

Local Pensions Board

Tuesday, 19 April 2016 at 13:30

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

AGENDA

- 1 Introductions
- 2 Election of Chairman
- 3 Minutes of the last meeting held on 16 December 2015 3 - 6
- 4 Apologies for Absence
- 5 Declarations of Interests by Members and Officers:- (see note below)
 - (a) Disclosable Pecuniary Interests
 - (b) Private Interests (pecuniary and non-pecuniary)
- 6 Membership of the Local Pension Board 7 - 10
- 7 Role and Approach of the Pension Regulator 11 - 18
- 8 Pension Board Training 19 - 24
- 9 Pension Fund Investments - Presentation by Simon Cunnington, Senior Accountant (Pensions and Treasury Management)
- 10 Role of Pensions Administration Team - Presentation by Sarah Stevenson, Group Manager, Business Support Centre.
- 11 Asset Pooling and Consultation on Revised Investment Regulations 25 - 36

Notes

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

Customer Services Centre 0300 500 80 80

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

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Paul Davies (Tel. 0115 977 3299) or a colleague in Democratic Services prior to the meeting.

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

minutes

Meeting NOTTINGHAMSHIRE LOCAL PENSION BOARD

Date Wednesday, 16 December 2015 at 12.00 noon

membership

Persons absent are marked with `A`

Employers

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

Members

Everton Lewis Gordon	Trade Unions
3 vacancies	

Officers in Attendance

Sara Allmond	Advanced Democratic Services Officer
Sue Bearman	Senior Solicitor, Corporate and Environmental Law
Simon Cunnington	Senior Accountant, Pensions and Treasury Management
Paul Davies	Advanced Democratic Services Officer
Ciaran Guilfoyle	Investments Officer
Nigel Stevenson	Service Director, Finance, Procurement and Improvement
Sarah Stevenson	Group Manager, Business Support Centre

CHAIR

Councillor David Kirkham was elected to chair this meeting of the Board. A longer term Chair would be elected at the next meeting, after the remaining seats on the Board had been filled.

APOLOGIES FOR ABSENCE

None.

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None.

MEMBERSHIP OF THE LOCAL PENSION BOARD

The report indicated that the recruitment of member representatives was still in progress. It was anticipated that they would be appointed by the time of the next Board meeting.

RESOLVED 2015/001

That the membership of the Board be noted.

INTRODUCTION TO THE NOTTINGHAMSHIRE LOCAL PENSION BOARD

The report outlined the statutory role of the Board in securing compliance with pension legislation and ensuring efficient and effective governance and administration of the Nottinghamshire Pension Fund. John Raisin Financial Services Ltd had been appointed as external advisor to the Board, but given the short notice, John Raisin had been unable to attend the meeting.

RESOLVED 2015/002

That the statutory requirement for the establishment of the Nottinghamshire Local Pension Board, its core functions and terms of reference be noted.

NOTTINGHAMSHIRE LOCAL PENSION BOARD CODE OF PRACTICE

The report proposed a Code of Practice for the Board, and provided copies of the County Council's Code of Conduct and Procedure Rules, which would apply to Board meetings.

RESOLVED 2015/003

That the Nottinghamshire Local Pension Board Code of Practice be adopted.

TRAINING NEEDS ANALYSIS

The report introduced a training needs analysis form which had been developed with the assistance of a framework developed by CIPFA. Board members were encouraged to complete and return the form to help shape their training programme.

RESOLVED 2015/004

That the report be noted.

WORK PROGRAMME

The report invited the Board to consider items for inclusion in the work programme. The Board's advisor had suggested that priority might be given to:-

- The role of the Pension Regulator, and compliance of the Nottinghamshire Scheme with the Regulator's Code of Practice and regulations. The Scheme's annual report, published in August each year, would assist with this.
- Introduction to the work of the Pensions Investment and Pensions Administration Teams
- Role of the actuary, and the triennial valuation of the Pension Fund due as at March 2016
- Pooling assets with other LGPS administering authorities

Board members agreed with these suggestions as priorities for the work programme, and also asked for information about the governance of the Nottinghamshire Scheme, and contact details for the officers working with the Board.

RESOLVED: 2015/005

That the above items be incorporated into a timetabled work programme, to be presented to the next meeting of the Board.

The meeting concluded at 12.40 pm.

CHAIR



REPORT OF CORPORATE DIRECTOR, RESOURCES

MEMBERSHIP OF THE LOCAL PENSION BOARD

Purpose of the Report

- 1. To inform the Board of its membership.

Information and Advice

- 2. The Local Pension Board’s membership is as follows:

Employer representatives

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

Employee representatives

Sue Maycock	Pension Scheme member
Thulani Molife	Pension Scheme member
tbc	Pension Scheme member
tbc	Trade Unions

- 3. This membership complies with the requirements of the Public Service Pensions Act 2013, that there be an equal number of employer and member representatives, none of whom may be members of the Pension Committee or its sub-committees, and that the Board has at least four members.
- 4. Since the last meeting of the Board, two employee representatives have been appointed: Sue Maycock, who works for Nottinghamshire Fire and Rescue Service and is an active member of the scheme, and Thulani Molife, who is a deferred member of the scheme.

