

2022-23

# Annual Report



**NOTTINGHAMSHIRE**  
**PENSION FUND**

**lgps**

administered by



**Nottinghamshire**  
**County Council**

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## Chairman's Foreword

This year the Fund delivered a portfolio return of -1.8% for the year following the impact on the markets of inflation and higher interest rates which affected all asset classes. This return was broadly in line with the market. 3-year returns were strong (8.9%) and above the target annual return of 5.7% and 5-year returns (5.1%) are above the discount rate of 4.7% set by the actuary at the last valuation. The Fund will continue to be carefully managed focussing on long term returns.

The results of the triennial revaluation as of 31 March 2022 undertaken by Barnett Waddingham, the Fund's Actuary, were published at the end of the year. This indicated the funding level of the Pension Fund has reached 100% and this has been reflected in employer contribution rates which have been set for the next three years. The funding level is calculated based on assumptions of long-term factors such as investment returns, inflation, interest rates and longevity so the funding level may be either higher or lower at the next valuation.

Work continues with LGPS Central Ltd, the multi-asset investment pool Nottinghamshire has formed with seven other Midlands based funds. Investments under Pool management increased during the year as significant investments were made into the Sustainable Equities funds. Additionally further commitments were made to the LGPS Central Infrastructure fund, as well as commitments to the new Private Equity Fund. Investments managed by LGPS Central amounted to £1,195m on 31 March 2023.

Focussing on fund administration, the Nottinghamshire Pension Fund continues to see changes in employer membership as with a total of 26 employers joining the scheme and 10 leaving the scheme in the year.

The service has continued to support scheme employers to meet their statutory

requirements through the Administration Strategy which outlines the responsibilities and procedures to be followed by employers. One of the principal areas that the fund has been improving is the quality of the data that the fund receives as this is essential for the maintenance of member records, and the calculation of benefits. It must be emphasised that the administration service is not just the responsibility of the administering authority but is dependent on effective joint working with all scheme employers. Timeliness and accuracy are an essential element of delivering a high-quality service to scheme employers and our scheme members. Legislation dictates the minimum standards that pension schemes should meet.

As an addition the Fund has been collecting and verifying data since December 2022 with scheme employers for those members affected by the McCloud Judgement, this activity follows an Appeal Court decision that the LGPS rules need to be changed to automatically provide eligible younger members with protection equal to that provided to older members. The fund will be writing to members affected once the legislation and regulations are finalised. This is a significant piece of work for all LGPS funds across the country.

The Fund continues to see an increase in scheme members wishing to access their benefits as it seems that members have re assessed their priorities. Additionally, the administration team have also been progressing several projects over the fiscal year to improve aspects of the scheme administration through introducing technology, as well as continuing work on the scheme requirements of HMRC's guaranteed minimum pension (GMP) reconciliation project.

In accordance with the Investment Strategy Statement, the Fund continues a long-term responsible investment approach, actively engaging with equity holdings by exercising

voting rights and engaging with companies through its investment managers, our pooling partners LGPS Central and membership of the Local Authority Pension Fund Forum (LAPFF). This engagement approach continues to highlight and improve the resilience of corporate strategies at global resource companies in the wake of climate change agreements. The Fund publishes annual TCFD reports, a triennial climate risk analysis and has a Climate Stewardship Plan with progress reported to the committee on an annual basis demonstrating the ongoing engagement with the key companies identified in the climate risk report. More details of our engagement can be found on the Pension Fund website in the Investments section.

Looking forward we will continue to collaborate with our employer partners and fund members to ensure that we fulfil our obligation to deliver the future secure pensions for our LGPS members.

***Cllr Eric Kerry***

***Chairman of the Nottinghamshire Pension Fund Committee***

## Scheme Management

Nottinghamshire County Council is the Administering Authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire. The LGPS is a statutory scheme administered by individual pension funds. The benefits within the scheme are determined by regulation and are guaranteed by statute. The pension fund exists to help defray the cost of paying the pension benefits. Members make contributions to the Fund as specified in the regulations and employers make contributions as determined by the Fund's actuary as part of the triennial valuation of the Fund. All new employees are brought into the scheme automatically unless a positive election not to participate is received from the employee.

The Authority administers the pension fund for around 280 participating employers and approximately 150,000 members. The employers include the County Council, the City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

The annual report includes the accounts and the published policies as well as information on the performance of the fund. The accounts of the fund are set out over the following pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 requires:

- A fund account showing the changes in net assets available for benefits.
- A net assets statement showing the assets available at the year end to meet benefits.

- Supporting notes.

The Governance Compliance Statement sets out the governance arrangements of the pension fund and covers:

- the delegation of authority to the Nottinghamshire Pension Fund Committee
- the functions and responsibilities of this committee
- the representation of members, employers and trade unions
- stakeholder engagement
- compliance with best practice.

The members of the Nottinghamshire Pension Fund Committee are drawn from the County Council, other large fund employers, trades unions, and the members themselves, and they have responsibility for determining the investment strategy, asset allocation, and management arrangements for the Fund in order to meet the long-term funding objective of achieving and then maintaining sufficient assets to cover 100% of the Fund's projected accrued liabilities.

The Nottinghamshire Pension Fund Committee separately approves the Funding Strategy Statement and the Investment Strategy Statement, the most recent versions of which are included in this Annual Report.

The Funding Strategy Statement (FSS) sets out the aims and purpose of the Pension Fund and the responsibilities of the administering authority as regards funding the scheme. Its purpose is to explain:

- how the costs of the benefits provided under the Local Government Pension Scheme (LGPS) are met through the Fund.
- the objectives in setting employer contribution rates.

- the funding strategy that is adopted to meet these objectives.

The funding objectives are to:

- set levels of employer contribution that will build up a fund of assets sufficient to meet all future benefit payments from the Fund.
- build up the required assets in such a way that employer contribution rates are kept as low and as stable as possible.

The Investment Strategy Statement (ISS) recognises that investment returns play a significant role in defraying the cost of providing pensions by mitigating the contributions required from employers. It sets out detailed responsibilities relating to the overall investment strategy of the Fund, including the proposed asset allocation, restrictions on investment types, the types of investment management used, and performance monitoring. It also states the Fund's approach to Responsible Investment (RI) and corporate governance issues.

The following principles underpin the Fund's investment activity:

- The Fund will aim to be sufficient to meet all its obligations on a continuing basis.
- The Fund will be invested in a diversified range of assets.
- Proper advice on the suitability of types of investment will be obtained and considered at reasonable intervals.
- The Fund will aim to conduct its business, and to use its influence, in a way that is responsible in the long-term.

The Local Government Pension Scheme within Nottinghamshire is managed by and receives advice from a number of different organisations/individuals, as listed below:

## Nottinghamshire officers responsible for the fund

|  |                 |
|--|-----------------|
| Service Director – Finance, Infrastructure & Improvement | Nigel Stevenson |
| Group Manager – Financial Services                       | Keith Palframan |
| Senior Accountant – Pensions & Treasury Management       | Tamsin Rabbitts |
| Service Director – Customers, Governance and Employees   | Marjorie Toward |
| Group Manager – Business Support Centre                  | Sarah Stevenson |
| Pensions Admin Manager                                   | Jon Clewes      |

## Other organisations/individuals

|   |   |
|---|---|
| Main Investment Managers used by the fund | Schroders                                   |
|   | Legal & General Investment Management       |
|   | Aegon Asset Management                      |
|   | abrdn                                       |
| Regional Pool Operator                    | LGPS Central Ltd                            |
| Fund custodian                            | State Street                                |
| Fund AVC providers                        | Prudential                                  |
|   | Scottish Widows                             |
| Fund actuary                              | Barnett Waddingham Public Sector Consulting |
| Banker to the fund                        | Barclays Bank                               |
| The fund auditor                          | Grant Thornton                              |
| Independent adviser                       | William Bourne                              |

Any of these may be contacted via [local.governmentpensions@nottscc.gov.uk](mailto:local.governmentpensions@nottscc.gov.uk)

## List of Active Fund Employers

### Admitted

Accuro FM Limited  
Accuro FM Ltd (GNET)  
Arc Property Services Partnership Limited  
Ashfield Citizens Advice Bureau  
Aspens Services Limited (Becket)  
Aspens Services Limited (Creative - Bulwell)  
Aspens Services Limited (Meden)  
Aspens Services Limited (Newark)  
Aspens Services Limited (Nova)  
Aspens Services Limited (LOLO)  
Aspens Services Limited (OLSE)  
Aspens Services Limited (Rosslyn)  
Aspens Services Limited (Sneinton St Stephens)  
Aspens Services Limited (St Edmund)  
Aspens Services Limited (St Patricks)  
Aspens Services Limited (Transform)  
Autism East Midlands  
Barnsley Premier Leisure Limited  
Bestwood Partnership Forum  
Bramcote Crematorium Joint Committee  
Carers Federation Nottingham  
Cater Link Limited (Diverse)  
Cater Link Limited (National)  
Change Grow Live  
Child Migrants Trust  
Churchill Contract Services Limited (SAT)  
Citizens Advice Broxtowe  
Clifton Advice Centre  
Compass Contract Services (UK) Limited (ATT)  
Coombs Catering Partnership Limited  
Culture, Learning and Libraries (Midlands)  
East Midlands Crossroads - Caring for Carers  
Enerveo Limited  
Fitzroy Support  
Framework Housing Association  
FSM Centres Limited  
Futures Advice, Skills and Employment Ltd  
Gedling Homes  
Greater Nottingham Groundwork Trust  
Greenfields Centre Limited  
Hi Spec Facilities Services Limited  
Innovate Services Limited  
Institute of Cemetery and Cremation Management (ICCM)

LTA Services Limited  
Mansfield Citizens Advice Bureau  
Mansfield Road Baptist Housing  
Marketing Nottingham & Nottinghamshire Limited  
Meadows Advice Group  
Mellors Catering Services Limited (Arnbrook)  
Mellors Catering Services Limited (Evolve)  
Mellors Catering Services Limited (Southwark)  
Mellors Catering Services Limited (TCT)  
Metropolitan Housing Trust  
More Leisure Community Trust Limited (Mansfield)  
Newark Emmaus Trust Limited  
Nottingham Citizens Advice Bureau  
Nottingham City Homes (Telecare)  
Nottingham Ice Centre Limited  
Nottingham Trent Students Union  
Nottinghamshire Association of Local Councils  
Nottinghamshire Deaf Society  
OCS Group UK Ltd (Project co 1)  
Our Learning Cloud Limited  
Parkwood Leisure Limited  
Pearson Centre for Young People  
Q3 Services Group Limited  
Renewal Trust  
Royal Society for the Protection of Birds  
Royal Society Mencap  
Rural Community Action Notts  
Serco Leisure Operating Limited  
'Sherwood & Newark Citizens Advice Bureau  
Skills & Education Group  
SLM Limited  
Tarmac Ltd  
Thera East Midlands Ltd  
United Response  
UPP (Nottingham) Ltd  
Vertas Group Limited (Diverse Lot 1)  
Vertas Group Limited (Diverse Lot 2)  
Via East Midlands Limited

### Academies

Abbey Primary School  
Ambleside Primary School  
Archbishop Cranmer Church of England Academy



Archway Learning Trust  
 Arnbrook Primary School  
 Arnold Hill Academy  
 Ashfield School  
 Barnby Road Trust  
 Bilborough College  
 Birklands Primary School  
 Bishop Alexander L.E.A.D. Academy  
 Blue Bell Hill Primary School  
 Bramble Academy (GAT)  
 Brunts Academy (GAT)  
 Bulwell Academy  
 Burntstump Seely C of E Academy  
 Carlton Academy  
 Carlton Infant Academy  
 Carlton Junior Academy  
 Chetwynd Primary Academy  
 Colonel Frank Seely Academy  
 Cotgrave Church of England Primary School  
 Denewood Learning Centre  
 Diocese of Southwell & Nottingham Multi Academy Trust  
 Diverse Academies Trust  
 Djanogly City Academy  
 Djanogly Learning Trust  
 Dukeries Academy  
 East Bridgford St Peter's Church of England Academy  
 East Midlands Education Trust  
 Edna G Olds Academy  
 Elizabethan Academy  
 Ellis Guilford School  
 Equals Trust  
 Fairfield Primary Academy  
 Farnborough Academy  
 Fernwood School  
 Firbeck Academy  
 Flying High Trust  
 Forest View Academy  
 Forge Trust  
 Foxwood Academy  
 Gamston St Peter's C of E Primary School  
 Garibaldi School  
 George Spencer Academy  
 Glapton Academy  
 Glenbrook Primary School  
 Greater Nottingham Education Trust  
 Greenwood Academies Trust  
 Gunthorpe C of E Primary School  
 Haggonfields Primary School  
 Hall Park Academy  
 Harworth Church of England Academy  
 Hogarth Primary & Nursery School  
 Hucknall National C of E Primary School  
 Huntingdon Academy  
 Huthwaite All Saints Church of England Infant & Nursery School  
 John Hunt Primary School  
 Jubilee L.E.A.D. Academy  
 King's Church of England Primary Academy  
 Kingston Park Academy  
 Kirkby College  
 Kirkby Woodhouse School  
 L.E.A.D. Multi Academy Trust  
 Langold Dyscarr Community School  
 Leverton Church of England Academy  
 Magnus Church of England Academy  
 Manor Academy  
 Mansfield Primary Academy  
 Meden School  
 Milford Academy  
 Millside Spencer Academy  
 Minster Trust for Education  
 Mount C of E Primary  
 Nethergate School  
 Newark Academy  
 Nexus Multi Academy Trust  
 Norbridge Academy  
 Nottingham Academy  
 Nottingham Free School  
 Nottingham Girls Academy  
 Nottingham University Academy of Science and Technology  
 Nottingham University Samworth Academy  
 Oak Tree Primary School  
 Oakwood Academy  
 Old Basford School  
 One Academy Trust  
 Our Lady of Lourdes Catholic Multi Academy Trust  
 Outwood Academy Portland  
 Outwood Academy Valley  
 Park Vale Academy  
 Parkgate Academy  
 Portland Spencer Academy  
 Priors Catholic Voluntary Academy  
 Python Hill Academy

Quarrydale Academy  
Radford Academy  
Raleigh Learning Trust  
Ranskill Primary School  
Redhill Academy  
Redhill Academy Trust  
Robert Mellors Primary School  
Robert Miles Infants School  
Rosecliffe Spencer Academy  
Rushcliffe Academy  
Samworth Church Academy  
Scotholme Primary School  
Selston Church of England Infant & Nursery School  
Selston High School  
Serlby Park Academy  
Shine Multi Academy Trust  
Sir Donald Bailey Academy  
Sir John Sherbrooke Junior School  
Skegby Junior Academy  
South Nottinghamshire Academy  
Southwark Primary School  
Sparken Hill Academy  
St Ann's Well Academy  
St Augustine's Academy  
St Francis Catholic Multi Academy Trust  
St John's Church of England Academy  
St Mary Magdalene Church of England Primary School  
St Mary's Church of England Primary School  
St Peters Cross Keys C of E Academy  
St Swithuns C of E Primary Academy  
St. Peters Primary Academy Mansfield  
Stonesoup Academy  
Sunnyside Spencer Academy  
Suther School  
Sutton Community Academy  
Sycamore Academy  
Toot Hill School  
Transform Trust  
Two Counties Trust  
Unity Learning Centre  
Victoria Primary School  
Warren Primary Academy  
Wells Academy  
West Park Academy  
Westbury School  
Westdale Junior School

White Hills Park Trust  
Whitemoor Academy  
Windmill LEAD Academy  
Winthorpe Primary School  
Woodlands School  
Worksop Priory C of E Academy

### **Local Authorities**

Ashfield District Council  
Bassetlaw District Council  
Broxtowe Borough Council  
Gedling Borough Council  
Mansfield District Council  
Newark & Sherwood District Council  
Nottingham City Council  
Nottinghamshire County Council  
Rushcliffe Borough Council

### **Town and Parish Councils**

Aslockton Parish Council  
Balderton Parish Council  
Beckingham cum Saundby Parish Council  
Bingham Town Council  
Blidworth Parish Council  
Burton Joyce Parish Council  
Calverton Parish Council  
Cotgrave Town Council  
Cropwell Bishop Parish Council  
Dunham & District Parish Council  
Eastwood Town Council  
Edwinstowe Parish Council  
Fernwood Parish Council  
Greasley Parish Council  
Harworth & Bircotes Town Council  
Keyworth Parish Council  
Kimberley Town Council  
Laneham Parish Council  
Langar Cum Barnstone Parish Council  
Misterton Parish Council  
Newark Town Council  
Nuthall Parish Council  
Ollerton & Boughton Town Council  
Radcliffe on Trent Parish Council  
Rainworth Parish Council  
Rampton Parish Council  
Ravenshead Parish Council  
Ruddington Parish Council  
Selston Parish Council

South Leverton Parish Council  
Southwell Town Council  
Stapleford Town Council  
Trowell Parish Council  
Tuxford Town Council  
Warsop Parish Council  
Woodborough Parish Council  
Worksop Charter Trustees

**Others**

Active4Today Limited

Liberty Leisure Limited  
Mansfield & District Crematorium Joint Committee  
Nottingham City Council - EMC  
Nottingham City Homes  
Nottingham City Transport Limited  
Nottingham College  
Nottingham Revenues and Benefits Limited  
Nottingham Trent University  
Nottinghamshire Combined Fire Authority  
Police & Crime Commissioner  
Scape Group Limited  
The Chief Constable  
Trent Valley Drainage Board  
West Nottinghamshire College

# **Governance Compliance Statement**

## **Introduction**

This is the governance compliance statement of the Nottinghamshire pension fund which is part of the Local Government Pension Scheme and administered by Nottinghamshire County Council (the council). The statement has been prepared as required by the Local Government Pension Scheme (Administration) Regulations 2013.

## **Governance Arrangements**

Under the terms of the council's constitution, the functions of the council as administering authority of the pension fund are delegated to the Nottinghamshire Pension Fund Committee. This is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

The Nottinghamshire Pension Fund Committee meets about eight times a year and its members act in a quasi-trustee capacity. Under the constitution, it is responsible for Administering the Nottinghamshire Pension Fund, including investments and management of pension funds.

