Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Thursday, 10 September 2020 at 10:30

Virtual meeting, **https://www.youtube.com/user/nottscc**

AGENDA

1 Appointment of Chair and Vice Chair
To note the appointment by Full Council on 11 June 2020 of Councillor Eric Kerry as Chairman and Councillor Stephen Garner as Vice-Chairman of the Nottinghamshire Pension Fund Committee for the 2020-21 municipal year.

2 To note the membership of the Committee for the 2020-21 municipal year:

Voting Members:

Nottinghamshire County Council

Councillors Eric Kerry, Stephen Garner, Reg Adair, Chris Barnfather, Tom Hollis, Sheila Place, Mike Pringle, Francis Purdue-Horan and Parry Tsimbiridis.

Non-Voting Members:

Nottingham City Council

Councillors Graham Chapman, Anne Peach and Sam Webster.

Nottinghamshire Local Authorities' Association

Councillor David Lloyd, Newark & Sherwood District
Councillor Gordon Moore, Rushcliffe Borough Council

Trades Unions

Mr Chris King and Mr Andy Woodward.

Scheduled Bodies

Mrs Sue Reader – Nottingham Trent University

Pensioners' Representatives

Mr Terry Needham
Vacancy

3 Minutes of the last meeting 12 March 2020

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 Pensions Admin Performance Report

7 Transforming Pensions Admin - Update Report

8 Implications of the McCloud Judgement

9 McCloud Consultation Cover Report

10 GMP Reconciliation Excercise with HMRC Update Report

11 Work Programme

12 Climate Risk Analysis - Progress Report

13 Fund Valuation and Performance

14 Independent Adviser's Report

15 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

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

Note

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

EXEMPT INFORMATION ITEMS

16 Fund Valuation and Performance EXEMPT

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

17 Fund Managers' Presentations:

17a Aberdeen Standard Investments

17b LGPS Central

17c Schroders Investment Management

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

Nottinghamshire County Council

minutes

Meeting	NOTTINGHAMSHIRE PENSION FUND COMMITTEE
Date	Thursday 12 March 2020 at 2.00pm

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 - A
Parry Tsimbiridis

NON-VOTING MEMBERS

Nottingham City Council

Councillor Graham Chapman - A
Councillor Anne Peach - A
Councillor Sam Webster - A

District / Borough Council Representatives

Councillor David Lloyd – Newark & Sherwood District Council - A
Councillor Gordon Moore – Rushcliffe Borough Council

Trades Unions

Mr A Woodward
Mr C King

Scheduled Bodies

Mrs S Reader - A

Pensioners

Mr T Needham
Vacancy

Substitute Members in Attendance.

Councillor Madden for Councillor Smith.

Independent Adviser

William Bourne

OFFICERS IN ATTENDANCE

Pete Barker	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Keith Ford	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Nigel Stevenson	(Chief Executive's Department)

ALSO IN ATTENDANCE

John Raisin – Advisor to the Nottinghamshire Pensions Board

1. MINUTES

RESOLVED 2020/019

That the minutes of the last meeting held on 13 February 2020, having been circulated to all Members, were taken as read and were confirmed and signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Chapman, Councillor Lloyd, Councillor Peach, Councillor Smith, Councillor Webster and Mrs Reader.

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

There were no declarations of interest.

4. THE LOCAL GOVERNMENT PENSIONS BOARD REVIEW 1 APRIL 2018 TO MARCH 2019

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

RESOLVED 2020/020

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

5. TRIENNIAL VALUATION – INITIAL RESULTS

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

RESOLVED 2020/021

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

6. **WORK PROGRAMME**

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

RESOLVED 2020/022

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

7. **INDEPENDENT ADVISER'S REPORT**

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

RESOLVED 2020/023

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

8. **EXCLUSION OF THE PUBLIC**

RESOLVED: 2020/024

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

And that Mr William Bourne, the Independent Adviser to the Committee, and Mr John Raisin, Independent Advisor to the Nottinghamshire Pension Board, be permitted to stay in the meeting during consideration of the exempt items.

EXEMPT INFORMATION ITEMS

9 &10 FUND VALUATION AND PERFORMANCE

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

RESOLVED 2020/025

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

11. FUND MANAGERS' PRESENTATIONS

11a. ABERDEEN STANDARD INVESTMENTS

RESOLVED 2020/026

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

11b. KAMES CAPITAL

RESOLVED 2020/027

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

11c. SCHRODERS INVESTMENT MANAGEMENT

RESOLVED 2020/028

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

The meeting concluded at 1.10pm

CHAIRMAN

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

10 September 2020

Agenda Item: 6

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES.

LOCAL GOVERNMENT PENSION SCHEME – PENSION ADMINISTRATION PERFORMANCE REPORT.

Purpose of the Report

1. The purpose of the report is to inform the Nottinghamshire Pension Fund Committee of the 4 Quarters to the Year- End up to the 31 March 2020 of the Pension Administration Team.

Information and Advice

Background

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

3. During 2019-20, scheme members were required to pay a contribution rate of between 5.5% and 12.5% of their pensionable pay, depending on their pay banding. Employer contribution rates, also expressed as a percentage of pensionable pay, and tailored specifically to each employer in the scheme, were applied to cover the accrual of new benefits earned by members. The contribution to fund any past service deficit was expressed as a cash sum or supplementary percentage of pensionable pay.

4. The 2019 valuation was completed by the Scheme Actuary on 31 March 2020, and employer contribution rates were issued for the 1 April 2020.

5. One of the of the main areas of focus across the Local Government Pension Scheme has been the performance of scheme employers providing their statutory data to Administering Authorities in a timely manner to enable the updating of member records. The Scheme Advisory Board along with the Local Government Association has highlighted this matter.

Pension Benefits Administration

6. The Pensions Office undertakes the administration of the pension benefits of the scheme members against the regulations of the Local Government Pension Scheme, and the administration broadly comprises:

   - Maintaining a database of:
   - Active members (i.e.) contributors
   - Pensioners, including widows, widowers and dependants
   - Those with deferral benefits that will become payable in the future
   - Providing Annual Benefit Statements to active and deferred scheme members
   - Providing estimates of benefits
   - The calculation and payment of retirement benefits
   - The calculation and payment of transfer values to other schemes
   - Processing transfer values from "club" and local government schemes
   - Providing valuations, a splitting of pensions in divorce cases
   - Communicating with employers and scheme members on scheme changes and pensions issues.
   - Onboarding new scheme employers
   - Supporting employers to carry out their responsibilities under the LGPS Regulations
   - Reconciling employers' monthly and annual contribution rates
   - Providing pension savings statements to scheme members as appropriate
   - Providing data for triennial valuations and the annual FRS102 for all but large bodies who report in accordance with AIS19.
   - Replying to questions and issues raised by scheme members and employers
   - In addition, the office also undertakes some of the employer related work of the LGPS on behalf of Nottinghamshire County Council.

7. The Pension Team is currently separated into the following areas of work:
   a. Pensions Administration
   b. Employer Support and Compliance
   c. Technical/Communications
   d. Technical/Performance

At 31.03.2020	Established FTE	Actual in Post FTE
Pension Team	26.20	23.10
Pension System Team	3.0	2.0
GMP Project Manager (Temporary)	1.0	1.0

The GMP Project Manager is seconded from the Pension System Teams. The Administration Team is currently recruiting to the vacant posts with the pension administration team and interviews are scheduled for September 2020.

8. The total cost of administration expressed as a cost per member for the past five years is shown in the table below –

1.

£ per member	2015	2016	2017	2018	2019	2020
The Fund cost per member	£15.93	£11.18	£14.23	£13.59	£14.37	*
Average cost per member in the benchmarking club	£18.73	£18.69	£20.14	£21.85	£21.34	*

*Not available until October 2020

Data Quality

9. The Pensions Regulator has continued raise concerns across the LGPS funds relating to data quality and the need for improvement. The Regulator requires all Funds to maintain accurate records. The Fund is required to have a data improvement plan as specified by the Regulator. Failure to do so can put the Pension Fund at risk of failing to meet its legal obligations, and the Regulator will take enforcement action where schemes are not meeting the standards expected and are taking appropriate steps to improve pension records.

10. Data is important to the Administering Authority for several reasons, the main reasons being:

    a. Members are paid the pensions they are entitled to
    b. Employers' costs are reliable/correct
    c. Investment and administration costs are reliable/correct
    d. Fund valuations reflect true costs/ liabilities of the fund
    e. Cost effective administration – less queries
    f. Reduce Internal Dispute Resolution Procedure cases
    g. Avoid the Pensions Regulator
    h. Maintains the scheme's reputation

11. Members will be aware that the pension fund has an Administration Strategy which provides a framework for the management of scheme employer's responsibilities to ensure that the Administering Authority receives accurate data in a timely manner. Included in the Administration Strategy is a service level agreement, which is designed to enable the monitoring of activities, undertaken by scheme employers and the Administering Authority.

12. To help manage the improvement of data, Pensions Administration has been using the Pension Administration Strategy to try and drive compliance with scheme employers. Over the last financial year, the Administration Team have also been undertaking data improvement activities to improve data quality for the fund valuation.

13. The fund monitors its performance through a suite of SLA reports, which are based on the agreed SLA's within the Administration Strategy.

14. The Administration Team is continually updating records, chasing employers, and reminding members of the scheme to update the fund of changes of personal circumstances, e.g. changes of address.

15. To meet the requirements set out by the regulator the Fund reported the following:

	2019 Accuracy	2020 Accuracy
Common Data	59%	73.37%
Conditional/Scheme Specific Data	60%	*Awaiting data following ABS data update

- Please note Data to be update when annual benefit statement data is loaded into the data quality dashboard.

16. A Data Audit and Improvement workstream was approved by Pension Committee in September 2019 as part of the scope of the Nottinghamshire Pension Fund "transforming pension administration through digital development and new ways of working programme". The details of this workstream are covered in more detail in the Pension Transformation update report to be presented at this Committee meeting.

Pension Fund Membership Statistics

17. At 31 March each year the Administering Authority report a set of figures that identify the number of members within the fund under certain categories. These figures are used to populate the fund's annual report, along with other statistical reports including the Office of National Statistics, the Pension Regulator Scheme Return, and the Cipfa Benchmarking report

18. The following table details the membership of the Fund against each category and sets a context to the size of the fund.

Type of Member	2017-2018	2018-2019	2019-2020
Active Members	44,436	46,350	47,841
Deferred members	46,448	47,365	56,068
Pensioners	35,245	37,157	38,923
Total Membership	126,129	130,872	142,832

19. In addition, it is important to understand the context of the number of employers in the Fund as this increases the complexity of managing the collection of data from different employers. The following table gives a breakdown of the employers in the scheme. The headline figure in the table shows a net increase of 9 employer bodies which are mainly due to new admission bodies, but there has been a reduction in the number of active employers from 342 to 302. This reduction in numbers is due to the Fund continuing to consolidate academy trust schools into single employers. This reduces complexity of administration for the academies and the Fund, along with reducing costs. The table also shows the movement of employers in the Fund with employers withdrawing from the scheme, as they no longer have any active members of the scheme, which drives an employer closure.

Scheduled		as at 31/03/19	Number Joined	Number Leaving	as at 31/03/20
Schedule 1	Local Authorities	9	-	-	9
	Academies	196	3	41*	158
	Others - active	16	-	4	12
	Others - defunct	42	44	-	86
Schedule 2	Town and Parish Councils	33	2	-	35
	Others - active	9	-	-	9
	Others - defunct	13	-	2	11
Total Scheduled		318	49	47	320
Admitted					
Admission		59	7	9	57
Others	- active	22	-	-	22
	- defunct	86	9	-	95
Total Admitted		167	16	9	174
Total		**485**			**494**

* includes 1 extra to balance out an academy duplicate

The following is a list of new scheme employers 2019-2020.

Scheme Employer	Type of Employer Body
Landgold Dyscarr Community School	Compulsory body (Academy)
Capita IT Services (BSF) Limited - Bulwell	Admission body
Churchill Contract Services Limited (SAT)	Admission body
Cater Link Limited	Admission body
Solo Service Group Limited	Admission body
St Mary's Church of England Primary School	Compulsory body (Academy)
Haggonfields Primary School	Compulsory body (Academy)
Aspens Services Limited (Newark)	Admission body
Aspens Services Limited (Sparken Hill)	Admission body
Aspens Services Limited (Sneinton St Stephens)	Admission body

Complaints and Internal Dispute Resolution Procedure Appeals

20. Set out below are three tables which outline the number of written complaints received by the Administering Authority in 2019-2020 along with the number of formal appeals at stage 1 and stage 2 of the Internal Dispute Resolution Procedure process along with the number of appeals that the Administering Authority is aware of that have been submitted to the Pension Ombudsman in respect of cases escalated following the two stage adjudication process.

	Total	Closed	Outstanding	Justified	Partial Justified	Not Justified
Written Complaints	**25**	**23**	**2**	**4**	**6**	**13**

IDRP - Stage 1 Appeals against the Administering Authority and Employers 2019-2020

Total	Appeals upheld	Appeals dismissed	Progressed to stage 2	Awaiting Decision
10	**1**	**3**	**3**	**3**

IDRP - Stage 2 Appeals against the Administering Authority

Total	Appeals upheld	Appeals dismissed	Progressed Ombudsman	Awaiting Decision
8	**1**	**1**	**1**	**5**

*Please note this is the first year of being able to collect a standard set of complaints data that will enable comparisons over future years.