Nominations for the final employee representative have been sought through the admitted bodies.

5. The latest position will be reported at the meeting.

Other Options Considered

6. Not applicable.

Reason/s for Recommendation/s

7. To inform the Board of its membership.

Statutory and Policy Implications

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

RECOMMENDATION/S

1) That the membership of the Board be noted.

Jayne Francis-Ward
Corporate Director, Resources

For any enquiries about this report please contact:
Paul Davies, Democratic Services tel 0115 977 3299

Constitutional Comments

9. As the report is for noting only, constitutional comments are not required.

Financial Comments (SRC 29/03/16)

10. There are no direct financial implications arising from this report. Any costs associated with the operation of the Pension Board would be a legitimate charge to the Fund in accordance with governing regulations.

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.

- Report to County Council on Local Government Pension Scheme Governance Regulations, 26 March 2015

Electoral Division(s) and Member(s) Affected

- All



REPORT OF CORPORATE DIRECTOR, RESOURCES

ROLE AND APPROACH OF THE PENSIONS REGULATOR

Purpose of the Report

1. To inform the Board of the role of the Pensions Regulator.

Information and Advice

2. The attached paper has been prepared by the Board's advisor, John Raisin Financial Services Ltd, on the role of the Pensions Regulator.
3. The paper summarises requirements for the governance and administration of public service pension schemes, which are set out in the Regulator's Code of Practice No.14.
4. Also covered in the paper is the Regulator's proposed approach to compliance and enforcement in public service pension schemes.

Other Options Considered

5. Not applicable.

Reason/s for Recommendation/s

6. To assist the Board to understand the role and expectations of the Pensions Regulator.

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 services), the public sector equality duty, safeguarding of children and adults at risk, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

That the Board consider the paper from the Board's Advisor, and note the Pensions Regulator's role and requirements.

Jayne Francis-Ward
Corporate Director, Resources

For any enquiries about this report please contact:
Paul Davies, Democratic Services tel 0115 977 3299

Constitutional Comments

As the report is for noting only, constitutional comments are not required.

Financial Comments (SRC 31/03/16)

8. There are no direct financial implications arising from this report. Any costs associated with the operation of the Pension Board would be a legitimate charge to the Fund in accordance with governing regulations.

Background Papers and Published Documents

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None

Electoral Division(s) and Member(s) Affected

- All

The Nottinghamshire Local Pension Board

**The role and approach of the Pensions Regulator to the
Local Government Pension Scheme**

A paper by the Advisor to the Pension Board
March 2016

Background

Section 17 and Schedule 4 of the Public Service Pensions Act 2013 extended the role of the Pensions Regulator to include public sector pension schemes including the Local Government Pension Scheme (LGPS) from 1 April 2015.

With regard to the LGPS the Pensions Regulator now has responsibilities in relation to governance and particularly administration. However, the Pensions Regulator's role has not been extended to funding and investment issues within the LGPS which remain wholly the responsibility of the Secretary of State for Communities and Local Government.

Schedule 4 of the Public Service Pensions Act 2013 requires the Pensions Regulator to issue a Code of Practice or Codes of Practice in respect of certain specified matters. In response to this requirement the Pensions Regulator in December 2013 issued Draft Code of Practice No 14 ***“Governance and administration of public service pension schemes.”*** Following consultation a slightly revised version of Draft Code No 14 came into effect as Code No 14 from 1 April 2015. This Code of Practice, which is over 60 pages long, is applicable both to the Pension Fund and the individual Employers within the Fund. A copy can be downloaded at <http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>

In June 2015 the Pensions Regulator issued (following a consultation during February and March 2015) its approach to compliance and enforcement in relation to public service pension schemes in a 23 page document entitled ***“Compliance and enforcement policy for public service pension schemes.”*** (a copy can be downloaded at <http://www.thepensionsregulator.gov.uk/doc-library/compliance-and-enforcement-policy-for-public-service-pension-schemes.aspx>). This indicates that the Pensions Regulator's primary focus will be on educating and enabling Schemes to improve standards and comply with legal requirements. However the Regulator is clear that statutory based enforcement action will be taken against Schemes if necessary.

This paper will now look in some more detail at Code of Practice No 14 and the Pensions Regulator's approach to compliance and enforcement for public service pension schemes.

Code of Practice No 14 "Governance and administration of public service pension schemes"

Code of Practice No 14 covers the following issues:

Governing your scheme

- Knowledge and understanding required by pension board members
- Conflicts of interest and representation
- Publishing information about schemes

Managing risks

- Internal Controls

Administration

- Scheme record-keeping
- Maintaining contributions
- Providing information to members

Resolving issues

- Internal dispute resolution
- Reporting breaches of the law

The issues covered and requirements of Code No 14 are extensive. Although effective record keeping, maintaining contributions, providing information to members and internal dispute resolution were already legal requirements for both LGPS Funds and Employers Code No 14 brings these requirements together in one document and also provides practical guidance and sets expected standards.