The Committee also has responsibility for investment performance management of the Fund Managers. It may appoint a working party to consider future policy and development.

The Committee has the further responsibility for matters relating to the administration of the Pension Fund.

The number of voting members of the Nottinghamshire Pension Fund Committee is determined by the Council at its annual meeting.

The Committee have responsibility for the Fund's Responsible Investment approach, including climate risk management.

## **Functions and Responsibilities**

The Nottinghamshire Pension Fund Committee separately approves the Pension Fund's Funding Strategy Statement, Investment Strategy Statement, Risk Management Strategy, Administration Strategy Statement, Communications Strategy Statement, Approach to Responsible Investment and Climate Strategy.

The Funding Strategy Statement sets out the aims and purpose of the Pension Fund and the responsibilities of the administering authority as regards funding the scheme. Funding is the making of advance provision to meet the cost of accruing benefit promises and the long term objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee.

The Investment Strategy Statement sets out more detailed responsibilities relating to the overall investment strategy of the funds including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also covers the fund's policy on Member training and expenses and states the fund's approach to socially responsible investment and corporate governance issues. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee.

Financial Regulations specify that the Service Director (Finance, Infrastructure & Improvement) is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).

The 'Approach to Responsible Investment' sets out the Fund's responsible investment beliefs and its policy on engagement and the exercise of voting rights. Responsibility for the 'Approach to Responsible Investment' is delegated to the Nottinghamshire Pension Fund Committee.

The Climate Strategy describes the way climate-related risks are managed by the Fund and covers four main elements:

- Governance of climate risk
- Climate-related beliefs
- Objectives
- Strategic actions

Responsibility for the Climate Strategy is delegated to the Nottinghamshire Pension Fund Committee, who review the document on a regular basis

The Risk Management Strategy aims to reduce or eliminate risks which may jeopardise the achievement of the Fund's key objectives. It includes a risk register that identifies and prioritises the main risks to the operation of the fund. Responsibility for the Risk Management Strategy is delegated to the Nottinghamshire Pension Fund Committee.

The Communications Strategy Statement details the overall strategy for involving stakeholders in the pension funds. The stakeholders identified are:

- trustees
- current and prospective scheme members
- scheme employers
- administration staff
- other bodies.

Responsibility for the communications strategy is delegated to the Nottinghamshire Pension Fund Committee.

## **Representation**

The Nottinghamshire Pension Fund Committee has 11 voting members all of whom are current county councillors. The political make-up of the committee is in line with the current council and the chair is normally appointed by Council. These members have full voting rights.

In addition, the Committee also has 10 members consisting of the following representatives:

- Nottingham City Council (3)
- Nottinghamshire Local Authorities' Association (2)
- Scheduled and admitted bodies (1)
- Trade unions (2)
- Pensioner representatives (2)

Meetings of the Committee are also attended by officers of the County Council and an independent adviser. This ensures the Committee has access to “proper advice” as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Proper advice is defined as the advice of a person who is reasonably believed to be qualified by their ability in and practical experience of financial matters. This includes any such person who is an officer of the administering authority.

### **Stakeholder Engagement**

An annual meeting of the Pension Fund is held each year to which all employer representatives and scheme members are welcome. The purpose of the meeting is to report on investment performance and current issues of concern to the Pension Fund.

A number of other initiatives to involve stakeholders are currently in place including:

- Annual year end employer’s meetings
- meetings between employers and actuaries as and when required
- Nottinghamshire Finance Officers meetings
- the annual report for the pension fund
- dedicated pension fund website.

### **Review and Compliance with Best Practice**

This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Pension Fund.

The regulations required a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. The guidance contains best practice principles and so are shown below with the assessment of compliance.

| <b>Ref.</b> | <b>Principles</b>   | <b>Compliance and Comments</b> |
|-------------|---|--------------------------------|
| <b>A</b>    | <b>Structure</b>  |                                |
| a.          | The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. | <b>Fully compliant</b>         |

|          |   |   |
|----------|---|---|
| b.       | That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.   | <b>Fully compliant</b>  |
| c.       | That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.   | <b>Not applicable</b>   |
| d.       | That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.  | <b>Not applicable</b>   |
| <b>B</b> | <b>Representation</b>   |   |
| a.       | That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include:<br>i) employing authorities (including non-scheme employers, eg, admitted bodies);<br>ii) scheme members (including deferred and pensioner scheme members),<br>iii) independent professional observers, and<br>iv) expert advisors (on an ad-hoc basis). | <b>Fully compliant</b>  |
| b.       | That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.   | <b>Fully compliant</b>  |
| <b>C</b> | <b>Selection and role of lay members</b>  |   |
| a.       | That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.   | <b>Fully compliant</b><br>All members of the Nottinghamshire Pension Fund Committee are aware of their responsibilities for the oversight of the Fund.  |
| <b>D</b> | <b>Voting</b>   |   |
| a.       | The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.  | <b>Fully compliant</b><br>A full review of voting has been undertaken and will be presented to Committee.   |
| <b>E</b> | <b>Training/facility time/expenses</b>  |   |
| a.       | That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.  | <b>Fully compliant</b><br>Members are encouraged to receive suitable training to help them discharge their responsibilities including attending training courses, conferences and meetings. Travel and subsistence arrangements are those which prevail for the County Council. |
| b.       | That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.   | <b>Fully compliant</b>  |
| <b>F</b> | <b>Meetings (frequency/quorum)</b>  |   |
| a.       | That an administering authority's main committee or committees meet at least quarterly.   | <b>Fully compliant</b><br>The Nottinghamshire Pension Fund Committee meets about 8 times a year.  |

|          |  |  |
|----------|--|--|
| b.       | That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.   | <b>Not applicable</b>  |
| c.       | That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.                                      | <b>Not applicable</b>  |
| <b>G</b> | <b>Access</b>  |  |
| a.       | That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.               | <b>Fully compliant</b>   |
| <b>H</b> | <b>Scope</b>   |  |
| a.       | That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.  | <b>Fully compliant</b>   |
| <b>I</b> | <b>Publicity</b>   |  |
| a.       | That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | <b>Fully compliant</b><br>The governance compliance statement is published on the pension fund website and is included with the relevant committee report (available on the County Council website). |



## Register of Member Attendance at Pension Fund Committee Meetings

|  | Voting | 28 Apr<br>22  | 9 Jun<br>22 | 1 Sept<br>22 | 10 Nov<br>22 | 8 Dec<br>22 | 12 Jan 23<br>AGM | 2 Mar<br>23 |
|--|--------|---------------|-------------|--------------|--------------|-------------|------------------|-------------|
| <b>Nottinghamshire County Council Councillors</b>  |        |               |             |              |              |             |                  |             |
| CLlr Eric Kerry (Chairman)                         | ✓      | ✓             | ✓           | ✓            | ✓            | ✓           | ✓                | ✓           |
| CLlr Mike Introna (Vice Chairman <sup>2</sup> )    | ✓      | ✓             | ✓           | ✓            | ✓            | ✓           | ✓                | ✓           |
| CLlr André Camilleri (Vice Chairman <sup>1</sup> ) | ✓      | ✓             | ✓           | ✓            | ✓            | ✓           | ✓                | ✓           |
| CLlr Steve Garner                                  | ✓      | A             | ✓           | A            | A            | ✓           | ✓                | ✓           |
| CLlr Tom Smith <sup>2</sup>                        | ✓      |               | ✓           | ✓            | ✓            | ✓           | ✓                | ✓           |
| CLlr Sheila Place                                  | ✓      | ✓             | ✓           | ✓            | ✓            | ✓           | ✓                | ✓           |
| CLlr Francis Purdue-Horan <sup>2</sup>             | ✓      | ✓ (as<br>sub) | ✓           | A            | ✓            | ✓           | ✓                | ✓           |
| CLlr Bethan Eddy <sup>2</sup>                      | ✓      |               | ✓           | ✓            | ✓            | ✓           | ✓                | ✓           |
| CLlr John Clarke MBE <sup>2</sup>                  | ✓      |               | A           | ✓            | X            | ✓           | ✓                | A           |
| CLlr Lee Waters                                    | ✓      | A             | ✓           | ✓            | A            | A           | ✓                | ✓           |
| CLlr Eddie Cubley <sup>2,5</sup>                   | ✓      |               | ✓           |              |              |             |                  |             |
| CLlr Gordon Wheeler <sup>1</sup>                   | ✓      | ✓             |             |              |              |             |                  |             |
| CLlr Roger Upton <sup>1</sup>                      | ✓      | ✓             |             |              |              |             |                  |             |
| CLlr Richard Butler <sup>6,7</sup>                 | ✓      |               |             | ✓            |              |             |                  |             |
| CLlr Mike Pringle <sup>1</sup>                     | ✓      | ✓             |             |              |              |             |                  |             |
| CLlr Chris Barnfather <sup>8,9</sup>               | ✓      |               |             |              | ✓            | ✓           | A                |             |
| CLlr Roger Jackson <sup>10</sup>                   | ✓      |               |             |              |              |             |                  | ✓           |
| <b>Nottinghamshire City Council Councillors</b>    |        |               |             |              |              |             |                  |             |
| CLlr Graham Chapman                                |        | A             | ✓           | A            | ✓            | ✓           | ✓                | ✓           |
| CLlr Anne Peach <sup>3</sup>                       |        | ✓             |             |              |              |             |                  |             |
| CLlr Sally Longford <sup>4</sup>                   |        |               | A           | ✓            | A            | ✓           | ✓                | A           |
| CLlr Zafran Khan                                   |        | A             | A           | A            | ✓            | A           |                  | X           |
| <b>District / Borough Council Councillors</b>      |        |               |             |              |              |             |                  |             |
| CLlr David Lloyd, Newark & Sherwood                |        | A             | A           | X            | X            | X           | X                | X           |
| CLlr Gordon Moore, Rushcliffe                      |        | X             | X           | A            | ✓            | A           | ✓                | A           |
| <b>Trade Unions</b>                                |        |               |             |              |              |             |                  |             |
| Mr A Woodward <sup>11</sup>                        |        | X             | A           | A            | A            | X           |                  |             |
| Mr C King  |        | ✓             | ✓           | ✓            | ✓            | A           | ✓                | A           |
| Ms Yvonne Davidson <sup>12</sup>                   |        |               |             |              |              |             |                  | A           |
| <b>Scheduled Bodies</b>                            |        |               |             |              |              |             |                  |             |
| Mrs Sue Reader                                     |        | ✓             | A           | A            | A            | A           | ✓                | A           |

<sup>1</sup> To 12 May 22

<sup>5</sup> To 12 August 22

<sup>9</sup> To 24 January 23

<sup>2</sup> From 12 May 22

<sup>6</sup> From 1 September 22

<sup>10</sup> From 25 January 23

<sup>3</sup> To 28 April 22

<sup>7</sup> To 10th November 22

<sup>11</sup> To 8 January 23

<sup>4</sup> From 9 June 22

<sup>8</sup> From 29th November 22

<sup>12</sup> To 9 January 23

- ✓ Attended
- A Apologies
- X Absent

## **Pension Board Review 2022/23**

### **Executive Summary**

This report reviews the activity of the Nottinghamshire Local Pension Board during the period 1 April 2022 to 31 March 2023.

This review has been prepared by the Advisor to the Board, in Consultation with the Chair, for consideration by the Board at its meeting on 30 November 2023. Following consideration by the Board an approved version of this review will be forwarded to the Pension Fund Committee for their consideration.

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

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

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

### **Board Meetings 1 April 2022 to 31 March 2023**

Nottinghamshire County Council requires that as a minimum the Pension Board meet twice a year. The Board Members (supported by Officers and the Advisor) expressed the view, at an informal Board Workshop in February 2021, that the Board should meet more regularly than the two occasions per (financial) year that had been the practice since 2015. There was a clear consensus that four meetings a year would be appropriate. The year 1 April 2021 to 31 March 2022 saw progress towards this with three meetings taking place for the first time in a year. In 2022-2023 the Board also met on three occasions. The three Board meetings during the financial year 2022-2023 were held on 23 June 2022, 29 September 2022, and 16 March 2023.

The Agenda Items considered at each Board meeting held during the financial year 2022-2023 are shown in the Table overleaf:

|  | 23/6/22 | 29/9/22 | 16/3/23 |
|--|---------|---------|---------|
| Minutes of Previous Meeting                            | /       | /       | /       |
| Declarations of Interest                               | /       | /       | /       |
| Pension Fund Risk Register                             | /       | /       | /       |
| Work Programme   | /       | /       | /       |
| Pension Board Review 2021-2022                         | /       |         |         |
| Investments Policy and Governance                      | /       |         |         |
| Bank of England Gilt Market Intervention (oral update) |         | /       |         |
| Training   |         | /       | /       |
| LGPS Update by Advisor to the Board                    |         | /       | /       |
| Pensions Administration Performance Report             |         | /       |         |
| Proposed Pension Dashboard Programme                   |         | /       |         |
| LGPS Governance Conference report                      |         |         | /       |

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

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

The full Membership of the Nottinghamshire Pension Board is four Employee and four Employer representatives. This number, eight, is well in excess of the minimum number of Board members required under the LGPS Regulations 2013 which is only four (two Employee and two Employer). The establishment by the County Council in 2015 of a Board membership of eight was positive and proactive in terms of seeking to facilitate both Employee and Employer representation and involvement in the ongoing Governance of the Nottinghamshire Pension Fund. Unfortunately during 2022-2023 the membership of the Board was only five members despite clear attempts by the Fund Officers to fill all eight places. This situation was most unfortunate given the role of the Board under both the LGPS Regulations and its Terms of Reference as set out by the Nottinghamshire County Council.

Notwithstanding that there were only (at any one time) five Board members during 2022-2023 all were conscientious in attendance and all contributed positively to the deliberations of the Board. During the year David Smith a longstanding Board member who had contributed much to Board discussions back to 2016 stood down as an Employer representative and it is appropriate therefore to record, on behalf of the Board, thanks to David for his conscientious and active membership of the Board.

At the September 2022 meeting the Board was pleased to welcome both Councillor Dr Nayab Patel and Becky Smeathers as Employer representatives. Mark Heppenstall and Thulani Molife both original Board members continued as Employee representatives throughout the year. Councillor Reg Adair (who brings to the Board extensive experience as both a former member and Chair of the Pension Fund Committee) also continued to serve throughout 2022-2023 as an Employer representative. Thulani Molife continued as Chair and in this role not only chaired Board meetings but was actively involved in discussions with Fund Officers and the Advisor to the Board between, and in preparation for Board meetings.

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

The LGPS Regulations 2013 require each Administering Authority (Pension Fund) to establish a Pension Board comprised of equal numbers of Employer and Employee representatives to

assist the Pension (Fund) Committee. This requirement provides LGPS Funds with a genuine opportunity to significantly enhance the involvement of stakeholders in LGPS Fund Governance.

The ability of a Pension Board to provide effective input and genuinely contribute to the ongoing development, activity, and monitoring of a LGPS Fund, is however, not guaranteed by the fact that there is a regulatory requirement to establish a Board. A fundamental requirement for a Board to be effective is genuine and extensive input and support by the Fund Officers. Throughout 2022-2023 the Board received, as it has since its creation, positive support, advice and guidance from the Officers of the Nottinghamshire Pension Fund with responsibility for the Governance, Administration and Investment aspects of the Fund. This support was clearly evidenced not only by the reports prepared by the Officers but also their briefings provided at Pension Board meetings (and pre-Agenda meetings) and their positive and informative responses to the constructive questions and observations of the Board members and the Advisor to the Board.

When the Board was created in 2015 Nottinghamshire County Council took the unusual but very positive approach of appointing an independent external Advisor to the Fund to provide additional support and advice to the Board. John Raisin Financial Services Limited (JRFS) was appointed to this role after competitive tender in 2015, and reappointed following another tendering process in 2021. In 2022-2023, as in previous years, JRFS continued to provide reports for the Board and input at Board meetings and discussions with the Chair and Officers between Board meetings.

It is also appropriate to record the appreciation of the Board to William Bourne, of Linchpin, the Advisor to the Nottinghamshire Pension Fund Committee. William Bourne kindly attended the June 2022 Pension Board meeting to present a report he had prepared on the Investment Policy and Governance of the Nottinghamshire Pension Fund.

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

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

At the September 2022 Board meeting a paper from the Advisor to the Board entitled **Pension Board Training Programme** was received. This provided an update on Training covering September 2021 to August 2022 and proposals for both the approach to and sources of Training from September 2022 onwards. At the March 2023 Board meeting a paper entitled **Pension Board Training Proposal Pensions Legislation and Pensions Governance** was received. This proposed that the Advisor to the Board provide a (two hour) training session covering Pensions Legislation and Pensions Governance (which are fundamental to understanding the LGPS) for new Board members. This was agreed and the training was delivered in early June 2023.

At the June 2022 meeting the Board also received a very informative paper from the Advisor to the Nottinghamshire Pension Fund Committee (William Bourne of Linchpin) which provided Board members with an overview of investment strategy decision making and implementation by the Nottinghamshire Pension Fund. This included due references to the legislative and regulatory framework within which the Fund undertakes investment activity.

In addition during 2022-2023 the Board received two broad ranging **LGPS Updates** from the Advisor. These provided Board members with knowledge and understanding of Governance, Administration and Investment issues with a particular emphasis on national (England and Wales) developments within the LGPS. Issues covered included the Good Governance in the LGPS project, Investment Pooling, Climate Reporting, Age Discrimination in the LGPS (commonly referred to as “McCloud”) and Pension Fund Accounts.

In January 2023 the Board Chair attended the two-day annual **LGPS Governance Conference** which covered a broad range of issues including keynote addresses from the Pensions Ombudsman and the Pensions Regulator, as well as an update from the Scheme Advisory Board. There were also number of sessions on a wide range of issues including the 2022 Actuarial Valuation, challenges within Pensions Administration and Responsible Investment. A detailed report on the Conference was prepared and presented to the March 2023 Board meeting by the Pensions (Administration) Manager who also attended the conference.

