

# **Nottinghamshire Pension Fund Committee**

**Thursday, 08 March 2018 at 10:00**

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

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## **AGENDA**

- |   |  |         |
|---|--|---------|
| 1 | Minutes of the last meeting held on 11 Jan 2018  | 5 - 8   |
| 2 | Apologies for Absence  |         |
| 3 | Declarations of Interests by Members and Officers:- (see note below)<br>(a) Disclosable Pecuniary Interests<br>(b) Private Interests (pecuniary and non-pecuniary) |         |
| 4 | Working Party  | 9 - 18  |
| 5 | LGPS - Guaranteed Minimum Pension Reconciliation Exercise with HMRC  | 19 - 28 |
| 6 | Work Programme   | 29 - 32 |
| 7 | Fund Valuation and Performance   | 33 - 36 |

## 8 EXCLUSION TO 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 paragraph 3 of the Local Government (Access to Information) (Variation) Order 2006 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**

## 9 Fund Valuation and Performance EXEMPT

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

## 10 Independent Advisor's Report EXEMPT

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

## 11 Managers' reports as to:

### 11a Aberdeen Standard Investments EXEMPT

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

### 11b Schroders Investment Management EXEMPT

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

### 11c Kames Capital EXEMPT

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

## 12 LGPS Central - presentation by the Chair and the CEO

### **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 Peter Barker (Tel. 0115 977 4416) 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 PENSIONS FUND COMMITTEE

Date Thursday 11 January 2017 at 10.30 am

### **membership**

Persons absent are marked with 'A'

### **COUNCILLORS**

Eric Kerry (Chairman)  
Stephen Garner (Vice Chairman)

Reg Adair  
Chris Barnfather  
Sheila Place  
Mike Pringle

Francis Purdue-Horan  
Helen-Ann Smith  
Parry Tsimbiridis

### **Nottingham City Council**

Councillor Graham Chapman  
Councillor Anne Peach  
Councillor Sam Webster

### **Nottinghamshire Local Authorities' Association**

Councillor Richard Jackson – Broxtowe Borough Council  
A Kate Allsop – Executive Mayor Mansfield District Council

### **Trades Unions**

A Mr A Woodward  
Mr C King

### **Scheduled Bodies**

Mrs Sue Reader

### **Pensioners**

Vacancy  
Mr T Needham

## **Independent Advisor**

William Bourne

## **Officers in Attendance**

Peter Barker	(Resources)
Jon Clewes	(Resources)
Andy Durrant	(Resources)
Tamsin Rabbitts	(Resources)
Nigel Stevenson	(Resources)
Sara Stevenson	(Resources)

### **1. MINUTES**

That the minutes of the last meeting held on 14 September 2017 be signed as a true and correct record.

### **2. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Alan Woodward.

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

None.

### **4. LOCAL GOVERNMENT PENSION SCHEME – APPLICATIONS FOR EMPLOYER ACCESS**

Mr Durrant introduced the report and on a motion by the Chairman, duly seconded it was:-

#### **RESOLVED 2018/001**

That a modification of the reporting process to include all types of fund application as part of the annual report on Scheme Employers and Compliance against the Administration Strategy, be approved.

### **5. PENSION FUND COMMUNICATION STRATEGY**

Mr Clewes introduced the report and on a motion by the chairman, duly seconded it was:

#### **RESOLVED 2018/002**

1. That the updated Communications Strategy, as detailed in Appendix 1 of the report, be approved.
2. That the communications schedule, as detailed in Appendix 2 of the report, be approved, and that the schedule be reviewed annually and updated on an ad hoc basis as necessary.

## **6. CONFERENCES AND TRAINING**

Mrs Rabbitts introduced the report and on a motion by the Chairman, duly seconded it was:-

### **RESOLVED 2018/003**

That attendance at conferences and training as set out in the report be approved.

## **7. REVIEW OF THE PROPERTY CONSULTATION PROCESS FOR PROPERTY PURCHASES AND SALES**

Mrs Rabbitts introduced the report and a motion as set out below was moved by the Chairman and duly seconded. Following a debate the motion was put to the meeting and after a show of hands the Chairman declared it was lost:

‘That the simplified process be agreed as described in the report.’

The Committee agreed that the order of items be changed, in order that the report regarding the Work Programme be discussed next.

## **8. WORK PROGRAMME**

The next meeting of the Committee, scheduled for the 8<sup>th</sup> March, is due to start at the earlier time of 10am and will be followed by a training session for members of the Committee on the in-house portfolio.

On a motion by the Chairman, duly seconded it was:-

### **RESOLVED 2018/004**

That no further actions are required as a direct result of the contents of the report.

## **9. FUND VALUATION AND PERFORMANCE**

Mrs Rabbitts introduced the report and on a motion by the Chairman, duly seconded it was:-

### **RESOLVED 2018/005**

That no further actions are required as a direct result of the contents of the report.