Pensions Administration System

21. The Pension Administration system used by the Nottinghamshire Pension Fund is the Universal Pensions Management (UPM) system, provided by Civica UK. UPM was implemented in 2015 and is an 'on premise' system with the servers located at the County Hall Data Centre and the Node 4 site in Derby, for resilience. The infrastructure is managed by Nottinghamshire County Council ICT and regular co-ordination with the Pensions Systems team. Maintenance and upgrades are undertaken on a regular basis to ensure the system remains compliant, up to date and available to users. New developments and upgrades from the software supplier are evaluated, tested and deployed in line with the requirements of the Pension Office

22. Over the last year several developments have been progressed, the main development has been the implementation of an Employer portal and is currently being piloted by a large scheme employer. The objective of the Portal is support employers manage their data and provide access to some specific employee pension information. The other main activity has been the ongoing work to ensure the accuracy of pension data within the administration system and this will continue in line with the requirements of the Pensions Regulator. Further system developments are being planned for the coming year.

Employer Support and Compliance Team

23. The Pension Office Employer Support and Compliance team is responsible for liaison with scheme employers on a range of matters in relation to their responsibilities under the LGPs Regulations. This includes –

- Supporting employers in undertaking their responsibilities;
- Communicating Regulation and process changes to LGPS employers;
- Resolving problems in relation to the quality of information supplied by LGPS employers;

- The development of improved communication methods between the Pensions Office and LGPS employers;
- Work on Employer acceptance into the scheme, plus also employer closures.
- The review and improvement of information and administrative systems.

24. The team also have the following contact with Nottinghamshire LPGS Scheme Employer representatives –

- Year-end meetings are undertaken yearly to support preparation for and understanding of reporting requirements at year end;
- Meetings with employer representatives to communicate changes to the LGPS Regulations and the impact on employer responsibilities;
- Ad hoc individual or group support and training sessions with LGPS Employers

25. The Administration Strategy has now been in operation with scheme employers since May 2017 and has supported the work of the Pensions Team and Scheme Employers. The Strategy has helped in providing a framework to ensure that the Administering Authority, and scheme employers work together for the benefit of members to ensure statutory compliance and efficiency in the administration of the scheme, and update on the strategy is planned for this year.

26. The Team has continued to work with employers to improve the submission of pension data to the Fund, and this has been significantly important in 2019/2020 to enable the completion of the valuation, where data collected by 31 March 2019 is checked and balanced and was passed to the Scheme actuary in August 2019.

27. In addition, there is also statutory requirements for participating scheme employers to provide timely and accurate year-end data. For the year 2019-2020, participating employers in the scheme were required to provide accurate year-end data by 14 May 2020 the processing of the year-end returns has continued up to the time of writing this report, annual benefit statements have been issued to deferred members of the scheme by 3 July 2020 with the plan to issue active benefit statements by 31 August 2020.

28. Where employers fail to meet the requirements set out in the Administration strategy the Pension Fund reserves the right to charge the employer for additional administration time where appropriate. The fund also reserves the right to report employers to the Pension Regulator where there is a breach of statutory regulations.

29. The following table provides information on employer submissions to year end data over the last six-year ends.

Year End	Number of submissions received by submission date	Accurate submissions received by submission date	Submission date	Number of Employer returns expected	Percentage of expected returns received by the deadline	Percentages of Accurate returns by the deadline
2014-2015	112	92	31 May 2015	260	43%	35%
2015-2016	162	157	30 April 2016	276	59%	57%
2016-2017	253	166	2 May 2017	310	82%	54%
2017-2018	314	183	14 May 2018	337	93%	54%
2018-2019	272	162	13 May 2019	341	80%	47.5%
2019-2020	304	206	15 May 2020	342	88.%	60%

30. The Fund received all its year end submissions to enable the production of annual benefit statements for the 31 August statutory deadline. This has however taken a lot of time and resource in contacting and chasing employers for their responses to data corrections to enable the balancing, and accuracy of member data, to allow the production of annual benefit statements. There will be a need to undertake a second run of benefit statements in November to ensure all members that the fund has data for can receive a benefit statement.

Planned Move to monthly returns

31. The Employer Support and Compliance Team has continued to support employers and to simplify the way data is requested, this has been achieved by reviewing communications and improving the content of the year-end briefings. The briefings delivered in early March 2020 again targeted new and existing employers to ensure that they understood their responsibilities for year-end. Even though the Pension Team went into working from home due to COVID19, all information was issued to scheme employers on time, to enable them to complete their year-end activities.

32. The implications of not receiving data from scheme employers can be serious, potentially leading to incorrect pension calculations. Without the correct data, the Administering Authority may not be able to issue annual benefit statements to individual members where the scheme employer has failed to provide the required data. This type of situation would ultimately result in a breach of the statutory regulations and may result in the fund being subject to a fine. Any fines will be passed on to the appropriate non-compliant scheme employers

33. The Pension Office will be working with Scheme Employers to implement monthly returns. The detail of this project is covered within the Pension Transformation update report to be presented to Committee on 10 September 2020.

Performance Data

34. Performance statistics in the table below represent the 4th quarter of 2019/20 and compares the performance of the Administration Team fund KPI's against the Cipfa benchmark legal requirement. The Committee will see that performance against the legal requirement averages around 80% compliance this is down from last year's average of 90%. Overall the fund performance against our KPI's is 65%, however this figure will have been impacted by reduced performance in March 2020 due to the Pensions Office moving to home based working due to COVID 19

4 Quarters 2019-2020 1.04.2019 to 31.03.2020 Pension Administration KPI Compared against the Cipfa Benchmark Key Performance Indicators					
Process	**Fund KPI**	**% of cases completed within the fund KPI**	**No. cases completed Within the Year**	**Cipfa Benchmark Legal Requirement (from notification)**	**% of cases completed within the CIPFA KPI**
Deaths – Initial letter acknowledging death of member	5 days	28%	367	2 months	92%
Deaths – letter notifying amount of dependant's pension	10 days	74%	443	2 months	80%
Retirements –letter notifying estimate of retirement benefits	15 days	85%	121	2 months	97%
Retirements – process and pay pension benefits on time (next available payroll) –	30 days	74%	2460	2 months	86%
Deferment Retirement Quote Letter	2 Months	95%	2256	2 Months	95%
Deferment – calculate and notify deferred benefits	2 Months	61%	4922	2 months	61%
Transfers in/out – letter detailing transfer quote	1 Month	44%	1050	2 months	59%
Refund – Process and pay a refund following election	2 Month	96%	802	2 months	96%
Divorce quote – letter detailing cash equivalent value and other benefits	2 Month	97%	375	2 months	97%
Divorce Settlement – Letter detailing implementation of pension sharing order	2 Month	31%	13	2 Months	31%
Provision of Estimate of Benefits			1448	2 Months	95%

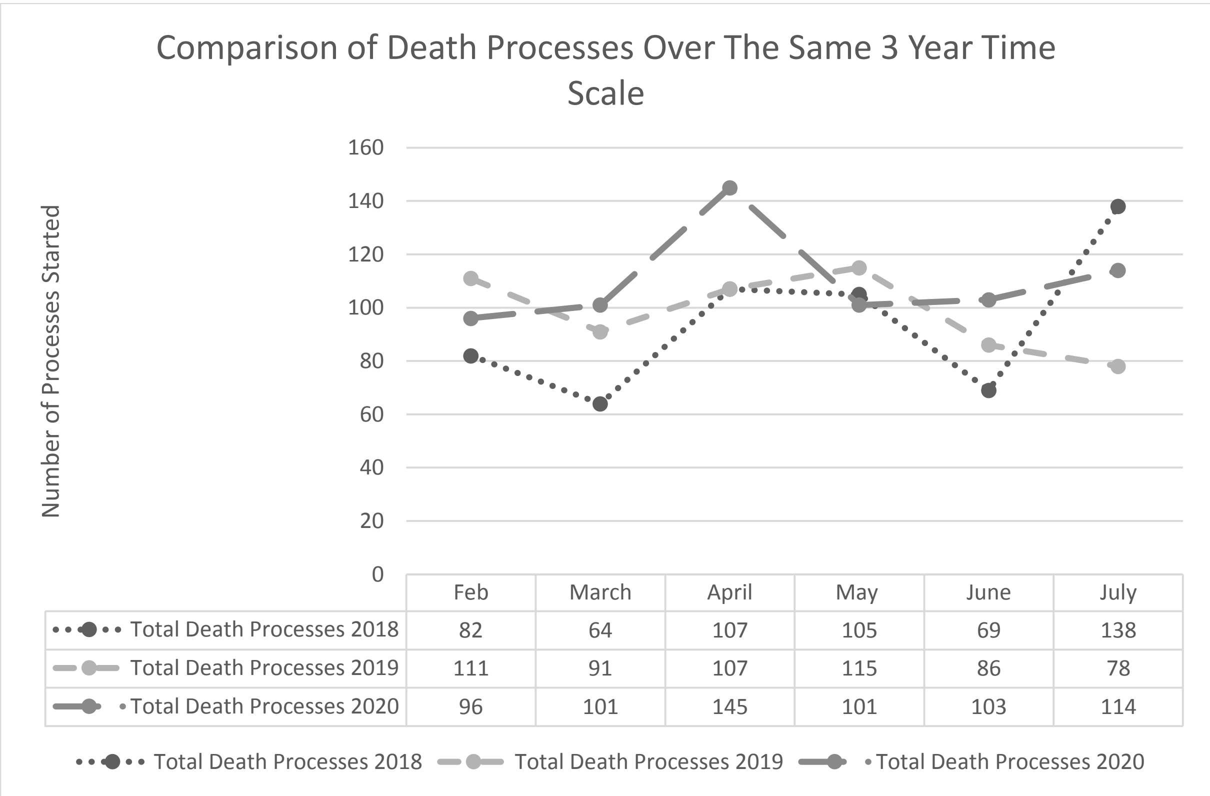
35. It can also be reported from information extracted from the administration system, in the financial year 2018/2019, the Pension Administration Team completed 7617 processes across the year. For the year 2018/19 the Administration Team increased the number of processes to 10,688 which is an increase of 40%. This increased again by 13% over 2019/20.

	2017/18	2018/2019	% +/-	2019/2020	% +/-
Processes Completed	7617	10,688	+ 40%	12,138	+13%

36. Since the changes in legislation in May 2018, there continues to be a significant increase in requests from deferred pension members over 55 years of age to seek payment of their pension benefits. The Administration Team have completed 4922 process in the year up to March 2020 of which 61% were provided within 2 months.

37. The member death process is the most difficult statistic to gather and measure, and the team is currently reviewing how this process is monitored. The difficulty is the date and timing of when the Pension Administration Team are informed of the death, against when the team receive the appropriate documentation. Where the relevant information is provided death in service grants are paid within 5 days to the next of kin.

38. The following graph shows that 2020 has seen an increase in the number of deaths processed. These statistics include death in retirement, death in deferment, death in service and death of preserved refunds.



Other Options Considered

39. Work will continue to develop the SLA reports to provide a full range of benchmarking data over the coming financial year this will be in conjunction with a national set of benchmarks across all LGPS schemes

Reason/s for Recommendation/s

40. This report has been compiled to inform the Nottinghamshire Pension Fund Committee of the activities being undertaken by the administration team to improve the performance of employers, and the administration of the fund.

Statutory and Policy Implications

41. 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.

Financial Implications

42. The administration of the Nottinghamshire Pension Fund is being delivered within existing resources at a cost of £1,266,293 2019-2020.

RECOMMENDATION

It is recommended:

1. That the Nottinghamshire Pension Fund Committee consider the performance of the administration of the pension fund, and the continued development of systems and processes that will improve the service to members of the fund.

Marjorie Toward
Service Director – Customers, Governance, and Employees
For any enquiries about this report, please contact:

Jonathan Clewes, Pension Manager on 01159773434 or jon.clewes@nottscc.gov.uk
Constitutional Comments (KK 01/09/2020)

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

Financial Comments (KP 01/092020)

44. The cost of pension's administration is a valid charge to the pension fund and as set out in the report the costs are £1,266,293 at 2019/20.

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

Nottinghamshire County Council

Report to Pension Fund Committee

10 September 2020

Agenda Item: 7

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND EMPLOYEES.

LOCAL GOVERNMENT PENSION SCHEME – TRANSFORMING PENSION ADMINISTRATION UPDATE REPORT

Purpose of the Report

1. To update members on the “transforming pension administration through digital development and new ways of working programme”.

2. To seek members approval for the next phases of the data audit and improvement work stream.

Information

3. Pension Administration is changing nationally, and in the LGPS with changes to regulations, and with the requirements and scrutiny of the Pension Regulator. LGPS administration needs to reflect this change through the delivery of a range of digital services which include increased automation, significantly reduced manual inputting and amending of member data, ensuring that employers fulfil their responsibilities as a scheme employer within the Fund and for scheme members to be able to access their pension record 24/7.