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

The management of Risk is clearly a key responsibility of those charged with the Governance and management of an LGPS Fund. While the ultimate responsibility at the Nottinghamshire Fund lies with the Pension Fund Committee the Pension Board clearly also has a role in Risk Management. The Foreword to the CIPFA publication on Managing Risk in the LGPS (2018) states *“As part of their governance processes funds should be regularly reporting all risks to committee and the local pension board, embedding a robust risk management approach and processes which link to all key strategic documents as well as recording risks and progress on an active risk register.”*

Therefore it was, as in the previous year (2021-2022), appropriate and indeed necessary that the **Pension Fund Risk Register** together with an informative covering report explaining the Purpose and Objectives of the Fund, the Risk Management Strategy of the Fund, the Key Parties involved in the Fund and their responsibilities, was presented to, and actively considered by the Board at each of its three meetings during 2022-2023. As in 2021-2022, the resourcing of the Pension Fund remained the highest Current Risk on the Risk Register with a score of “12” and a rating of “HIGH”

A crucial element of Risk Management is examination, active consideration, and as appropriate constructive questioning of the Risk Register by the Pension Board. This was a clear activity of the Board throughout 2022-2023. The Board raised constructive questions and helpful observations in respect of a number of issues including the review of the Pension Fund’s approach to Risk Management itself, cyber security and recruitment.

The issue of recruitment was rightly a matter of concern to the Board. Fund Officers stated that while further funding had been agreed to support additional posts (particularly time limited appointments for McCloud and GMP reconciliation) there had been difficulties in recruiting. These difficulties were, however, common across the LGPS. Board Members raised constructive questions and observations in relation to these recruitment difficulties including seeking reasons for the level of staff vacancies. Given the concerns of the Board regarding the resourcing of the Pension Fund going forward the Board resolved at its meeting held on 23 June 2022 *“That the Board requests the Nottinghamshire Pension Fund Committee considers commissioning a review into the resourcing of the Pension Fund on the staff side.”*

## **Pension Administration Issues**

Effective Pensions Administration is absolutely fundamental to the Nottinghamshire Pension Fund. Ultimately the Pension Fund only exists to provide pension benefits to those entitled to them as determined by the LGPS Regulations. There was a particular focus on Pensions Administration at the meeting held on 29 September 2022 which received a detailed **Pension Administration Performance Report** from the Pensions (Administration) Manager. This covered the work and performance of the Pensions Administration Team for the period 1 April 2021 to 31 March 2022.

The report included coverage of - the extensive range of the Team's functions and responsibilities; its structure including an extensive narrative and analysis of resourcing; recruitment and retention issues; Data Quality; Pension Fund Member Statistics; Complaints and Internal Dispute Resolution Procedure Appeals; Performance Data including statistics, commentary, and explanations/analysis. In his presentation of the above report to the Board the Pensions (Administration) Manager highlighted that the Team had faced another challenging year with both the ongoing accuracy and further improvements in data quality continuing areas of focus.

The Pensions Administration Team was also facing clear challenges in terms of the recruitment/retention of staff which is an issue nationally. The Nottinghamshire Fund is seeking to address this challenge including introducing an apprenticeship programme within the Pensions Administration Team. However, resolving on a long-term basis, the challenges around the resourcing of the staff element of the Pensions Administration function will not be straightforward.

The September 2022 meeting also received a report and briefing on the **National Pensions Dashboard** including its implications for the Nottinghamshire Pension Fund. In response to the **Pension Administration Performance Report** and the **National Pensions Dashboard** Board members raised a number of constructive questions and observations.

## **Investment Issues**

While the Pension Board has no role in Investment decision making the Pension Board does have, in accordance with both the LGPS Regulations and its Terms of Reference (as determined by Nottinghamshire County Council), a role in reviewing Governance and operational arrangements relating to any activity including the Investment activity of the Fund. Therefore it was extremely relevant and helpful to the Board that at its meeting on 23 June 2022, the Advisor to the Nottinghamshire Pension Fund Committee (William Bourne of Linchpin) prepared and presented a paper with the title **Investments Policy and Governance**.

The Advisor to the Pension Fund Committee began his presentation by stating that the purpose of the report was to provide the Board with some assurance that the way the Fund is invested will result in pensions being paid on time and in full. In this paper, and his oral presentation to the Pension Board, the Advisor to the Pension Fund Committee provided a wide range of information and explanation relating to the investment activity of the Nottinghamshire Pension Fund. This included the overall legal framework within which investment decision making and activity is undertaken, the requirement to take "*proper advice*," the fiduciary duty, the objectives that underpin investment activity, the discount rate and the Fund's investment target, the concept of diversification, the strategic asset allocation, an explanation of each of the asset classes

utilised by the Nottinghamshire Pension Fund, the requirement to invest in a responsible and sustainable way, the process of implementing the investment strategy (through third party managers and utilisation of asset Pooling).

In his oral presentation William Bourne emphasised the importance of investment strategy compared to the choice of investment manager, and that the fiduciary duty is to deliver a financial return to pay pensions which is of fundamental (and primary) importance. The Advisor to the Pension Fund Committee reminded the Pension Board that the ultimate responsibility for investment lies with the Pension Fund Committee (supported by the Fund Officers). The paper included (at paragraph 25) the statement that “... **the demands on the Scheme Manager are increasingly complex** and there is stakeholder pressure, particularly over climate change, to take actions which may not be in the long-term interests of members. Against this background the Board may like to consider both whether the resource provided is adequate and at the right grade, and whether key person risk is sufficiently mitigated.” William Bourne specifically referred to and highlighted this paragraph during his presentation to the Pension Board.

In the final paragraph of his paper (paragraph 30) William Bourne stated “*In summary, the Fund has a very long-term investment horizon and even a sustained period of poor returns will not affect its ability to pay pensions. I can offer an assurance that its assets are appropriately invested, though by the nature of investment markets this cannot be a guarantee. The greatest risks to the Fund come from governance, either a possible failure at the pool, or inadequate resources and key person risk at the Fund level.*” This paper and its presentation raised a number of questions and observations from Board members in relation to asset Pooling, allocations to Listed Equities and Employer contributions.

### **Work Programme**

At each of the three meetings held during 2022-2023 an updated Work Programme was presented to the Board for its consideration. The Work Programme presented to each Board meeting had previously been reviewed by the Board Chair, Advisor to the Board, and Fund Officers at the pre-agenda meeting held to agree the Agenda and reports for the next Board meeting. At each Board meeting members were actively encouraged to identify any additional issues for inclusion in the Work Programme.

### **Conclusion and Going Forward**

The Nottinghamshire Pension Fund operates within the overall regulatory/guidance framework as defined by the LGPS Regulations, associated Statutory Guidance and other overriding legislation and recommended principles of best practice. Reports and presentations made to the Pension Board in 2022-2023 gave assurance to the Board that the Nottinghamshire LGPS Fund is clearly seeking, through its approach to Risk Management and the operation of the Pensions Administration and Investment functions, to properly comply with its obligations.

As was, however, clearly evidenced in reports received by the Board in 2022-2023 the LGPS is becoming ever more complex in terms of its Governance, Administration, and Investment functions. The reports and oral presentations received by the Board (across Risk Management, Pensions Administration and Investment) also clearly demonstrated that resourcing, particularly staff resourcing, is an area that the Nottinghamshire LGPS Fund needs to keep under careful consideration and review. Indeed the issue of appropriate resourcing and in particular in relation to recruitment and retention was an area of particular focus for the Board in 2022-23.

This will, in support of the Pension Fund Committee, all Employers, and individual Scheme members, continue to be so going forward.

**John Raisin**

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

In consultation with

**Thulani Molife**

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

**8 November 2023**



# Funding Strategy Statement

## Introduction

This is the Funding Strategy Statement (FSS) for the Nottinghamshire County Council Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”) and describes Nottinghamshire County Council’s strategy, in its capacity as Administering Authority, for the funding of the Nottinghamshire County Council Pension Fund (“the Fund”).

This statement has regard to the guidance set out in the document “Preparing and Maintaining a Funding Strategy Statement” published by CIPFA in February 2016. The statement also has regard to the Investment Strategy Statement published by the Administering Authority.

The Statement describes a single strategy for the Fund as a whole. The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

## Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:

- Establish a clear and transparent fund-specific strategy that will identify how employers’ pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

## Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- Achieve and maintain Fund solvency and long-term cost efficiency at reasonable cost to taxpayers, scheduled, resolution and admitted bodies, and enable contribution rates to be kept as nearly constant as possible where practical; and
- Seek returns on investment within reasonable risk parameters

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits provided under the Regulations
- Meet the costs associated in administering the Fund
- Receive contributions, transfer values and investment income.

## Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the long-term solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures/approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the fund and the long-term cost efficiency of the scheme so far as relating to the pension fund. The review also looks at compliance and consistency of the actuarial valuations.

## **Key Parties**

The key parties involved in the funding process and their responsibilities are as follows.

### The Administering Authority

The Administering Authority for the Pension Fund is Nottinghamshire County Council. The main responsibilities of the Administering Authority are to:

- Operate the Fund in accordance with the LGPS Regulations
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations
- Invest the Fund's assets, while ensuring cash is available to meet liabilities as and when they fall due
- Pay the benefits due to Scheme members as stipulated in the Regulations
- Take measures to safeguard the Fund against the consequences of employer default
- Manage the actuarial valuation process in conjunction with the Fund Actuary, and enable the Local Pensions Board to review the valuation process as they see fit
- Prepare and maintain this FSS and the Investment Strategy Statement (ISS) after consultation with other interested parties as appropriate
- Monitor all aspects of the Fund's performance and funding
- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

## Scheme Employers

In addition to the Administering Authority, a number of other Scheme Employers, including Admission Bodies, participate in the Fund. The responsibilities of each Scheme Employer that participates in the Fund, including the Administering Authority, are to:

- Collect employee contributions and pay these together with their own employer contributions certified by the Fund Actuary to the Administering Authority within the statutory timescales, including any exit payments on ceasing participation in the Fund
- Notify the Administering Authority of any new Scheme members and any other membership changes promptly
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures
- Notify the Administering Authority of significant changes in the employer's structure or membership;

## Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Department for Levelling Up, Housing and Communities (DLUHC)

## Fund Actuary

The Fund Actuary for the Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

## Solvency Issues, Target Funding Levels and Long-term Cost Efficiency

### Funding Strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The actuarial valuation involves a projection of future cash flows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2022. The results of the 2022 valuation are set out in the table below:

| 2022 valuation results |      |
|------------------------|------|
| Surplus (Deficit)      | £9m  |
| Funding level          | 100% |

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 19.0% of payroll p.a.

### Funding Method

The key objective in determining employer's contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new staff access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions, is expected to support the cost of benefits accruing in future.

The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below.

#### Valuation Assumptions and Funding Model

The value of accrued or past service benefits (allowing for future salary and pension increases) are referred to as the past service liabilities, or simply the liabilities.

Using the valuation assumptions set out below, an estimate is made of the future cash flows which will be made to and from the Fund throughout the future lifetime of existing members. These projected cashflows are then discounted using the discount rate which is essentially a calculation of the amount of money which, if invested now, would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called the present value (or, more simply, the value) of members' benefits. Separate calculations are made in respect of benefits arising in relation to membership before the valuation date (past service) and for membership after the valuation date (future service).

To produce the future cashflows and therefore an estimate of the value of the liabilities, the fund actuary needs to make assumptions about the factors affecting the Fund's future finances such as inflation, salary increases, investment returns, life expectancy and retirements.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic assumptions which are essentially estimates of the likelihood of benefits and contributions being paid
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value. The base market statistics used for the financial assumptions are smoothed around the valuation date

so that the market conditions used are the average of the daily observations over the three months before and the three months after the valuation date.

A summary of the key assumptions is included in the following table and can be found in the actuarial valuation report as at 31 March 2022. Further details regarding the derivation of these assumptions can be found in the Fund Actuary's initial results and assumptions advice to the Fund dated 25 October 2022

| Assumption                   | Derivation   | Value at 31 March 2022 |
|------------------------------|--|------------------------|
| Future Price Inflation (RPI) | Smoothed 20 year point on the Bank of England implied Retail Price Index inflation curve as at 31 March 2019 less 0.7% per annum to reflect the shape of the yield curve and inflation risk premium  | 3.2% p.a.              |
| Future Price Inflation (CPI) | RPI less 0.35% per annum to reflect the differences in the indices   | 2.9% p.a.              |
| Salary increases             | Assumed to be in line with CPI plus 1.0% p.a.  | 3.9% p.a.              |
| Discount rate                | Based on the long-term investment strategy of the Fund, with deductions for expenses and prudence  | 4.7% p.a.              |
| Post-retirement mortality    | S3PA tables with a multiplier of 115% for males and 110% for females, projected into the future with the 2021 CMI Model with a long-term rate of improvement of 1.25% p.a. a smoothing parameter of 7 and a weighting of 5% on 2020 and 2021 | n/a                    |

### Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. A deduction of 0.3% p.a. is applied to the yield at the 20 year point to reflect the shape of the yield curve. A further deduction of 0.4% p.a. is applied to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.

### Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. However, RPI is due to be aligned with CPIH (CPI but with allowance for housing costs) from 2030.

Therefore, reflecting the anticipated amendment to RPI from 2030 and therefore the relative difference between RPI and CPI, a deduction of 0.35% p.a. is made to the RPI assumption to derive the CPI assumption.

### Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2022 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

### Future Investment Returns/Discount Rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values. The discount rate that is adopted will depend on the funding target adopted for each employer.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer becomes an exiting employer under Regulation 64. The Fund Actuary may incorporate such an adjustment after consultation with the Administering Authority.

The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

Further details of the assumptions adopted are included in the Fund's 2022 valuation report.

### Asset Valuation

For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

#### Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2022 valuation report.

#### McCloud/Sargeant judgements

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on over the course of 2022 with revised Regulations effective from October 2023.

For the 2022 valuation, as required by the Department for Levelling Up, Housing & Communities, in calculating the value of members' liabilities it was assumed that:

- The current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and will apply to all members who were active in the Scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap;
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner);
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner);
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension; and
- The underpin will consider when members take their benefit.

Further details of the McCloud/Sergeant judgment can be found below in the Regulatory risks section.

#### Guaranteed Minimum Pension (GMP) indexation and equalisation

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found [here](#).



The 2022 valuation approach for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Fund will be required to pay the entire inflationary increase.

#### Deficit Recovery/Surplus Amortisation Periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different from the value of accrued liabilities, depending on how the actual experience of the Fund differs from the actuarial assumptions. Accordingly, the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation reveals a deficit in respect to a particular employer then the levels of required employer contributions will include an adjustment to fund the deficit over a specified period. Each employer's recovery period is considered individually, unless they are part of a pool (see Pooling of Individual Employers). Past service deficit contributions are generally paid as monetary amounts but may be paid as a percentage of payroll, subject to the Administering Authority agreeing this approach. The maximum deficit recovery period is 18 years.

Where an employer's funding position has improved in the inter-valuation period, but the employer is still in deficit, the employer may be required to maintain the previous total contribution level so that the expected deficit recovery period reduces.

Incremental phasing-in (stepping) of contribution increases may be considered for some employer types where proposed increases are large, with target rates to be achieved in no more than 3 years. Where stepping is agreed to, employers are instructed that the difference between the employer contributions with stepping and the employer contributions without stepping will need to be repaid later in the recovery period.

Employers in surplus on their funding method will generally pay the future service rate although the surplus may be released back to the employer through an adjustment to their contribution rate. The Fund Actuary will consider each employer separately when deciding whether surplus amortisation is appropriate.

The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of the employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

#### Pooling of Individual Employers

The general policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Currently, other than Scheme employers that are already legally connected, there are the following pools:

- Small Scheduled Bodies pool
- Grouped Admission Bodies pool
- Fund Academies pool

#### Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice will be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice will be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate

#### Contribution payments

Employers pay contributions on a monthly basis. Primary contributions are certified as a percentage of payroll and therefore amounts paid by employers each month will fluctuate in line with payroll each month. Secondary contributions can be certified as a percentage of payroll or as a monetary amount. Monetary amounts are payable in 12 equal monthly instalments throughout the relevant year.

Employers must pay contributions in line with the Rates and Adjustments Certificate but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the administering authority. The administering authority has agreed to allow a discount to employers who pay their deficit contributions up front, as long as the payment is received by the end of April in a particular Scheme year (i.e. the discount for the 2023/24 contributions would only apply if the lump sum payment was made by 30 April 2023). Employers must discuss with and gain agreement from the administering authority before making up front payments at the discounted rate.

### **New employers joining the Fund**

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

#### Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new

admission body employer is required to pay contributions into the Fund in respect of the transferred members.

#### Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

#### Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

#### Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative guarantee in a form satisfactory to the administering authority.

#### New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

#### Funding at start

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date, subject to a cap of 100%. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

Any deficit is transferred to the Academy pool and the new academy will become part of the Academy pool and will be allocated assets based on the funding level of the pool at the conversion date.

## Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academy pool at the 2022 valuation.

### Town and Parish councils

#### Funding at start

On joining the Fund, the new employer will become responsible for all the pensions risk associated with the benefits accrued by transferring members and all future benefits to be accrued. The employer is allocated a share of Fund assets equal to the value of the benefits transferred, The new employer will become part of the Small Scheduled bodies pool and therefore assets will be re-allocated based on the funding level of the pool at the conversion date.

## Contribution rate

The contribution rate payable when a new employer joins the Fund will be in line with the contribution rate certified for the Small Scheduled bodies pool at the 2022 valuation. Where an existing employer in the pool no longer has any active members, a contribution rate will continue to be certified such that the employer may re-join at a later date.

### Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

- (i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- (ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
- (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy which can be accessed here. This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

### Cessation Valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It is agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer will transfer within the Fund to another participating employer; or
- the employer's exit is deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Further details are given below.

### Managing exit payments

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as

active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document here. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the financial position on termination, the Fund Actuary may adopt a discount rate and adopt different assumptions from those used at the previous funding valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

The cessation valuation of the liabilities attempts to ensure there are sufficient assets to meet all the liabilities over time. In the event that the assets of a ceased employer are insufficient to meet all the employer's residual liabilities then these liabilities will fall to the ceding employer who originally awarded the contract.

### Exit credits

The Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 were introduced in May 2018 which allow administering authorities to make an exit credit payment to exiting employers.. These regulations enable administering authorities to determine at their absolute discretion the amount of any exit credit payment due having regard to the following relevant considerations:-

- The extent to which the employer's assets are in excess of its liabilities
- The proportion of the excess of assets which has arisen because of the value of employer's contributions
- Any representations made by the exiting employer and its letting authority/guarantor
- Any other relevant factors.