## **10. EXCLUSION OF THE PUBLIC**

### **RESOLVED: 2018/006**

That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve the disclosure of exempt information as described in paragraph 3 of the Local Government (Access to Information) (Variation) Order 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

And that Mr William Bourne, the Independent Advisor, be permitted to stay in the meeting during the exempt items

### **EXEMPT INFORMATION ITEMS**

## **11. FUND VALUATION AND PERFORMANCE**

On a motion by the Chairman, duly seconded it was:-

### **RESOLVED: 2018/007**

That no further actions are required as a direct result of the contents of the report.

## **12. REPORT OF THE INDEPENDENT ADVISOR**

Mr Bourne gave an update on issues that affect the Pensions Investments of Nottinghamshire

### **RESOLVED: 2018/008**

That no further actions are required as a direct result of the contents of the report.

## **13. FUND MANAGERS' REPORTS**

### **RESOLVED: 2018/009**

That no further actions are required as a direct result of the contents of the fund managers' reports received from Aberdeen Standard Investments, Kames Capital and Schroders Investment Management.

The meeting concluded at 12.53pm

**CHAIRMAN**

**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT****WORKING PARTY****Purpose of the Report**

1. The Pension Fund Working Party meets twice a year and is open to all Pension Committee Members to attend. The purpose of the Working Party is to discuss key issues in more detail and to make recommendations to Pension Fund Committee. This report sets out details of the items discussed at the most recent meeting on 26 January 2018 and makes recommendations as follows.
  - a. To continue to develop a Responsible Investment (RI) policy for the Fund
  - b. To confirm the asset allocation benchmarks
  - c. To amend and update the Investment Strategy Statement (ISS)
  - d. To consider the work being undertaken to set up LGPS Central Ltd.

**Information**

2. The Working Party Agenda is set out in Appendix A. Details of the discussions and recommendations for each item are set out below.

**Responsible Investment**

3. The Working Party received a presentation from Michael Marshall, currently Responsible Investment Officer for West Midlands Pension Fund. Michael has recently been appointed Director of Responsible Investment & Engagement for LGPS Central Ltd.
4. The presentation highlighted the good work undertaken by LGPS pension funds and put forward the view, shared by Nottinghamshire Pension Fund, that engagement with companies on issues is more appropriate than disinvestment.
5. The Working Party then considered a report prepared by the funds independent advisor, William Bourne, looking at the current Fund RI policies and making recommendations to ensure the fund continues to demonstrate compliance with regulations and best practice.
6. Following discussion the Working Party accepted the recommendations and confirmed that the Funds approach should be consistent with the policies of LGPS Central Ltd.

**Asset Allocation Review**



7. The Working Party considered a report setting out the asset allocation. Following discussion no changes were proposed. The funds equity levels currently exceed the benchmark due to the increase in share prices over the last year and the group considered a range of options for reinvesting proceeds from the sales of equity holdings.
8. The Investment Strategy Statement (ISS) should be reviewed on a regular basis and a number of the options discussed impact on the ISS. The group highlighted a number of areas where the ISS should be updated to reflect the current planned investments. Details of the proposed changes to the ISS are listed in Appendix B. Proposed deletions are shown with a line through the text, proposed additions are underlined.

### **Update on LGPS Central and asset transition timetable**

9. The Working Party considered the latest update on progress with setting up LGPS Central Ltd. In particular details were provided about how the ongoing relationship between the Company and Funds will be managed via 3 key groups. These are:
  - **Practitioners Advisory Forum (PAF)** – The Officer Group who will support all the arrangements. This will have a mix of S151 and pension professionals.
  - **Shareholder Forum** – The member group who will make the ‘reserved’ decisions relating to the management of the company.
  - **Joint Committee** - The group of members who will hold the company to account for its investment performance.
10. Draft terms of reference have been drawn up for each of these groups and these were discussed.
11. William Bourne highlighted some of the issues raised recently in a report on progress of the London CIV. He emphasised the importance of the Fund holding LGPS Central Ltd to account and ensuring LGPS Central Ltd were delivering the investment opportunities the Fund required.

### **Statutory and Policy Implications**

12. 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.

## **RECOMMENDATIONS**

It is recommended that Committee

1. Confirms the intention of Nottinghamshire Pension Fund to work towards an RI policy that is consistent to that adopted by LGPS Central.
2. Confirms the asset allocation benchmarks.
3. Approves the proposed amendments to the ISS set out in Appendix B.
4. Considers whether any further information is required in respect of the set-up of LGPS Central Ltd.

**Report Author:**

**Keith Palframan – Group Manager Financial Strategy & Compliance**

**For any enquiries about this report please contact: Keith Palframan**

**Constitutional Comments (SMG 27/02/18)**

Nottinghamshire Pension Fund Committee is the appropriate body to consider the content of the report.