4. The Pension Regulator has stipulated that it expects Pension Funds to enable scheme employers and members to interact with the Fund via digital platforms.

5. At the September 2019 Pension Committee meeting approval was given to the scope of the Nottinghamshire Pension Fund “transforming pension administration through digital development and new ways of working programme”.

6. The programme consists of 4 key phases

- Data Audit and Improvement
- Scheme Employer Portal
- Hosting Options
- Members Portal

7. The key aims of the programme are to

a. Through improved data quality and increased automation move towards “administration by exception”. Ensuring the right people are doing the right tasks at the right time. Enabling our skilled administrators to concentrate on dealing with complex issues, whilst the automation takes care of the very day tasks where possible.

b. Provide Scheme Employers with portal access to upload validated data, removing paper and manual input into Civica UPM where at all possible and supporting Employers to fulfil their duties under the Pension Administration Strategy

c. Improve the management and transition of member and financial data through the deployment of monthly returns rather than a yearly return which would support auto loading and processing of new starters, changes and leavers to enable cost efficient and transparent processing

d. Provide Members with self-service access to enable them to maintain their personal data, review their pension benefits and communicate with the Fund.

e. Support the Fund to meet increasing regulatory requirements and standards on reporting for example, The Pension Regulator requirement for Funds to improve the quality of their data and the expectation that Funds enable Scheme Employers and Members to interact with the Fund via digital platform.

f. This programme will ensure that the Nottinghamshire Pension Fund Administration Service can operate as a leading-edge administration service through improving the customer experience, ensuring regulatory compliance whilst delivering an efficient and cost-effective service.

Data Audit and Improvement

8. The Pension Regulator requires all Funds to maintain accurate records. The Fund is required to have a data improvement plan as specified by the Regulator. Failure to do so can put the Pension Fund at risk of failing to meet its legal obligations, and the Regulator will take enforcement action where schemes are not meeting the standards expected and are taking appropriate steps to improve pension records.

9. The continuing diversification of the scheme employer base, the increasing number of payroll providers and the size of membership together with the complexity inherent in the scheme’s design presents the Fund with significant operational challenges in meeting the statutory record keeping requirements.

10. The Fund is required by the Pension Regulator to hold and measure two types of data within the Civica Universal Pension Manager (UPM) System scheme records: **Common Data and Scheme Specific Data.**

11. **Common data** is used to identify scheme members and includes names, addresses, national insurance number and data of birth

12. **Scheme specific data** is essential to calculate benefit entitlement such as employee contributions, pensionable pay, service history. It also encompassed data relating to events

that occur during an individual's membership, for example transfer, purchase of additional pension and pension sharing orders.

13. The Nottinghamshire Pension Fund collects and holds data provided by several external sources

    a. **Scheme Employers** – However, employers fail to inform the Fund of new starters, leavers and other changes in a timely manner. Significant volumes of new starters and leavers and other data changes such as TUPE transfer, merging of records are notified to the Fund via the Year End return. This then means that the Fund has a substantial amount of data changes to implement and queries to resolve prior to the production of the Annual Benefit Statements.

    b. **Members** – failure to inform the Fund of changes to their personal data such as change of address and name, marital status

14. The Fund is also required to respond to a range of other external factors which impact on the data that the Fund holds such as -

    a. **GMP reconciliation project** - HMRC have identified errors in their systems and through no fault of its own the Fund is required to undertake work to reconcile and rectify the issues. The details of this ongoing project have been the subject of separate reports to Pensions Committee. At a high level the Fund has been required to undertake a financial reconciliation as well as to reconcile individual members details of the GMP held against a member's pension record with that held by HMRC.

    b. **McCloud – Court of Appeal judgement regarding age discrimination -** Since Committee approved the scope of the data audit and improvement workstream of the transformation project more information regarding the impact of the McCloud age discrimination judgement is now known. The McCloud judgement will affect pensions already in payment, active members and deferred beneficiaries. Following a national consultation on the proposed changed in regulations there will be a statutory obligation on all LGPS Funds to review all retirement calculations undertaken since 1 April 2014 to ensure that the McCloud underpin protections are now considered against the original calculations and to extend underpin benefits to eligible younger members. To enable these calculations to be undertaken the Fund will be required to collect hours and service break data for all members since 2014 to enable the underpin calculations to be performed. This data is needed for all members of the LGPS from the date the scheme changed in April 2014 to 31 March 2022 (or earlier if the member left active membership of the scheme or reached their 2008 Scheme NPA before that date). Employers will be legally required to provide administering authorities with the information they need to undertake the McCloud project. Details of the McCloud project will be the subject of a separate detailed report to Pensions Committee.

15. The data improvement workstream has been reviewed to ensure that it lays the foundations to future proof the data collection for projects such as McCloud and the national pensions dashboard with confidence in the Nottinghamshire Pension Funds data position.

16. The data audit and improvement phase of the programme is split into four distinct phases

- Phase 1 - Data Audit - completed
- Phase 2 – Forensic Analysis - completed
- Phase 3 – Improvement – proposal detailed within this report
- Phase 4 – Ongoing data maintenance – proposal detailed within this report

17. Working with the Nottinghamshire Pension Fund Civica have completed phase 1 – detailed data audit and phase 2 forensic analysis. This has enabled the scoping of the improvement phase to be undertaken and which is presented within this report.

18. **Phase 1 Data Audit** took place between January and March 2020, prior to the 2019-2020-year end being processed and has provided a holistic view of the data held by Nottinghamshire Pension Fund on Civica UPM. A comprehensive suite of 430 data validation checks (DVCs) were deployed. The DVCs were agreed between the Fund and Civica and cover both common and scheme specific data across 173,647 pension folders which covers a total of 134,496 individual members of the Nottinghamshire Pension Fund. This has provided the Fund with an accurate and informed data position as well as access to a dynamic data quality dashboard.

19. The Data Quality Dashboard provides the Administration Team with a baseline and breakdown detailing the number of members and the data validation checks not passed in volume range as follows -

Number of Members	DVC not passed
24,035	Passed all DVCs
56,658	1-3 amendments required
26,825	4-6 amendments required
13,507	7-9 amendments required
13,408	10+ amendments required

20. The Data Quality Dashboard enables the Administration Team to look at Fund level, employer level and membership category (active, deferred, deceased etc). At Scheme Employer level the Fund is able to review the data position for each employer, compare employers and identify employers with good/bad attributes and therefore provide targeted support.

21. Phase 2 Forensic Analysis was undertaken in April 2020 based on the data cut taken in January 2020 and utilised the results from phase 1 to enable forensic analysis of the DVCs, including assessing the potential for bulk data resolution solutions for systemic data issues and trends that have been identified. As part of this phase potential bulk data resolution activity has been identified which could resolve 159,487 DVCs, 28.5% of the total DVCs identified.

22. The data resolution activity has been categories as follows –

- Data fix required by either Employer, Scheme or Member
- Client specific data change if deemed a client requirement
- Combination of the above

23. The baseline results of delivering phase 1 and 2 against the data cut taken in January 2020 is that 537,341 data validation amendments have been identified. The top 10 data validation amendments are detailed in the table below

Data Validation Check	Count	Status
Latest year's pension increase details are not present	52,188	**Resolved** following the application of Pension Increase in April 2020
Total current pension is not present (deferred member)	51,109	**Resolved** following the application of Pension Increase in April 2020
Incorrect contribution rate	47,144	Resolution in progress following year end processing
NI modification amount is not present	29,365	DVC requires review and re run
Annual allowance calculation is not present (active member)	19,752	**Resolved** – as part of the year end processing and production of ABS.
First contribution date is not present	12,684	DVC requires review and re run
GMP Figures are not present (pension member)	11,418	**Will be resolved as part of the GMP Reconciliation Project**
No CARE entry for period of active services (post 31/3/2014)	11,388	DVC requires review and re run
Invalid entry for folder status reason flag	11,035	Outstanding – requires further investigation
No main section earnings data for one of the last 5 scheme years	10,721	Outstanding - year end queries still awaiting response from Employer
No main section earnings data for the last 12 months	10,552	**Resolved** – as part of the year end processing and production of ABS.
Pension end date is not present when previous status exists	10,465	Outstanding – requires further investigation

24. However, it should be noted that since the baseline position was determined the Administration team has now processed all 2019-2020 Year End returns and have completed a suite of activities which have covered the creation of new starters, notification of leavers and updates of a range of changes to members records notified to the Fund via the Employers Year End Return. To date 145,019 out of 266,433 amendments have been implemented as shown in the above table. Pension Increase has also been applied to deferred pensioner and dependent records. The Fund now requires to re run the DVCs on the year-end update data to provide an up dated data position.

25. Phase 3 is the most extensive phase of the programme and as such the proposal is broken down into 5 stages to give a greater understanding of the projected work to support the delivery of the data audit and improvement objectives.

Stage	Activity
1	Further detailed forensic analysis exploring all avenues for potential bulk resolutions are fully exhausted.
2	Creation of a process to facilitate the bulk resolutions that are identified via the forensic analysis.

3	Execution of the build solutions identified in line with the bulk resolution process created in phase 3, stage 2. It will also involve the creation of a process to administer the individual members resolution activity to follow in Phase3, stage 4.
4	Execution of the individual member resolution processes as created in phase 3, stage 3 to enable direct action to resolve member data issues.
5	This stage will run concurrently alongside the others stage in phase 3 and will involve the update and monitoring of the data audit dashboards to maintain up to date visibility of data issues.

26. The costs of phase 3 of the data improvement project are detailed in the table below. The Fund will take a blended approach working with Civica to determine which party is best placed to work to resolve the outstanding issues. Where a bulk resolution is identified this is likely to be deployed by Civica. The Fund will interact directly with Scheme Employers and members where individual data amendments require resolving. The Fund will work to minimise external spend where it can but also ensure the most cost effective approach is taken in using external input to work through the data validation results.

Phase 3	**Activity**	**Actual/Estimate**	**Cost**
Stage 1	Further detailed forensic analysis	Actual	£46,620
Stage 2	Resolution process developed for each DVC reviewed in forensic analysis	Actual	£62,808
Stage 3	Bulk resolutions and DVC code changes applied, and individual resolution activity developed	Estimate	£150,000
Stage 4	Individual member resolution activity	Estimate	£150,000
Stage 5	Ongoing data audit refreshes – up to 6 at £1750 per refresh	Actual	£10,500
		Total	**£419,928**

27. Phase 4 will focus on data quality maintenance, as informed by periodic data quality dashboards, enabling ongoing identification of any emerging data quality trends.

Monthly Returns

28. As stated in paragraph 13a of this report, the Fund is reliant upon the accuracy, completeness and timeliness of data provision from scheme employers and any third-party agencies they may utilise for example payroll providers.

29. Currently scheme employers provide a year-end return. Employers are required to provide details of new starters, leavers and changes to the Fund throughout the year. However, the submission of the year end return by employers often provides the Fund with substantial additional information about new starters, leavers and changes to earning/salaries, names and addresses. This then requires the Fund to engage in a significant piece of work to update the data held within the Civica UPM system. The implementation of monthly returns will work to resolve this data collection issue.

30. Through the initial scoping of the implementation of monthly returns and discussions with another LGPS Fund that are amid moving to monthly returns it is imperative that a full data audit and improvement exercise be completed in conjunction with each employer prior to an

employer's move to monthly returns. This will support a move to preventing a range of data issues occurring at source rather than working to resolve the issues retrospectively.

31. Every month Scheme Employers will be required to submit an employee record file which identifies any changes in data including changes to earnings/salaries, names and addresses with that held by the Fund.

32. It is therefore proposed that until data improvement workstream progresses to resolve the identified DVC amendments at individual employer level that this phase of the programme is only progressed on an employer by employer basis as and when the data issues for the employer are resolved.

Hosting Pension Systems

33. Work is ongoing to review both public and private cloud hosting options together with managed services to determine the requirement for ICT and pension system resource going forward. The results of this work will be presented in a separate report to Committee in due course.

Scheme Employers Portal

34. The Scheme Employer phase of the programme is running in parallel with the data phase.

35. The Scheme Employer Portal pilot went live with Nottinghamshire County Council on 1 July 2020. Nottinghamshire County Council is now able to enter details and upload documents to the secure portal relating to death in service, ill health retirements and flexible retirements and limited access to view their members records. Discussions have taken place with four district and borough scheme employers and two large educational scheme employers. Plans are to rollout access to the portal to these employers next.

36. Plans will then be developed to rollout access to the Scheme Employers Portal to all remaining employers thereafter.

Members Portal

37. It was originally proposed to visit the scope of the Members Portal during the second half of 2020. However, good quality data is key to the successful channel shift of members to online services. It is paramount that the data audit and improvement workstream must be progressed significantly before this can be progressed.

38. It is therefore proposed to review the timescales of this phase of the programme to align with the resolution activity within the data improvement workstream.

Resources

39. Pension Administration Team will input into aspects of the scoping and delivery of the programme due to their knowledge and expertise of the regulations and existing processes.

40. Additional project management capacity will continue to be released from within the Business Services Centre to support the delivery of the digital transformation programme.

41. If additional resources are required as the data improvement workstream progresses these will be the subject of a further report.