Nottinghamshire County Council Pension Fund's approach aims to protect the interests of the members and employers as a whole and will apply the following approach to the payment of exit credits.

### The extent to which the employer's assets are in excess of its liabilities

The Fund's Actuary will calculate the assets and liabilities relevant to the exiting employer. The approach will depend on the specific details surrounding the employer's cessation scenario. Further details of the most likely approach is given in the section "Cessation Valuations"

### The proportion of the excess of assets which has arisen because of the value of employer's contributions

Exit credits will only be paid to employers who can demonstrate that they have been exposed to underfunding risk during their participation. The level of risk that an employer has borne will be taken into account. For example, if an employer participated in the Fund on a pass-through arrangement then no exit payment would have been requested if a deficit existed, and therefore it is not appropriate to pay an exit credit if there is a surplus.

On the other hand, if an employer commenced fully funded and was liable for any deficits arising as a result of adverse experience (for example, investment returns less than anticipated) then this employer has borne risk and so an exit debt or credit would be payable on exit.

Any exit payment will be limited to the total contributions paid over the period of participation into the Fund.

Any representations made by the exiting employer and its letting authority/guarantor and any other relevant factors.

Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and will seek legal advice where appropriate.

The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. If the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.

### **Bulk transfers**

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

### Consolidation of Multi Academy Trusts (MATs)

Where an academy is transferring into or out of the Fund as part of a MAT consolidation exercise, the Fund generally expects that this will proceed through a Direction Order from the Secretary of State. In these situations and subject to the terms agreed between the Fund Actuary to both LGPS Funds, typically all the assets attributable to the academy in the ceding Fund are transferred to the receiving Fund.

The Fund's preference would be for any transfer to include all members, including deferred and pensioner members. Should a situation arise where an academy is transferring out of the

Fund and only active members are transferring, the Fund would seek to retain a level of assets to be at least sufficient to fully fund any deferred and pensioner members left behind, as measured by the Fund's ongoing funding basis at the transfer date.

Where the academy is transferring into the Fund, where appropriate, the academy will become part of the Fund's Academy pool. However, the Fund would not accept a transfer in which would lead to a deterioration in its overall funding level, and in particular as a minimum receive a transfer amount that was no less than the equivalent individual CETVs for the transferring members, based on Government Actuary factors in force at the transfer date. The agreed basis of transfer could take into account the funding basis of the Fund and a top up payment could be made to ensure the Fund would not be significantly worse off or be subject to an unacceptable level of risk.

### **Links to Investment Policy**

The investment strategy and the funding strategy are linked by the strategic asset allocation of the Fund, which has been set following advice from the Fund's investment advisor and with regard, amongst other considerations, the maturity profile of the Fund.

The actuarial valuation involves a projection of future cashflows from the Fund and these cashflows are discounted to the current time, using the discount rate, to obtain a single figure for the value of the past service liabilities. This figure is the amount of money, which if invested now, would be sufficient to make those payments in future provided that the assumptions made during the valuation were borne out in practice (in particular, if the future investment return was equal to the discount rate used).

The discount rate is based on the expected long-term future investment return, using the long-term strategic allocation set out in the Investment Strategy Statement, with a deduction for expenses and for prudence. This ensures consistency between the funding strategy and investment strategy.

### **Risks and Counter Measures**

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

#### **Financial Risks**

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the valuation of the liabilities by 2%, and decrease/increase the required employer contribution by around 0.7% of payroll p.a.



However, the Nottinghamshire County Council Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from officers and independent advisers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters. In addition, the Fund Actuary may provide funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

### Demographic Risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. The Fund commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes as part of the 2022 funding valuation.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements and ill-health retirements. However, the Administering Authority monitors the incidence of early retirements and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

### Climate risk

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

The Fund therefore has a fiduciary duty to consider climate change risk when making investment decisions and to ensure any decisions support the effective management of climate change. The Fund therefore expects their appointed investment managers to be informed about climate change risks and take investment opportunities accordingly within their processes. More detail is included in the Fund's Investment Strategy Statement.

As part of the 2022 valuation, the Fund Actuary provided the Fund with a climate risk analysis which assessed the potential exposure of the Fund's funding position to climate risk under different climate scenarios. The principles behind the analysis were agreed with the Government Actuary's Department (GAD).

The results of this analysis demonstrated that the funding strategy agreed as part of the 2022 valuation was sufficiently robust in the context of climate scenario analysis and any potential contribution impacts.

The Fund will continue to assess this risk on a regular basis.

## Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the section below.

## Regulatory Risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. Regulations also place certain limitations on how the assets can be invested. The tax status of the invested assets is also determined by the Government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

## McCloud/Sargeant judgments

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors

reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgment but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. A ministerial statement in response to this was published on 13 May 2021 and revised Regulations are awaited to bring a remedy into play.

At the time of drafting this FSS, Regulations and therefore confirmation of the remedy are not yet finalised and are expected in 2023.

### Cost control mechanism

As a result of the public service pension schemes reforms, the Government established a cost control mechanism for all those schemes to ensure a fair balance of risks between scheme members and the taxpayer. The process has been complex and has still not been fully resolved. Although the 2016 cost cap valuation report for the LGPS has been published, at the time of writing there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. Therefore, there is still a possibility that the 2016 valuation may have to be revisited with the small chance that benefit improvements will be required and potentially backdated to April 2019.

For the purposes of the 2022 valuation, we have made no allowance for any potential benefit changes. The Fund's prudence allowance already allows for an element of regulatory uncertainty and any potential impact is not deemed to be material.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. So far, two partial responses to the consultation have been issued:

- On 27 February 2020, a partial response was issued relating to policy changes to exit credits
- On 26 August 2020, a partial response was issued relating to review of employer contributions and flexibility on exit payments

This FSS has been updated in light of these responses and will be revisited again once the outcomes are known for the remaining items.

Detail of the outstanding policy proposals are outlined below:

#### Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

#### Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are relatively few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

#### Employer Risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership
- An individual employer deciding to close the Scheme to new employees
- An employer ceasing to exist without having fully funded their pension liabilities.

The Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined and takes advice from the Fund Actuary when required. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

### **Monitoring and Review**

This FSS is reviewed formally, in consultation with the key parties as appropriate, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2022, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2023 to 31 March 2026.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2025.

The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

## **Appendix A: Contribution review policy**

### **Introduction**

This document sets out Nottinghamshire County Council Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal funding valuations.

Nottinghamshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

Under Regulation 62, Nottinghamshire County Council, as the administering authority for the Fund, is required to obtain a formal actuarial valuation of the Fund and a rate and adjustments certificate setting out the contribution rates payable by each Scheme employer for three year period beginning 1 April following that in which the valuation date falls.

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority. This policy document sets out the administering authority's approach to considering the appropriateness of a review and the process in which a review will be conducted.

This policy has been prepared by the administering authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on drafting a contribution review policy which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

### **The review process**

The events that may trigger a review are set out in the Triggering a contribution review section. The general process for assessing and conducting a review is set out below. Timescales may vary in practice depending on each individual circumstance, but the timeline below provides a rough guide of the administering authority's general expectation.

Following completion of the review process, the administering authority may continue to monitor the Scheme employer's position in order to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer's situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to

support any reasonable information requests made by the administering authority in order to allow effective monitoring.

### **Timeline where initiation is made by the administering authority**

Where the review is initiated by the administering authority (i.e. under conditions (i) and (ii) in the Triggering a contribution review [section](#)), the first stage after the administering authority has conducted its analysis is to engage with the Scheme employer and provide written evidence for requiring the review.

The Scheme employer will be given 28 days from the later of the date of receipt of the evidence provided by the administering authority and the date of receipt of the results of the formal contribution review to respond to the administering authority on the proposal. Should no challenge be accepted within this period then the administering authority will treat the proposal as accepted and the revised contribution rates will come into effect from the proposed review date.

Should the Scheme employer challenge the administering authority's proposal, then the administering authority will continue to engage with the Scheme employer in order to reach an agreeable decision. If no decision has been agreed within 4 months of the initial proposal, then the administering authority may proceed with the revised contribution rates. Further details of the appeals process for the Scheme employer is set out in the Appeals process section.

Although the ultimate decision for review belongs to the administering authority, the administering authority is committed to engaging with any Scheme employer following the initial proposal to ensure that any change is agreeable to all relevant parties.

### **Timeline where initiation is made by the Scheme employer**

Where the review is initiated by the Scheme employer, the process begins once the Scheme employer has provided all the relevant documents required as set out in the Triggering a contribution review [section](#).

The administering authority will aim to provide an initial response to the Scheme employer within 28 days from the date of receipt. This will depend on the quality of the documents provided and any need from the administering authority to request further information from the Scheme employer. The administering authority will subsequently provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.

### **Responsibility of costs**

Where the review of contributions has been initiated by the administering authority, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the administering authority as part of the review. These exception costs would be recharged to the Scheme employer.

Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or

not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

### **Triggering a contribution review**

As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

- (i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- (ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
- (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Conditions (i) and (ii) are triggered by the administering authority and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions where the trigger is due to a change in actuarial assumptions or asset values.

(i) change in the amount of the liabilities arising or likely to arise

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Restructuring of a Multi Academy Trust
- A significant outsourcing or transfer of staff
- Any other restructuring or event which could materially affect the Scheme employer's membership
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the fund in future
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

As part of its participation in the Fund, Scheme employers are required to inform the administering authority of any notifiable events as set out in the Fund's Pensions Administration Strategy, service agreements and/or admission agreements. Through this notification process, the administering authority may identify events that merit a review of contributions.

In addition, the administering authority may initiate a review of contributions if they become aware of any events that they deem could potentially change the liabilities of the Scheme



employer. This also applies to any employers for whom a review of contributions has already taken place as a further change in liabilities may merit another review.

(ii) change in the ability of the Scheme employer to meet its obligations

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Change in employer legal status or constitution
- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by a Scheme employer
- A change in a Scheme employer's immediate financial strength
- A change in a Scheme employer's longer-term financial outlook
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Concerns felt by the administering authority due to behaviour by a Scheme employer's, for example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the administering authority over a significant period of time.

The administering authority may monitor the level of covenant of its Scheme employers on an ongoing basis. In particular, the administering authority may commission an employer risk review report from the Fund Actuary on a regular basis. Through this analysis, the administering authority can identify any Scheme employers that might be considered as high risk and whether any Scheme employers have had a significant change in riskiness. This in turn may affect the administering authority's views on whether the ability of a Scheme employer to meet its obligations to the Fund has changed significantly and therefore whether this change may merit a contribution review. This also applies to any employers for whom a review of contributions has already taken place as a further change in an employer's ability to meet its obligations may merit another review.

(iii) request from the Scheme employer for a contribution review

A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This must be triggered by one of the following two conditions:

- There has been a significant change in the liabilities arising or likely to arise; and/or
- There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Any requests not arising from either of these conditions will not be considered by the administering authority.

Requests by a Scheme employer are limited to one review per calendar year.

With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the administering authority will not

accept a request for a review of contributions with an effective date within the 12 months preceding the next Rates and Adjustments certificate. It is expected in these cases that any requests can be factored into the formal review and any benefits of carrying out a review just prior to the commencement of a new Rates and Adjustments certificate are outweighed by the costs and resource required. If a request is made with an effective date within the 12 months preceding the next Rates and Adjustments certificate, the administering authority will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

### **Information required from the Scheme employer**

In order to submit a request for a review of contribution rates outside of the formal actuarial valuation process, a Scheme employer must provide the following to the Fund:

- Where a review is sought due to a potential change in the Scheme employer's liabilities:
- Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change
- Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
- The most recent annual report and accounts for the Scheme employer
- The most recent management accounts
- Financial forecasts for a minimum of three years
- The change in security or guarantee to be provided in respect of the Scheme employer's liabilities

The administering authority may require further evidence to support the request and this will be requested from the Scheme employer on a case by case basis.

### **Assessing the appropriateness of a review**

The following general considerations will be taken into account by the administering authority, regardless of the condition under which a review is requested:

- the expected term for which the Scheme employer will continue to participate in the Fund;
- the time remaining to the next formal funding valuation;
- the cost of the review relative to the anticipated change in contribution rates and the benefit to the Scheme employer, the Fund and/or the other Scheme employers; and
- the anticipated impact on the Fund and the other Fund employers, including the relative size of the change in liabilities and contributions and any change in the risk borne by other Fund employers.

Where the review has been requested by the Scheme employer, the administering authority will also consider the information and evidence put forward by the Scheme employer. This may be with advice from the Fund Actuary where required and will include an assessment of whether there is a reasonable likelihood that a review would result in a change in the Scheme employer's contribution rates. The administering authority will also consider whether it is

necessary to consult with any other Scheme employer e.g. where a guarantee may have been provided by another Scheme employer.

Whether any changes require the administering authority to exercise its powers to carry out a contribution review will be assessed on a case-by-case basis and with advice from the Fund Actuary and may involve other considerations as deemed appropriate for the situation. The final decision of whether a review of contribution rates will be carried out rests with the administering authority after, if necessary, taking advice from the Fund Actuary. Should a Scheme employer disagree with the administering authority, then details of the Appeals process is set out later in this document.

### **Appropriateness of a review due to change in liabilities**

This will be subject to the following considerations in addition to the general considerations set out above:

- the size of the Scheme employer's liabilities relative to the Fund and the extent to which they have changed;
- the size of the event in terms of membership and liabilities relative to the Scheme employer and/or the Fund; and
- the administering authority's assessment of the ability of the Scheme employer to meet its obligations.
- Appropriateness of a review due to change in ability to meet its obligations to the Fund

In assessing whether or not an administering authority will exercise its powers to review a Scheme employer's contribution rates under this condition, the administering authority will take into account the general considerations set out earlier in this section and:

- The results of any employer risk analysis provided by the Fund Actuary or a covenant specialist
- The perceived change in the value of the indemnity to the administering authority, relative to the size of the Scheme employer's liabilities

It is acknowledged that each Scheme employer's situation may differ and therefore each decision will be made on a case by case basis. Further considerations to that set out above may be relevant and will be taken into account by the administering authority as required.

### **Method used for reviewing contribution rates**

If a review of contribution rates is agreed, or if an indicative review is required to help inform the review process, the administering authority will take advice from the Fund Actuary on the calculation of the Scheme employer's revised contribution rates. This will take into account the events leading to the anticipated liability change and any impact of the changes in the Scheme employer's ability to meet its obligations to the Fund.

The starting point for reviewing a Scheme employer's contribution rates will in some cases be the most recent actuarial valuation. The table below sets out the general approach that will be used when carrying out this review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date.

|  | General approach  |
|--|---|
| Member data  | <p>In some cases, where the review is happening during or shortly after the valuation, the most recent actuarial valuation data will be used as a starting point.</p> <p>In most cases, given the review is due to an anticipated change in membership, the administering authority and Scheme employer should work together to provide updated membership data for use in calculations. There may be instances where updated membership data is not required if it is deemed proportionate to use the most recent actuarial valuation data without adjustment.</p> <p>Where the cause for a review is due to a change in a Scheme employer's ability to meet its obligations to the Fund, updated membership data may not need to be used unless any significant membership movements since the previous Fund valuation are known.</p> |
| Approach to setting assumptions                    | This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's Funding Strategy Statement.   |
| Market conditions underlying financial assumptions | Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those at the most recent actuarial valuation.   |
| Conditions underlying demographic assumptions      | Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.  |
| Funding target                                     | The funding target adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.  |
| Surplus/deficit recovery period                    | The surplus/deficit recovery period adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the   |

|  |   |
|--|---|
|  | approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances. |
|--|---|

The Fund Actuary will be consulted throughout the review process and will be responsible for providing revised rates and adjustments certificate. Any deviations from the general approaches set out above will be agreed by the administering authority and the Fund Actuary.

**Appeals process**

1. Any appeal will follow the existing Internal Dispute Resolution Process.

## **Appendix B: Deferred debt and debt spreading agreement policies**

### **Introduction**

This document sets out the Nottinghamshire County Council Pension Fund's policy on deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers.

Nottinghamshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the exit payment due from the exiting employer to the Fund, or the excess of assets in the Fund relating to that employer. Where an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, if the employer provides evidence that this is not possible, there are two alternatives available: Regulation 64(7A) enables the administering authority to enter into a deferred debt agreement with the employer while Regulation 64B enables the administering authority to enter into a debt spreading agreement.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

This policy document sets out the administering authority's policy for entering into, monitoring and terminating a DDA or DSA.

These policies have been prepared by the administering authority following advice from the Fund Actuary, and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

### **Approach for exiting employers**

In the event that an employer becomes an exiting employer and an exit payment is identified, the Fund should seek to receive a payment from the exiting employer equal to the exit payment in full.

The administering authority makes the exiting employer aware an exit payment is due by providing a cessation valuation report produced by the Fund Actuary. Details of the Fund's cessation policy can be found in the Fund's Funding Strategy Statement (FSS).

The default position is that the employer is required to make an exit payment in full immediately. However, if required, the exiting employer can inform the administering authority, along with evidence, that they are unable to do so and may request to enter either a DDA or DSA. If the administering authority is satisfied with the evidence provided, the DDA or DSA process may proceed.

Requests should be submitted within 28 days of receiving confirmation of the exit payment required, or otherwise the exit payment should be paid to the Fund in full within 28 days as per the Fund's Pension Administration Strategy.

Where possible, the administering authority encourages employers who are approaching exit and suspect they will have a deficit to engage with the administering authority in advance in order to understand the options that may be available. An indicative cessation report can be produced to form the basis of discussions.

### **Choosing a DDA or DSA**

Consideration needs to be given as to which approach is the most appropriate in each case. A DDA may be appropriate if:

the employer temporarily has no active members but expects it may return to active employer status in future. However, please note that if the plan is for active members to join within three years then perhaps a suspension notice may be more appropriate;

the employer wants to minimise costs by potentially benefitting from the upside of the pensions risks it would remain exposed to and therefore does not want to crystallise its debt by becoming an exiting employer. In this case the administering authority may be willing to defer crystallisation of the cessation debt for an appropriately significant period of time, subject to the strength of the employer's covenant or security provided;

initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future, or the payment can only be afforded over a long period and therefore a DDA enables the position to be updated over time in light of changing funding positions; and/or

the employer has a weak covenant but is not faced with imminent insolvency and must rely on future investment returns to fully or partially fund the exit payment. The administering authority may agree that doing so over an appropriate long period is better for the Fund than risking immediate insolvency of the employer.