**Financial Comments (KRP 27/02/18)**

The financial implications are noted in the report.

**Background Papers and Published Documents**

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

None.



# MEETING AGENDA



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**Meeting title:** PENSION FUND WORKING PARTY MEETING  
**Date and time:** Friday 26 January 2017, **10.00am**  
**Location:** County Hall, Ground Floor – Committee Room C

1. Responsible Investment – Presentation from Michael Marshal (WMPF / LGPS Central)
2. Report on Responsible Investment – William Bourne
3. Pension Fund asset allocation review –Tamsin Rabbitts
4. Update on LGPS Central and asset transition timetable – Keith Palframan



## Policy on social, environmental and corporate governance considerations

42. Social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments. Nonfinancial 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.
43. It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to ESG in two key areas:
  - a. Sustainable investment / Environmental and social factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
  - b. Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process. The Committee supports the Stewardship Code and intends to become a signatory.
44. In combination these two 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 takes RI matters seriously and will not appoint any manager unless they can show evidence that RI considerations are an integral part of their investment decision-making processes. Following appointment managers are required to report any changes in their approach to RI to Officers.
45. A strategy of engagement with companies, rather than negative screening to exclude stocks from the portfolio on ESG/ethical grounds, is more compatible with the administering authority's fiduciary duties and supports responsible investment.

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

46. 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 £200bn. 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.
47. The Committee believes that voting is integral part of the responsible investment and stewardship process. The Fund manages its ownership responsibilities through both its partnership with Pensions & Investment Research Consultants Ltd (PIRC) and via its investment managers. PIRC is Europe's largest independent corporate governance and shareholder advisory consultancy. PIRC exercises all the Fund's voting rights in line with the PIRC proxy voting guidelines.
48. PIRC 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.

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

49. The policy of the Fund will be to treat the equity allocation as a block aimed at maximising the financial returns to the funds (and thus minimising employers' contributions) consistent with an acceptable level of risk. The block of Bonds, Property and Cash is aimed at lowering overall risk (at the cost of anticipated lower return).
50. The Trustees have agreed an allocation to private equity and infrastructure. ~~This will be effected principally through fund of funds arrangements to increase diversification and reduce risk.~~ The allocation is based on *committed* amounts and, owing to the nature of these funds, the actual net investment level will be significantly lower. New investments will be made over time to target a commitment level of 10% of the Fund (within an allocation range up to 15% to allow for movements in market value).
51. Investments, such as private equity and infrastructure that fall outside the high level asset classes, will be included within the most appropriate class for reporting purposes and assessed against the relevant part of the strategic benchmark.
52. Cash will be managed and invested on the Fund's behalf by the County Council in line with its treasury management policy. The policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield. If losses occur, however, the Fund will bear its share of those losses.
53. Pension fund cash is separately identified ~~each day~~ 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. As the majority of cash is allocated to individual investment managers and may be called by them for investment at short notice, it is expected that 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.
- ~~54. Joint investments using a combination of Fund cash and County Council cash may be made where this is in the best interests of the Fund. In considering such investments, guidance issued by the Department for Communities and Local Government will be followed and the Fund will receive its fair share of interest in proportion to the share of cash invested.~~
54. Other asset classes, such as hedge funds and currency, will be reviewed as part of the regular asset allocation strategy review and, if a decision to invest in other assets is made, the Investment Strategy Statement will be revised accordingly.

### **Statement of Investment beliefs**

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

#### Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.
- In making investments in illiquid assets, a return premium should be sought.

- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.

#### Investment Strategy/Process Beliefs

Clear investment objectives are essential. 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, and thus is 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.

#### Responsible Investment Beliefs

- Effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term.
- Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.





**REPORT OF SERVICE DIRECTOR - CUSTOMERS AND HUMAN  
RESOURCES****LOCAL GOVERNMENT PENSION SCHEME - GUARANTEED MINIMUM  
PENSION RECONCILIATION EXERCISE WITH HMRC****Purpose of the Report**

1. The purpose of the report is to inform the Pension Committee of the national requirement which is impacting all Public and Private sector Pension Funds to carry out an exercise to reconcile its records with those held by HM Revenue and Customs (HMRC), and seek approval for expenditure to complete the reconciliation.

