

**NOTES OF THE PENSION FUND ANNUAL EMPLOYERS AND TRADE UNIONS  
MEETING HELD AT COUNTY HALL, WEST BRIDGFORD ON THURSDAY 5  
OCTOBER 2017 AT 10:30 AM.**

**Present**

**Members of the County Council's Pensions Committee**

Councillor Eric Kerry (Chair)  
Councillor Stephen Garner (Vice Chair)  
Councillor Reg Adair  
Councillor Chris Barnfather  
Councillor Sheila Place  
Councillor Mike Pringle  
Councillor Francis Purdue-Horan  
Councillor Helen-Ann Smith  
Councillor Parry Tsimbirdis

**Representatives of Employers and Trade Unions**

Councillor R Jackson	-	Broxtowe District Council
Mr T Needham	-	Pensioner Representative
Councillor A Peach	-	Nottingham City Council
Ms S Reader	-	Nottingham Trent University

**Representatives of the Corporate Director, Resources**

Mr J Clewes  
Mr A Durrant  
Mr K. Palframan  
Ms T. Rabbits  
Mr N Robinson  
Ms M Toward

**Clerk to the Panel**

Mr. P Barker	-	Resources Department
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**Other Attendees**

Mr R Anderson  
Mr W Bourne  
Ms S Bowler  
Ms A Hamilton  
Mr M Hope  
Mr M Kimberley  
Ms C Radford  
Ms C Rose  
Ms E Singleton

## **NOTE:-**

The list of those present was taken from attendance sheets signed on the day of the meeting (we apologise in advance if all the names are not entirely accurate or representatives did not have a chance to sign these sheets and therefore are not shown above).

### **1. WELCOME AND OPENING REMARKS**

Councillor Eric Kerry opened the meeting and welcomed representatives to the Annual Meeting.

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

Apologies for absence were received from Executive Mayor Kate Allsopp, Councillor Graham Chapman, Councillor Samuel Webster, Chris King and Alan Woodward.

### **3. NOTES OF THE ANNUAL MEETING HELD ON 6 OCTOBER 2016**

The notes of the last meeting held on 6 October 2016, having been circulated to all Members, were taken as read and were confirmed, subject to the following amendment, and were signed by the Chair:-

- The reference to the notes of the previous meeting should refer to the year 2015, not 2016.

### **4. MANAGEMENT AND FINANCIAL PERFORMANCE**

Keith Palframan, Group Manager, Financial Strategy and Compliance, gave a presentation to the meeting on the overview of the management and financial performance of the Fund. In summary he highlighted:-

- The funding level is calculated by the Fund's actuary Barnett Waddingham every 3 years and will change based on a combination in the movement of asset values and liabilities
- Contributions no longer fully cover benefit payments
- Net transfers in/out remain marginal apart from 14/15 when the bulk transfer to Greater Manchester Pension Fund (for Probation Service) was made
- In future we may not be able to rely on member contributions to cover pensions
- BUT Fund still has significant investment income to support cash flow
- Very good overall return in 2016/17
- Investment income can be used to cover benefit payments (when there is a contribution shortfall). Assets do not need to be sold to pay pensions
- Investment income is important as market values can be volatile and events can restrict liquidity – we may find this during the ongoing EU negotiations.
- Investment income can be volatile, even within years, but it has been increasing steadily
- Net assets as at 31 March increased significantly since last year
- Investment costs are low and it is hoped that pooling will result in relative costs falling further
- Pooling aims to
  - achieve benefits of scale
  - provide strong governance and decision making

- reduce costs and deliver excellent value for money
- improve capacity to invest in infrastructure
- Asset allocation decisions will still be made locally

## Summary

- Net additions from members show downward trend
- Fund has positive net cash flow for foreseeable future due to investment income
- Net assets increased in last financial year
- Implementation of investment strategy will change and develop as LGPS Central takes on the Fund's assets

## **5. INVESTMENT PERFORMANCE**

Tamsin Rabbitts, Senior Accountant, gave a presentation to the meeting on the Investment performance of the Fund. In summary she underlined:-

- Following a flat year in 2016, 2017 was an exceptional year, largely due to growth in the equity market, but also with good returns in Property and Bonds.
- The total Fund return over five years is marginally behind the assumed 6% pa for the triennial valuation and longer term performance is slightly ahead of this.
- Returns though are behind the Fund's strategic benchmark, mainly because our equities are less exposed to US markets, which have been exceptionally strong
- The Pension Fund Committee reviews quarterly the performance of the Fund and receives reports from the main portfolio managers
- The specialist portfolio, an area of growth, contains additional alternative investments with the aim of improving the returns of the fund overall
- The Fund's overall performance is compared to its strategic benchmark and helps to inform decisions around the management arrangements
- The Strategic Benchmark is built up of high level market indices for different asset classes.
- The Fund decides how each asset class should be managed with the performance of the main active managers reported quarterly
- the Fund has adopted an investment strategy that favours the UK over the US and this is the reason for the divergence in returns of the portfolios from the strategic benchmark
- a small change has been introduced for the new year so future divergence should be smaller
- The long term performance of In-house Equities is above the benchmark
- In the long term Schroders Equities performed 0.5% above the benchmark after fees
- There has been a very stable return from Kames Bonds, with only 1 out of the last 10 years being negative
- Since the market recovery in 2010 returns from Aberdeen Property have been positive every year
- Once the LGPS Central asset pool is operational, decisions over manager selection will be made by the pool operator.
- However, deciding on an appropriate investment strategy and asset allocation for the fund will still be done by the Nottinghamshire Pensions Committee and this is the most important factor in driving long term investment returns
- From 1<sup>st</sup> April 2017 LGPS Pension funds are required to be part of a pooled investment arrangement.