On the other hand, it may be more appropriate to enter a DSA if:

the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;

the employer wishes to crystallise its debt to the Fund and therefore not be subject to any of the pensions risks that could cause the amounts payable to the Fund increasing (or decreasing) in future;

the employer has ample resources to make the payment within the near future but not immediately; and/or

the employer is deemed to have a very weak covenant and so the administering authority will want to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The administering authority has the right to refuse a DSA or DDA request if they believe it is not in the best interests of the Fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to the other employers.

In considering each request for a DDA or DSA arrangement from an exiting employer the administering authority will take actuarial, covenant, legal and other advice as necessary. Proposed DDAs/DSAs will always be discussed with the employer, whether the arrangement was at the exiting employer's request or not.

Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

### **Managing of costs**

On receiving a request the administering authority will make the employer aware that any costs associated with setting up the DDA or DSA will be the responsibility of the Scheme employer, regardless of whether the administering authority agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, administrative costs and any additional advice required in relation to a covenant assessment or any other specialist adviser costs. If costs deviate from those initially anticipated the administering authority will keep the exiting employer up-to-date with any increases. The administering authority will provide information on how and when payments should be made.

### **Internal dispute resolutions**

Whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. In the event of any dispute from the employer, please refer to the Fund's internal dispute resolution procedures document.

## **Deferred Debt Agreements (DDAs)**

### **Entering into a DDA**

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit.

### **Information required from the employer**

When making a request to enter a DDA, the employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund on a continuing basis. Examples of information the employer may provide as evidence include the exiting employer's:



- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

### **Assessing the proposal**

The administering authority will make a decision on whether to enter into a DDA within 28 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exiting employer's residual liabilities relative to the size of the Fund;
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DDA. For example, in the following circumstances the administering authority may consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- it is known or likely that another active member will come into employment in the three years following the cessation date (in these cases a suspension notice would be considered more appropriate than a DDA); or
- the administering authority is concerned that where a DDA is entered, that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a debt spreading agreement would be considered more appropriate as the payments are fixed throughout the term of the agreement).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to enter into a DDA they will explain to the exiting employer their reasoning and any alternatives (e.g. a debt spreading agreement, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DDA, they will

notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DDA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

### **Setting up a DDA**

Once agreed that a DDA is permitted, the terms of the DDA will be agreed between the administering authority and the exiting employer and will be set out in a formal legal agreement.

The administering authority and the exiting employer (with the assistance of the Fund Actuary) will negotiate an appropriate duration of the agreement which will consider the exiting employer's affordability and anticipated strength of covenant over the agreement period. If the exiting employer has sufficient reserves, the administering authority may require an immediate cash payment so that the DDA can start from an acceptably stronger funding position.

The Fund Actuary will calculate secondary contributions on an appropriate basis as agreed with the administering authority and following consultation with the exiting employer, taking into account any cash payments made in advance. The secondary contributions will be reviewed at each actuarial valuation and certified as part of the Fund's Rates and Adjustments Certificate until the termination of the agreement. Therefore payments throughout the agreement are not known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 3 months, although there may be circumstances where timings may vary.

Once finalised, the employer will become a deferred employer in the Fund and will have an obligation to pay their secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as strain costs as a result of ill health retirements;
- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by the administering authority;
- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the administering authority and provided to the deferred employer;
- promptly provide all such information that the administering authority may reasonably request in order to administer and manage the agreement; and
- give notice to the administering authority, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

The deferred employer should consult with their auditors about any impacts the DDA is expected to have on their accounting requirements.

## **Monitoring a DDA**

A deferred debt agreement is subject to the ongoing approval of the administering authority. The administering authority reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. Conversely, if there was an improvement in the employer's circumstance then the administering authority and employer may agree to amend the terms of the agreement.

The administering authority will monitor a DDA in the following ways:

- **Changing funding position**

The administering authority will request regular, and at least annual, updates of the deferred employer's funding position in order to review the progress of the DDA. The costs of the regular reviews will fall to the deferred employer as part of the terms for putting in place a DDA.

If the funding position changes by more than 10% (in absolute terms) from the previous review, then the administering authority may engage with the deferred employer to discuss a possible review of the DDA.

- **Changing employer covenant**

Once an employer enters into a DDA, the administering authority will review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant deteriorates, the administering authority may issue a notice to review and possibly terminate the agreements.

In addition, if a deferred employer requests an extension to the duration of the DDA the administering authority will consider an updated covenant review, amongst other factors, in assessing the proposal.

As a condition of entering into a DDA, the deferred employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

- **Timeliness of payments**

The agreement will set out whether payments are made on a monthly or annual basis, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards a notice being issued to the deferred employer to review and possibly terminate the agreement.

- **Strength of guarantee or security**

If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then the administering authority will check there has been no change to the security at agreed regular intervals and as a minimum at each valuation cycle. The Fund Actuary may

change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

- Notifiable events from the deferred employer

The deferred employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

## **Terminating a DDA**

### **Events that may terminate a DDA**

As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrolls new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the administering authority serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity.

Termination clauses will be included in the formal DDA legal agreement.

### **Process of termination**

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out the exit payment due from the exiting employer or the excess of assets in the Fund relating to the exiting employer (which would then be subject to the Fund's exit credit policy).

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's FSS.

If the termination has been triggered because a review of the funding position of the deferred employer reveals that the secondary contributions paid to date by the deferred employer are sufficient to cover what would be due if the deferred employer terminated at the updated calculation date, then the deferred employer becomes an exiting employer and no further payments are required. The exiting employer has no further obligation to the Fund. Where there is a surplus, an exit credit may be payable as determined by the administering authority and in line with the Fund's exit credit policy.

## **Debt Spreading Agreements (DSAs)**

### Entering a DSA

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary and following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation.

### Information required from the employer

When making a request to enter a DSA, the exiting employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund. Examples of information the exiting employer may provide as evidence include the employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

### Assessing the proposal

The administering authority will make a decision on whether to enter into a DSA within 28 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exit payment relative to the exiting employer's business cashflow;
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the exiting employer's accounts;

- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DSA. For example, in the following circumstances the administering authority may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- there is doubt that the exiting employer can operate as a going concern during the spreading period; or
- the exiting employer cannot afford the speeded payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

The structure of the DSA is at the discretion of the administering authority having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period that the payments will be spread. This is expected to be no more than 5 years. For longer periods it may be more appropriate to consider a deferred debt agreement but the administering authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the exiting employer's cessation valuation report;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the administering authority of a change in circumstances that could affect their ability to make payments).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to accept the exiting employer's request to enter into a DSA they will explain their reasoning and any alternatives (e.g. a DDA, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DSA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DSA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

### Setting up a DSA

The administering authority and the exiting employer, with the assistance of the Fund Actuary, will then negotiate the structure of the schedule of payments which takes into consideration the exiting employer's affordability and an appropriate period of the spreading.

The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary. There may be circumstances where timings may vary,

however, in general the certificate will be prepared and provided to the exiting employer within 28 days of agreeing the structure of the schedule of payments with the exiting employer.

### Monitoring a DSA

Over the term that the cessation debt payment is spread, the administering authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments certificate. While it is expected the schedule of payments would be fixed for the spreading period, the administering authority may alter the structure of the schedule at any time if there is a change in the exiting employer's circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case by case basis and set out in a side agreement as required.

The administering authority will be in regular contact with the exiting employer until their obligations to the Fund are removed when all payments set out in the schedule of payments are made.

Examples of factors which will be monitored are set out below. Should any of these raise any concerns with the administering authority then the DSA may be reviewed and/or terminated.

### Changing employer covenant

The administering authority will monitor the ability of the exiting employer to make their set payments by monitoring publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

As a condition of entering into a DSA, the exiting employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

### Timeliness of payments

The DSA will set out whether payments are made on a monthly or annual basis and how long for, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards further interest charges or the spreading agreement may be reviewed and/or terminated.

### Strength of guarantee or security

If a particular schedule of payments has been agreed between the administering authority and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then the administering authority will check there has been no change to the security regularly. The frequency of these reviews may reduce as the level of outstanding debt reduces. The administering authority with advice from the Fund Actuary may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

### Notifiable events from the exiting employer

The exiting employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance that affects their ability to make payments. Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

## Terminating a DSA

### Events that may terminate a DSA

On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the Fund.

In the event that the administering authority believes that the exiting employer may not be able to make any of their remaining payments, the administering authority reserves the right to review and/or terminate the DSA to ensure it is appropriate for the Fund and does not adversely impact the other participating employers.

The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the contribution schedule should be paid.

### Process of termination

In the event of a DSA being amended or terminated the administering authority will communicate this to the exiting employer along with reasons for the decision. Before the decision is made the administering authority will consult with the exiting employer about their change in circumstances and also take advice from the Fund Actuary.

If the DSA has to be terminated prematurely the administering authority will seek to obtain from the exiting employer as much of the outstanding exit payments as possible or look at alternative arrangements such as a deferred debt agreement.

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.



# Investment Strategy Statement

## Introduction

The County Council is an administering authority of the Local Government Pension Scheme (the “Scheme”) as specified by the Local Government Pension Scheme Regulations 2013 (“the LGPS Regulations”). It is required by Regulation 53 of the LGPS Regulations to maintain a pension fund for the Scheme.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Investment Regulations”) govern the management of the Pension Fund and the investment of fund money. According to Regulation 7 of the Investment Regulations an administering authority must formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. It must publish a statement of its investment strategy and must review, and if necessary revise, its investment strategy at least every three years.

The investment strategy statement must include:

- a) A requirement to invest fund money in a wide variety of investments.
- b) The authority’s assessment of the suitability of particular investments and types of investments.
- c) The authority’s approach to risk, including the ways in which risks are to be assessed and managed.
- d) The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services.
- e) The authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
- f) The authority’s policy on the exercise of the rights (including voting rights) attaching to investments.

## Aims, Purpose and Principles

The aims of the Fund are to:

- Manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- Achieve and maintain Fund solvency and long-term cost efficiency at reasonable cost to taxpayers, scheduled, resolution and admitted bodies, and enable contribution rates to be kept as nearly constant as possible where practical; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits provided under the LGPS Regulations.
- Meet the costs associated in administering the Fund.
- Receive contributions, transfer values and investment income.

The following principles underpin the Fund's investment activity:

- The Fund will aim to be sufficient to meet all its obligations on a continuing basis.
- The Fund will be invested in a diversified range of assets.
- Proper advice on diversification and the suitability of types of investment will be obtained and considered
- The Fund will aim to conduct its business and to use its influence in a long term responsible way.

## **Key Parties**

The key parties involved in the Fund's investments and their responsibilities are as follows.

### **The Administering Authority**

The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council's constitution, the functions of the Council as administering authority are delegated to the Nottinghamshire Pension Fund Committee. The full governance arrangements of the Fund are detailed in the Fund's Governance Compliance Statement.

The members of the Committee are not trustees (as the LGPS is a statutory scheme) but do have fiduciary duties towards the scheme members and employers.

### **LGPS Central**

LGPS Central ("the Pool") is the asset pool which Nottinghamshire Pension Fund jointly owns with seven other LGPS funds in order to meet the government's criteria for investment reform issued in November 2015. The Pool has obtained FCA authorisation and manages collective investment vehicles on behalf of the participating funds.

### **Committee Members**

The Committee Members recognise their full responsibility for the oversight of the Fund and operate to a Code of Conduct. They shall:

- Determine the overall asset allocation and investment strategy of the Fund.
- Determine the type of investment management to be used and, until funds are transferred to the Pool, appoint and dismiss the main fund managers.
- Receive regular reports on performance from the main fund managers and question them regularly on their performance.
- Receive independent reports on the performance of fund managers on a regular basis.
- Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.
- Approve and monitor the Fund's approach to responsible investment and the financial risks of climate change.

## **Chief Finance Officer**

Under the Council's constitution, the Service Director (Finance, Infrastructure & Improvement) is designated the Council's Chief Finance Officer (also known as the Section 151 Officer). The Group Manager (Financial Services) is the deputy Section 151 Officer. Financial Regulations specify that the Section 151 Officer is responsible for arranging the investment of the Pension Fund. Day to day implementation of investment arrangements is delegated to the Senior Accountant (Pensions & Treasury Management).

Authorised signatories for execution of pension fund investments (including signing on behalf of Pension Fund investments) are:

- Service Director (Finance, Infrastructure & Improvement)
- Group Manager (Financial Services)
- Senior Accountant (Pensions & Treasury Management)
- Investments Officer

Representatives of the Service Director (Finance, Infrastructure & Improvement) provide advice to Committee members and attend meetings of the Nottinghamshire Pension Fund Committee as required.

## **Independent Adviser**

The Fund has an Independent Adviser who attends meetings of the Nottinghamshire Pension Fund Committee and Pensions Working Party as required. This is considered best practice in accordance with the requirements for "proper advice" in the governing regulations. The Independent Adviser is appointed by the Administrating Authority following appropriate consultation with the Committee.

The independent adviser is engaged to provide advice on:

- The objectives and policies of the Fund.
- Investment strategy and asset allocation.
- The Fund's approach to responsible investment.
- Choice of benchmarks.
- Investment management methods and structures.
- Choice of managers and external specialists.
- Activity and performance of investment managers including the Pool and the Fund.
- The risks involved with existing or proposed investments.
- The Fund's current property portfolio and any proposals for purchases, sales, improvement or development.
- New developments and opportunities in investment theory and practice.
- Amendment and review of statutory policy documents.

## **Asset Allocation**

It is widely recognised that asset allocation is the most important factor in driving long term investment returns. The balance between different asset classes depends largely on the expected risk/return profile for each asset class and the target return for the Fund. It is also recognised that investment returns play a significant role in defraying the cost of providing

pensions by mitigating the contributions required from employers.

Employers' contributions are determined as part of the regular actuarial valuation of the Fund. Historically these have taken place every three years and the last valuation took place as at March 2022. The actuarial valuation involves a projection of future cash flows to and from the Fund. Its main purpose is to determine the level of employers' contributions that should ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. This is the main funding objective as set out in the Funding Strategy Statement.

The Fund Actuary estimates the future cash flows which will be paid from the Fund for the benefits relating to service up to the valuation date. They then discount these projected cash flows using the discount rate to get a single figure for the value of the past service liabilities. This figure is the amount of money which, if invested now, would be sufficient to make these payments in future provided that the future investment return was equal to at least the discount rate used.

The discount rate is based on the expected long term future investment returns from various asset classes. Based on the March 2022 valuation, these are as follows:

| <b>Asset class</b>        | <b>Expected return (p.a.)</b> |
|---------------------------|-------------------------------|
| Equities                  | 6.9%                          |
| Gilts                     | 2.0%                          |
| Other bonds               | 3.4%                          |
| Property & infrastructure | 6.4%                          |
| Cash                      | 1.6%                          |
| Inflation linked fund     | 7.2%                          |
| <b>Discount rate</b>      | <b>4.7%</b>                   |
| <b>Fund Target Return</b> | <b>5.7%</b>                   |

At the March 2022 valuation, the Fund was assessed to have a minimal surplus and a funding level of 100%. Deficit recovery contributions have been certified for the majority of employers but any returns in excess of the discount rate will help to recover the Fund to a fully funded position. The Fund therefore sets its asset allocation to target an annual return rate of 5.7%.

The agreed asset allocation ranges for the Fund are shown below, along with the Fund's long term strategic target allocations.

| <b>Outcome</b>                | <b>Asset class</b>  | <b>Allocation ranges</b> | <b>Strategic benchmark</b>            |     |
|-------------------------------|---|--------------------------|---------------------------------------|-----|
| Growth                        | Listed and Private Equity   | 50% to 70%               | 65% FTSE World ex UK. 35% FT Allshare | 60% |
| Inflation protection (income) | Property, Infrastructure,* Index Linked Gilts and Diversified Growth fund | 15% to 35%               | CPI                                   | 28% |
| Income only                   | Fixed income  | 5% to 15%                | FTSE UK All Stock                     | 10% |
| Liquidity                     | Cash, short term bonds  | 0% to 10%                | SONIA                                 | 2%  |

\*The target allocation to infrastructure is 9.8%.

This asset allocation is aimed at achieving appropriate returns to meet the Fund Target Return within acceptable risk parameters. The Fund's actual allocation may vary from this according to market circumstances, relative performance and cash flow requirements. The ranges will be kept under regular review and, if it appears likely that these limits might be breached because of market movements, reference will be made to a meeting of the Pensions Working Party for advice.

The asset allocation currently favours "growth" assets, primarily equities, as they are expected to deliver higher returns to help the Fund achieve the Fund Target Return. The Fund also invests in "income" assets to deliver secure and predictable income over the long term. These may include infrastructure, property and fixed income. Inflation is a long-term risk factor and the Fund explicitly seeks investments in this category which will help to mitigate that. Finally, the Fund allocates to liquid assets such as cash and short-term bonds in order to ensure cash is always available to pay benefits at any time. This allows the Fund to continue to implement a long-term investment strategy.

The asset allocation is regularly reviewed to consider whether it is appropriate to change the mix of assets. This was last done in January 2023.

## **Investment Strategy**

### **Requirement to invest fund money in a wide variety of investments.**

In setting asset allocation to deliver the Fund Return Target the Fund will seek as far as possible to invest in a diversified range of uncorrelated assets in order to reduce the level of investment risk.

### **Types of investments**

Subject to the LGPS regulations on allowable investments the Fund may invest in a wide range of assets and strategies including quoted equity, government and non-government bonds, currencies, money markets, commodities, traded options, financial futures and derivatives, alternative strategies, private equity and debt markets, infrastructure and property. Investment may be made either in-house, indirectly (via funds) in physical assets or using derivatives, or through external managers including the Pool. The fund may use external managers to carry out stock lending while ensuring suitable controls/risk parameters are put in place to prevent losses. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

### **Approach to investment**

The Fund bases its approach to investment on the investment beliefs set out in Appendix A. As the Pool takes over implementation of the investments, some of them will become less relevant to the Nottinghamshire Pension Fund Committee's decisions but they should be seen as the fundamental core of how the Fund's assets are invested.