**Information****Background**

2. This is a national requirement initiated by HMRC which will impact all Public and Private sector Pensions Funds who were contracted out of additional state pension.
3. Up until April 2016 contributing members of the Local Government Pension Scheme (LGPS) paid lower rate National Insurance contributions as they were “contracted out” of the Additional State Pension which has previously been known as S2P, the state second pension or the State Earnings-Related Pension (SERPS). LGPS employers also paid reduced rate National Insurance contributions in respect of their employees who were in the LGPS. Contracting out ended from 6 April 2016 as part of the Government’s introduction of a single-tier basic state pension.
4. Between 1978 and 1997 contracting out of the Additional State Pension was undertaken on a Guaranteed Minimum Pension (GMP) basis. This required contracted out pension schemes to offer pension benefits for the period of contracting out that were worth at least as much as the benefits the additional state pension would have provided. Contracted out pension schemes had to record the relevant contracted out earnings for that period and supply HMRC with details of these. HMRC retained a record of contracted out earnings and GMP entitlement for each individual and then advised pension schemes of GMP entitlements when the individuals reach state pension age.
5. There are complex regulations regarding annual inflationary increases to the GMP element of an individual’s pension and the dates at which it becomes payable to the scheme member. The Government decided that with effect from 6 April 2016 contracting-out would be abolished, coinciding with the introduction of the new single tier pension, and as a result

HMRC are providing a one off service to enable schemes to reconcile the GMP figures they hold with those held by HMRC – this service is due to cease in December 2018.

6. It is important to reconcile the GMP element recorded on the pension fund administration system with that held on the HMRC system, to ensure that pensions coming into payment, together with those already in payment, are paid at the correct amount, and that the liabilities of the pension scheme, so far as GMP values are concerned, are represented accurately at each future valuation.
7. HMRC has made data available to all pension schemes from February 2017 for reconciling GMP information for active members. HMRC will also be writing to all individuals with a GMP liability after December 2018 informing them which pension scheme holds their liability.

### **Reason to carry out a Guaranteed Minimum Pension reconciliation**

8. The application of incorrect GMP's have an impact on pensions in payment and future pension payments along with having an impact on the liabilities of the Pension Fund. The financial implications of failing to undertake this exercise can therefore be extremely significant.
9. To clarify, the main reasons funds are required to carry out the GMP reconciliation are:
  - To ensure GMP benefits are accurate
  - To ensure that scheme liabilities are correctly recorded
  - Compliance with the Pensions Regulator's data quality checking guidance
  - To provide for more accurate actuarial valuations
10. There are also significant risks to the Pension Fund if reconciliation activity is not carried out, these include:
  - The GMP amounts held by HMRC will automatically apply and this could have material implications on the Pension Fund's liabilities
  - Individuals for which the Fund does not hold a record, may request their GMP entitlement after 2018
  - GMP amounts the Fund is unaware of will lead to incorrect valuations of the Fund's scheme liabilities
  - Incorrect pension amounts being paid to members (including under and over payments)
  - Member complaints and reputation risk.

### **The Reconciliation Process**

11. GMP reconciliation is the process of comparing the Pension Fund's GMP information with that held by HMRC. It investigates any discrepancies between the two sets of figures so that the Fund and HMRC end up with consistent GMP data and benefit records. HMRC's starting position is usually that its data is automatically correct (although this is not always the case as we have found) unless the pension fund can prove otherwise. This puts the investigative responsibility and costs fully onto the pension fund. The reconciliation will involve investigative work, reviewing data and benefit accrual.
12. As part of the process Nottinghamshire Pension Fund has registered with HMRC's scheme reconciliation service and has received a data file which lists all active, deferred, and pensioner members totalling 102,632 records.

13. In order to progress the reconciliation exercise and for the Pension Fund to understand the impact of the reconciliation process the Fund has engaged Civica, the Fund's pension administration system provider, to undertake an evaluation exercise of the Fund's data, called the "Discovery Phase" and this has now been completed.

## **Discovery Phase**

### **Stage 1**

14. Civica have run a number of reports to enable them to conduct a comparison with the HMRC file and the data held on Civica, the pension administration system. This process has provided some headline figures and an early indication of the potential size of the reconciliation issues. This has been used to undertake a baseline reconciliation followed by a more detailed reconciliation/comparison of the results. Early analysis has produced high level results based on data within the Civica pension administration system and data provided by HMRC as indicated below.

<b>Matching Categories</b>	<b>Volumes of Data</b>
Members with both a Pension Record and HMRC record	85,626
Members on the HMRC file but no Notts Pension record found	4,699
Members not on the HMRC file, where our Pension records indicate that there is a contracted out liability	75,388
<b>Total records</b>	<b>165,713</b>
Members who are excluded from the matching process	2,093

### **Stage 2**

15. This has taken 4 weeks utilising Civica resources. More in-depth analysis of the reports produced in stage 1 has now been completed involving the analysis of the Nottinghamshire Pension Fund's data quality with the outputs being:

- Identification of false mismatches – reducing the number of queries to be raised with HMRC to save time and money
- Identification of discrepancies which should be queried with HMRC
- Identification of discrepancies where all necessary data is readily available to facilitate a query with HMRC.

