

# **JOHN RAISIN FINANCIAL SERVICES LIMITED**

## **The Nottinghamshire Local Pension Board**

### **Pension Board Review 1 April 2023 to 31 March 2024**

#### **A report by the Advisor the Board**

##### **Executive Summary**

This report reviews the activity of the Nottinghamshire Local Pension Board during the period 1 April 2023 to 31 March 2024.

This review has been prepared by the Advisor to the Board, in Consultation with the Chair, for consideration by the Board at its meeting on 27 June 2024. Following consideration by the Board an approved version of this review will be forwarded to the Pension Fund Committee for their consideration.

##### **Purpose and Terms of Reference of the Nottinghamshire Pension Board**

Under its Terms of Reference, the purpose of the Nottinghamshire Local Pension Board is to assist the Pension Fund Committee in its role (delegated by Nottinghamshire County Council) as a Scheme Manager under the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations. The Board consists of eight members and comprises four Employer and four Employee representatives. The Chair is chosen by the Board members from amongst their number. The present Chair Thulani Molife an Employee representative became Chair on 30 September 2021 having served as a member of the Board since 2016. The Board provides a specific forum for both Employers and Employees to be actively involved in the Governance of the Fund on an ongoing basis.

The Board is supported by Officers of the Nottinghamshire Pension Fund. In addition, the County Council has appointed an independent external Advisor to the Board, John Raisin Financial Service Limited.

##### **Board Meetings 1 April 2023 to 31 March 2024**

Nottinghamshire County Council requires that as a minimum the Pension Board meet twice a year. The Board Members (supported by Officers and the Advisor) expressed the view, at an informal Board Workshop in February 2021, that the Board should meet more regularly than the two occasions per (financial) year that had been the practice since 2015. There was a clear consensus that four meetings a year would be appropriate. In both 2021-22 and 2022-23 the Board made progress towards this meeting on three occasions. During 2023-24 the Board met on two occasions – on 15 June 2023 and 30 November 2023.

The Agenda Items considered at each Board meeting held during the financial year 2023-2024 are shown in the Table below:

	15/6/23	30/11/23
Minutes of Previous Meeting	/	/
Declarations of Interest	/	/
Pension Fund Risk Register	/	/
Work Programme	/	/
LGPS Update by Advisor to the Board	/	/
LGPS Scheme Valuation – Fund Actuary	/	
Minutes of Pension Board Chairs Meeting	/	
Review of Fund Strategy Documents		/
Training		/
Pensions Administration Performance Report		/
Impact of “McCloud” on Nottinghamshire Fund		/
Guaranteed Minimum Pension Rectification - Update		/
Pension Board Annual Review 2022-23		/

Further comments on the above reports are included later in this review.

### **Members of the Pension Board**

The full Membership of the Nottinghamshire Pension Board is four Employee and four Employer representatives. This number, eight, is well in excess of the minimum number of Board members required under the LGPS Regulations 2013 which is only four (two Employee and two Employer). The establishment by the County Council in 2015 of a Board membership of eight was positive and proactive in terms of seeking to facilitate both Employee and Employer representation and involvement in the ongoing Governance of the Nottinghamshire Pension Fund.

Unfortunately, there have been ongoing issues in terms of recruitment to the Board despite clear attempts by the Fund Officers to fill all eight places. During 2022-2023 the membership of the Board was only five members. During 2023-24 it was five Members until 22 November 2023 and then fell to only four Members. As at the year end there were two Employer representatives and two Employee representatives. As was stated in the previous Pension Board review this situation is most unfortunate given the role of the Board under both the LGPS Regulations and its Terms of Reference as set out by the Nottinghamshire County Council.

The Board was however fortunate to have throughout the year three longstanding and experienced Members who this year, as in past years, were not only conscientious in attendance but also contributed actively and positively to Board meetings. The individual commitment and participation of Thulani Molife, Councillor Reg Adair, and Mark Heppenstall meant that the reports prepared by Officers and the Advisor to the Board were carefully considered, constructively questioned, and actively discussed. Thulani Molife continued as Chair and was actively involved in discussions with Fund Officers and the Advisor to the Board between, and in preparation for Board meetings.