## **Approach to risk, including the ways in which risks are to be assessed and managed**

The risk tolerance of the Fund is agreed with the Nottinghamshire Pension Fund Committee, the investment team and independent adviser through the setting of investment beliefs, funding and investment objectives. The Fund will only take sufficient risk in order to meet the Fund Target Return set out in paragraph 20, currently 5.7%.

The risks the Fund is exposed to include investment (including the financial risks of climate change), operational, governance, currency, demographic and funding risks. These risks are identified, measured, monitored and then managed. Plans are put in place to mitigate these risks so far as that is possible. Details are given in Appendix B.

## **Approach to pooling investments**

The Fund entered the Pool with the understanding that it will deliver lower investment costs, greater investment capability, improved ability to act as a responsible investor and access to more uncorrelated asset classes. As a better resourced and FCA authorised and regulated investment manager, LGPS Central Ltd is expected to provide improved governance, transparency and reporting giving the Pension Fund assurance that its investment strategy is being carried out effectively.

It is expected that most of the Fund's assets will be transferred to the Pool over a period of time. The Pool is setting up sub-funds which the Fund and other partners expect to invest in. It is likely that this process will take place over a number of years, with the timing being dependent on market conditions and operational circumstances. Where there are financial or other barriers to transfers, assets may remain in the Fund's ownership.

Governance of the Pool is primarily through the Shareholders Forum, governed by a Shareholders Agreement and operating under company law, which has formal decision making powers. Nottinghamshire Pension Fund has equal voting rights alongside the other participating funds and unanimous decisions are required on key strategic matters. These are specified in the Shareholders Agreement and Articles of Association, and include the appointment and dismissal of the company's senior executives, approval of the company's strategic plan and any significant financial transactions, such as major acquisitions, lending or borrowing.

The degree of control to be exercised by the Shareholders through their reserved powers is greater than is generally the case, in order to satisfy the Teckal exemption criteria and allow the company to undertake services on behalf of the investor funds without a formal procurement process.

The Joint Committee, established by an Inter-Authority Agreement, is the forum for dealing with common investor issues and for collective monitoring of the performance of the pool against the agreed objectives of the Pool. However, it has no formal decision-making powers and recommendations require the approval of individual authorities, in accordance with their local constitutional arrangements.

The government has made clear their expectation that pooled entities should be regulated by the Financial Conduct Authority (FCA) to ensure appropriate safeguards over the management of client monies. As such LGPS Central Ltd will be subject to ongoing oversight by the FCA

and those holding key management positions, including the company directors, need to be approved persons, able to demonstrate appropriate knowledge, expertise and track record in investment management. The Directors of LGPS Central Ltd will also be personally liable for their actions and decisions.

Comprehensive programme governance arrangements are in place to ensure that costs and savings are managed in accordance with the agreed business case. The Section 151 Officers, or their nominated representatives, of each of the participating funds sit on the Practitioners Advisory Forum and regular meetings are held with the Chair and Vice-Chair of the Pension Fund Committee to ensure effective member oversight of progress and delivery. The Nottinghamshire Pension Fund Committee and the Local Pension Board are also being updated regularly on key developments and decisions.

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

The policy of the Fund will be to treat the equity allocation (both listed and private) as a block aimed at maximising the financial returns to the funds (and thus minimising employers' contributions) consistent with an acceptable level of risk. Other investments, such as property, fixed income, infrastructure or cash are aimed at mitigating risks which the Fund are exposed to, such as inflation, cashflow shortage, interest rate changes etc.

The Fund has a target allocation towards infrastructure, currently 9.8%, which is intended to deliver secure long term income and some level of inflation protection. These assets may be either equity-like or bond-like in their nature and either listed or unlisted. The Committee monitors this weighting on a quarterly basis.

The Fund allocates a maximum of 20% to a range of illiquid assets including unlisted infrastructure, private equity and private credit where there may be no exit until the end of a fund's life. The Fund expects these to provide superior returns or risk mitigation in order to compensate for the lack of liquidity. Allocation to these assets are based on committed amounts and, owing to the nature of these vehicles, the actual net investment level may be lower, perhaps significantly so. This limit excludes the allocation to Real Estate.

Cash will be managed and invested on the Fund's behalf by the County Council in line with the Pension Fund's treasury management policy. The policy is to invest surplus funds prudently, giving priority to security and liquidity rather than yield. If losses occur the Fund will bear its share of those losses.

Pension Fund cash is separately identified in a named account and specific investment decisions will be made on any surplus cash identified, based on the estimated cash flow requirements of the Fund. Part of the cash balance is allocated to individual investment managers and may be called by them for investment at short notice, so the majority of cash will be placed on call or on short-term fixed deposits. Unallocated balances may be placed directly with the Fund's custodian.

### **Policy on social, environmental and corporate governance considerations**

Social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments by both the Pension Fund and underlying managers on the Fund's behalf. Non-financial factors may be considered to the extent that they are not significantly detrimental to the investment return and the

Committee is satisfied that members share their concerns.

It is recognised that Environmental, Social, and Governance (“ESG”) factors including current and future impacts of climate change are important to long term investment performance and the ability to achieve long term sustainable returns. The Nottinghamshire Pension Fund Committee considers the Fund’s approach to ESG in three key areas:

- Selection – considering the financial impact of ESG factors on its investments.
- Stewardship – acting as responsible and active owners, through considered voting of shares and engaging with investee company management as part of the investment process. The Committee supports the Stewardship Code.
- Transparency & Disclosure – commitment to reporting the outcomes of the Fund’s stewardship activities and publishing an annual TCFD (Taskforce for Climate related Financial Disclosure) report.

In combination these three matters are often referred to as “Responsible Investment” or “RI” and this is the preferred terminology of the Fund. Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Committee bases its decisions in this area on its RI Investment Beliefs, which are set out within Appendix A.

The Fund has developed a Climate Strategy which was approved by the Committee in December 2020. The Climate Strategy describes the way climate-related risks are managed by the Fund and covers four main elements: governance of climate risk, climate-related beliefs, objectives and strategic actions. The Committee will review the Climate Strategy on a regular basis.

The Pool has a fully developed set of RI policies, which are in line with the Committee’s own investment beliefs. This includes a *Responsible Investment & Engagement Framework*, a *Statement of Compliance with the UK Stewardship Code*, and *Voting Principles*. The Fund, through the Pool’s Practitioners Advisory Forum, contributes to the development of these policies. LGPS Central Ltd is responsible for ensuring that underlying managers in the Pool meet with the requirements of this policy. LGPS Central Ltd will also engage directly with investee companies to promote sustainable business practices that reward long-term investors. Voting rights will be instructed according to the Pool’s agreed *Voting Principles*. LGPS Central Ltd will be required to report on its RI policy to the Committee on a regular basis in order to demonstrate the implementation of the agreed RI policies.

The Fund has articulated an investment belief on the relevance of climate change for financial markets (see Appendix A). In line with this belief, the Fund will actively look for investments which can be expected to benefit as a result of the long-term impacts of climate change.

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

Membership of the Local Authority Pension Fund Forum (LAPFF) helps Nottinghamshire Pension Fund to engage with companies to understand issues and to promote best practice. LAPFF was set up in 1990 and is a voluntary association of the majority of Local Authority pension funds based in the UK with combined assets of over £350bn. It exists to protect the long term investment interest of local authority pension funds, and to maximise their influence as shareholders by promoting the highest standards of corporate governance and corporate



responsibility amongst investee companies.

The Committee believes that voting is an integral part of the responsible investment and stewardship process. The Fund manages its ownership responsibilities through its partnership with LGPS Central Ltd, Hermes EOS and via its investment managers. Hermes EOS is a major independent corporate governance and shareholder advisory consultancy procured by LGPS Central Ltd. Hermes EOS exercises all the Fund's voting rights in line with the shared proxy voting guidelines.

The Pool is a Tier 1 signatory to the Stewardship Code.

Hermes EOS reports quarterly on its voting activity, and these reports are available to Committee Members and the membership through the website. The availability of this information is stated in the Annual Report.

## **Other Issues**

The Fund's assets are held in custody by a combination of an independent custodian, investment managers and in-house. The performance of fund managers will be measured against individual benchmarks and the overall fund, including cash returns, against the Fund Target Return. Performance will be measured by an independent agency. The statement of accounts will be audited by the County Council's external auditors.

The investment management arrangements of the Fund can be found in the latest annual report (available on the Fund's website, [www.nottspf.org.uk](http://www.nottspf.org.uk)). The Fund also publishes details of its holdings on the website on a quarterly basis.

This Investment Strategy Statement will be kept under review and will be revised following any material changes in policy.

## APPENDIX A - Statement of Investment Beliefs

### Statement of Investment Beliefs

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

#### Financial market beliefs

Return is related to risk but taking calculated risks does not guarantee returns. The actual outcome may be higher or lower than that expected.

The Fund has a long-term investment horizon and is able to invest in volatile and/or illiquid investment classes in order to generate higher returns.

Markets are dynamic and are not always efficient, and therefore offer opportunities for investors.

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

#### Investment strategy/process beliefs

Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy. Risk should be viewed both qualitatively and quantitatively. Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

Strategic asset allocation is a key determinant of risk and return, typically more important than manager or stock selection.

Equities are expected to generate superior long-term returns relative to Government bonds.

Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.

Active management can add value over time, but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management is preferred.

Operational, counterparty and reputational risk need assessment and management, in addition to investment risk.

Managing fees and costs matter, especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

The Fund will prefer to invest through its pool, LGPS Central, where they are able to offer a vehicle which offers similar or better risk-adjusted return to what is available elsewhere.

## Organisational beliefs

Clear investment objectives are essential.

Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.

The Nottinghamshire Pension Fund Committee's fiduciary duty is to the members of the Pension Fund and their employers. While they are not trustees, they have trustee-like responsibilities.

## Responsible investment beliefs

Responsible investment is supportive of risk-adjusted returns particularly over the long term, across all asset classes. As a long-term investor, the Fund should seek to invest in assets with sustainable business models across all asset classes.

Responsible investment should be integrated into the investment processes of the Fund, the Pool, and underlying investment managers.

A strategy of engagement rather than exclusion is more compatible with fiduciary duty and is more supportive of responsible investment because the opportunity to influence companies through stewardship is waived in a divestment approach. This notwithstanding, our active managers may choose to sell holdings in individual companies whose business models they do not believe to be sustainable.

Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of diverse individuals.

There is risk but also financial opportunity in holding and influencing companies which have weak governance of financially material ESG issues but the potential to improve. Opportunities can be captured so long as decisions are based on sufficient evidence and they are aligned with the Fund's objectives and strategy. The Fund welcomes the global environmental, social and economic benefits that such an approach can deliver.

Financial markets are likely to be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through integrated analysis and stewardship activities, using partnerships of like-minded investors where feasible.

## Appendix B - Risk Management

The Fund has adopted a Risk Management Strategy to:

- Identify key risks to the achievement of the Funds objectives.
- Assess the risks for likelihood and impact.
- Identify mitigating controls.
- Allocate responsibility for the mitigating controls.

Officers are responsible for maintaining a risk register detailing the risk features in a)-d) above, for reviewing and updating it on a regular basis, and reporting the outcome of the review to the Nottinghamshire Pension Fund Committee.

The Risk Register is a key part of the strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.

A key part of managing the investment risk is by ensuring that the Fund is invested through an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets. As the Pool takes over implementation of the assets, Nottinghamshire Pension Fund Committee's role will increasingly be to hold them to account.

The correlation between UK and overseas markets has increased significantly over recent time, reflecting the increasing globalisation of the market. The Fund will take into account exchange rate risks when deciding the balance between holding of UK and overseas equities. As a long-term investor, the Fund does not undertake currency hedging itself. Individual managers may hedge currency risks but only with prior approval from the Fund.

In addition, the following advisory guidelines will apply. These guidelines will be reviewed from time to time and if changes are made these will be incorporated into a revised Investment Strategy Statement, and amendments will be published.

- Not more than 20% of the Fund to be invested in unlisted securities (this excludes real estate).
- No direct underwriting without prior approval.
- No direct involvement in derivatives (including currency options) without prior approval.

# Climate Strategy

## Introduction

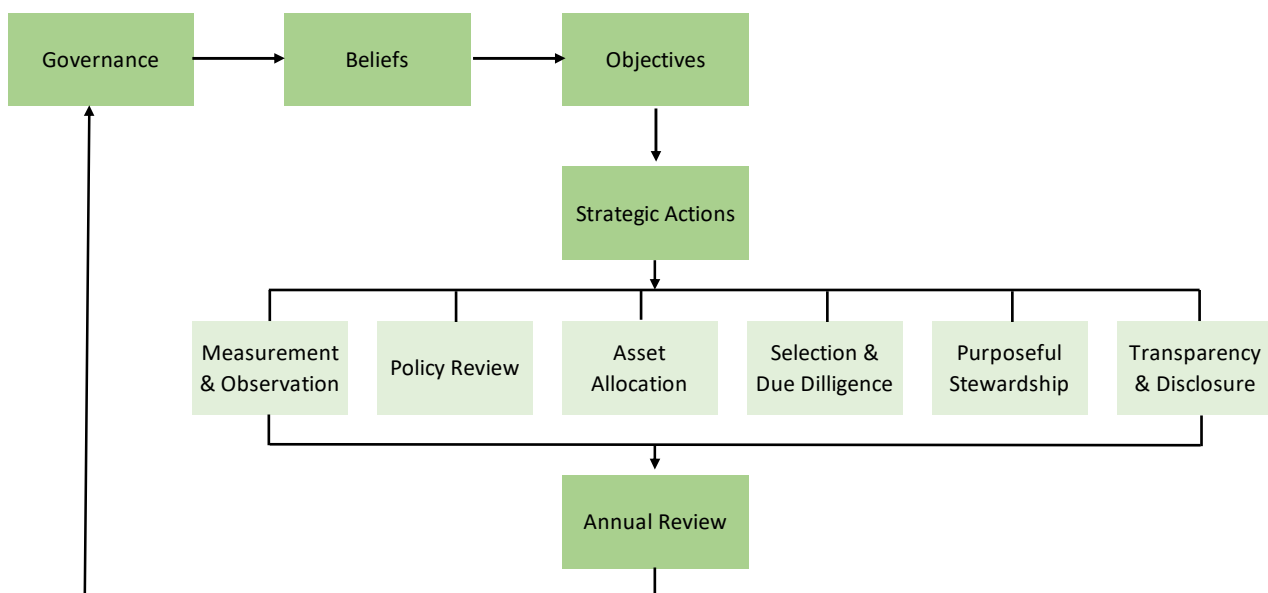
As the world faces the escalating impacts of climate change, urgent action is required to limit the worst effects of global warming. The recently released Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report (AR6) has made it clear that we need to act now to limit global warming to 1.5 degrees Celsius. In order to achieve this, greenhouse gas emissions must peak no later than 2025 and be reduced by almost 50% from 2010 levels by 2030, and reach net zero around mid-century.

The Fund supports the finance industry's role in transitioning to a low-carbon economy through our climate strategy. We seek sustainable markets that create long-term value and returns. Climate change is a risk that can't be fully diversified, and how companies and policymakers respond to it will likely affect profits and returns. The Fund takes a holistic approach to managing this risk through portfolio construction, engagement, and policy advocacy for a low-carbon economy.

## Governance of Climate Change Risk

The Pension Fund Committee is responsible for approving the Fund's policies and procedures including the Fund's Climate Strategy. Responsibility for the implementation of the Strategy is held by the Service Director for Finance, Infrastructure and Improvement, the Group Manager Financial Services, and the Senior Accountant Pensions and Treasury Management. The Pension Fund Committee will review the strategy on an annual basis. This will be scheduled to coincide with the annual update of carbon risk metrics. Committee members receive training on climate change annually to help them discharge their responsibilities.

As a primarily externally managed Fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers, with oversight from the Fund Officers. Where appropriate, LGPS Central assists the Fund in assessing and managing climate-related risks.



1: Depiction of the Climate Strategy

Figure

## Evidence-based beliefs related to climate change

1. As a result of anthropogenic activities, the world is warming at an unsustainable rate. Already the world is approximately 1.1°C warmer than pre-industrial levels. Unabated, such change would be devastating for our way of life.
2. There is overwhelming evidence that climate change is impacting the environment. This will have long-term consequences for our financial system. We hold that the economic damages of climate change will outweigh the costs of precautionary mitigation.
3. Climate change is a financially material risk for the Fund. It has the potential to impact our members, employers and all our holdings across asset classes. Due consideration of climate risk falls within the scope of the Fund's fiduciary duty.
4. Climate change has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.
5. The Fund strongly supports the Paris Agreement on climate change.
6. A transition to a low-carbon economy is essential. This requires greenhouse gas emissions to decline to net-zero by 2050. This will happen not only by focussing on the suppliers of energy but the demand for energy must also undergo a major transformation.
7. All companies should align their business activities with the Paris Agreement on climate change. It is possible for a high-emitting company to undergo this transformation and thrive in the transition to a low-carbon future.
8. Investors have an important role to play in the transition to a low-carbon economy. We would be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.
9. A global co-ordinated response is needed to limit the rise in temperatures. No individual investor is influential enough to act alone. Governments, policy-makers, consumers, companies and investors all have a role to play. Acting in collaboration will increase the likelihood of an orderly transition to a low-carbon economy.
10. Climate-aware decisions are most effectively made with accurate, relevant, complete, and comparable data.

## Climate-Related Objectives

### Climate Risk Assessment:

Conduct thorough assessments of climate risks and opportunities for the Fund's investments, including both transition risks (such as policy and regulatory changes) and physical risks (such as extreme weather events).

### **Climate-Aware Portfolio Management:**

Ensure that the Fund's investment portfolio, including existing assets and future acquisitions, is resilient to climate change impacts by considering material climate-related risks and opportunities in the Fund's investment decision-making process. This includes climate change integration in the selection and due diligence of assets, as well as continuous monitoring of assets to ensure that they remain aligned with the Fund's climate objectives.