Description of data Types	Volume of Data
Accept HMRC Values	60,415
No evidence of contracted out liability	46,230
Discrepancies to be queried with HMRC	50,873
Data for further investigation and potential query with HMRC	6,102
<b>Total</b>	<b>163,620</b>

17. It is not expected that all variances will need to be investigated. Guidance has been issued by a working group set up by HM Treasury on the general approach that LGPS Funds should take in GMP Reconciliation. It recommends that the following members' data should be reconciled:

- Scheme members who have not yet reached state pension age and who have any service between 6 April 1978 and 5 April 1997
- Non-members who the Pension scheme believe it has already discharged its liability (through, for example, transferring out their benefits to another pension scheme or receiving a refund of contributions).

18. The HM Treasury working group also provided the following recommendations on how any discrepancies identified through reconciliation process should be dealt with:

- Pensioners that have been underpaid should receive their pension arrears in full, with interest in accordance with scheme rules.
- Cases where pensioners have been overpaid should be considered in the context of the overall extent of any overpayments, and a view taken over whether there will be value for money recouping overpayments
- Where discrepancies are small, for example if a service period discrepancy is less than a year, or if the discrepancy in weekly GMP amount is no more than £2, schemes should use the data provided by HMRC in respect of any individuals who have not reached state pension age, or the data held by the scheme in respect of any individuals who have reached state pension age.

19. The Local Government Pension Committee (LGPC) has recommended the following approach

to post 5 April 1997 contracted out data:

- Where contracted-out records appear on HMRC records but no corresponding LGPS pension records exist within its fund, LGPS Administering Authorities should investigate all cases
- Where dates of contracted-out service differ, each LGPS Administering Authority should only investigate those cases where in its view there is a significant risk to LGPS benefits or process
- Where contracted out records do not appear on HMRC records but an LGPS pension record exists within the fund, each LGPS Administering Authority should notify HMRC of the discrepancy but only investigate those cases where in its view there is a significant risk to LGPS benefits or process.

20. The LGPS views this approach as representing a cost effective means of minimising risk of incorrect benefits while avoiding unnecessary and costly duplication of the work already undertaken to ensure records are accurate.
21. For individual case investigations, the recommended methodology will be for a sample of 15% of cases to be reviewed initially per category. The fund will make a decision based on appetite for risk and on a cost benefit analysis on the total amount of each category to investigate.

### **Delivery Phase**

22. Now that a more detailed analysis has been undertaken and the discrepancies have been identified, the next steps will be to begin the delivery phase of the reconciliation project. The delivery phase is broken down into 5 areas of work, and on completion of the work this will provide the Nottinghamshire Pension fund with data reconciled with HMRC that will identify the Fund's liabilities.

Stage 3 - Queries issued to HMRC

Stage 4 - HMRC query returns analysed and distributed into specific categories

Stage 5 - Individual investigation

Stage 6 – In-depth analysis and bulk resolution

Stage 7 - Individual investigation

23. Once the liabilities have been identified there will need to be a reconciliation of the Pension Payroll, this will require the adjustment of pensions in payment. The different strands of work are identified in Appendix A.
24. It is recommended that a further report is brought back to Pension Committee prior to the conclusion of this phase of work so that the Committee can be updated and reassured as to progress and make any decisions required in relation to the approach to be followed before beginning the final phase of the project.

### **Completion Phase**

25. The completion phase will include the rectification of pensions in payment, including over and underpayments and will involve:

Stage 8 - Case conclusion

Stage 9 - Concluded cases up loaded into Civica, the pension administration system.

26. As part of this final phase of the project, a communication strategy will need to be developed to ensure that communication is clear to individual pensioners affected by the reconciliation exercise, and where a pension in payment needs to be adjusted, to enable them to understand the potential impact of any adjustment. The proposed approach will form part of the update report to Pension Committee described in paragraph 23.
27. Update reports will be presented at Committee as the project progresses, which will identify progress, and any issues arising. As part of the reporting process it will be necessary to inform the Committee of the Pension Fund liabilities as they are calculated within the completion phase of the project.