Councillor Dr Nayab Patel and Becky Smeathers who had both joined the Board as Employer representatives in September 2022 stepped down during the year. Councillor Dr Patel was immediately replaced by Councillor Dr Imram Jalil.

Despite the input of Fund Officers, Advisors and the three longstanding Members (of the Board) the ongoing vacancies – now four out of eight are having a clear impact on the ability of the Board to assist the Administering Authority to secure the effective and efficient Governance and Administration of the Pension Fund.

### **Support for the Board by the Fund Officers and Advisor to the Board**

The LGPS Regulations 2013 require each Administering Authority (Pension Fund) to establish a Pension Board comprised of equal numbers of Employer and Employee representatives to assist the Pension (Fund) Committee. This requirement provides LGPS Funds with a genuine opportunity to significantly enhance the involvement of stakeholders in LGPS Fund Governance.

The ability of a Pension Board to provide effective input and genuinely contribute to the ongoing development, activity, and monitoring of a LGPS Fund, is however, not guaranteed by the fact that there is a regulatory requirement to establish a Board. A fundamental requirement for a Board to be effective is genuine and extensive input and support by the Fund Officers. Throughout 2023-2024 the Board received, as it has since its creation, positive support, advice, and guidance from the Officers of the Nottinghamshire Pension Fund with responsibility for the Governance, Administration, and Investment aspects of the Fund. This support was clearly evidenced not only by the reports prepared by the Officers but also their briefings provided at Pension Board meetings (and pre Agenda meetings) and their positive and informative responses to the constructive questions and observations of the Board members and the Advisor to the Board.

It is particularly appropriate in this review to express much appreciation for the support that Jon Clewes Pensions (Administration) Manager gave to the Board from its foundation in 2015 until his retirement in May 2024. Jon prepared a significant number of the reports presented to and considered by the Board since its inception. Jon played a significant role in supporting the Board not only in relation to Pension Administration issues but also Risk and the Board Work Plan. Jon was very active and positive in consulting with the Chair and Advisor in terms of Board Agenda planning and preparation.

When the Board was created in 2015 Nottinghamshire County Council took the unusual but incredibly positive approach of appointing an independent external Advisor to the Fund to provide additional support and advice to the Board. John Raisin Financial Services Limited (JRFS) was appointed to this role after competitive tender in 2015 and reappointed following another tendering process in 2021. In 2023-2024, as in previous years, JRFS continued to provide reports for the Board and input at Board meetings and discussions with the Chair and Officers between Board meetings, and to lead on both Training strategy and provision.

## **Training and Development, LGPS Updates and Nottinghamshire updates**

Sufficient and effective Training and Development are clearly essential for Board Members to properly discharge their responsibilities. Furthermore, knowledge and understanding are specifically required of Pension Board Members by the Public Service Pensions Act 2013.

The June 2023 Board meeting received a detailed presentation from the Fund Actuary Barry McKay of Barnett Waddingham on the subject of Actuarial Valuations with a particular focus on the 2022 Actuarial Valuation – which is a Funding Valuation. The presentation began with the Actuary giving an overview of the distinct types of Valuation – Funding, Accounting, Cessation, Bulk Transfer. The Actuary then gave a detailed presentation on the 2022 Actuarial Valuation commencing with an explanation of the key inputs and outcomes of a Funding Valuation. Issues covered by the Actuary included how Assets and Liabilities are funded, setting Employer Contribution Rates, key financial assumptions (pension increases, salary increases, Discount Rate), key demographic assumptions (mortality, commutation). The Actuary explained the whole Fund results and the various changes that had led to the overall increase in Funding Level from 93% in 2019 to 100% in 2022 – Investment returns and lower life expectancy were the main factor increasing the Funding level. The Actuary then gave a briefing on a range of “hot topics” including McCloud, the Cost Cap, the Good Governance Review and Climate Change. There were a range of constructive questions raised by Board Members with the Actuary including the inflation assumption, climate risk and the future timing of LGPS Actuarial (Funding) Valuations

As agreed by the Board at its March 2023 meeting a detailed training session covering Legislation and Governance was provided (online) to Board Members by the Advisor to the Board on 7 June 2023. This covered Legislation and Governance in the context of both the LGPS at a national level and in the specific context of the Nottinghamshire Pension Fund.