Other Options Considered

42. Data audit and improvement is a regulatory requirement and the Fund is required to have a data plan and be able to demonstrate how data supplied to the Fund is improving. Therefore, there is a statutory obligation upon the Fund and its Scheme Employers to progress the data workstream.

43. The Fund is also required through the national GMP reconciliation project and legally required through the outcome of the McCloud judgement to undertake these two significant projects. The Fund does not have an option not to do either of these.

44. The Pension Administration Service could continue to operate as it currently does utilising paper and pdf forms but this is not considered a viable option given both the increasing legislative demands and increasing number of scheme employers, members and their expectations in this digital age.

45. Without the development of digital platforms for Scheme Employers and members to interact with the Fund consideration may have to be given to increasing the number of pension administration staff.

Reason/s for Recommendation/s

46. For the Nottinghamshire Pension Fund to be able to meet ongoing statutory responsibilities, increased expectation of members and scheme employers to interact with the Fund online and via self-serve it is imperative that the Fund transforms its service offer ensuring that it is cost efficient and effective and meet its regulatory and statutory requirements.

47. Data improvement is a continuous process and not a one-off exercise. Good quality data is critical to the Pension Fund and a vital element in the success of digital transformation. Without the implementation of the proposed data improvements it will become increasing difficult and risky for the Nottinghamshire Pension Fund to fulfil its statutory obligations within the LGPS and will not enable the Fund to move its service online enabling members to self-serve.

Statutory and Policy Implications

48. 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

49. A high-level Data Privacy Impact Assessment has been completed and signed off for the programme. This will be reviewed to ensure that the aspects of the programme detailed within this report are included.

Financial Implications

50. The financial implications for the next phases are covered within the body of this report at paragraph 26.

RECOMMENDATION/S

It is recommended that the Members:

1) Approve the proposed scope of the future phases of the data improvement workstream.

2) Approve the recharge of the costs of £419,928 for the next phases of the data improvement workstream of the transformation programme to the Pension Fund.

3) Agree to receive ongoing update reports on the progress of the programme.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
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Constitutional Comments (KK/ 26/08/2020)

51. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (KRP 27/08/2020)

52. The financial implications are set out in paragraph 26 of the report. The total cost for the 5 stages of phase 3 are £419,928. These costs are a valid charge against the fund administration costs.

HR Comments (JP 27/08/2020)

53. The HR implications are set out in the body of 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

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to Pension Fund Committee

10 September 2020

Agenda Item: 8

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND EMPLOYEES.

LOCAL GOVERNMENT PENSION SCHEME – UPDATE ON THE PROGRESS ON THE IMPACT OF THE MCCLOUD JUDGEMENT ON THE ADMINISTRATION OF THE PENSION FUND

Purpose of the Report

1. The purpose of the report is to update Pension Committee on the impact of the McCloud and Sargeant Court of Appeal ruling that the Government's 2015 public sector pension reforms unlawfully treated existing public sector employees differently based on members ages on 1 April 2012.

2. The report also explains what activities the Pension Fund will be required to undertake to implement the potential remedy that is being proposed through a current consultation process.

Information

Background

3. The case came about when R Sargeant , a firefighter employed by the London Fire Brigade, was 44 years old or more on April 1 2015, she would have been entitled to remain in the Firefighters' Pension Scheme – a final salary pension fund that has a normal pension age between 50 and 55, a deferred pension age of 60 and an accrual rate of 1/60.

4. Because she was younger, Ms Sargeant was moved to the new Firefighters' Pension Scheme 2015, which is a career average revalued earnings scheme.

5. After a legal battle that saw firefighters and judges joining forces to claim discrimination on the grounds of age, Ms Sargeant and her peers were granted their claim by the Court of Appeal in 2018. And in June 2019, the Supreme Court refused the government's application to appeal the court case, by then known as McCloud, which marked the end of the legal process.

6. The case through the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. However, in relation to the LGPS, this difference in treatment exists between two groups of LGPS members:

   • those who were in service on 31st March 2012 and were within ten years of NPA on 1st April 2012, therefore benefiting from underpin protection and 'better off' than the second group; and,

   • those who were in service on 31st March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

The Proposals

7. On 16 July 2020 various consultations were issued by the Government proposing solutions to providing a remedy across many of the public service pension schemes, a copy of the consultation document for the LGPS is attached for information and provides an in-depth explanation of the position and consultation. The Consultation runs until 8 October 2020 and the Pension Fund will be responding to the consultation.

8. The consultation sets out how MHCLG propose to amend the statutory underpin to reflect the Courts' findings in the McCloud and Sargeant cases. Primarily, the proposals are to remove the age requirements from the underpin qualification criteria. However, there are additional proposals to ensure that the underpin works effectively and consistently for all qualifying members following the extension of the underpin to younger members. From April 2022, it is proposed that the period of underpin protection will cease and all active LGPS members will accrue benefits in the career average scheme, without a continuing final salary underpin.

9. In the LGPS, the protection compares the benefits payable under the current career average scheme with the benefits that would have been paid if the Scheme had not changed from a final salary scheme in 2014 (2015 Scotland and Northern Ireland) and pays the higher. This protection is called the underpin.

10. Currently, the underpin applies automatically to protected older members. The Government is proposing to change the scheme rules so that the underpin will automatically be extended to eligible younger members.

Impact on Members Benefits

11. Analysis nationally has identified that the proposals will mean that on average the members of the LGPS will see a slight improvement in their pensions as a result. However, this is not evenly spread, and the reality is that the average consists of members seeing no change at all to their benefits, whilst other members will see material improvements in their retirement income.

12. It has also been estimated that younger members of the pension scheme with relatively high pay growth could see up to an estimated 10% increase on their 8 years accrual from 2014 to

2022, when compared to what they could have expected from the current career average scheme.

Impact on Employers within the LGPS

13. The higher than average benefits will need to be paid for, by the scheme employers. There are approaching 20,000 employers nationally, and it is estimated on average each employer will only see a small impact as a result of the proposed changes. Analysis, by our fund actuary has indicated that at the whole scheme level the increase in liabilities could be in the order of 0.3% or around £0.9bn. This will depend on several factors, namely assumed salary growth and withdrawal assumptions. This is lower than the estimate made by Government Actuary's Department (GAD). This is largely because salary growth assumption made by GAD is CPI plus 2.2% which is materially higher than the Actuary's assumptions for the 2019 valuation which was CPI plus 1% p.a.

14. The impact of the remedy might be to increase average primary contributions by around 0.2% - 0.3% p.a. of pay and secondary contributions by around the same (with more variability at individual employer level). However, in the case of the Fund the Actuary has already allowed for McCloud in the 2019 valuation calculations through various mechanisms, such as increased prudence in the discount rate or an explicit asset reserve. The actuary does not intend to revisit the 2019 valuation results. Any further differences will be captured at the 2022 and other subsequent valuations. Details of the Fund's allowance for McCloud can be found in the Funding Strategy Statement.

15. Although the impact on the fund is likely to be small at whole fund level it could be significant at individual employer level.

16. For many employers in the LGPS with mature workforce, like councils, there is likely to be minimal impact. Although promotional increases could result in a material cost for certain members as the final salary scheme pension could exceed the career average scheme pension as where salary increases are higher, the underpin is more likely to have an impact.

17. Smaller employers may also be more affected. The change in an individual member's benefits may increase a significant proportion of their liabilities and therefore the impact on smaller employers is likely to be more volatile.

18. It is known that some employers are much more likely to be impacted than others, i.e. those with younger membership profiles and more concentrated on active employees, such as academy schools and leisure centres, and therefore it is estimated that they could see a contribution rate increase of 1% or more (but this estimate relies heavily on future salary growth).

Impact on the Administration of The Fund

19. In terms of what is being proposed, this will have a major impact on the Administration Team for various reasons:

    a. Pension Processes will require to be reviewed and updated in line with the McCloud underpin protections.

b. The Pension Fund will be required to collect hours and service break data for eligible members and scheme employers will have a statutory obligation to provide this data to the Fund back to 2014.

c. Retrospective calculations performed on all eligible pensioners which may result in backdated pension adjustments being determined and require putting into payment.

d. McCloud underpins protections being determined and applied to eligible members.

20. This will need to be undertaken for an estimated 24,000 member records within the Nottinghamshire pension fund across all members who have a current underpin

21. It will be important given the scale of the task, that the fund starts to plan to get ready for implementation. In addition the Scheme Advisory Board will be producing some guidance and consistency across the LGPS. Work is also ongoing in respect of administration software providers to update the administration systems to deal with the complexities of the changes in calculations.

22. Communication to employers and members will be essential. The key focus for members will be for them to know that the underpin will be applied to them without the need for any action on their behalf, but also understand when their benefits will be reviewed. Employers will also need to understand the requirement to provide historic and ongoing data to enable the 2008 Scheme benefits to be calculated, and the Scheme Advisory Board have an implementation group to help provide documents to pension funds.

23. The Fund will be required to collect data regarding hours changes and service breaks to enable the calculations for qualifying members since the 1 April 2014 to be undertaken.. This will include not only additional members covered by the underpin, but those who were previously covered as well. Retired members may also be affected, and arrears may be payable, which may also bring several pension tax complications to consider and communicate.

Review of Resource Requirements

24. In terms of estimating the amount of work and resources required, the fund has estimated that there may be around 24,000 records that may need to be reviewed, several recalculations of members benefits, communicating to members, scheme employers, along with collecting and checking data. This work cannot be completed with the current resources in the Pension Administration Team, and maintain the current service level, as well as progress several other statutory required projects. Therefore, in order to complete this work, there will need to be a temporary project team established to focus on this area of work.

25. It is proposed to seek approval from Personnel Committee to the establishment of a temporary Project Manager post for a period of two years, or less if the project is able to finish earlier, at Band B up to £35,934 per annum subject to pay awards, at a total cost of £71,868.

26. It will be the responsibility of the Project Manager to scope the details of the project and the additional resource that will be required to meet the Fund obligations as part of the McCloud judgement.

27. Consideration will be given to seconding some experienced staff from the Pension Administration Team to the project with appropriate back fill arrangements implemented.

28. In order to support the project, it may also be prudent to engage some additional support from the scheme actuary, who will be able offer advice and support to the project manager on preparing for the project, fund resources and other issues raised in the report.

29. Once the Project Manager is appointed it is proposed to undertake further work on the requirements of the project and to present a separate report on what resources will be required considering, current and future work activities of the Administration Team.

Other Options Considered

30. The Pension Fund is following, the Scheme Advisory Board, and the LGA advice, along with engaging with the Scheme Actuary, as well as using normal LGPS funds to ensure that Nottinghamshire is following the best advice.

31. The Pension Fund has a legal requirement to ensure that the McCloud judgment is correctly applied to all eligible pensioners and members of the Nottinghamshire Pension Fund.

32. Absorb the McCloud project work into the existing work of the administration team. However, this is not considered to be a feasible option as this would have very significant implications and disruption for the delivery of the current business as usual, as well as the legal obligation to deliver the McCloud project.

Reasons for Recommendations

33. This will be a significant project for the Pension Fund which will require project management and additional resources to ensure that the Fund fulfils the requirements of the McCloud judgement.

34. Advice and support from the Scheme Actuary and their extensive knowledge and understanding of the LGPS regulations and the McCloud judgement will provide the Nottinghamshire Pension Fund McCloud project with a quality assurance role to the project.

Statutory and Policy Implications

35. 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

36. The project, by its very nature, involves reconciliation, sharing and processing of personal and sensitive data. This is covered by existing arrangements and agreements with scheme employers and scheme members.

Financial Implications

RECOMMENDATIONS

It is recommended that the Committee:

1) That Nottinghamshire Pension Fund Committee consider the implications of the McCloud case, and agree to receive further update reports as the project becomes clearer following the consultation on the national proposals.

2) Agree to the establishment of a temporary project manager post for two years and agree to a further a report on the proposed resource requirements of a McCloud project team.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
Jonathan Clewes, Pension Manager on 0115 9773434 or Jon.Clewes@nottscc.gov.uk

Constitutional Comments (KK01/09/2020)

37. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (KP01/09/2020)

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

HR Comments (01/09/2020])

39. The requirements for additional internal staffing resources are set out 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.

Link to the Government Consultation Document:
:

https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to the Nottinghamshire Pension Fund Committee

10 September 2020

Agenda Item: 9

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES.

LOCAL GOVERNMENT PENSION SCHEME – MCCLOUD CONSULTATION COVER REPORT

Purpose of the Report

1. To provide the Pensions Committee with a copy of the draft response to the Government Consultation on the proposed changes to the Local Government Pension Scheme Regulations relating to the McCloud Judgement.

2. To consult the Pension Committee on the draft response to the consultation prior to the final submission.

Information and Advice

3. The Ministry of Housing, Communities and Local Government (MHCLG) published its consultation on draft Regulations introducing amendments to the statutory underpin for the Local Government Pension Scheme (LGPS) in England and Wales on 16 July 2020.

4. The proposals are designed to remedy the unlawful discrimination caused by the protection of older members when the scheme was reformed in April 2014.

5. Each year the Pension Regulator issues all LGPS Pension Funds with a Survey that focuses on Governance and Administration of the Pension Fund and in line with the Pension Regulators Section 14 Administration standards for the LGPS.