### **Engagement with Companies:**

Engage with companies in the Fund's portfolio to encourage them to reduce their greenhouse gas emissions and improve their climate resilience.

### **Carbon Footprinting:**

Measure and disclose the carbon footprint of the Fund's investments to better understand the Fund's exposure to climate risks and opportunities.

### **Stewardship:**

Use the Fund's shareholder influence to advocate for more sustainable business practices and policies, such as setting emissions reduction targets, reporting on climate risks, and integrating climate considerations into corporate governance.

### **Policy Advocacy:**

Advocate for public policies that support the transition to a low-carbon economy, such as carbon pricing, renewable energy incentives, and energy efficiency standards.

### **Education and Communication:**

Educate stakeholders on the importance of addressing climate change and the Fund's efforts to manage climate risks and opportunities, while being transparent about the Fund's approach to climate change.

## **Strategic Actions**

### **5.1 Measurement & Observation**

The Fund will make regular measurements and observations on the climate-related risks and opportunities relating to our Fund. This includes:

- An annual carbon risk metrics assessment of the Fund's listed equities and fixed income assets.

- A triennial economic assessment of the Fund’s asset allocation against plausible climate-related scenarios
- Monitoring the likelihood of different climate scenarios, drawing on the Fund’s suppliers and advisers
- Identification of the greatest climate-related risks to the Fund.

The Fund aims to use the best available tools and techniques to analyse climate-related risks and opportunities the Fund is exposed to. It is recognised that certain methodologies are in the early stages of development, including measuring Fund alignment with the Paris Agreement. As such, efforts to develop credible methodologies will be supported.

## **5.2 Asset Allocation**

Where permitted by a credible evidence base, climate change factors will be integrated into reviews of our asset allocation, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement. This includes exploring potential investments in sustainable private equity, green bonds and low-carbon passive equities. The Fund will also consider additional allocations to Global Sustainable Equities and Infrastructure.

That Members use the Climate Strategy as a means to consider divestment from fossil fuels.

## **5.3 Selection and Due Diligence**

In the selection and due diligence of new funds material climate-related risks and opportunities will be considered, alongside the manager’s approach to managing climate risks.

The Fund’s expectations on climate risk management will be specified in investment mandates, investment management agreements and other relevant documentation.

## **5.4 Purposeful Stewardship**

The Fund will monitor engagement with its investee companies and portfolio managers through its Climate Stewardship Plan (Appendix 1). The Fund will report progress against its Climate Stewardship Plan on an annual basis. (It should be noted that although the Climate Stewardship Plan is new, some of the activity within it already takes place as part of the ongoing risk management of the Pension Fund.)

Appointed investment managers will be regularly monitored to ensure climate-related risk is fully integrated into the investment process. The Fund will make use of the IIGCC’s “addressing climate risks and opportunities in the investment process” as an aid. In addition, the Fund will:

- Discuss with equity managers the influence of climate factors on their sector positioning
- Discuss with real asset managers their physical risk resilience and GRESB (Global Real Estate Sustainability Benchmark) participation
- Engage corporate bond managers on their approach to assessing climate risk within their portfolios in the absence of reported GHG emissions data

Through LGPS Central, the Fund will join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies.

The Fund will make will use of voting rights and will co-file or support climate-related shareholder resolutions where appropriate.



## **5.5 Transparency & Disclosure**

The Fund will prepare and disclose a Taskforce for Climate-related Financial Disclosures (TCFD) report annually, which will include carbon risk metrics.

The Fund will report progress on the annual Climate Stewardship Plan to the Nottinghamshire Pension Fund Committee on an annual basis.

A summary of voting and engagement activities will be published in the Annual Report, along with a summary of the Fund's Climate Risk Report in a manner consistent with the TCFD Recommendations.

## Appendix 1: Climate Stewardship Plan

The Climate Stewardship Plan identifies the areas in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the Fund. The Climate Stewardship Plan is based on the findings of the Fund's Climate Risk Report.

### Part 1: Company Engagement

The Fund will continue to monitor engagements with a focussed list of investee companies across materials, energy and mining sectors that face a high level of climate risk and are of particular significance to the Fund's portfolio. All of these companies are captured by the Climate Action 100+ (CA100+) engagement project<sup>1</sup>, in which our pooling company LGPS Central is an active participant.

In leveraging this investor partnership the Fund is able to engage and monitor progress for the focus list companies against the CA100+ Net Zero Benchmark Framework. All companies have been asked to set a 2050 net zero emissions ambition and to provide verifiable evidence of how that will be achieved in the short, medium and long term. Each company is assessed against eight key Framework indicators and the results are made publicly available by CA100+. Company response and engagement progress will feed in to voting decisions undertaken by the Fund. LGPS Central will provide an annual update on engagements on the investee companies listed in the Fund's Climate Stewardship Plan. The Fund will continue to engage investee companies on all elements of the CA100+ Framework but with particular emphasis on:

| Company | Sector    | Issue/Objective  |
|---------|-----------|--|
| BHP     | Materials | <ul style="list-style-type: none"> <li>For BHP to suspend memberships from any association that is not aligned with their own climate change goals</li> <li>For BHP to establish clear short-, medium- and long-term GHG reduction targets that cover all material scope 1, 2 and 3 GHG emissions and are aligned with a 1.5°C warming trajectory</li> </ul> |
| BP      | Energy    | <ul style="list-style-type: none"> <li>Achievement of the high-level objectives of the CA100+ initiative</li> <li>To duly account for climate risks in financial reporting</li> </ul>  |
| CRH     | Materials | <ul style="list-style-type: none"> <li>Improved disclosure around its membership and involvement in trade associations engaged in climate issues</li> <li>More robust reporting of Scope 1, 2 and 3 emissions</li> <li>Increased development of activities focusing on low-carbon cement solutions</li> </ul>  |

<sup>1</sup> Climate Action 100+ (CA100+) was initiated in December 2017 and is supported by more than 500 investors with 47 trillion USD in AUM. The project builds on a relatively simple but powerful logic: Engage and influence the highest emitters (80% of global industrial emissions) and you influence whole sectors, markets and the global economy with a view to assisting an orderly transition to a low-carbon economy.

|                |                    |   |
|----------------|--------------------|---|
| ExxonMobil     | Energy             | <ul style="list-style-type: none"> <li>Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark Framework</li> </ul>   |
| Glencore       | Materials          | <ul style="list-style-type: none"> <li>Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ benchmark</li> </ul>   |
| Rio Tinto      | Diversified Mining | <ul style="list-style-type: none"> <li>Achievement of the high-level objectives of the CA100+ initiative</li> </ul>   |
| Shell          | Energy             | <ul style="list-style-type: none"> <li>To set and publish targets that are aligned with the goal of the Paris Agreement</li> <li>To fully reflect its net-zero ambition in its operational plans and budgets</li> <li>To set a transparent strategy for achieving net-zero emissions by 2050</li> </ul> |
| Total          | Energy             | <ul style="list-style-type: none"> <li>Achievement of the high-level objectives of the CA100+ initiative including attainment of the specific indicators in the CA100+ Benchmark Framework</li> </ul>   |
| Anglo-American | Materials          | <ul style="list-style-type: none"> <li>Achievement of the high-level objectives of the CA100+ initiative</li> </ul>   |

As a result of the Fund's third Climate Risk Report NextEra Energy, Reliance Industries, Cemex and Southern Company were added to the focussed list.

The Fund will continue to monitor identified investment managers to ensure climate-related risk is fully integrated into their investment process. The Fund will engage its managers on the following issues:

| Asset Class  | Topic  |
|--------------|--|
| Equities     | <ul style="list-style-type: none"> <li>The influence of climate factors on sector positioning</li> <li>Stewardship activities with companies identified in Climate Risk Report</li> </ul>  |
| Fixed Income | <ul style="list-style-type: none"> <li>Approach to assessing climate risk in the absence of reported GHG emissions data</li> <li>Engagement with the most intensive carbon issuers</li> <li>Extent of investment in green bonds</li> </ul> |
| Real Assets  | <ul style="list-style-type: none"> <li>Physical risk resilience</li> <li>GRESB participation</li> </ul>  |

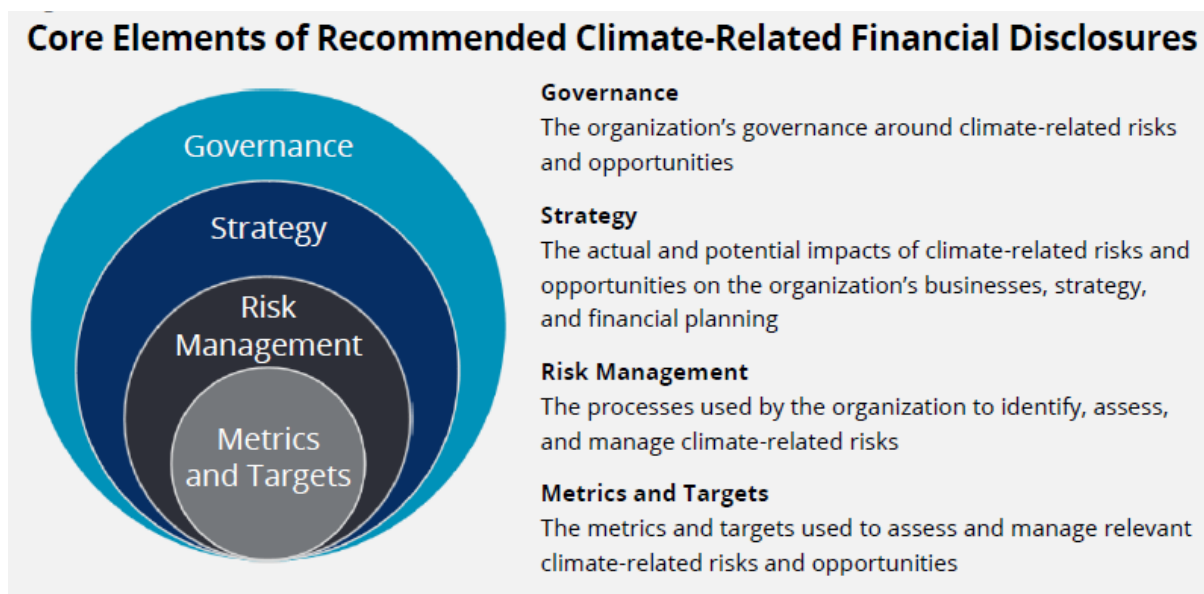
# Climate-Related Financial Disclosures Report 2022

## Introduction to the TCFD

The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total 930 organisations representing a market capitalisation of over \$11 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice.

The recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see Figure 1 below) are designed so as to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances. Examples of pension funds that have been early adopters of the TCFD recommendations include AP2, NEST, PGGM, RPMI Railpen, The Pensions Trust, and Environment Agency Pension Fund.

**Figure 1: TCFD Disclosure Pillars**



The Fund supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a pension fund, we are long-term investors and are diversified across asset classes, regions and sectors, making us “universal owners”. It is in our interest that the market is able to effectively price climate-related risks and that policymakers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our beneficiaries.

## About this report

This report is Nottinghamshire Pension Fund's (NPF or 'the Fund') third climate-related disclosure report. It describes the way in which climate-related risks are currently managed within the Fund.

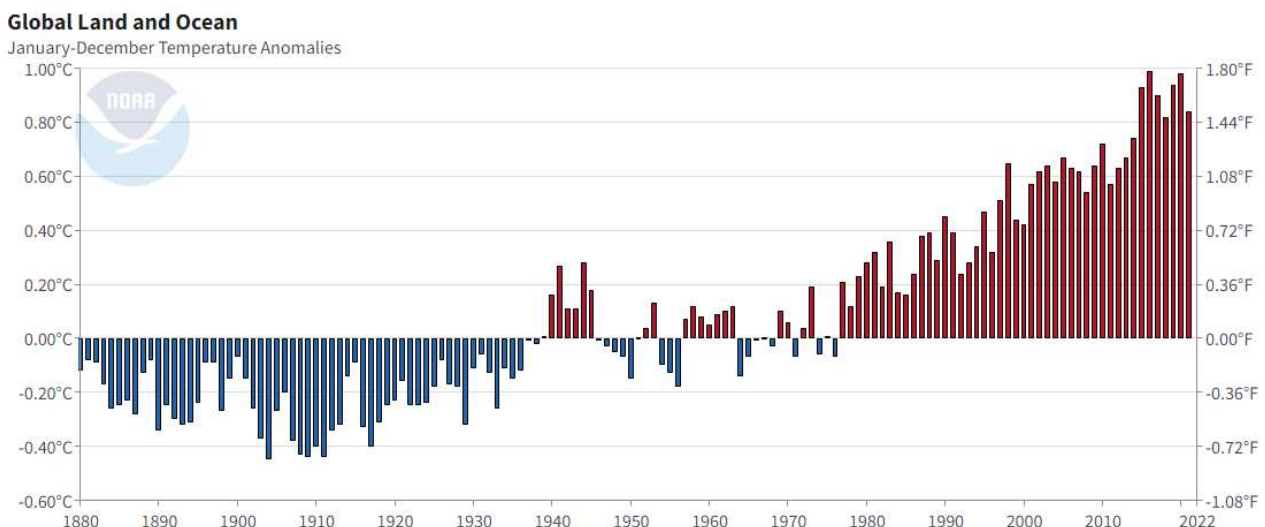
Since October 2020, NPF has received three Climate Risk Reports from the Fund's pooling company, LGPS Central Ltd. These reports provide an in-depth review of the Fund's climate risks under different climate change scenarios across all asset classes. The Fund uses the findings of these reports to inform the Climate Strategy.

In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, this report discloses the most recent Carbon Risk Metrics Analysis and Climate Scenario Analysis undertaken on the Fund's assets. We expect to update our Carbon Risk Metrics on an annual basis.

## Climate-related risks

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. Most of this warming has occurred in the past 35 years, with the seven warmest years on record taking place since 2010. Between the years 2006-2015, the observed global mean surface temperature was 0.87°C higher than the average over the 1850-1990 period. The overwhelming scientific consensus is that the observed climatic changes are the result primarily of human activities including electricity and heat production, agriculture and land-use change, industry, and transport.

**Figure 2: Graph showing Global Temperature Difference from 20<sup>th</sup> century average.<sup>2</sup>**



<sup>2</sup> NOAA National Centers for Environmental information, Climate at a Glance: Global Time Series, published October 2022, retrieved on November 14, 2022 from <https://www.ncei.noaa.gov/access/monitoring/climate-at-a-glance/global/time-series>

In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the majority of climate scientists anticipate that given the current level of climate action, by 2100 the world will be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

**Figure 3: Selected extracts from the Paris Agreement on climate change.**

**Source: UNFCCC.**

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*Paris Agreement Article 2(1)a*

*Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;*

*Paris Agreement Article 2(1)c*

*Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.*

*Paris Agreement Article 4(1)*

*In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to*

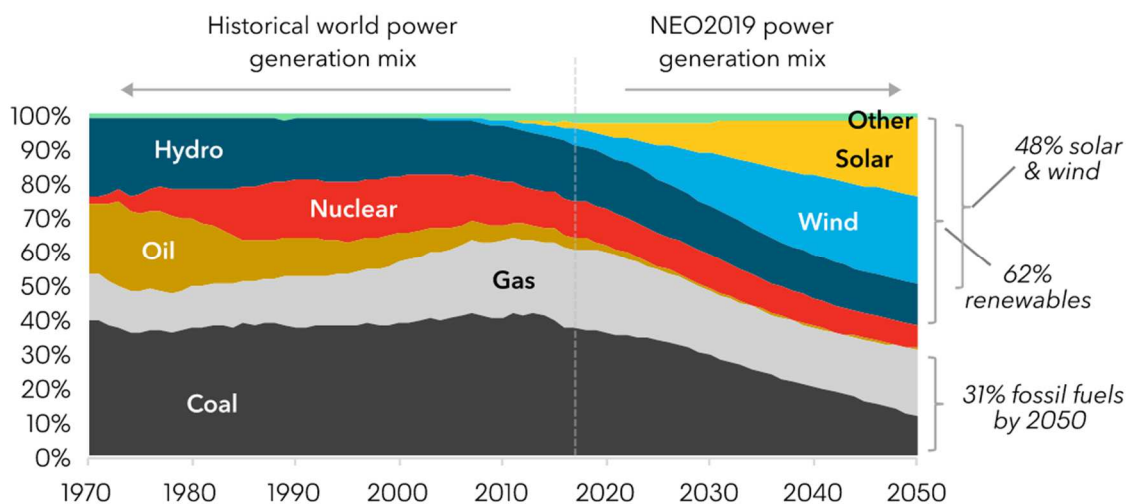
Given its contribution to global greenhouse gas (GHG) emissions, the energy sector is expected to play a significant role in the long-term decarbonisation of the economy. Figure 4 suggests that in one climate scenario the proportion of coal, oil, and gas in the global power generation mix will shrink to 31% of the total by 2050. It is important to

recognise however that not only is the supply of energy expected to be a factor in global decarbonisation, but the demand for energy plays a crucial role too. In addition, the behaviour of private and state-owned energy companies (not commonly invested in by UK pension funds) is as important as their publicly traded counterparts.

The issue faced by diversified investors (such as pension funds) is not limited to the oil & gas and power generation sectors, but also to downstream sectors. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors. Research suggests that the oil & gas sector is not homogeneous with regards to climate risk: were climate policies to affect the oil price, those companies with assets lower down the cost curve are less likely to be financially compromised by those companies with higher-cost assets. Investors that assume each fossil fuel company bears an equal magnitude of climate-related risk could be led towards sub-optimal decision-making.

The Fund recognises that climate-related risks can be financially material, and that the due consideration of climate risk falls within the scope of the Fund’s fiduciary duty. Given the Fund’s long-dated liabilities and the timeframe in which climate risks could materialise, a holistic approach to risk management covering all sectors and all relevant asset classes is warranted.

**Figure 4: The Bloomberg New Energy Outlook global power generation mix. Source: BloombergNEF.**



## Disclosure Pillars

The TCFD Recommendations set out four disclosure pillars; Governance, Strategy, Risk Management and Metrics and Targets. This TCFD Report is structured in line with Asset Owner TCFD Recommendations by each pillar as follows.