## Resources Requirements

28. The work undertaken with Civica has now enabled the pension administration team to understand the amount and scope of work to be undertaken throughout the totality of the project to meet the December 2018 deadline. It has also enabled identification of the level of resources required, potential cost, and for consideration to be given to the best way to resource this to minimise cost to the Fund to complete the next stage of the reconciliation work (the delivery phases) and the completion phases of the project.
29. A blended approach is being proposed using Civica to work with pension administration team to complete the HMRC reconciliation part of the Discovery Phase. Civica understand the Nottinghamshire pension administration system and data issues; work extensively with HMRC and are already working with other Pension Funds on their reconciliation projects so have a breadth of experience and knowledge from elsewhere to bring to the project. The existing support contract which is in place can be used to provide this activity. Using the work undertaken so far, Civica have estimated the cost of the delivery phase of work as £310,000. Supplementing pension administration team resources with Civica resources will provide external assurance of the approach and will enable the pension administration team to focus on the other aspects of the project whilst continuing the day to day activity of administering the scheme.
30. As well as undertaking the reconciliation of HMRC data, additional work will be required to be undertaken reconciling pension payroll data with the pension administration system. To ensure this work and data reconciliation and rectification which cannot be undertaken by Civica can be completed against the HMRC time frame, a number of dedicated resources will be required. It is intended to undertake some of the work using existing resources within the Business Support Centre (BSC) and the pension administration team to keep the cost to a minimum.
31. It is estimated that the project will run for a 12 month period up until March 2019 to enable all phases of the project to be completed, and managed using project management methodology. A temporary Project Manager post will be required to undertake the day to day project coordination, project planning, reporting and management to ensure that the reconciliation work and completion phases are completed to the agreed project plan, working in collaboration with the Civica Project Team and the in-house resources.
32. The cost of a temporary post of Project Manager Band B will be up to £35228 up until 31 March 2019; or less if the project is able to finish ahead of schedule.
33. A separate report has been presented to Personnel Committee seeking approval for the establishment of a temporary Project Manager post subject to the budget approval by Pension Committee.
34. The Council's Audit section will also be involved in a quality assurance role to check and sign off the activity undertaken. This will be provided from existing resources as part of the planned audit programme for 2018/19.
35. The diagram shown in Appendix A illustrates the project activities and two strands of work and proposed resourcing approach.



## **Other options considered**

36. Information from other LGPS Pension Funds across the country is that some have engaged external providers to manage the project in totality at significantly greater costs. Some are relying on internal resources with consequently larger internal project teams. The Nottinghamshire LGPS has concluded that a blended approach provides the best balance of expertise, cost and the ability to complete the project within HMRC's timeframe and take any necessary rectification actions.

## **Reasons for Recommendation**

37. In order to complete the project within the time frame it has been important to engage the support of Civica to assist in the identification of issues between the Fund data and HMRC data. The next stage is to engage Civica to support the Fund in agreeing the Fund liabilities with HMRC, using their methodology, and in adjusting and resending data to HMRC.

38. Civica has extensive experience of working with HMRC and will ensure that the format of data queries is in line with HMRC requirements. Given the scale and volume of data, Civica has automated tools for submitting and tracing queries including resolution of how updates of data will be applied to the Civica pension administration system. This part of the project will end with an update to members' pension records along with an audit trail of how the member's record has changed.

39. It is also important that concurrent work is undertaken to reconcile the payroll and pension records in order that the recalculation of pension benefits can take place within the time frame required. The resources to complete this work will be provided from the Pensions Administration team and from across the BSC to ensure that there is minimal disruption to the day to day activity within the administration team.

## **Statutory and Policy Implications**

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

## **Data Protection and Information Governance**

41. The project, by its very nature, involves the reconciliation, sharing and processing of personal and sensitive data. This is covered by existing arrangements and agreements with HMRC and Civica, the software provider. However, a separate Data Protection Impact Assessment is being undertaken for the project overall to reflect this and ensure mitigation of any risks arising directly from the project activity itself.

## **Financial Implications**

42. It is estimated that the cost of the second stage of the project will cost the following:



- The indicative cost for Civica to undertake reconciling and resolving HMRC data with Fund data will be £310,000. This is based on the discrepancies identified in the delivery phase and cost estimate provided by Civica.
- The budget requirement for the cost of a Project Manager at Band B will be a maximum of £35228 if the project continues until the end of March 2019. If all of the work is completed earlier this will be reduced.

## **RECOMMENDATION**

It is recommended that the Committee:

- 1) Approve the creation of the GMP Reconciliation Project and the allocation of the required resources as set out in the body of the report to ensure the Fund is able to meet its statutory requirements and the HMRC deadline for GMP data reconciliation.
- 2) Agree to receive regular update reports as set out in the body of the report.

**Marjorie Toward**  
**Service Director – Customers and HR**

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

Jonathan Clewes, Pension Manager on 0115 9773434 or [Jon.Clewes@nottscc.gov.uk](mailto:Jon.Clewes@nottscc.gov.uk)