The Pension Fund is required under the LGPS Regulations to prepare certain strategies/policies (for example the Governance Compliance Statement, Funding Strategy Statement, the Investment Strategy Statement) while other policies (for example a Climate Strategy) have been developed by Pension Funds, including Nottinghamshire, as good practice. At the November meeting the Board received a report **Revision of Fund Strategy Documents** which provided an overview of the Nottinghamshire Pension Fund Strategies with a brief description of each and a link where each of these documents can be examined. This provided an update to the Board of the strategies/policies of the Nottinghamshire Fund, a summary of the most recent changes to these, and a link providing easy access to them.

At the November 2023 Board meeting a paper from the Advisor to the Board entitled **Pension Board Training Proposal Pensions Accounting, Auditing & Reporting** was received. This proposed that the Advisor to the Board provide a (two hour) training session covering Pensions Accounting, Auditing, and the Annual Report and that this be delivered prior to the next scheduled meeting of the Board. Consequently, this has been scheduled to take place prior to the Board meeting of 27 June 2024.

In addition, during 2023-2024 the Board received two broad **LGPS Updates** from the Advisor. These provided Board members with knowledge and understanding of Governance, Administration, and Investment issues with a particular emphasis on national (England and Wales) developments within the LGPS. Issues covered were Investment Pooling including the LGPS Consultation "*Next steps on Investments*," McCloud Consultation and Regulations, Climate Change (Risk) reporting, changes to the LGPS Cost Management process, Changes to Pensions Taxation, The Pension Regulators proposed new General Code, the Good Governance in the LGPS project. In response to the LGPS Updates Members raised questions regarding the approach to Investment Pooling and the implementation of the Good Governance in the LGPS project recommendations by Nottinghamshire.

### **Review of the Pension Fund Risk Register**

Risk Management is fundamental to effective Pension Fund activity across all of the Governance, Administration, and Investment functions. The Chartered Institute of Public Finance and Accountancy) and The Pension Regulator have made absolutely clear the critical role and importance of effective Risk Management in the context of the LGPS.

Therefore, it was appropriate and indeed necessary that the **Pension Fund Risk Register** together with a covering report was presented to, and actively considered by the Board at each of its meetings during 2023-2024. As in both 2021-2022 and 2022-2023, the resourcing of the Pension Fund remained the highest Current Risk on the Risk Register with a score of "12" and a rating of "HIGH."

The Board has in previous years expressed very clear concerns regarding resourcing/recruitment and again in 2023-2024 constructively questioned Officers. At both the June and November 2023 meetings the Group Manager (Business Service Centre) provided a detailed response to Board Members concerns. This included acknowledging that resourcing is indeed an area of risk and has been exasperated by recent developments including McCloud, and GMP reconciliations. Work was however ongoing to mitigate resourcing challenges including for example working with Civica to maximise efficiencies from the pension system.

At both the June 2023 and November 2023 meetings the Group Manager, (Business Service Centre) gave a very helpful oral update on progress in reviewing the Risk Management/Risk Register process. The Council has commissioned its insurer Zurich to assist with this review. Once completed a revised Risk Register model would be presented to the Pension Fund Committee and the Pension Board.

### **Pension Administration Issues**

Effective Pensions Administration is absolutely fundamental to the Nottinghamshire Pension Fund. Ultimately the Pension Fund only exists to provide pension benefits to those entitled to them as determined by the LGPS Regulations. There was a particular focus on Pensions Administration at the meeting held on 30 November 2023.

