
<b>Equities</b>			
UK	0	0	0
Emerging Markets	0		0
Global	0		0
<b>Private Equity</b>	-2,532		-2,532
<b>Infrastructure</b>	374		374
<b>Credit</b>	50,000		50,000
<b>Totals</b>	<b>53,324</b>	<b>4,734</b>	<b>48,590</b>

During the quarter the Fund invested an additional £50m to the new MAC (Multi-Asset Credit) fund. A further £75m was committed to LGPS Central's new Infrastructure fund during the quarter. £45m of last quarter's commitment has already been committed by LGPS Central to a KKR Infrastructure fund. The committed capital will be drawn over the next few years.

#### **Abrdn (previously Aberdeen Standard Investments)**

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

<b>Date</b>	<b>Property</b>	<b>Transaction</b>
08/06/2021	Site 1B, Nursling, Southampton	Purchase
07/07/2021	Unit 4, Brooke Park, Handforth	Lease
07/07/2021	Unit 3C, Isabella Court Millenium Business Park, Mansfield	Surrender of Lease
29/07/2021	Unit 3C, Isabella Court Millenium Business Park, Mansfield	Lease
29/07/2021	Unit B1, Brooke Park, Handforth	Engrossment Licence
01/09/2021	Bakkavor Foods, Brookside Way, Huthwaite	Rent Review
29/09/2021	Units 2A and 2B Bagshot Retail Park	Deed of Variation

This schedule includes the purchase of a logistics warehouse in Southampton that was inadvertently omitted last quarter.

## Specialist Portfolio

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

	30 September 2021		30 June 2021	
	£000	%	£000	%
Private Equity	257,300	18.0%	244,300	17.6%
Infrastructure	351,100	24.6%	344,800	24.8%
Credit	72,300	5.1%	50,500	3.6%
Property Funds	141,000	9.9%	138,400	10.0%
Aegon DGF	322,000	22.6%	306,000	22.0%
Equity Funds	282,500	19.8%	306,600	22.0%
<b>Total</b>	<b>1,426,200</b>		<b>1,390,600</b>	

28. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-672	3,488	-4,160
Infrastructure	2,713	227	2,486
Credit	18,400		18,400
Property Funds	624	538	86
Aegon DGF	15,000		15,000
Equity Funds	-73	34,351	-34,424
<b>Totals</b>	<b>35,992</b>	<b>38,604</b>	<b>-2,612</b>

29. There were increased investments in Property debt, the Aegon DGF, and a UK Smaller Companies fund was sold and the proceeds reinvested in the Schroders Global Small Cap fund.

## Responsible Investment Activity

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

31. During the quarter the Fund's investment managers have continued with their usual stewardship activities through considered voting of shares and engaging with investee company management as part of the investment process. Quarterly reports on Responsible Investment issues have been received from Legal and General, Schroders and LGPS Central. Full reports and other responsible investment information can be found on the Pension Fund website here <https://www.nottspf.org.uk/about-the-fund/responsible-investment>.

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

33. LAPFF (Local Authority Pension Fund Forum) have engaged with a number of companies during the quarter (principally Shell, Rio Tinto, ArcelorMittal, National Grid, SSE and Anglo American). More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. An officer attended the LAPFF business meeting on 14<sup>th</sup> July 2021. This was reported to committee in the November 2021 meeting.

34. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. Officers attended the PLSA (Pensions & Lifetime Savings Association) ESG conference and Officers and Members attended LGPS Central Responsible Investment Summit. Officers worked with LGPS Central to produce the Climate Risk report which was presented to the last committee meeting.
35. In September Members attended a full day Climate Risk Workshop to enable Members to review the rationale for the Pension Fund's current policy of engagement and ESG integration and consider possible additional options. During the day there were presentations to clarify the responsibilities of all the parties involved in looking after the Pension Fund and to provide an appreciation of the legal and regulatory risks and requirements. With the support of Patrick O'Hara from LGPS Central, who presented on a range of approaches, Members discussed various strategies for managing climate risk.
36. A number of officer meetings have been held to discuss the LGPS Central Infrastructure Fund which will include some investment in renewable energy generation. Other meetings were held to discuss the Sustainable Equities Fund which will be launched in the new year. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised. The Climate Risk Report and TCFD report was approved by Committee in November and the Climate Action Plan was reviewed at the same meeting.

## **Statutory and Policy Implications**

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

## **RECOMMENDATION**

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

**Name of Report Author: Tamsin Rabbitts**

**Title of Report Author: Senior Accountant – Pensions & Treasury Management**

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

## **Constitutional Comments**

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

## **Financial Comments (TMR 23/11/2021)**

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