Paragraph 12 of Code of Practice No 14 states that the Code is "*particularly directed*" at Scheme Managers (which in the case of the Nottinghamshire Fund is the Pension Fund Committee and its Officers) and members of Pension Boards. Given the contents of the Code it is therefore very important that Members of the Pension Fund Committee, the Pension Board and relevant Officers are clearly aware of its contents. As Paragraph 8 of the Code states "*The regulator is required to issue one or more codes of practice covering specific matters relating to public service pension schemes. This code of practice sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.*"

It is also crucial that all Employers within the Nottinghamshire Fund are aware of and comply with the legal requirements and standards covered in the Code. As Paragraph 15 states *“the role and actions of employers can be critical in enabling scheme managers to meet certain legal requirements.”* For example the role of Employers in Scheme record keeping, ensuring employee and employer contributions are correctly paid to the Fund and in the Internal Dispute Resolution Procedure (IDRP) are crucial. Failures by an Employer to fulfill legal requirements and follow the expected standards within the Code may result in that Employer (rather than the Pension Fund) being subject to legal enforcement action by the Pensions Regulator. Therefore the Fund needs to bring Code No 14 to the attention of all Fund Employers.

It is a statutory requirement under Schedule 4 of the Public Service Pensions Act 2013 and Section 248A of the Pensions Act 2004 (As amended) that members of Pension Boards have “knowledge and understanding” of pensions law and be “conversant” with the Scheme Regulations and Fund documents. It is therefore necessary for members of the Pension Board to undertake and maintain appropriate training and for the Fund to be able to evidence that individual Pension Board members have attended suitable training.

Paragraphs 34 to 60 of Code of Practice No 14 cover the issue of Knowledge and Understanding required by Pension Board members in detail. The Code is clear that Pension Board members will require a broad range of “knowledge and understanding.” This includes the Scheme Regulations which in the case of the Local Government Pension Scheme (LGPS) are the various LGPS Regulations together with policies and documents within those Regulations adopted by individual Funds such risk assessment/management policies, administration policies including record-keeping, communication policies/documents, funding and investment policies. Pension Board members must also have knowledge and understanding of the wider law as it relates to pensions. Paragraphs 47 to 54 of the Code make it clear that knowledge and understanding must be of a sufficient depth to enable members to effectively carry out their role. Paragraph 60 states that *“Schemes should keep appropriate records of learning activities of individual pension board members and the board as a whole....”*

The legislative requirements regarding knowledge and understanding only apply to Pension Board members. They do not apply to members of Fund decision making committees (referred to in the Pensions Regulators Code No 14 as *“scheme managers”*), which in the case of the Nottinghamshire Fund is the Pension Fund Committee. However the regulator in Code No 14 states (Paragraph 37) that *“scheme managers should take account”* of the guidance, in the Code, relating to knowledge and understanding required by Pension Board members. Therefore the Pensions Regulator is clearly indicating that those responsible for Fund decision making (the Pension Fund Committee) should acquire and maintain a broad range of knowledge and understanding relevant to the LGPS. This is completely logical and appropriate as the members of the Pension Fund Committee are responsible for exercising, on behalf of the Council, powers and duties of the Council in relation to the Nottinghamshire Fund.

The Code provides practical guidance and sets expected standards of practice in relation to legal requirements. The practical guidance sections of the Code are not intended to prescribe the process for every scenario. They do however provide principles, examples and benchmarks against which the Pension Fund and individual Employers can consider whether or not they are reasonably complying with their duties and obligations. For example, as illustrated below, the Code sets out clear expectations in respect of Managing Risks/Internal Control and Scheme record keeping.

Code of Practice No 14 is clear as to the necessity for both an effective Risk assessment and management approach and for the establishment and operation of effective Internal Controls (Paragraphs 100 to 120). The Code states (Paragraph 106) that *“Before implementing an internal control framework, schemes should carry out a risk assessment.”* and (Paragraph 108) *“Once schemes have identified risks, they should record them in a risk register and review them regularly.”* Internal Controls are defined at Paragraph 102 as

- *arrangements and procedures to be followed in the administration and management of the scheme*
- *systems and arrangements for monitoring that administration and management, and*
- *arrangements and procedures to be followed for the safe custody and security of the assets of the scheme*

As Paragraph 104 states *“Good internal controls are an important characteristic of a well-run scheme and one of the main components of the scheme manager’s role in securing the effective governance and administration of the scheme.”*

The maintenance of complete and accurate records is a major concern of the Pensions Regulator as demonstrated by Paragraphs 122 to 146 of Code of Practice No 14. For example Paragraph 124 states *“Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes to carry out basic functions.”* Paragraph 138 states *“Schemes should continually review their data and carry out a data review exercise at least annually. This should include an assessment of the accuracy and completeness of the member information data held.”* Employers as well as the Fund have a crucial role in ensuring the accuracy of member records (see for example Paragraphs 128,129 and 130) and *“Schemes should ensure that member records are reconciled with information held by the employer....”* (Paragraph 142).

Employers must pay both employer and employee contributions to the Fund in accordance with the Law and Regulations. The Fund must monitor payments and investigate any payment failures by Employers. Ultimately as stated in Paragraph 173 the Fund must report *“payment failures which are likely to be of material significance to the regulator....”* (see Paragraphs 147 to 186 for guidance on collecting employee and employer contributions). Guidance on the provision of information to individual members, including time limits, is covered in Paragraphs 187 to 211 of Code of Practice No 14. In the LGPS both individual Employers and the Fund have a role in Internal Dispute Resolution. This crucial issue is covered in Sections 213 to 240 of the Code.