The **Pension Administration Performance Report** covered the work and performance of the Pensions Administration Team for the period 1 April 2022 to 31 March 2023. The report included coverage of - the extensive range of the Team's functions and responsibilities; its structure including an extensive narrative and analysis of resourcing; recruitment and retention issues; Data Quality; Pension Fund Member Statistics; Complaints and Internal Dispute Resolution Procedure Appeals; Performance Data including statistics, commentary, and explanations/analysis. The presentation of an annual performance report to the Board is most helpful in highlighting the challenges, the responses to these, the achievements and performance of the Pensions Administration function.

In his presentation of the above report to the Board the Pensions (Administration) Manager highlighted that it had been a challenging year with several projects (including McCloud and Guaranteed Minimum Pension rectification) alongside ongoing activity. Much effort had been made to both improve data quality and improve performance. For example, performance against KPIs had improved to 75% compared to 67% the previous year. However, the Pensions Administration function continues to face increasing complexity and ongoing challenges. During the year there had also been an increase in deferred members of the scheme drawing their benefits early.

The November 2023 meeting also received a report and briefing on the **Guaranteed Minimum Pension** which updated the Board on the progress of this project including the rectification process, and the approach and decision of the Pension Fund Committee with regard to this issue. A report **Update on the Impact of the McCloud Judgement on the Administration of the Pension Fund** was also prepared and presented to the November 2023 meeting by the Pension (Administration) Manager. This provided detailed coverage of "McCloud" in both a national and Nottinghamshire context. Issues covered included Background, Impact on Members Benefits, What the Fund has done to prepare for McCloud, The new Regulations, Implementation of the Regulations. The Nottinghamshire Fund had already had to undertake much work in relation to this project including obtaining and validating supplementary data from Employers. While the report and discussion of the report confirm that the Pension Fund has a plan and approach which seeks to deliver the McCloud remedy this could not be implemented until further national guidance is provided. Overall, this is a complex and challenging project for the Pension Fund.

### **Work Programme**

At each of the meetings held during 2023-2024 an updated Work Programme was presented to the Board for its consideration. The Work Programme presented to each Board meeting had previously been reviewed by the Board Chair, Advisor to the Board, and Fund Officers at the pre-agenda meeting held to agree the Agenda and reports for the next Board meeting. At each Board meeting members were actively encouraged to identify any additional issues for inclusion in the Work Programme. The presentation of the Work Programme resulted in constructive observations and suggestions from Board Members.

## **Conclusion and Going Forward**

The Nottinghamshire Pension Fund operates within the overall regulatory/guidance framework as defined by the LGPS Regulations, associated Statutory Guidance and other overriding legislation and recommended principles of best practice. Reports and presentations made to the Pension Board in 2023-2024 gave assurance to the Board that the Nottinghamshire LGPS Fund is clearly seeking, through its approach to Risk Management and the operation of the Pensions Administration function, to properly comply with its obligations in relation to these matters.

While the Pension Board has no role in Investment decision making the Pension Board does have, in accordance with both the LGPS Regulations and its Terms of Reference (as determined by Nottinghamshire County Council), a role in reviewing Governance and operational arrangements relating to any activity including the Investment activity of the Fund. Therefore during 2023-24 the Board received some update/ briefing on Investment related issues in the context of the Nottinghamshire Fund (primarily through the Risk Register and the report on the Revision of Fund Strategy documents). However, unlike in 2022-23 there was no specific briefing to the Pension Board in respect of Pension Investment issues. Therefore during 2024-2025 the Board should ideally receive a further report and briefing on both **Investment Policy and Governance**, and also a further update on the progress of the **LGPS Central Pool** preferably including input from representatives of the Pool.

As in 2022-2023, the reports and oral presentations received by the Board during 2023-24 also clearly demonstrated that resourcing, particularly staff resourcing, is an area that the Nottinghamshire LGPS Fund needs to keep under careful consideration and review.

**John Raisin**

**Advisor to the Nottinghamshire LGPS Local Pension Board**

In consultation with

**Thulani Molife**

**Chair of the Nottinghamshire LGPS Local Pension Board**

**17 June 2024**