6. Pension Funds have been encouraged to respond to the consultation document and having attended several webinars with LGPS Manager Colleagues, and with support from the Scheme actuary the draft response has been drawn up on behalf of the fund.

7. The draft regulations set out in the MHCLG consultation for the LGPS in England and Wales will:

    a. Remove the condition that requires a member to have been within ten years of their 2008 Scheme normal pension age on 1 April 2012 to be eligible for underpin protection.

    b. Introduce a number of supplementary changes to ensure the revised underpin works effectively and consistently for all members.

8. The consultation closes on 8 October 2020. A similar consultation is being held in respect of the LGPS in Scotland and is expected to be published in Northern Ireland.

The Key Proposals

9. The proposals introduce the term “qualifying member” for someone who meets the following criteria, regardless of age:

   - Was an active member of the LGPS on 31 March 2012, and
   - Has accrued benefits in the 2014 Scheme, and
   - Has no disqualifying break in service.

10. The underpin will apply in respect of service between 1 April 2014 and 31 March 2022, or the members “underpin date” (their 2008 scheme normal pension age) if earlier. The final salary link will remain until the member leaves active membership or reaches their underpin date, if earlier. Accrual will be on a CARE basis only for all members from 1 April 2022.

11. The changes will be retrospective, and so benefits for all qualifying leavers since 1 April 2014 will need to be revisited to determine whether the underpin will produce a higher benefit. Qualifying leavers include retirements, deferred leavers, deaths, transfers out.

12. There will be a two-stage calculation process with a provisional check on leaving active membership, or reaching the underpin date (if later), and a final check when benefits are taken (the "underpin crystallisation date"). This is so that the effect of early and late retirement factors on the 2008 Scheme and 2014 Scheme benefits can be considered in calculating whether the underpin gives a higher benefit.

13. Under the current underpin rules, the member must leave with an immediate entitlement to benefits in order to qualify. Because this rule could lead to further age discrimination, it is not included in the draft regulations meaning that the underpin will, in future, also apply to leavers with a deferred benefit entitlement.

14. Another proposed change relates to aggregation. In order to simplify administration, members will be required to aggregate benefits to qualify for the underpin. This isn't the case currently and so the consultation also proposes that active and deferred members who haven't aggregated previously are given an additional 12-month window in which to do so. It should be noted that this only applies where failure to aggregate benefits would mean that the member loses entitlement to the underpin.

15. When the current underpin comparison is carried out, no account is taken of the fact that the 2008 Scheme has a lower normal pension age (generally 65) than the 2014 Scheme (linked to state pension age). In future, to ensure a fairer comparison of the 2008 Scheme benefits and the 2014 CARE benefits, early and late retirement factors will be considered.

16. Something of a grey area under the current underpin rules, the consultation proposes that the underpin will apply to death benefits in future.

17. What the proposed changes mean is that rather than the underpin ceasing to be a consideration for administration after 1 April 2022, when the older members who currently

have protection would have largely retired, many younger members will now have a period of underpin protection to be considered in calculations until they retire.

Impact on Administration

18. Implementing the changes is likely to represent the biggest challenge for administering authorities since the introduction of the CARE scheme in 2014/15. We estimate that around a quarter of the total fund membership will fall into scope of the proposed changes to the underpin resulting from the McCloud ruling.

19. There are many different aspects of work that will need to be carried out to implement the changes and to administer the changes once they take effect. These include:
    a. ongoing administration changes
    b. benefits review for leavers
    c. member communication
    d. employer communication
    e. data
    f. systems
    g. specialist areas

20. Whilst MHCLG doesn't envisage that many members will not actually see an increase in benefits as a result of the new underpin, the underpin calculations will still need to be carried out for a large number of members, both on an ongoing basis and as a retrospective exercise for leavers.

21. Other impacts of the changes will be the need as an Administering Authority to be able to administer the scheme in compliance with the new regulations from the expected commencement date of 1 April 2022.

22. As highlighted in the briefing report to committee the more immediate challenge will be to ensure that the fund has all the data it requires to calculate the change in benefits.

23. The next steps are to plan for the implementation.

Statutory and Policy Implications

24. 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 Pension Committee consider the consultation response attached in appendix A.

Marjorie Toward
Service Director – Customers, Governance, and Employees

For any enquiries about this report please contact:

Jonathan Clewes Pension Manager on 01159773434 or jon.clewes@nottscc.gov.uk

Constitutional Comments (KK01/09/2020)

25. The proposal in this report is within the remit of the Nottinghamshire Local Pension Committee

Financial Comments (KP01/09/2020)

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

Background Papers and Published Documents

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

Local Government Pension Scheme – amendments to the statutory underpin

Link to the Government Consultation Document:
:

https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin

Appendix A

Dear Sirs

Nottinghamshire Local Government Pension Fund
Consultation Reply – Amendments to the Statutory Underpin
LGPS (McCloud/Sargeant)

I write in reply to the consultation on the amendments to the Statutory Underpin. The reply is on behalf of the Nottinghamshire Local Government Pension Fund.

I reply to the 29 questions;

Question 1 – Do you agree with the proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?

Answer 1– Yes

Question 2 – Do you agree that the underpin period should end in March 2022?

Answer 2 – Yes

Question 3 – Do you agree that the revised regulations should apply retrospectively to 1 April 2014?

Answer 3 – Yes

Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?

Answer 4 – Yes

Question 5 – Do the draft regulations provide for a framework of protections which would work effectively for members, employers and administrators?

Answer 5 – The Fund feels the draft regulations provide for a framework of protections which work for members. However, the Fund is concerned about the impact on the scheme employers and the significant impact on Pension Administration.

Employers need to check and provide hours and service breaks between 1 April 2014 and 31 March 2022. In this period some employers will have left the Fund, merged with other employers (especially Academies joining Multi Academy Trusts) and changed payroll providers. For some employers, providing the data will be problematic and a pragmatic solution will be required that should be adopted nationally for those scheme members where the data is unavailable.

Pension Administration has the added burden this proposal brings. Scheme employers will also see this as an additional burden given funds will also be undertaking other projects with scheme employers, such as data improvement, and moving to monthly returns.

Fortunately, the Nottinghamshire Fund has continued to collect hours and breaks in service, therefore the Fund proposes to check Employer data, and collect any missing data, rather than the proposed solution of collecting the data for the first time. However, this will still create difficulty for the Fund due to the many changes that have occurred with scheme members and employers, especially where schools moved to academy status and then moved to multi academy trusts and where there have been changes in payroll providers.

Question 6 – Do you have other comments on technical matters related to the draft regulations?

Answer 6 – No

Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for the underpin protection to apply?

Answer 7 – Yes, this seems reasonable given actuarial factors that could be applied when a member claims payment. These factors could decrease or increase a member's benefits depending on their age and membership, at the point benefits are paid.

Question 8 – Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?

Answer 8 – No

Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?

Answer 9 – Yes, whilst the Fund accepts there are administrative issues in opening the aggregation window for a new 12 months (from the date of the regulations) for a set group of members, the Fund feels this is more sensible than trying to deal with underpins covering more than one scheme if the proposal was reversed.

The Fund wishes to raise concern about the increased risk reopening the aggregation window could have on employer strain costs.

Because of the increased financial pressure on employers due to Covid-19, some Fund employers are looking at potential staff reductions through redundancy exercises. The Fund has concern, if a member is being considered for redundancy (age 55 plus) and is now able to transfer in earlier service (because of the reopened

12 month aggregation window in the proposal), which they previously had not transferred but would now be attractive to do as the member would then be able to include this service unreduced with immediate payment, this could significantly increase the redundancy capital cost value that the employer has to pay to the Fund.

This could make cases, that could have been considered for early release unviable, which makes the necessary staff reductions more difficult for the employers to resolve. The fund is also unsure at this point how the exit Cap would impact on this situation.

Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 months period to decide to aggregate previous LGPS benefits because of the proposed changes?

Answer 10 – Yes, as detailed in answer 9, but noting the increased risk detailed, and considering any impact by the exit cap.

Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have "significant adverse effects" in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?

Answer 11 – No, the Fund's view is that, it is very unlikely to impact adversely on pensions payable to current pensioner members.

Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?

Answer 12 – The Fund feels the paragraphs 56 to 59 are reasonable and designed to benefit scheme members and their surviving partners and provide a consistent and effective approach.

Question 13 – Do you agree with the two-stage underpin process proposed?

Answer 13 – Having reviewed Annex C and the examples in Annex D (pages 62 to 69) the Fund accepts a two stage underpin is required to guarantee the member receives the higher "protected benefit" from either the 60^{th} 2008 scheme or the 49^{th} CARE 2014 scheme.

The Fund does have concerns about the calculations of the comparisons and wishes to stress that the pension system providers will need to ensure their systems calculate the options correctly, to ensure the higher option is provided to the member.

The Fund also believes that pension Teams will be inundated with questions and scenarios by members who may be impacted, which will put increased strain on Pension Fund Admin Teams.

Question 14 – Do you have any comments regarding the proposed approaches outlined above?

Answer 14 – No, the Fund has no comments on the proposed approaches in Sections 64 to 102.

Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?

Answer 15 – No

Question 16 – Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?

Answer 16 – The Fund agrees the annual benefit statement is the most important information a scheme member receives whilst in active or deferred membership. However, the Fund feels many members are a little overwhelmed by the calculation of their pension already and usually head for the "total annual pension" figure and compare this to last year's value. If the latest value in higher, the Fund's general experience is, the member will accept this without question.

Whilst the Fund does appreciate the proposal, to include the underpin on the annual benefit statement, the Fund's view is this will only add another layer of unnecessary confusion to the majority of members, especially given this may not apply to many members, and if it does, it is only at a future point in time.

The fund will need to increase its Administration Team in order to be able to address the increase in administration that this change will bring. There is currently difficulty in recruiting experienced staff in order to meet the current needs of the service, let alone finding new experienced staff.

This comes at a time of heightened financial pressures on Councils, increased further by the Covid-19 crisis, where Councils need to be reducing costs.

Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?

Answer 17 – If it is decided the underpin value is to be included on annual benefit statements, the system providers will need to capture this value and write it back to the member's record annually.

The Fund suggests if the value must be included it should be shown as a separate value with simplistic wording applied. If a member wants greater information, then more detailed explanation can be provided.

This maybe an appropriate time to review benefit statements and the information required.

Question 18 – Do you have any comments on the potential issue identified in paragraph 110?

Answer 18 – The Fund agrees the impact of the underpin should only take effect on the members annual allowance pension growth calculation from the year the member reaches their "underpin crystallisation date". The Fund accepts this approach, meaning a member's pension input amount in this year is higher than in previous years.

The Fund recognises there may be a very small group of people impacted by this approach (members with low career average earnings 1 April 2014 to 31 March 2022, but a high final salary over the same period), but the Fund accepts this risk is extremely small, and the approach is reasonable.

Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the "McCloud and Sargeant" cases?

Answer 19 – Yes

Question 20 – Do you agree with our equalities impact assessment?

Answer 20 – Yes

Question 21 – Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, for the protected characteristics not covered by the GAD analysis (age and sex)?

Answer 21 – No

Question 22 – Are there other comments or observations on equalities impacts you would wish to make?

Answer 22 – No

Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?

Answer 23 – The Fund agrees members and employers need to understand the implications of the proposals.

The Fund's view is there will need to be targeted communications for the different groups of members affected, in the main pensioners, deferred and actives and the communications will need to be tailored to suit the individual's circumstance and this should be done at Fund level. However, the Fund is aware the Local Government Association has a communication sub group working on McCloud and intends to use agreed wording that is provided nationally.

The Fund agrees employers need to be made aware of the implications it has on them. This includes providing and checking for missing data (hours and service breaks), but they also need to be aware of the impact on them financially.

The Pension Fund's Actuary is likely to provide guidance on the financial impact on future employer rates, at the next Fund valuation, but also for noting in their accounts and FRS notices, where applicable.

Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?

Answer 24 – The Fund has plans to set up a Project in the Pension Administration Team to manage the administrative impact.

The Fund will be writing to scheme employers making them aware of McCloud and the outlining the potential requirement that they will need to check and provide any missing data between April 2014 and March 2022. Fortunately, the Fund has continued to collect data from scheme employers unlike other LGPS funds. Therefore, it is hoped that this will reduce some of the burden in collecting data. The plan is to send data to employers for them to check and update any incorrect or missing data.

2012 Member movements between employers and Funds from 2012 may be necessary for a complete picture.

The Fund is represented on the Local Government Associations McCloud working party through the East Midlands Pension Managers Group so has been kept up to date on the work to produce a national data template and notes to assist employers.

The Fund will be reliant on Civica, our system provider to assist in the uploading of any updates in employer data into the system along with enabling the Administration System to revise member calculations to provide a set of results.

Revision of pensions in payment will be time consuming, especially if the member has been in receipt of their pension prior to the latest annual pensions increase.

The Fund will be planning the work in a priority order, but further work will be required as part of our planning process.

The Fund is concerned about the complexity of the communications to members, especially to those members who will have the aggregation window reopened for 12 months. It is expected this will generate phone calls and enquiries.

There is clearly an additional administrative cost to this work, both in times of resource and systems.