- This only relates to investment management – the assets and liabilities and administration of the fund will continue to belong to the fund.
- The Nottinghamshire Pension Fund will be part of LGPS Central.
- Despite the tight timescales and huge amount of preparation LGPS Central expects to be launched for 1<sup>st</sup> April and will begin to create sub-funds for us to invest in.
- Over time, the Pool is expected to deliver cost savings, though for Nottinghamshire these savings will not be so pronounced as we are already a very low cost fund.

## **6. PENSIONS ADMINISTRATION – UPDATE ON PENSIONS ADMINISTRATION SYSTEM**

Jon Clewes gave a presentation on current Pensions Administration issues covering the following key areas:-

- A new Pensions System was implemented in November 2014
- It is now an Average Salary scheme with a 1/49 accrual rate which has required changes to how pay information is calculated and required more data to be collected.
- Pensions freedoms have increased the requests for individual information, estimates, transfers in and transfers out
- The number of employers in the LGPS has expanded significantly due to contracting out and acadamization
- When employers do not provide year end data on time this impacts on the ability to produce the Annual Benefit Statements on time.
- Breaches of the regulations are reported to the Pensions Regulator.
- Where there are breaches in the regulations I am required to report to the Pensions Regulator.
- It has also been a Valuation year which requires additional work relating to employer data.
- At year end 35,960 Active Benefit Statements and 37,356 Deferred Benefit Statements were issued
- The development and implementation of an administration strategy is part of the requirements of the regulatory framework (LGPS reg 2013)
- The administering authority is required to establish levels of performance which relevant employing authorities are expected to achieve in carrying out their functions under LGPS by:-
  - Setting performance targets
  - Agreeing levels of performance
  - Establishing other means the administering authority considers appropriate
  - Defining circumstances in which the administering body may consider giving written notice to a relevant employer on unsatisfactory performance.
- Key objectives of the strategy are designed to ensure that:
  - The fund and scheme employers are aware of and understand their respective roles and responsibilities under the LGPS
  - The fund operates in accordance with the LGPS Regulations and is aligned with the pensions regulator in demonstrating compliance and scheme governance

- Accurate records are maintained for the purpose of calculating pension entitlements and scheme employer responsibilities.
  - Fund and Scheme employers have appropriate skills and training.
  - Communication processes are in place to enable both the fund and scheme employers to proactively and responsively engage with each other and other partners.
- Pensions Admin and Scheme employers will ensure that all tasks are carried out to agreed quality standards. The standards to be met are:
    - Compliance with all requirements set out in the employer procedural guide.
    - Work to be completed in the required format and using the appropriate forms and templates
    - Information to be legible and accurate in the required format
    - Communications to be easy to read and understand
    - Information provided to be checked for accuracy
    - Appropriate authorisation
    - Actions carried out, or information provided, within the timescales set out in the strategy document.
- Pensions administration team will work with all scheme employers to ensure compliance with all statutory requirements whether they are referenced in:
    - The LGPS regulations
    - Overriding legislation
    - Or in the administration strategy
- The Pensions Administration team will work with employers to ensure that overall quality and timeliness is continually improved.
- In order to ensure compliance we will be consulting on performance monitoring.
- The Pensions Administration team will seek to work with employers in identifying poor performance and provide an opportunity for training and development.
- Procedures in dealing with failures of employers:
    - The Pensions Administration team will contact and/or meet with the employer to discuss areas of poor performance and how they can be addressed.
    - Where no improvement has been demonstrated by the employer or where there has been failure to take agreed action, a formal written notice will be issued setting out areas of poor performance, the steps taken to resolve those areas and giving notice that the additional costs may now be reclaimed.
    - Will clearly set out the calculations of any loss or additional costs which will take into account time and resources involved.
    - Will make a claim against a scheme employer, setting out the reasons for doing so, in accordance with the regulations

- Reasons for rechargeable costs:
  - Persistent failure to provide relevant information to the administering authority, scheme member or other interested party in accordance with the specified performance targets:
  - Failure to pass relevant information to the scheme member or potential members, either due to poor quality or not meeting agreed timescales outlined in the performance targets.
  - Failure to deduct and pay over correct employee and employer contributions to the Nottinghamshire fund with stated timescales.
  - Instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pensions Regulator, Pensions Ombudsman or regulatory body.
- New Website went live in September 2016 to enhance communication with Employers and Members and Pensioners, this included an area for Employers with better navigation to employer resources.
- Pilot Employer Portal will provide access to members data for scheme employers and initiate development of work tray functionality
- Proposed Member Portal will:
  - Provide secure self-service access to change personal data
  - Allow active members to access Annual Benefit Statements on line
  - Future developments, including access to create own estimates
- Planned Activities / Improving Data:
  - Bulk Data Load – enables the electronic loading of new starter data.
  - Continually reviewing business processes.
  - Pensions Data Screening – Includes mortality screening, and tracing pensioners, and deferred members.
  - Guaranteed Minimum Pension reconciliation with HMRC