Although adhering to the Code is not a statutory requirement it does set out many legal requirements and should the Pensions Regulator identify or become aware of a situation where requirements are being breached it will use the Code as a reference document when determining what action to take. Furthermore under Section 90(5) of the Pensions Act 2004 Codes of Practice issued by the Pensions Regulator are admissible in evidence in any legal proceedings *“and must be taken into account”* in its determination if the court or tribunal considers it relevant to any issue arising in the proceedings. Section 90(6) states that *“legal proceedings”* includes cases considered by the Pensions Ombudsman. This is important as the final appeal against an administrative decision of either the Fund or an individual Employer is normally to the Pensions Ombudsman.

Compliance and enforcement policy for public service pension schemes

The ***“Compliance and enforcement policy for public service pension schemes.”*** issued in June 2015 sets out the Regulator’s proposed approach to compliance and enforcement in relation to public service pension schemes. In this document the Regulator states that its primary focus will be on educating and enabling Schemes to improve standards and comply with legal requirements. The Regulator indicates that initially they will focus on:

- Promoting Code of Practice No 14 and educational tools
- Undertaking surveys to understand the extent to which expected standards and practices are been met
- Undertaking thematic reviews, focusing on key risk areas
- Engaging with Schemes to understand how they are addressing poor standards and non-compliance through the development of improvement plans.

Although the Pensions Regulator is clear that education and enabling is core to their approach it *“regards failures to address poor standards and non-compliance with the law as unacceptable.”* Should a Fund or Employer materially fail to comply with their legal obligations the Regulator may take enforcement action. This may range from statutory compliance notices and monetary penalties, to criminal prosecution.

The Pensions Regulator will apply a risk based approach to compliance and has indicated that it will focus on risks in the following areas:

- Knowledge and Understanding
- Conflicts of interest
- Internal Controls (which includes Risk Management)
- Records
- Member communication
- Dealing with internal disputes

As will be observed the areas the Pensions Regulator has indicated it will focus on correspond to issues covered in Code of Practice No 14. This further highlights the need for the Fund and all Employers to be aware of and adhere to the requirements and guidance within Code No 14.

Conclusion

Code of Practice No14 “***Governance and administration of public service pension schemes***” and the Pensions Regulator’s policy regarding its approach to compliance and enforcement in relation to public service pension schemes demonstrate the importance of and high standards of practice required from both LGPS Pension Funds and individual Employers.

It is therefore vital that all those involved in the governance and administration of the Pension Fund, in any capacity, are clearly aware of Code of Practice No 14 and the Pensions Regulator’s approach to compliance and enforcement, including legal enforcement action if education and enabling should prove ineffective.

Both the Nottinghamshire Fund and individual Employers must ensure they adhere to their legal obligations and the expected standards the Pensions Regulator has set out.

John Raisin

2 March 2016

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REPORT OF CORPORATE DIRECTOR, RESOURCES

PENSION BOARD TRAINING

Purpose of the Report

1. To advise Board members of training opportunities to enable them to carry out their role.

Information and Advice

2. The attached paper on training has been prepared by the Board's advisor, John Raisin Financial Services Ltd, to assist Board members perform their role.
3. The paper refers to the core knowledge and skills identified by CIPFA (Chartered Institute of Public Finance and Accountancy), the Pension Regulator's on-line Public Service Toolkit, and other local and national training opportunities.
4. The paper suggests topics to be covered at the training sessions which will precede meetings of the Board.

Other Options Considered

5. Not applicable.

Reason/s for Recommendation/s

6. To assist the Board to comply with the requirements to have knowledge and understanding of pensions law and regulations.

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 services), the public sector equality duty, safeguarding of children and adults at risk, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

That the Board

- 1) consider the paper from the Board's Advisor
- 2) agree the training proposals contained in the paper

Jayne Francis-Ward
Corporate Director, Resources

For any enquiries about this report please contact:
Paul Davies, Democratic Services tel 0115 977 3299

Constitutional Comments (KK 31/03/16)

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

Financial Comments (SRC 31/03/16)

9. There are no direct financial implications arising from this report. Any costs associated with the operation of the Pension Board would be a legitimate charge to the Fund in accordance with governing regulations.

Background Papers and Published Documents

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

None

Electoral Division(s) and Member(s) Affected

- All

The Nottinghamshire Local Pension Board

Pension Board Training

A paper by the Advisor to the Pension Board

March 2016

Purpose

To make proposals in respect of Pension Board Training with a particular focus on training to be provided by the Advisor to the Pension Board while also highlighting the desirability of Pension Board Members completing the Pensions Regulator's online "Public Service Toolkit" which focuses on the areas of governance and pensions administration.

Background

The meeting of the Pension Board held on 16 December 2016 received a report "Training Needs Analysis" (Agenda Item 8) from the Service Director – Finance, Procurement & Improvement. This highlighted that Pension Board Members have a statutory duty to have "knowledge and understanding" of pensions law and be "conversant" with the Scheme Regulations and Fund documents. The report referred to the Pensions Regulator's expectations in this respect and that CIPFA had developed a *Technical Knowledge and Skills Framework* for Local Pension Boards. To assist in establishing training arrangements Members of the Pension Board were asked to complete a Training Needs Analysis (TNA) covering the eight areas of knowledge and skills covered in the CIPFA Framework.