The Fund is also concerned about the administrative impact on the employers checking (in our position) data including hours and service breaks between April 2014 and March 2022. This will be challenging and costly for the employers.

It is expected that some employers may ask if any additional charges they incur can be passed back to the Fund.

Whilst the fund accepts there is no recommended date for completion of the exercise and should therefore be able to set its own timeframe to complete the work, there is also some concern that without a set timescale, employers may drag their feet, which will impact on the funds ability to undertake the work, which increases costs, but also leads to a never ending activity.

Pressure for accounting disclosures may encourage timely response from some employers, if auditors insist on a level of accuracy.

The other alternative would be to set a deadline

Question 25 – What principles should be adopted in determining how to prioritise cases?

Answer 25 – The Fund believes the priority order should be – pensioners, deferred members and then active members. Within the pensioners the Fund suggests there should then be further prioritisation based on the likelihood of recalculation. The initial priority cases are likely to be "best of the last 3-year cases and average 3 in 13 cases" as it is anticipated these are more likely to require revised benefits.

The deferred members could be prioritised by age. Those nearing, or at age 55 and over, should be treated with greater priority.

Other groups including deaths and transfers out may require greater prioritisation, but guidance should be provided nationally on this.

In the event of a death where a payment is expected to be made to an estate rather than just to a survivor, a rapid approach is recommended before estates are dissolved (potentially trapping payments with no beneficiaries) or to avoid delaying the completion of administration of the estate

The reopening of the 12-month aggregation window will appear to run alongside, if the 12 months starts for the amendment of the regulations.

Question 26 – Are there material ways which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?

Answer 26 – The Fund's view is the remedy must deal with the legal age discrimination challenge. Given the complexity of the current scheme, the proposal was always going to be extremely challenging for employers, system providers and administrators.

The Fund accepts there needs to be clear regulations to satisfy the legal requirements of the age discrimination challenge, and therefore a check needs to be made for each member, however the impact administratively seems to be disproportionate to the resolution.

The Fund suggests an idea to address the challenge more easily but accepts it does not provide complete clarity from the legal challenge, but it better solves the administrative and employer impact.

In order to try and simplify the resolution, there is an idea circulating, to pay a compensation value to members impacted, rather than take the time to collect and calculate benefits, but to use each individual member's hours for the period April 2014 to March 2022 (which employers will need to extract from their systems and the administrator backload into their pensions administration system), instead, use full time hours for all.

For cases that show an underpin applies, then collect the correct hours from the employers and if the underpin still applies, pay them a single value compensation payment to these members, given only a small number of members are likely to be impacted, this seems a fair and pragmatic solution.

Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, regarding the potential additional data requirements that would apply to employers?

Answer 27 – The Fund believes the work already taking place by the Local Government Association adequately addresses this. This includes the data template, notes and guidance.

Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?

Answer 28 – The Fund feels the prioritisation of the different groups is required so that all Funds work consistently.

There are differing views in relation to time limits, there are advantages and disadvantages, set time limits will focus the projects, and support the work with employers. Whilst on the other hand some funds with less generous resources may not be able to meet nationally set deadlines.

Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?

Answer 29 – The Fund is concerned that the McCloud remedy could appear to some local taxpayers, as “Public Sector pension changes, guaranteed, to provide an even better pension”. This is at a time of significant financial crisis throughout the economy and when people are losing their jobs after Covid-19.

Therefore, the Fund strongly supports preventing increased costs being passed to local taxpayers.
Increased cost through the employer contribution rate may in fact be offset in the cost cap, but the administrative costs still remain regardless and could perhaps be identified in isolation as an additional burden with a transparent cost

The Fund has no comment on how this should be achieved.

Nottinghamshire County Council

Report to Pension Fund Committee

10 September 2020

Agenda Item: 10

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND EMPLOYEES.

LOCAL GOVERNMENT PENSION SCHEME – GUARANTEED MINIMUM PENSION RECONCILIATION EXERCISE WITH HMRC – UPDATE REPORT

Purpose of the Report

1. The purpose of the report is to update Pension Committee on the progress of the guaranteed minimum pension reconciliation exercise with HM Revenue and Customs (HMRC).

2. The report also seeks approval for the extension of additional resources to undertake the next stage of the GMP Project, leading to the rectification of records and the communication of the outcome of the rectification of pension benefits to actual pensioners.

Information

3. The reconciliation exercise is a national requirement initiated by HMRC which is impacting on all Public and Private Sector Pension Funds who were contracted out of additional state pension.

4. 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.

5. 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.

6. 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 through a bulk process which ceased in December 2018. However due to delays in the National Project, HMRC have extended their project time lines initially to November 2019, this was however extended again to July 2020.

7. 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.

8. HMRC made data available to all pension schemes from February 2017 for reconciling GMP information for active members.

The Reconciliation Process

9. Following approval by Pension Committee on 8 March 2018 the Pension Fund has been engaged in national reconciliation exercise with support from Civica the Pension Fund software provider. The additional resource of a temporary project manager was also agreed to support the project team in the first and second phases of a complicated process of reconciling a total of 165,713 records within the fund.

10. The process has required the comparison of selected Pension Fund data with that held by HMRC. It has required the investigation of discrepancies between the two sets of data to come to an agreed record, reconciled with HMRC records.

11. In order to progress the project was split into a number of distinct phases, the discovery phase, the delivery phase, and the completion phase.

	Stages of Activities	Activity Description	Project Status	Project Dates
Part 1 – identification and confirmation of liabilities with HMRC	**Discovery Phase** Stage 1 Stage 2	Initial comparison of fund data with HMRC file and an early indication of the potential size of the reconciliation issues In Depth Analysis of results from Stage 1	Complete	October 2017 - January 2018
	Delivery Phase Stage 3 Stage 4 Stage 5 Stage 6 Stage 7	Queries issued to HMRC HMRC query returns analysed and distributed into specific categories Individual investigation In-depth analysis and bulk resolution Further individual investigation	Complete	May 2018 - November 2018

	Completion Phase Stage 8 Stage 9	Case Conclusion-Receipt of final file from HMRC Concluded cases uploaded into the pensions administration system	Awaiting data file from HMRC Estimated May 2019, extended to November 2019.	November 2019 Extended to July 2020 (File received)
Part 2	**Calculation Phase** – Over payments – Under payments	System and individual calculation to be undertaken using reconciled GMP liability amounts to determine overpayments and underpayments		Estimated September 2020 – January 2021
Part 3	**Communication Phase**	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		Estimated November 2020 –
Part 4	**Rectification and Communication**	Pensioner payroll records to be adjusted to reflect correct payments determined in the Calculation Phase, and communicated to members		Estimated April 2021 - Onwards

12. The discovery phase provided some headline figures and identified the potential size of the reconciliation issues. This early analysis produced high level results based on data within the Civica pension administration system and data provided by HMRC.

13. Following a more in-depth analysis of the data involving the analysis of the 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.

14. The project has followed onto the delivery phase following the identification of the discrepancies, and has been broken down into five areas of work. The completion of the delivery phase will provide the pension fund with data reconciled with HMRC that will identify the funds liabilities.

15. The areas of work that have been undertaken by Civica on behalf of the Pension Fund following project management methodology are as follows:

- Pension Fund Data issued to HMRC
- HMRC returned data broken down into specific categories
- Individual investigations of certain data
- Undertook in-depth analysis and bulk resolution of some data
- Individual investigation of certain data types.

16. On conclusion of the above methodology a file was submitted to HMRC on 30 October 2018 and a number of individual cases were also submitted in line with the published HMRC deadlines.

17. The total number of records submitted to HMRC is 52,072. As part of this process 1738 individual investigations have taken place requiring in depth analysis of individual pension records.

18. The first set of matching data was due to be received back from HMRC and loaded onto the pension's administration system at the end of February. However HMRC have now reviewed their project time line and the Fund has now received a completed file from HMRC, this was received in July 2020.

19. The fund is currently working with the software provider testing calculations in the Pension Administration System software. Once these have been completed, a bulk process will be undertaken to process as many calculations as possible through the Pension Administration System.

Additional Work with HMRC

20. Committee will remember that in the last update report a further aspect of the project has been added by HMRC, in that HMRC are now expecting funds to reconcile their financial records relating to CEP payments. A CEP payment (contributions equivalent payment) is a payment to HMRC where a member of a scheme who had a refund of contributions on ceasing to be a member, requires the pension fund to make a payment that restores a member of an occupational pension scheme into the state second pension (S2P).

21. HMRC are expecting funds to review their records of payment, and if in deficit / or surplus then the appropriate adjustment will be made, either the Fund will be required to pay up any deficit, or HMRC will return overpaid funds. Therefore work is required on reconciling historic financial data with HMRC records. In November 2018 HMRC issued the fund with an initial notification of a deficit of up to £750,000, over a 30 year + timescale.

22. After concerns raised across the Pension Industry the Financial reconciliation was extended to September 2019. HMRC issued a final bill to the Pension Fund of £165,294.62 which was a substantial reduction from the original bill of £734K.

23. As a result of the further evidence supplied to HMRC, a further adjustment of £107,939.19 has now been agreed with HMRC. Of the £57,365.43 balance of payments to HMRC the fund actually owed £27,174.33, therefore the total amount the Fund has now paid to HMRC as part of our reconciliation is £30,191.10.

Description	Amount	Actions
Original HMRC Amount to be paid by the Fund	£734,798	(Challenged By the Fund)
Final Bill to the Pension Fund	£165,294	(Challenged By the Fund
Minus a further reduction of	£107,929	(Consultation with HMRC)
Balance of Payment to be paid	**£57,365**	
Minus a Previous payment of	£21,174	(identified by the fund)
Final Outstanding Payment to HMRC	**£30,191**	

Review of Resources Requirements

24. The work undertaken with Civica in Part 1 of the Project has enabled the Pension Fund to agree a position with HMRC relating to the Fund's GMP liabilities against the pension records of the fund. This has been achieved using a blended approach by using Pension Administration Resources in the form of a Temporary Project Manager, and supplementing pension administration resources with Civica resources. This phase of the project has been brought in within the budget at a cost of £310,000, along with the cost of the Project Manager at a salary cost of £35,934. These additional resources have enabled the pension administration team to continue with day to day activities. At the Committee Meeting on 7 March 2019 Committee agreed to the extension of the Project Manager in order that the Administration Team could continue with the project in line with HMRC time lines up until September 2020.

25. Given the delay by HMRC these time lines will now need to be extended and HMRC only providing the completed data cut in July 2020, and work will not be able to commence until the testing of Pension Administration System calculations is completed in August 2020.

26. However, as with all automation there will be exceptions, which may be due to other data issues or more complicated scenarios where an automated process is not possible or appropriate. It is with this position that the Fund will need further support to complete this stage of the Project.

27. In July 2019 Committee agreed to resources of :

Type	Effort (Days)	Day Date	Total
Output Analysis	20	£1,295	£25,900
Rectification	100	£1,295	£129,500
Total	**120**	**£1,295**	**£155,400**
Spending to Date (output analysis)	**20**	**£1,295**	**£25,900**

28. It was estimated that the effort required could range significantly depending on numerous factors, including decisions from the fund. However it was estimated that 100 days effort will provide sufficient resources to complete the rectification activities required. This resource is still in place due to HMRC not providing their data cut to allow activity to commence.

29. It is now estimated that the Project will run for a further 12 months until September 2021 to enable the completion of rectifying pensioner records and pensions in payment, this will involve devising and implementing a communication plan, involving writing to affected members, assessing progress, dealing with calculation queries, and liaising with HMRC to deal with outstanding data queries. Other data improvement actions will need to be undertaken across the Funds member records. Therefore the Post of Project Manager will need to be extended from October 2020 to September 2021.However should the work be completed earlier than estimated, the post will cease.

Other Options Considered

30. Information from other LGPS Pension Funds across the country is that a number have engaged external providers to manage the project in totality at significantly greater costs, some are relying on internal resources with larger internal project teams. The process and approach that the fund has followed has enabled the reconciliation of data to be completed in a much quicker time, and has kept the fund on schedule. It is only the change by HMRC in their time frame due to their ability to respond to funds that has caused the delay in the project.

Reasons for Recommendations

31. In order to complete the project it will be important to continue to engage the support of Civica to assist in the rectification process, in terms of supporting the process of calculating the benefits for members following changes to their GMP, which cannot be catered for in the bulk calculation resolution.

32. Given information from other funds in line with their projects, resources have been used to communicate, and in certain instances meet with members of the scheme who have been effected, mainly by significant overpayments to their pensions which will need to be handled with sensitivity.

33. In addition work still needs to be ongoing in reconciling payroll data with pension records.

34. In order to support the project it will be necessary to extend the temporary contract of the Project Manager.

35. The work also supports the requirements of the Pension Regulator to reconcile and ensure that pension records are accurate and up to date, as the Pension Regulator will be asking funds to report on the accuracy of the fund data later in the year as part of the Annual Scheme return. Also whilst this rectification has not impacted on the 2019 valuation it will have an impact in improving data for future valuations.

Statutory and Policy Implications

36. 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

37. The project, by its very nature, involves 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 data impact assessment has been completed for the project overall to reflect the aspects of the data sharing, and updating of data, along with ensuring the mitigation of risks arising from the project activity itself.