### **Constitutional Comments (KK 12/02/2018)**

43. The proposal in this report are within the remit of the Nottinghamshire Pension Fund Committee.

### **Financial Comments (KP 13/02/2018)**

44. The financial implications are set out in the report.

### **HR Comments (GE 27/2/18)**

45. The requirements for additional internal staffing resources are set out in the report to Personnel Committee.

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

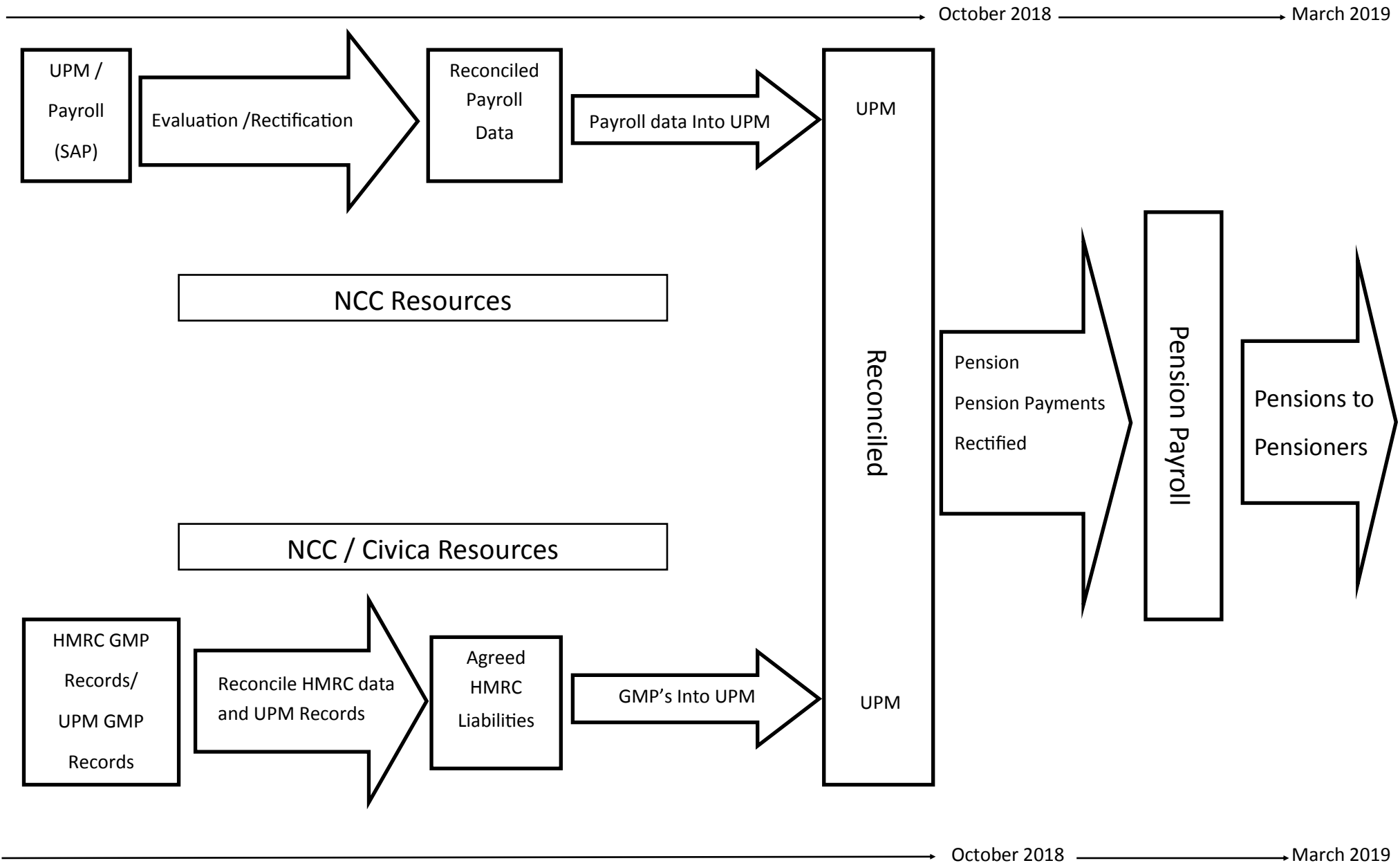
- National Audit Office Report – Report of errors in Guaranteed Minimum Pension Payments 16 July 2009. <https://www.nao.org.uk/wp-content/uploads/2009/07/0809878.pdf>