Overview of Pension Board Training

The CIPFA "**Local Pension Boards A Technical Knowledge and Skills Framework**" (July 2015) sets out eight "core" areas of Knowledge and Skills for Pension Board members These are:

- Pensions Legislation
- Pensions governance
- Pensions Administration
- Pensions accounting & auditing standards
- Financial markets and products knowledge (including understanding of the importance of the investment strategy)
- Procurement and relationship management
- Investment performance & risk management
- Actuarial methods, standards and practices

Given the CIPFA guidance on the issues that Pension Board Members should receive training in respect of it is proposed that the Advisor to the Pension Board provide training, before each Board meeting, which will progressively cover the eight “core” areas in the CIPFA Framework. This training should be regarded as an introduction and overview of each area. Depending on the particular relevance to the Board and individual Board Members existing/current knowledge further training will be provided or offered in respect of various aspects of the requirements within the CIPFA Knowledge and Skills Framework and in respect of any other issues that the Officers and Advisor to the Board in consultation with Board Members consider relevant.

The Pensions Regulator has developed an online “Public Service Toolkit” which may be accessed at www.thepensionsregulator.gov.uk/public-service-schemes.aspx This on line toolkit is concerned with governance and administration and consists of seven modules which correspond to areas covered in the Pensions Regulators Code of Practice No 14 **“Governance and administration of public service pension schemes.”** These modules are:

- Conflicts of interest
- Managing risk and internal controls
- Maintaining accurate member data
- Maintaining member contributions
- Providing information to members and others
- Resolving internal disputes
- Reporting breaches of the law

Completion of all seven modules results in the award of a “Development record” certificate. The modules give a broad introduction and understanding of these areas of governance and pensions administration and it is clearly advisable that Members of the Pension Board complete the toolkit. Indeed some Pension Boards have resolved that their Members should complete the Pensions Regulator’s on line toolkit within a specified period and forward their “Development record” certificate to the Officers of the Board.

Further training/ knowledge and understanding covering the areas within the CIPFA Knowledge and Skills Framework and other relevant issues will be provided by the Officers of the Fund or other organisations/persons connected to the Fund, including the Fund Actuary. In addition, as appropriate external courses and events will be made available to Pension Board Members. The results of the Training Needs Analysis indicate that Members of the Board are comfortable with a broad ranging approach to the provision of training.

Training to be provided by the Advisor to the Board

Clearly understanding of Pensions Legislation and Governance is fundamental and therefore it is proposed that the Advisor to the Board cover these two areas in a training session before the Board meeting on 19 April 2016. Early training in these areas is also suggested by the Training Needs Analysis forms which have been completed by Board members. As the Fund will be subject to a Triennial Actuarial Valuation during 2016 it is proposed that the Advisor also present an introduction to Actuarial issues on 19 April prior to more in depth training on the 2016 Actuarial Valuation by the Fund Actuary, Barnett Waddingham, prior to the September Board meeting.

The Board will receive the Pension Fund Annual Report and Accounts for 2015-16 at the September 2016 meeting and consequently it is proposed the Advisor present training on the Pension Fund Accounts on the morning of the meeting. Given the crucial importance of Pensions Administration to both Employers and Employees a further suggested priority for training in September 2016 is additional coverage of Pensions Administration to supplement the presentation by the Group Manager responsible for Pensions Administration which will be received by the Board at its April 2016 meeting

In respect of the three “core” areas of Knowledge and Skills which relate to Pensions Investments it is proposed to cover these in 2017. The logical order is Financial Markets and Products Knowledge then Procurement and Relationship Management and finally Investment Performance and Risk Management. This is because the first of these modules is concerned with Investment Strategy which is the most important of all investment decisions and also the characteristics of the main investments (known as asset classes) that Local Government Pension Scheme Funds invest in. The second and third modules are primarily concerned with procuring suitable investment managers and other suppliers to the Pension Fund and the monitoring of their performance.

In summary it is suggested that the Advisor to the Board provide training in respect of the eight core areas of the CIPFA Knowledge and Skills Framework for the Pension Board as follows:

- **April 2016:**Pensions Legislation
- **April 2016:**Pensions governance
- **April 2016:**Actuarial methods, standards and practices
- **September 2016:**Pensions accounting & auditing standards
- **September 2016:**Pensions Administration
- **2017:**Financial markets and products knowledge (including understanding of the importance of the investment strategy)
- **2017:**Procurement and relationship management
- **2017:**Investment performance & risk management

Summary of Training Proposals

It is proposed that Pension Board training be provided in the following ways:

1. The Advisor to the Pension Board to provide introductory and overview training during 2016 and 2017 covering all eight “core” areas of Knowledge and Skills for Pension Board Members as identified in the CIPFA Knowledge and Skills Framework for Local Pension Boards.
2. The Members of the Pension Board undertake the seven modules within the Pensions Regulator’s Public Service Toolkit and forward their “Development record” certificate to the Board Officers upon completion.
3. The Board Officers and other organisations/persons connected to the Fund, including the Fund Actuary, provide such further training and presentations as appropriate.
4. Appropriate external courses/events be made available, by the Board Officers, to the Members of the Pension Board.