Financial Implications

38. The cost of the reconciliation stage was £309,833 and was completed to time and within the set budget of £310,000.

39. As stated in the body of the report It is difficult to estimate the support costs for the rectification stage where the Fund will require support from Civica, given that the Fund now has the Final File, work will now be able to start to analyse the HMRC data to enable the Fund to understand how much work will be required to be undertaken in completing the rectification phase.

40. Therefore it is proposed to undertake the output analysis using the already approved 20 days of effort at a cost of £25,900.

41. It is estimated that the rectification stage will cost approximately £129,500 however this will only be confirmed following the completion of the output analysis.

42. Extension of the Project Manager Post from 1 October 2020 to 30 September 2021 at a cost of £35,934 per annum and subject to the annual pay award.

43. Additionally there is the financial reconciliation activity which has been completed with a cost to the Pension Fund of £30,191.10 reduced from an initial bill of £737,798.

44. The additional recommended resources costs for the next stage of the project will be charged to the Fund.

RECOMMENDATIONS

It is recommended that the Committee:

1) Approve the continuation of the GMP Reconciliation Project and the allocation of the required resources as set out in the body of the report to complete the calculation, communication and rectification phases of the reconciled HMRC data file, to ensure the Fund is able to meet its statutory requirements.

2) To approve the extension of the Project Manager Post for a further period of 12 months from October 2020 to September 2021

3) Agree to receive an update report on the rectification stage once an assessment of the HMRC data has been completed.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
Jonathan Clewes, Pension Manager on 0115 9773434 or Jon.Clewes@nottscc.gov.uk

Constitutional Comments (KK01/09/2020)

45. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (KP01/09/2020)

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

HR Comments (JP01/09/2020])

47. The requirements for additional internal staffing resources are set out in the report to Personnel Committee on 13 March 2019.

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

Nottinghamshire County Council

Report to Pension Fund Committee

10 September 2020

Agenda Item: 11

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme.

Information

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.

3. The attached work programme has been drafted in consultation with the Chair and Vice-Chairs, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the committee in preparing its work programme.

Statutory and Policy Implications

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

RECOMMENDATION/S

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

Marjorie Toward
Customers, Governance and Employees

For any enquiries about this report please contact: Pete Barker, x74416

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

Report Title	**Brief summary of agenda item**	**Report Author**
8 October 2020		
Fund Strategies	Review of Fund Strategies	Tamsin Rabbitts
Proxy Voting	Summary of voting activity during quarter 1 of 2020	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
LGPS Central's Climate Risk Monitoring Service (exempt).		Tamsin Rabbitts
Update on LGPS Asset Pooling	*(If required)*	*Keith Palframan*
LGPS Scheme Advisory Board Update	*6 monthly report updating members on the work of the SAB if anything of note*	*Jon Clewes/Ciaran Guilfoyle*
12 November 2020		
AGM		
21 January 2020		
Proxy Voting	Summary of voting activity during quarter 1 of 2020	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle

10 December 2020		
Fund Valuation & Performance – Qtr 2	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance and managers reports (exempt)	Independent Adviser
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central and LGIM
11 March 2021		
Fund Valuation & Performance – Qtr 3	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance and managers reports (exempt)	Independent Adviser
Managers Presentations	Presentations by Fund Managers, to include training (exempt)	ASI and Schroders

17 June 2021		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser’s Report	Independent Adviser’s review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Independent Adviser’s Report	Independent Adviser’s review of performance and managers reports (exempt)	Independent Adviser
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central and LGIM
TO BE PLACED		
Pensions Effect on Higher Education		Jon Clewes
Monitoring of the Member Death Process	Update Report	Jon Clewes
Investment in Renewables	Report following LAPFF survey	Ciaran Guilfoyle
Review of Work of the Pension Fund Committee and Pension Board		Marje Toward

Nottinghamshire County Council

Report to Pension Fund Committee

10 September 2020

Agenda Item: 12

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

CLIMATE RISK ANALYSIS PROGRESS REPORT

Purpose of the Report

1. To inform the Nottinghamshire Pension Fund Committee of the progress on the Pension Fund's climate risk analysis.

Information

2. As described in February, in order to enable the Pension Fund to identify its exposure and understand its financial risk LGPS Central has been commissioned to produce some climate risk analysis.

3. This report is to advise the Committee about the progress which has already been made on the analysis and the planned timetable for completing this work.

4. Under the recent very difficult circumstances there have been some inevitable delays of certain pieces of work as essential business is prioritised. However, despite the many pressures on time at the moment, progressing the work on climate risk analysis and strategy is important to the pension fund, and progress has been made:-

   - Data has been provided to LGPS Central to enable them to produce the analysis.

   - Data has been processed by LGPS Central's service providers. There have been delays due to the impact of lockdown on all concerned. The timescale for responding to Nottinghamshire was altered to recognise reporting to an autumn meeting as the July meeting was cancelled.

   - A first draft of the report has been produced and made available to officers. This is a long and complex report and LGPS Central Ltd have offered to provide training to the Committee and officers to help explain both the report and its implications. To this end a Working Party has been arranged with a presentation to Members to take place in late September.

   - It is anticipated that this will be followed by a report to the Nottinghamshire Pension Fund Committee in October. Although there are restrictions on what can be reported due to commercial confidentiality of supplier intellectual property, the key elements will be published in the report.

- A climate risk strategy will be formulated informed by the output of this analysis. Given the current uncertainty over working arrangements and the input to this work by other parties there is no formal timescale on the production of this strategy. However, this is not likely to adversely impact the timing of any major investment decisions, such as the investment in Sustainable Equities, as these are consistent with our current investment strategy.

- A refresh of data as at 31 March 2020 to enable early progress to be evaluated. Exact timing will be dependent on resources both within the Pension Fund and LGPS Central.

5. Although not directly related to the Climate Risk Analysis, Members may also be interested to know that work has begun evaluating the West Midlands Sustainable Equities Framework in advance of the Framework coming into existence. The Fund's Independent Adviser and officers have attended meetings with all the fund managers on the framework as an introduction to their approach. Further due diligence is now required when resources allow.

6. The Pension Fund will continue to monitor and manage all financially material risks to which it is exposed.

Other Options Considered

12. None – this is a report to update on progress.

Reason/s for Recommendation/s

13. None – this is a report to update on progress.

Statutory and Policy Implications

14. 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.

Financial Implications

15. None – this is a report to update on progress.

RECOMMENDATION/S

That the Nottinghamshire Pension Fund Committee members consider whether there are any actions they require in relation to the issues contained within the report.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments

16. This is an updating information report and Nottinghamshire Pension Fund Committee is the correct body for considering that information and any further action which members may wish to take in light of that information.

Financial Comments (TMR 1/09/2020)

17. 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

Nottinghamshire County Council

Report to Pension Fund Committee

10 September 2020

Agenda Item: 13

REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

FUND VALUATION AND PERFORMANCE

Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 30 June 2020.

Information

2. This report is to inform the Nottinghamshire Pension Fund Committee of the value of the Pension Fund at the end of the latest quarter and give information on the performance of the Fund. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendices.

3. This is the first Committee meeting since the Covid-19 lockdown in March. At that point the Investments and Treasury Management Team were required to work from home. Members can be assured that throughout the crisis the Pensions and Treasury Management team have remained fully operational. Treasury Management has continued on a daily basis for both the Pension Fund and the County Council and ensuring cashflow to pay pensions remains our top priority.

4. The impact of market movements and the performance of our investment managers at the peak of market turmoil was and continues to be monitored. We have continued to receive regular oversight and support from our Independent Adviser William Bourne. The Fund's investment strategy and asset allocation continue to be kept under consideration. However we are long term investors and market volatility in itself will have a limited impact on the Fund.

5. Officers have received regular updates from our property investment managers, and especially ASI. Unsurprisingly a number of the Fund's tenants have requested rent holidays or deferrals. ASI are making individual decisions on the merits of the relevant circumstances. In the current environment it is better to lose some rent than to lose the tenant.

6. Although there was no June Committee meeting, Members were kept informed of the Fund valuation and performance to the end of March with a circulated report. The information on the full year to 31 March 2020 will be reported at the AGM which will now be held in November. This report is for the quarter to the end of June.

7. The table below shows a summary of the total value of the investment assets of the Fund as at 30 June 2020, in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark was reviewed and changed early in 2019. This is a long-term target and it will take some years to achieve it.

	Latest Quarter		Long term	Previous Quarter		Previous Year	
	30 June 2020		Benchmark	31 March 2020		30 June 2019	
	£m	%		£m	%	£m	%
Equities							
Quoted	3,107	56.7%	56%	2,673	53.4%	3,343	59.8%
Private	546	10.0%	12%	529	10.6%	476	8.5%
Property	721	13.2%	15%	746	14.9%	738	13.2%
Bonds							
Gilts	213	3.9%	2%	208	4.2%	183	3.3%
Other Bonds	676	12.3%	10%	649	12.9%	683	12.2%
Credit	46	0.8%	3%	52	1.0%		
Cash	169	3.1%	2%	152	3.0%	164	2.9%
	5,478	**100%**	**100%**	**5,009**	**100%**	**5,586**	**100%**

8. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £321.1m or 5.9% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 6.5% of the fund. There is a long term target for investments in infrastructure to be 8% of the fund.

9. The table below shows the detailed breakdown by portfolio of the Fund as at 30 June 2020 together with the total value of each portfolio at the previous quarter end.

	Core Index		**Schroders**		**LGPS Central**		**Kames S**		**Aberdeen**		**Specialist**		**Total**	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
UK Bonds														
Gilts					212.7	32%	0.0	0%					212.7	4%
Corporate Bonds							157.6	100%					157.6	3%
					212.7	32%	**157.6**	100%					**370.3**	**7%**
Overseas Bonds														
Corporate Bonds					311.6	47%	0.0	0%					311.6	6%
					311.6	47%	**0.0**	0%					**311.6**	**6%**
Inflation Linked											206.2	15%	206.2	**4%**
UK Equities	485.7	39%	710.9	48%	8.4	1%					43.4	3%	1,248.4	**23%**
Overseas Equities														
North America	283.8	23%	441.3	30%							1.9	0%	727.0	13%
Europe	186.0	15%	129.5	9%							114.0	8%	429.5	8%
Japan	110.5	9%	71.3	5%							107.3	8%	289.1	5%
Pacific	102.1	8%	44.2	3%									146.3	3%
Emerging Markets	72.1	6%	74.3	5%	89.2	14%					0.0	0%	235.6	4%
Global	0.0	0%			31.4	5%					0.0	0%	31.4	1%
	754.5	61%	**760.6**	51%	**120.6**	18%					**223.2**	17%	**1,858.9**	**34%**
Private Equity					5.6	1%					219.9	16%	225.5	**4%**
Infrastructure											321.1	24%	321.1	**6%**
Property											45.9	3%	45.9	**1%**
UK Commercial														
UK Commercial - Local									431.6	73%			431.6	8%

UK Strategic Land									23.0	4%			23.0	0%
Pooled - UK									4.4	1%			4.4	0%
Pooled - Overseas									17.7	3%	130.9	10%	148.6	3%
									112.4	19%	1.0	0%	113.4	2%
									589.1		**131.9**	10%	**721.0**	**13%**
Cash/Currency	4.6	0%	12.2	1%	0.3	0%	0.0	0%	0.0		152.2	11%	169.3	**3%**
Total	**1,244.8**	23%	**1,483.7**	27%	**659.2**	12%	**157.6**	3%	**589.1**	11%	**1,343.8**	25%	**5,478.2**	
Previous Qtr	1,110.5	22%	1,297.4	26%	504.9	10%	176.6	4%	610.5	12%	1,309.1	26%	5,009.0	

NB the comparative total for LGPS Central relates to the Kames fixed income portfolio. The LGPS Central investments were previously spread across three portfolios, so last quarter's figures do not compare like with like. Transfers are identified in the analysis later in the report.

10. The Fund investments have increased by £469.2 million (9.4%) since the previous quarter. Fund investments have decreased by £107.5 million (-1.9%) over the last 12 months. This reflects the partial but uneven recovery of the market since the end of March.

11. The table below shows the Fund Account for 2020/21 to date along with the full year figures for 2019/20 (unaudited).

Summary Fund Account	**Q1 2020/21 £000**	**Full Year 2019/20 £000**
Employer contributions	(65,255)	(137,261)
Member contributions	(7,748)	(47,906)
Transfers in from other pension funds	(1,419)	(9,655)
Pensions	45,050	171,375
Commutation of pensions and lump sums	7,505	35,699
Lump sum death benefits	1,179	5,050
Payments to and on account of leavers	2,404	13,657
Net (additions)/withdrawals from dealings with members	**(18,284)**	**30,959**
Administration Expenses	**70**	**2,176**
Oversight & governance expenses	**(106)**	**1,460**
Investment Income	941	(130,410)
Profits & losses on disposals & changes in value	(27,842)	483,224
Taxes on income	60	247
Investment management expenses	(68)	4,995
Net Returns on Investments	**(26,909)**	**358,056**
Net (increase)/decrease in net assets	**(45,229)**	**392,651**

Core Index Portfolio

12. Below are detailed reports showing the valuation of the Core Index portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation and compares it to the portfolio benchmark (and a comparison with the previous quarter). The benchmark changed in the second quarter of 18/19 as part of a long term aim to bring our overseas developed market passive investments to be consistent with the regional allocation of the LGPS Central Overseas passive fund as agreed at the June 18 Pension Fund Committee. This will be a gradual change over time.