### **Electoral Division(s) and Member(s) Affected**

- All

# GMP Project Diagram

Appendix A





**REPORT OF CORPORATE DIRECTOR, RESOURCES****WORK PROGRAMME****Purpose of the Report**

1. To consider the Committee's work programme for 2018.

**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**

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

**Jayne Francis-Ward**  
**Corporate Director, Resources**

**For any enquiries about this report please contact: Pete Barker, x 74416**

## **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 (AS AT 19 February 2018)**

<b>Report Title</b>	<b>Brief summary of agenda item</b>	<b>Lead Officer</b>	<b>Report Author</b>
<b>19 April 2018</b>			
LAPFF Business Meeting	Report from LAPFF Business Meeting		Ciaran Guilfoyle
LAPFF Conference 2017	Report from the LAPFF conference in Bournemouth		Tamsin Rabbitts
Review of Fund Policies	Review of fund policies		Tamsin Rabbitts
<i>Update on LGPS Asset Pooling</i>	<i>(If required)</i>		<i>Keith Palframan</i>
<i>LGPS Scheme Advisory Board Update</i>	<i>6 monthly report updating members on the work of the SAB if anything of note</i>		<i>Jon Clewes/Ciaran Guilfoyle</i>
GDPR readiness assessment and action plan	Nottinghamshire Administering Authority readiness for the introduction of GDPR		Sarah Stevenson
Pension Administration – Annual data review and action plan	Annual report regarding pension data and action plan - Requirement of the Pension Regulator		Jon Clewes
Admission Body Status Update	Details of organisation who satisfy the criteria to be admitted to the LGPS (as required)		Andy Durrant
<b>7 June 2018</b>			
Fund Valuation & Performance – Qtr4	Summary of quarterly performance		Tamsin Rabbitts
Fund Valuation & Performance	Details review of quarterly performance (exempt)		Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance and managers reports (exempt)		William Bourne
Managers Reports	Quarterly reports from Kames, Schroders and ASI (exempt)		Relevant fund managers
Pension Administration Annual Performance & Strategy Review	Report detailing the Administering Authority and Scheme Employers performance against the Admin Strategy including any data breaches		Jon Clewes
<b>19 July 2018</b>			
Proxy Voting	Summary of voting activity during quarter 1 of 2016	Information	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Information	Ciaran Guilfoyle
<i>Update on LGPS Asset Pooling</i>	<i>(If required)</i>	<i>Information</i>	<i>Keith Palframan</i>

PLSA conference	Report from PLSA conference	Information	Nigel Stevenson
National GMP Reconciliation update	Update on progress with the national GMP reconciliation project		Jon Clewes
LGPS Central Update	Update on the latest position		Keith Palframan

**8 March 2018**
**Agenda Item: 7**

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

### **FUND VALUATION AND PERFORMANCE**

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

1. To report on the total value and performance of the Pension Fund to 31 December 2017.

#### **Information**

2. This report is to inform the 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 31 December 2017, in comparison with the new benchmark agreed at the last January Working Party, together with the comparative position 3 and 12 months previously.

	<b>Latest Quarter</b>			<b>Previous Quarter</b>		<b>Previous Year</b>	
	<b>31 Dec 2017</b>		<b>Benchmark</b>	<b>30 Sep 2017</b>		<b>31 Dec 2016</b>	
	£m	%		£m	%	£m	%
Equities							
Quoted	3,403	64.1%	60%	3,239	64.3%	3,216	68.2%
Private	262	4.9%	5%	242	4.8%	190	4.0%
Property	667	12.6%	15%	609	12.1%	524	11.1%
Bonds							
Gilts	122	2.3%	5%	116	2.3%	144	3.1%
Other Bonds	753	14.2%	12.5%	744	14.8%	402	8.5%
Cash	105	2.0%	2.5%	88	1.7%	237	5.0%
	5,311	100%	<b>100%</b>	<b>5,037</b>	<b>100%</b>	4,713	100%

4. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £173.3m or 3.3% of the fund. Infrastructure commitments amount to 4.5% of the fund. There is a long term target for investments in infrastructure to be 5% of the fund.



5. The Fund investments have increased by £274.5 million (5.5%) since the previous quarter and by £597.9 million (12.7%) over the last 12 months. The table below shows the Fund Account for the first two quarters of 2017/18 along with the full year figures for 2016/17.

<b>Summary Fund Account</b>	<b>Q3 2017/18 £000</b>	<b>Full Year 2016/17 £000</b>
Employer contributions	(157,217)	(135,650)
Member contributions	(30,642)	(43,495)
Transfers in from other pension funds	(5,799)	(4,068)
Pensions	114,534	146,132
Commutation of pensions and lump sums	21,177	31,093
Lump sum death benefits	3,486	4,726
Payments to and on account of leavers	11,696	14,746
Administration Expenses	289	1,703
<b>Net (additions)/withdrawals from dealings with members</b>	<b>(42,476)</b>	<b>15,187</b>
<b>Oversight &amp; governance expenses</b>	<b>333</b>	<b>806</b>
Investment Income	(72,681)	(142,281)
Profits & losses on disposals & changes in value	(266,417)	(744,384)
Taxes on income	519	593
Investment management expenses	2,530	4,381
<b>Net Returns on Investments</b>	<b>(336,049)</b>	<b>(881,691)</b>
 <b>Net (increase)/decrease in net assets</b>	 <b>(378,192)</b>	 <b>(865,698)</b>

6. The fund value increased significantly in 2016/17 reflecting the unusually high returns on equity over the year. This rate of return is unlikely to continue, and the first half of the year has been more subdued with more moderate growth and increased investment, especially in infrastructure and property.

## Statutory and Policy Implications

7. 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) 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**

8. This is an updating information report and Pension 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 22/2/2018)**

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