John Raisin

11 March 2016

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**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &
IMPROVEMENT**

**ASSET POOLING AND CONSULTATION ON REVISED INVESTMENT
REGULATIONS**

Purpose of the Report

1. To inform members of the Fund's initial response to the government's request for proposals on asset pooling and consultation on changes to investment regulations.

Information and Advice

2. In the July Budget 2015, the Government announced its intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. In November 2015, the Department for Communities and Local Government (DCLG) published *Local Government Pension Scheme: Investment Reform Criteria and Guidance* alongside a consultation on revised LGPS Investment regulations. The criteria cover the following:
 - A. Asset pool(s) that achieve the benefits of scale
 - B. Strong governance and decision making
 - C. Reduced costs and excellent value for money
 - D. An improved capacity to invest in infrastructure
3. Authorities were asked to submit their initial proposals on asset pooling to the Government by 19 February 2016. Refined and completed submissions are expected by 15 July 2016. The government will continue to engage with authorities as they develop their proposals for pooling assets, highlighting areas that may fall outside of the criteria or where additional evidence may be required.
4. The consultation on the investment regulations sought responses to eight specific questions. The government recognised that the existing regulations place restrictions on certain investments that may constrain authorities considering how best to pool their assets. It therefore proposed to move to a prudential approach to securing a diversified investment strategy that appropriately takes account of risk. In so doing, the government proposed to introduce a power to allow the Secretary of State to intervene to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance.
5. The current investment regulations have not proved to be a constraint to the Fund, mainly as a result of its long term, relatively traditional, investment strategy. The proposed changes

replace the Statement of Investment Principles (SIP) with an Investment Strategy Statement (ISS). The requirements for the new ISS are largely met by the existing SIP but this will be reviewed once the new regulations are approved and recommendations will be made to the Pensions Sub-Committee and Pension Fund Committee as appropriate.

6. The Nottinghamshire fund is committed to creating a Midlands based pool, known as “LGPS Central”, with 8 other participant funds. The total value of the pool is around £35 billion and so easily meets the government’s criteria on size. The pool developed a joint submission for use by participating funds in responding to the government’s February deadline. As the initial submission only required funds to show ‘a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities’ the joint submission was used as the basis for the Nottinghamshire submission.
7. The proposed response to both government documents was discussed at the Pensions Sub-Committee meeting on 4 February 2016 and finalised in conjunction with the Chairman and Vice-Chairman. This was submitted on 15 February 2016 and is shown at Appendix A. The response from Marcus Jones MP, Minister for Local Government, welcomes the initial LGPS Central proposal and encourages us to continue work to develop a detailed submission. The government response will be reported to the Pensions Sub-Committee in May 2016.
8. Regular meetings continue to be held between officers of the participating funds and a detailed work programme is being developed to meet the required deadlines. An event was held at County Hall in January 2016 to enable the Chairs, Vice-Chairs and s151 Officers of the participating funds to meet and further joint meetings are planned. Progress towards the July submission and the subsequent implementation of the pool will be reported by the pool to the chief finance officers of each fund on a regular basis. Further reports will also be taken to the Pensions Sub-Committee and this Board to keep Members up to date with progress.

Statutory and Policy Implications

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

RECOMMENDATION/S

- 1) That the report be noted.

Nigel Stevenson
Service Director, Finance, Procurement and Improvement

Report Author:
Simon Cunnington

Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments

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

Financial Comments (SRC 31/03/16)

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

Background Papers and Published Documents

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

- DCLG: Local Government Pension Scheme: Investment Reform Criteria and Guidance
- DCLG Consultation: Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

This matter is being dealt with by:
Simon Cunningham
 Reference:
 T 0115 977 2581
 E simon.cunnington@nottscc.gov.uk
 W nottinghamshire.gov.uk

LGPS Reform
 Department for Communities and Local Government
 2/SE Quarter, Fry Building
 2 Marsham Street
 London
 SW1P 4DF

11 February 2016

Dear Sir/Madam

Local Government Pension Scheme: Investment Reform Criteria and Guidance

Consultation on Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Thank you for the opportunity to bring forward proposals for pooling assets within the Local Government Pension Scheme (LGPS) and to respond to the consultation on the proposed Investment Regulations.

In framing the investment reform criteria, we are pleased to see that the government has recognised a number of strengths that have been present within the Nottinghamshire Fund for many years and that we have highlighted in our previous responses on LGPS reform:

- Strong and effective governance is key to long term performance
- Local fund authorities are best placed to determine asset allocation
- Returns are enhanced by adopting a long-term, responsible investment approach
- Internal investment management is low cost and performs strongly over the long-term
- Active management can add value over the long term

A key theme to these strengths is the focus on the long-term. It is also vital that the government recognises that there will be significant costs incurred in setting up the pools and resourcing them effectively and that cost savings on the scale envisaged may take a number of years to achieve.