## **7. 2016 ACTUARIAL EVALUATION – BARNETT WADDINGHAM**

Alison Hamilton and Ross Anderson from Barnett Waddingham gave a presentation on the 2016 actuarial valuation review which contained the following main points:

- There were many challenges this year, for example Section 13, with the emphasis switching from the sustainability of employers in the Fund to the sustainability of the scheme as a whole
- Barnett Waddingham's approach differed from the accountancy approach with a long-term view taken designed to iron out day to day volatility
- Assets are performing well and are now at the level of 87% of the amount required to cover the cost of accrued benefits
- Section 13 means additional oversight from government with fewer flexibilities and more work for everyone involved
- There has been a large increase in the number of employers since the 2013 evaluation
- From 1 April 2017 most employers' contribution requirements have increased

- Impact of changed assumptions is broadly a 2% reduction in funding level
- Larger employers can pay 3 years' deficit contributions in April 2017 or in April of each year
- There are options to the phasing out of stepping, but less now means more later
- The maximum recovery period is 20 years, though some employees are basing their approach on a shorter period
- Section 13 provides an independent review of the valuation and employer contribution rates to check they are appropriate. A 'dry run' in 2013 resulted in all green flags for Notts PF and no flags are anticipated when the results of the 2016 valuation are released in the Summer of 2018
- Despite the challenges being faced, including Government or other external intervention and public scrutiny, no changes to the scheme are anticipated.
- In terms of government intervention, Barnett Waddingham are confident that they can provide support in dealing with the issues of pooling, standardisation, transparency and adverse media
- The proliferation of academies has added to the complexity of the process

## 7. QUESTIONS

In line with procedures, Chris Rose, director of the Newark Emmaus Trust, submitted two questions in writing prior to the meeting:

### Question 1

We have been told that we will be able to fully fund our share of the scheme by paying £15,640 plus 2.7% compound interest annually for 21 years. That totals about £435,000 over the 21 years. Why then are we required to value the liability now at £1.047 million?

### Answer

The two figures being referenced are the figures calculated at the last evaluation to assess contribution rates, and the calculation of the net liability for accounting purposes in Newark Emmaus Trust's March 2017 FRS102 report of £1.045k.

The assumptions adopted for the purposes of FRS102 and IAS19 reports (i.e. for standardised accounting purposes) are different from those assumed in the triennial valuation, used to calculate employer's contribution rates. In particular, under the accounting standards, the assumed discount rate must be based on the yield on high quality corporate bonds at the accounting date. This is analogous to assuming that the Fund is invested 100% in corporate bonds and will achieve those returns in future. This is the basis behind the net liability valuation of £1,045k.

At the triennial valuation, the actuaries assess the contributions required by each employer. The discount rate used for funding is based on the investment strategy of the Fund -this is what we assume the Fund will achieve in future for the purposes of setting the contribution rates. As the fund is invested in a range of assets (with the majority invested in equities), the assumed return on Fund assets is significantly higher than current yields on corporate bonds. As a result, the value of the liabilities assessed on the triennial valuation basis is much lower than what is shown in the accounts.

To illustrate, at the 2016 valuation the Employer was assumed to be 83% funded on the ongoing basis – a deficit of £230k, i.e. a lot lower than the net liability on

their balance sheet. The contributions paid by the Employer from 1 April 2017 is 16.5% of payroll to cover the cost of new benefits, plus an annual deficit recovery amount of £15,640 for the year to 31 March 2018, increasing each year in line with future salary increases {which are assumed to be 2.4% pa until 31 March 2020 and 3.9% p.a. thereafter}. These deficit recovery amounts, discounted to the present using the valuation discount rate of 5.4% p.a. broadly sum to the deficit of £230k.

## Question 2

Wouldn't it be fair to say that we are paying for the mismanagement of the fund in the past...is that fair or moral?

## Answer

When contribution rates are calculated at the triennial valuations these are based on assumptions about the future which are valid at the time. If the future value of these was exactly the same as the assumptions, the current contributions paid over the years would be sufficient to meet the accrued liabilities, and there would be no deficit.

However overtime (and the timescales for a pension fund are significant}, inflation, interest rates, investment returns and life expectancy changes beyond those anticipated many years ago. It is these changes which create a surplus or deficit for each employer which is assessed at each triennial valuation, and sets the deficit contributions which need to be made. This is not a reflection of how well the fund has been managed.

(In discussion with officers and representatives from Barnett Waddingham following the meeting, Mrs Rose confirmed that she was confident that there had been no mismanagement of the fund.)

The Chairman thanked the Fund members for their questions and for attending the meeting.

The meeting closed at 11.55am

## **CHAIRMAN**

Notes of AGM – 5 October 2017