	30 June 2020 Portfolio £000	%	B/Mark %	31 March 2020 Portfolio £000	%
UK Equities	485,703	39.0%	40.0%	448,123	40.3%
Overseas Equities:	754,478	60.6%	59.5%	658,571	59.3%
North America	283,845	22.8%	18.0%	232,906	21.0%
Europe	186,035	15.0%	18.0%	156,686	14.1%
Japan	110,457	8.9%	9.0%	98,405	8.9%
Pacific Basin	102,077	8.2%	9.0%	83,946	7.6%
Emerging Markets	72,064	5.8%	5.5%	60,543	5.5%
Global	0	2.3%	0%	26,085	2.3%
Cash	4,604	0.4%	0.5%	3,851	0.3%
Total	**1,244,785**			**1,110,545**	

13. The table below summarises transactions during the quarter.

Sector	**Purchases £000**	**Sales £000**	**Net Purchases £000**
UK Equities	-9,808	0	-9,808
Overseas Equities			
North America	0	0	0
Europe	0	0	0
Japan			0
Pacific Basin			0
Emerging Markets			0
Global	-29,882		-29,882
Totals	**-39,690**	**0**	**-39,690**

The negative purchases reflect the transfer of the LGPS Central funds to the new LGPS Central portfolio created for reporting purposes this quarter.

Schroder Investment Management Portfolio

14. The table below summarises the valuation and compares it to Schroders' benchmark. The position at the end of the previous quarter is also shown.

	30 June 2020 Portfolio £000	%	B/Mark %	31 March 2020 Portfolio £000	%
UK Equities	710,900	47.9%	50.0%	592,841	45.7%
Overseas Equities	760,617	51.3%	49.5%	678,458	52.3%
North America	441,283	29.7%	28.9%	409,042	31.5%
Europe	129,452	8.7%	8.3%	107,965	8.3%
Japan	71,330	4.8%	4.7%	62,774	4.8%
Pacific Basin	44,220	3.0%	3.0%	36,918	2.8%
Emerging Markets	74,332	5.0%	4.6%	61,759	4.8%
Cash	12,213	0.8%	0.5%	26,113	2.0%
Total	**1,483,730**			**1,297,412**	

15. The table below summarises transactions within the quarter.

Sector	**Purchases**	**Sales**	**Net Purchases**

	£000	£000	£000
UK Equities	82,068	20,432	61,636
Overseas Equities			
North America	466,296	503,698	-37,402
Europe	32,237	31,219	1,018
Japan	4,042	3,423	619
Pacific Basin	0		0
Emerging Markets	0	0	0
Totals	**584,643**	**558,772**	**25,871**

The significant purchases and sales in North American equities relate to the transition of the US investments in June into the new mandate.

LGPS Central

16. Following the transition of the Pension Fund's Corporate Bonds into the LGPS Central Global Corporate Bond Fund in February, together with the appointment of LGPS Central to manage gilts in May, LGPS Central now manage over £650m of the Pension Fund's investments. These assets will now be reported in a separate portfolio.

17. The table below summarises the valuation by asset class of investments managed by LGPS Central. The proportional holdings are also shown. However allocation to each LGPS Central fund is at the discretion of the Pension Fund in line with the overall Pension Fund approved asset allocation and as such there is no benchmark for this portfolio. In future quarters the position at the end of the previous quarter will also be shown.

	30 June 2020 Portfolio £000	**%**
UK Passive	8,354	1%
Global equity	31,394	5%
EM equity active	89,240	14%
Corporate bonds	311,592	32%
Gilts	212,709	32%
Private Equity	5,639	1%
Cash	269	0%
Total	**659,197**	

18. The table below summarises transactions within the quarter.

Sector	**Purchases £000**	**Sales £000**	**Net Purchases £000**
Bonds			
Gilts	54,416	53,999	417
Corporate Bonds	0		0
Equities			
UK	9,808	0	9,808
Emerging Markets	89,100		
Global	29,882		29,882
Private Equity	5,857		5,857
Totals	**189,063**	**53,999**	**45,964**

The purchases and sales of gilts reflect the rebalancing of the mandate immediately after transfer, plus some reinvestment of income.

All the other purchases represent movements into the portfolio from other portfolios.

Aberdeen Standard Investments (ASI)

19. The Committee is asked to note that approval was given in the last two quarters to the following, after consultation with Members where appropriate, as operational matters falling under the responsibility of the Service Director, Finance, Infrastructure & Improvement exercised by the Senior Accountant (Pensions & Treasury Management):

Date	Property	Transaction
16/01/2020	Kings Stables Road, Edinburgh	Collateral Warranty Agreement
06/02/2020	Unit 4 Richardson Way, Cross Point Business Park, Coventry	Rent Review
10/02/2020	Unit A, 20-24 Kirby Street, London	Reversionary lease
17/02/2020	South Side, First Floor, 20-24 Kirby Street, London	Licence to Underlet
20/02/2020	Unit 3B Isabella Court, Millennium Business Park, Mansfield	Rent Review
25/02/2020	Units 2A & 2B Bagshot Retail Park, Bagshot, Surrey	Agreement for Lease
25/02/2020	21 Leicester Street, Northwich	Contract for the sale of the premises
27/02/2020	Unit 4a Isabella Court, Millennium Business Park, Mansfield	Lease
27/02/2020	44 Bridlesmith Gate, Nottingham	Reversionary Lease
06/03/2020	14-22 Lands Lane, Leeds	Sale of property
13/03/2020	Unit 4, Brooke Park, Epsom Avenue, Handforth Dean	Deed of Variation
13/03/2020	20-24 Kirby Street and 99-103 Saffron Hill, Holborn, London	Wayleave Agreement
31/03/2020	Unit C2 Castlewood Business Park, South Normanton	Rent Review
28/04/2020	14-22 Lands Lane, Leeds	Deed of variation
05/05/2020	Sheepscar Way, Leeds	Rent Concession
13/05/2020	MK180 North Unit, Milton Keynes	Deed of variation
13/05/2020	44 Bridlesmith Gate, Nottingham	Lease
19/05/2020	Unit E, Grovebury Retail Park, Leighton Buzzard	Rent concession
19/05/2020	Units 1A, 1B and 1C The Drive, Gatwick Road, Crawley	Rent concession
22/05/2020	Unit 14, The interchange, Latham Road, Huntingdon	Lease
28/05/2020	Unit 4A Isabella Court, Millennium Business Park, Mansfield	Renewal lease
28/05/2020	Unit 3B Isabella Court, Millennium Business Park, Mansfield	Reversionary lease
18/06/2020	Unit C2 Castlewood Business Park, South Normanton	Rent concession
19/06/2020	Marks and Spencer PLC, Bagshot Retail Park, West Wickham	Rent concession
23/06/2020	North Side, Third Floor, 20-24 Kirby Street, London	Rent concession
23/06/2020	Homebase, Woodgate Drive, Streatham	Rent concession
23/06/2020	Technology Retail Park, Rugby	Rent concession

Specialist Portfolio

20. Below are tables showing the composition and the valuation of the Specialist portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation at quarter end. The position at the end of the previous quarter is also shown.

	30 June 2020 £000	%	31 March 2020 £000	%
Private Equity	219,900	18.5%	218,300	18.2%
Infrastructure	321,100	26.9%	311,700	26.0%
Credit	45,900	3.9%	52,400	4.4%
Property Funds	131,900	11.1%	135,800	11.3%
Kames DGF	206,200	17.3%	187,200	15.6%
Equity Funds	266,600	22.4%	295,100	24.6%
Total	**1,191,600**		**1,200,500**	

21. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	3,878	547	3,331
Infrastructure	7,216		7,216
Credit			0
Property Funds	537	843	-306
Kames DGF	0		0
Equity Funds	-79,100		-79,100
Totals	**-67,469**	**1,390**	**-68,859**

The negative purchase in equities is the net position of a small new investment and the transfer of the LGPS Central Emerging Markets Fund to the new LGPS Central portfolio. The Private Equity purchases are also net of a movement to the LGPS Central portfolio

Statutory and Policy Implications

22. 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.

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Constitutional Comments

23. This is an updating information report and the Nottinghamshire Pension Fund Committee is the correct body for considering that information and any further action which members may wish to take in light of that information.

Financial Comments (TMR 25/8/2020)

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

Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne 10th September 2020

Market commentary

1. When I last wrote on 1st June, most countries were still in lock-down as a consequence of the COVID- 19 epidemic. I commented that there would inevitably be a sharp economic slow-down globally, but because of the scale of central bank and government responses I was optimistic that there would be meaningful recovery, if not immediately at least within the time scale of a normal recession. Against this background I thought that markets would continue to trend upwards unless a political shock threw them off course. I also said that our focus should be on the longer term implications of recent events and in particular on the course of inflation.

2. Public markets have indeed risen. UK 10-year gilt yields fell to a low of 0.1% (ie. the annual return on a £1,000 investment for the privilege of lending your money to the Government is £1), their lowest ever, and two year gilt yields at the time of writing stand at near zero. The US equity market (S&P 500), after falling 34% between January and March, now stands within 1% of its January all-time high. UK equities have not done as well because they are more weighted to oil and financials.

3. Private markets have been more difficult to evaluate because they only provide net asset value (NAV) estimates once every three, six or 12 months. In particular it is likely that some real estate NAVs will be marked down as the change in living styles (more on-line shopping and perhaps working from home) begins to affect the price of property.

4. The global economy is on course to fall around 5% in 2020 (IMF data). The IMF expects it to grow by 5.6% in 2021 on the back of the various stimuli. While unemployment has risen and will rise as government support for business is withdrawn, the political imperative in democracies is to get money into the hands of the 'have nots' - a theme I have mentioned in previous reports. They are much more likely to spend it and to spend it domestically because of the restrictions on travelling. The actions of governments can either help or hinder the economy, but I concur with the IMF view that we will see a global recovery over the next 12 months.

5. The UK economy fell by a headline 20% in the 2nd quarter, and has been slower to recover than other economies, partly because we were in lockdown for longer. A recent Bank of England report suggests that economic activity will only recover its 2019 level at the end of 2021. Despite this, the BoE has already eased off on monetary easing and the furlough model will be ending in October. Although the trade balance has benefited from lockdown (fewer holidays abroad, fewer purchases of motor vehicles), sterling has been in a long-term

downtrend for 35 years, reflecting the lack of consistent policy leadership much of the time. In my view, if the economy stagnates at this lower level or there are any political shenanigans, the risk of another lurch down in the exchange rate is growing.

6. The traditional response to a sterling crisis has been to raise interest rates, and there is plenty of scope to do that. However, I doubt the current Government, already on the defensive over its handling of the crisis, has the appetite to do that. The alternatives are to cut back the fiscal largesse already promised, to raise taxes significantly, or - less likely but not impossible - to reimpose some form of currency control. Any of these reactions would deepen or prolong the recession in the UK. The one ray of sunshine here is that it may concentrate minds when negotiating the post BREXIT regime because neither the EU nor the UK will want a further burden on their economies.

7. Last quarter I mentioned the following longer-term changes:
   - Global trade will be permanently lower as companies choose to diversify their supply chains.
   - The shift to the digital economy will accelerate - more working from home and on-line shopping.
   - Travel patterns will change – less business and leisure travel.
   - Inflation is inevitable, the question is whether sooner or later.
   - Greater acceptance of state intervention in lives (and less enterprise).
   - Changes in political norms, perhaps away from democracy to a less orderly world.

8. In my view all these remain in place. The first three will have most impact on individual companies and sectors. There will be winners and losers, but it is for the Fund's managers to navigate those waters. I will therefore focus my remaining comments in this report on the last three.

9. There is still a powerful long-term deflationary trend in place coming from technical innovations. Producer prices fell sharply (OECD data) in 2020 Q2 and CPI is still hovering around 0- to 1% in all major economies as a consequence of the downturn, albeit food inflation is higher. A retreat from globalisation and a move away from market capitalism (ie. greater state involvement) would both be inflationary in nature, but a sustained rise in inflation is in my view still a number of years away.

10. China and the US continue to move apart from each other. Both have good reasons to do business with each other, but China now considers itself as an equal to the US with its own sphere of influence. China has been successful in building capacity and know-how in many areas from rare earths to artificial intelligence, but the US remains well ahead in military sophistication. In the long-term I expect this to lead to a world of two super-powers and other countries will have to choose whose 'gang' they want to be in. In the short-term further friction is likely, especially if Trump wins the US election.

11. Returns from all risk asset classes are likely to be lower as free market capitalism is reined in. Bonds look more vulnerable than equities given their current valuations. However, unless the world falls into depression (ie. an L-shaped 'recovery'), which in my view is unlikely, this outcome is well within the bounds of actuarial prudence and should not precipitate any change of course for the Fund.

RECOMMENDATION/S

That members consider whether there are any actions they require in relation to the issues contained within the report.