Our Fund has been active in progressing a pool of Midlands based funds, known as LGPS Central. This collaboration will see the creation of a multi asset investment pool of around £35 billion in size that will meet all of the criteria set by government in terms of:

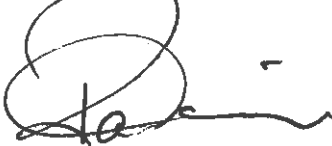
- Asset pools that achieve the benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity to invest in infrastructure

A joint submission has been agreed by all the LGPS Central participating funds and this is attached as our response.

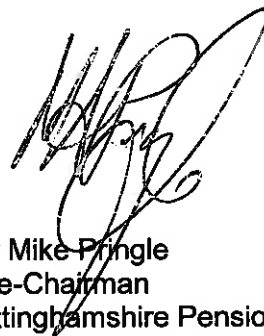
Also attached is our response to the consultation on the revised investment regulations. The Nottinghamshire Fund has always taken a prudent approach to its investments and this will not change under the proposed new regulations. In terms of the new powers of intervention, it is vital that measures are put in place to ensure that these are justified and proportionate in all cases. It is hoped that the wealth of published information available on the LGPS is used as evidence to support intervention and that appropriate expert advice is sought by the Secretary of State.

There is a huge amount of work to do to prepare for the detailed submissions in July and then to implement the new asset pool. We look forward to working with the government through this period to ensure the long term sustainability of the LGPS in continuing to provide decent, affordable pensions to the thousands of members within the scheme.

Yours faithfully,



Cllr Reg Adair
Chairman
Nottinghamshire Pension Fund Committee



Cllr Mike Pringle
Vice-Chairman
Nottinghamshire Pension Fund Committee



Joint submission to government in response to the DCLG issue of *Local Government Pension Scheme: Investment Reform Criteria and Guidance*

5 February 2016

In the July Budget 2015, the government announced its intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. In November 2015, the government published *Local Government Pension Scheme: Investment Reform Criteria and Guidance* which asked for submissions from funds on their proposals to meet the four specified criteria.

Initial submissions should include a commitment to pooling and a description of progress towards formalising arrangements with other authorities. This is a joint submission on behalf of LGPS Central, a collaboration of nine LGPS Funds, all based in the Midlands, who are working together to create an investment pool of around £35 billion.

The following funds have committed to be involved in the creation of LGPS Central:

- Cheshire Pension Fund
- Derbyshire County Council Pension Fund
- Leicestershire County Council Pension Fund
- Nottinghamshire County Council Pension Fund
- Shropshire County Pension Fund
- Staffordshire Pension Fund
- West Midlands Pension Fund
- West Midlands ITA Pension Fund
- Worcestershire County Council Pension Fund

Six of the funds involved have already collaborated on a joint procurement exercise, realising significant savings on passive investment fees. This demonstrates the ability to work together and achieve agreement through open and constructive discussion. This approach forms a firm basis for the creation of LGPS Central.

Officers of the participating funds have been meeting regularly since November 2015 and are continuing to meet on a fortnightly basis to ensure the tight timescales for establishment of the pool are met. An event was held in January 2016 for the Chairs, Vice-Chairs and chief finance officers of each participating fund to meet and talk through progress to date and how it is envisaged that the pool will meet the criteria set by government.



A. Asset pool(s) that achieve the benefits of scale

The collaboration will see the creation of a multi asset investment pool of around £35 billion in size, meeting the scale sought by the Government in its investment pooling criteria. It is expected that all investment will be made through the pool over time although the transition period for illiquid assets will extend beyond 2018. Participating funds will consider if they propose to hold assets outside the pool where this can demonstrate clear value for money. Any assets that are held outside of the pool will be kept under review.

The pool will aim to deliver cost savings and to build on the individual participating funds' strong investment knowledge and performance by providing scale, increased resilience and knowledge sharing. The new investment pool will offer access to both internal and external investment expertise.

B. Strong governance and decision making

The pool will ensure robust governance and decision making arrangements with equal say in the oversight of the new entity to each participating Fund. Preliminary investigations have been made into the process and possible structures for the pool and discussions are being held with the other emerging pools on procuring joint external advice. At this stage, no decision has been made over the structure but options being considered include:

- A joint committee
- FCA regulated operating company overseeing pooled vehicles including authorised contractual schemes (ACS), unit trusts and limited partnerships

The final structure will ensure a clear link between the pool and the governance structures in each participating fund. Decisions over investment strategy and strategic asset allocation will remain with individual funds.

A "Statement of Commitment" has been agreed to outline the key characteristics and investment beliefs of the pool, and this is attached below. A detailed work plan is being formulated to determine the structure of the pool, the internal and external resources required and the timescales for establishing the pool and moving assets.

C. Reduced costs and excellent value for money

The pool has already begun to collate data on costs incurred by participating funds for years ending 31 March 2013 and 31 March 2015. This is being collected on a consistent basis and will be analysed to inform the detailed submissions required in July. The pool is expected to generate savings over the long term but implementation and transition costs are likely to be significant.

The size of the pool will enable significant savings to be made on external management fees. A number of participating funds have internal investment expertise which is recognised to be relatively low cost and it will be difficult for these funds to achieve cost savings. However, additional savings will be realised through stronger procurement of supporting services and the building and sharing of expertise across funds, particularly in alternative asset classes.

The pool intends to work collaboratively with the Local Government Pension Scheme more widely and with the other emerging pools. Procurement will be undertaken where possible through the LGPS National Frameworks, other approved frameworks or jointly with other LGPS pools.

D. An improved capacity to invest in infrastructure

Consideration will be given to participating funds' current asset allocation and the best ways to access all asset classes including infrastructure. It is recognised that infrastructure has a role to play for many LGPS funds given their long term liabilities and the nature of returns from infrastructure. Analysis of participating funds' current allocations to infrastructure shows that LGPS Central already has a higher than average allocation to the asset class and that this has increased substantially since 2013. Funds also invest in infrastructure assets (in areas such as energy, utilities, logistics and housing) through their allocations to property, bonds and listed equities.

Participating funds within LGPS Central have different funding levels and deficit recovery profiles and so have differing risk appetites and return requirements from infrastructure. It is expected that an LGPS infrastructure platform will be set up that will allow all LGPS funds to access the asset class in a manner that is low-cost and also allows individual funds to match their required risk/return profiles. LGPS Central will ensure that appropriate cost-effective ways of accessing infrastructure are available, which may include building on internal expertise.



STATEMENT OF COMMITMENT

LGPS Central is investigating the opportunities for investment collaboration between like-minded Local Government Pension Scheme funds against the background of the government's proposals for pooling LGPS investments. The Group has a regional identity but collaboration with other LGPS pools will be welcomed. **One fund, one vote**, will be an overriding principle of any resulting pooling arrangement. Recognising that Funds have different funding levels and deficit recovery profiles; the pool's structure will aim to meet the Funds' needs in this respect.

Characteristics

- Assets will be managed by both internal and external investment managers
- The split between internal and external management will vary over time
- The internal investment resource and resilience will be developed where appropriate
- Knowledge and expertise will be shared
- Participants will be open to challenge and change
- Participants will listen and be constructive
- Strong governance, based on openness and transparency, within the pool will be paramount
- Costs will be actively managed and transparent, and will be shared fairly between participants
- Responsible investment will be an integral part of the investment process
- Collaboration with other LGPS pools will be encouraged

Investment Beliefs

- A long term approach to investment will deliver better returns
- The long term nature of LGPS liabilities allows for a long term investment horizon
- Asset allocation is the most important factor in driving long term investment returns
- Liabilities influence the asset structure; funds exist to meet their obligations
- Risk premiums exist for certain investments and this can help to recover funding deficits
- Markets can be inefficient; therefore there is a place for both active and passive management
- Diversification across investments with low correlation improves the risk/return profile
- Secure and growing income streams underpin the ability to meet future liabilities
- Responsible investment can enhance long term investment performance

Measurement of Success

- Successful delivery of the pool against the government's published criteria

5 February 2016



Response to *Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009*

1. Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?
<p>The Nottinghamshire Fund has always taken a prudent approach to its investments, seeking appropriate advice from officers and independent advisers. The Fund has an approved Risk Management Strategy and Risk Register and manages the investment risk by ensuring an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets.</p> <p>This will continue to work well within a "prudential" approach to investment.</p>
2. Are there any specific issues that should be reinstated? Please explain why.
No
3. Is six months the appropriate period for the transitional arrangements to remain in place?
Six months is appropriate.
4. Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?
One of the concerns over the existing regulations is that they are not clear. The new regulations should therefore be explicit. Derivatives are currently used by some of the Fund's investment managers for purposes other than risk management.
5. Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?
There is a wealth of published information available on the LGPS and individual funds and this should provide sufficient evidence to support a belief that intervention may be required. It should be expected that, where intervention is being considered, funds are contacted in advance of a final decision to intervene in order to present additional evidence or justification for their position.
6. Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?
The timescale for authorities to respond is unclear. A period of 3 to 6 months would be appropriate.



7. Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?

The proposals give sufficient flexibility. It is hoped that appropriate expert advice is sought by the Secretary of State in all cases of intervention to ensure that it is justified and proportionate.

8. Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?

If the Secretary of State seeks appropriate expert advice in all cases of intervention (as stated at question 7) then the proposals meet the policy objectives.

REPORT OF CORPORATE DIRECTOR, RESOURCES

WORK PROGRAMME

Purpose of the Report

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

Information and Advice

2. When establishing the Board in March 2015, the County Council considered that the Board would meet formally twice per year.
3. For the next meeting, in September 2016, the following items are suggested:

Report	Author
Pension Fund Annual Report and Accounts	Ciaran Guilfoyle
Draft Administration Strategy	Sarah Stevenson
Further Update on LGPS Asset Pooling	Ciaran Guilfoyle
Investment Strategy Statement (subject to new regulations being in place)	Ciaran Guilfoyle
Update on training for Local Pension Board members	Paul Davies

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

Other Options Considered

7. Not applicable.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

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

RECOMMENDATION/S

1) That the Board's work programme be noted, and consideration be given to any changes which the Board wishes to make.

Jayne Francis-Ward
Corporate Director, Resources

For any enquiries about this report please contact:

Constitutional Comments (HD)

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

Financial Comments (SRC 31/03/16)

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

Background Papers and Published Documents

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

None

Electoral Division(s) and Member(s) Affected

- All