### Governance

| TCFD Recommended Disclosure  |
|--|
| a) Describe the board’s oversight of climate-related risks and opportunities |

Roles and responsibilities at the Fund are set out clearly in the Fund’s *Governance Compliance Statement*. Overall responsibility for managing the Fund lies with the full Council

of Nottinghamshire County Council which has delegated the management and administration of the Fund to the Nottinghamshire Pension Fund Committee.

The Nottinghamshire Pension Fund Committee (“the Committee”) is responsible for preparing the Investment Strategy Statement (ISS) and Climate Strategy. The ISS includes the funds approach to responsible investment and recognises climate change as a factor that could have a serious impact on financial markets. The Climate Strategy is premised on 10 foundational evidence-based beliefs about climate risk, considering climate science, the energy transition, and climate stewardship. The Climate Change Strategy is reviewed on an annual basis. The Committee meets eight times a year, and reports from an Independent Adviser (which include advice on the Fund’s approach to Responsible Investment) are received regularly.

As per the Climate Strategy, the Fund is committed to providing decision-makers with appropriate training, including specialised training on climate change.

The Local Pensions Board has an oversight role in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with LGPS Regulations and any other legislation relating to the governance and administration of the Scheme.

#### TCFD Recommended Disclosure

##### **b) Describe management’s role in assessing and managing climate-related risks and opportunities.**

The Service Director for Finance, Infrastructure and Improvement, Group Manager Financial Services and Senior Accountant Pensions and Treasury Management have primary day-to-day responsibility for the way in which climate-related investment risks are currently managed. Where appropriate, the Fund’s pooling company, LGPS Central Ltd, assists in assessing and managing climate-related risks.

As detailed in the Climate Strategy, the Fund leverages partnerships and initiatives – including the Institutional Investors Group on Climate Change (IIGCC) – to identify and manage climate risk. The Service Director for Finance, Infrastructure and Improvement, the Group Manager Financial Services, and the Senior Accountant Pensions and Treasury Management are accountable to the Pensions Committee for delivery of the Climate Strategy.

As a primarily externally managed fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers. External portfolio managers are monitored on a regular basis by the Nottinghamshire Pension Fund Committee.

Since 2020 the Fund Officers have received an annual Climate Risk Report, which allows a view of climate risk throughout its total equities and fixed income portfolios, and identify further means for the Fun to manage its material climate risks.



## Strategy

### TCFD Recommended Disclosure

**a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.**

As a diversified asset owner, the range of climate-related risks and opportunities are multifarious and constantly evolving. A subset of risk factors is presented in Table 1.

**Table 1: Example Short, Medium & Long-Term Risks**

|             | Short & Medium Term  | Long Term   |
|-------------|--|---|
| Risks       | Carbon prices<br>Technological change<br>Policy tightening<br>Consumer preferences   | Resource scarcity<br>Extreme weather events<br>Sea level rise         |
| Asset class | Listed equities<br>Growth assets<br>Energy-intensive industry<br>Oil-dependent sovereign issuers<br>Carbon-intensive corporate issuers | Infrastructure<br>Property<br>Agriculture<br>Commodities<br>Insurance |

Short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this. Long-term risks include physical damages to real assets and resource availability. Examples would include increased sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

### TCFD Recommended Disclosure

**b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.**

Although the Fund is diversified across asset classes, regions, and sectors, it is recognised that climate risk is systemic and is unlikely to be eliminated through diversification alone.

The Fund's Climate Change Strategy sets out the Fund's approach to managing the impact of climate-related risks. The main management techniques within investment strategy are: measurement and observation; policy review; asset allocation; selection and due diligence; purposeful stewardship; and transparency and disclosure.

The Fund is exploring options to further embed climate-related risks and opportunities into its investment strategy, including reviewing potential investments in sustainable asset classes where this supports the Fund's investment and funding objectives.

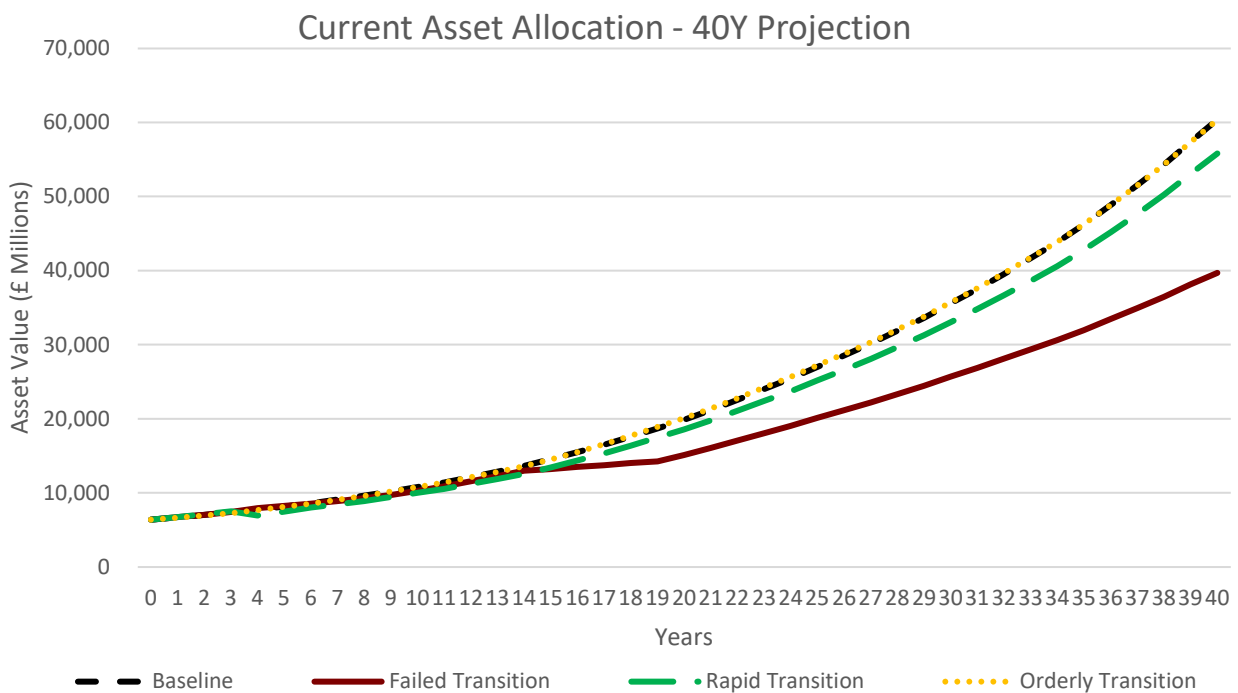
#### TCFD Recommended Disclosure

**c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**

In 2022 the Fund engaged the expertise of an external contractor, Mercer LLC, to understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at the fund and asset-class level). All asset classes are included in this analysis. The climate scenarios considered are Rapid Transition, Orderly Transition and Failed Transition. This analysis is carried out every 2 to 3 years and the results of the 2022 analysis are provided below.

The scenarios are defined according to the change since pre-industrial times in mean global surface temperatures. A rapid transition scenario leads to a 1.5°C temperature increase by 2100, and is characterised by sudden divestments on a global scale in 2025 in order to align society to the Paris Agreement goals. An early and smooth transition is represented by a 1.6°C temperature increase by 2100, with the markets pricing-in dynamics occur gradually over four years. A failed transition is represented by a temperature increase of 4.3°C by 2100, with severe physical and extreme weather events and the markets pricing in these risks.

**Graph 2: Cumulative Return Projections by Climate Change Scenario.<sup>3</sup>**



The analysis shows that over medium- to long-term, a successful transition is imperative for the Fund as its asset allocation fare better under Rapid and Orderly transition scenarios versus the Failed transition. Over the long term for nearly all investors a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

Translating Climate Scenario Analysis into an investment strategy is a challenge because there is a wide range of plausible climate scenarios; the probability of any given scenario is hard to determine, and; the best performing sectors and asset classes in an orderly scenario tend to be the worst performers in a failed scenario and vice versa. Despite the challenges, the Fund believes in seeking out the best available climate-related research in order to make its portfolio as robust as possible.

<sup>3</sup> Extract above from Mercer Limited’s (Mercer) report “Climate Change Scenario Analysis” dated October 2022 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Nottinghamshire Pension Fund. Other third parties may not rely on this information without Mercer’s prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

## Risk Management

### TCFD Recommended Disclosure

#### **a) Describe the organisation's process for identifying and assessing climate-related risks.**

The Fund seeks to identify and assesses climate-related risks at the total Fund level and the individual asset level. The Fund's 2020 and 2021 Climate Risk Reports include a combination of both top-down and bottom-up analyses<sup>4</sup>. The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

As far as possible climate risks are assessed in units of investment return, in order to compare with other investment risk factors.

As a primarily externally-managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual fund managers appointed by the Fund. Existing fund managers are monitored on a regular basis.

Engagement activity is conducted with investee companies through selected stewardship partners including LGPS Central, EOS at Federated Hermes, and LAPFF (see below). Based on the findings of its Climate Risk Report, the Fund has devised a Climate Stewardship Plan in order to focus engagement resources on the investments most relevant to the Fund.

### TCFD Recommended Disclosure

#### **b) Describe the organisation's process for managing climate-related risks.**

The Fund manages climate risk in different ways according to the nature, duration, magnitude and time horizon of the risk itself. As set out in the Fund's Climate Strategy, the main management techniques are: measurement and observation; policy review; asset allocation; selection and due diligence; purposeful stewardship; and transparency and disclosure.

Engagement and shareholder voting are an important aspect of the Fund's approach to managing climate risk. The Fund expects all investee companies to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activities by investors.

The Fund supports the engagement objectives of the Climate Action 100+ initiative, whereby companies adopt the appropriate governance structures to effectively manage climate risk, decarbonise in line with the Paris Agreement, and disclose effectively using the TCFD recommendations. In September 2020, CA100+ introduced a Benchmark Framework which




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<sup>4</sup> Climate Scenario Analysis only included in the 2020 Climate Risk Report.

identifies ten key indicators of success for business alignment with a net zero emissions future and goals of the Paris Agreement.

Either through its own membership or through LGPS Central’s membership, the Fund has several engagement partners that engage investee companies on climate risk which are described in the following table.

**Table 3: The Fund’s Stewardship Partners**

| Organisation  | Remit  |
|---|--|
|    | <p>The Fund is a 1/8<sup>th</sup> owner of LGPS Central.</p> <p>Climate change is one of LGPS Central’s stewardship themes, with quarterly progress reporting available on the website.</p> <p>The Responsible Investment Team at LGPS Central engages companies on the Fund’s behalf, including via the Climate Action 100+ initiative.</p> |
|   | <p>EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies.</p>   |
|  | <p>NPF is a long-standing member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds.</p>  |

The instruction of shareholder voting opportunities is an important part of climate stewardship. The Fund’s votes are executed by its asset pool (LGPS Central) according to a set of Voting Principles, to which the Fund contributes during the annual review process. LGPS Central’s Voting Principles incorporate climate change, for example by voting against companies that do not meet certain thresholds in the Transition Pathway Initiative (TPI) scoring system. LGPS Central has co-filed shareholder resolutions that relate to climate change. LGPS Central co-filed climate-related shareholder resolutions at the meetings of BP Plc, Barclays Plc, and Credit Suisse.

The Fund reports quarterly on its voting activities. These reports are publicly available on the Pension Fund website. In addition LGPS Central reports quarterly on its voting and engagement activities. These reports are publicly available via the LGPS Central website.

Based on its first Climate Risk Report, the Fund has developed a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, investment managers, EOS at Federated Hermes, and LAPFF, includes targeted engagement with eight investee companies of particular significance to the Fund’s portfolio. Wherever feasible, the engagement objectives are designed to be SMART (Specific, Measurable, Actionable, Relevant and Time-bound) to enable the Fund to adequately assess a company’s progress.

The Fund believes that all companies should align their business activities with the Paris Agreement on climate change.

**Table 4: Companies included in the Climate Stewardship Plan**

| Company                     | Sector             |
|-----------------------------|--------------------|
| BHP                         | Materials          |
| BP                          | Energy             |
| CRH                         | Materials          |
| ExxonMobil                  | Energy             |
| Glencore                    | Materials          |
| Rio Tinto                   | Diversified Mining |
| Shell                       | Energy             |
| TotalEnergies               | Energy             |
| Anglo American <sup>5</sup> | Materials          |

**TCFD Recommended Disclosure**

**c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation’s overall risk management.**

Both ‘mainstream’ risks and climate-related risks are discussed by the Committee. While specific macro-economic risks are not usually included in isolation, the Fund has deemed climate risk to be sufficiently significant and therefore included it on the Fund’s Risk Register. Climate risk is further managed through the Fund’s Climate Stewardship Plan.

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<sup>5</sup> Anglo-American is not currently in the plan, but is a recommended addition following the 2022 Climate Risk Report.

## Metrics and Targets

### TCFD Recommended Disclosure

**a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.**

The Fund receives annual reports from LGPS Central Ltd which set out the carbon risk metrics for its listed equities and fixed income portfolios. The poor availability of data in unlisted asset classes prevents a more complete analysis at this time. As the data quality for fixed income remains low at only 45%, this data has also been excluded from this report. Data quality for listed equities remains imperfect, the application of a wide range of metrics (as listed below) still allows for a meaningful analysis.

The carbon risk metrics analysis includes:

- portfolio carbon footprints<sup>6</sup>
- financed emissions of the portfolio<sup>7</sup>
- weight of portfolios invested in companies with fossil fuel reserves
- weight of portfolios invested in companies with thermal coal reserves
- weight of portfolios invested in companies whose products and services include clean technology
- weight of the portfolio invested in companies that have set net zero targets
- metrics assessing the management of climate risk by portfolio companies

The full results of these analyses fall beyond the scope of this TCFD report, but are outlined in detail in the published Climate Risk Report. These carbon risk metrics aid the Fund in assessing the potential climate-related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. The Fund additionally monitors stewardship data (see above).

### TCFD Recommended Disclosure

**b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. TCFD Guidance:** *Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.*

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<sup>6</sup> Following TCFD guidance we use weighted average portfolio carbon footprints.

<sup>7</sup> Calculated by multiplying the attribution factor by a company's emissions, giving a figure of the absolute tons of CO2 for which an investor is responsible.

In line with the TCFD guidance and following receipt of a report from LGPS Central Limited we provide below the carbon footprints of the Fund's total equities.<sup>8</sup>:

**Table 5: Carbon risk metrics for the equity portfolio as of 31<sup>st</sup> March 2022<sup>9</sup>**

|                             |                                 | Financed Emissions (tCo2e) | Carbon Footprint (tCO2e/\$M revenue) |       |         |       | Weight in Fossil Fuel Reserves % |        |       | Weight in Thermal Coal Reserves % |        |        | Weight in Clean Technology % |        |  |
|-----------------------------|---------------------------------|----------------------------|--------------------------------------|-------|---------|-------|----------------------------------|--------|-------|-----------------------------------|--------|--------|------------------------------|--------|--|
| Portfolio Name              | Benchmark                       | PF                         | PF                                   | BM    | % Diff  | PF    | BM                               | % Diff | PF    | BM                                | % Diff | PF     | BM                           | % Diff |  |
| Quoted Equities Asset Class | Quoted Equity Blended Benchmark | 267,640                    | 123.3                                | 149.3 | -17.40% | 9.34% | 9.96%                            | -0.62% | 3.28% | 3.47%                             | -0.19% | 33.36% | 34.35%                       | -0.99% |  |

The Fund's total Equities portfolio is 17.4% more carbon efficient than the blended benchmark. This means that, on average, for every \$m of economic output companies produce, the Fund's investee companies emit 17.4% fewer GHG emissions than the companies in the blended benchmark. The Total Equities portfolio has a slightly lower exposure to both fossil fuel reserves and thermal coal reserves than its blended benchmark, but also has less weight in clean technology.

Whilst the Fund's carbon risk metrics results show the Fund already 'outperforms' its benchmarks, the Fund is proactively exploring ways to further embed climate risk management in its investment decision making. The Fund expects to update its carbon risk metrics data on an annual basis.

#### TCFD Recommended Disclosure

**c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.**

<sup>8</sup> Analysis undertaken on the listed equities portfolios with holdings data as of 31<sup>st</sup> March 2022. The information in Table 5 was provided to the Fund in a report authored by LGPS Central Limited. In LGPS Central Limited's report, the Total Equities portfolio comprises the Total Active Equities and the Total Passive Equities portfolios weighted according to their size in GBP. The Total Active Equities portfolio contains two underlying portfolios managed for the Fund by LGPS Central. The Total Passive Equities portfolio contains six underlying portfolios managed for the Fund by LGIM and one underlying portfolio managed by LGPS Central.

<sup>9</sup> Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.



The ability for diversified investors (such as pension funds) to set meaningful climate targets is inhibited by the paucity of credible methodologies and data currently available. Like most investors, the Fund is supportive of the development of target-setting methodologies, and the increasing completeness of carbon datasets. The Fund wishes to set meaningful and challenging climate targets for its investment portfolio and work is underway to assess options within the limitations of currently available data.

## Appendix 1

TCFD Recommendations for Asset Owners (source: TCFD)

### Governance

Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities.

Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities.

### Strategy

Recommended Disclosure (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Recommended Disclosure (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

### Risk Management

Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.

Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.

Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

### Metrics and Targets

Recommended Disclosure (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Recommended Disclosure (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

## Appendix 2: Glossary

**Clean Technology/ Weight in Clean Technology:** the weight of a portfolio invested in companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

**Coal Reserves/ Portfolio exposure to thermal coal reserves:** the weight of a portfolio invested in companies that own thermal coal reserves.

**Engagement:** dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

**Fossil Fuel Reserves/ Portfolio exposure to fossil fuel reserves:** the weight of a portfolio invested in companies that own fossil fuel reserves.

**Physical risk/ climate physical risk:** the financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

**Portfolio Carbon Footprint/ Carbon Footprint:** A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1+2 Emissions / \$M sales) for each portfolio company and calculating the weighted average by portfolio weight.

**Scope 1 Greenhouse Gas Emissions:** Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles.

**Scope 2 Greenhouse Gas Emissions:** Indirect emissions from the generation of purchased energy

**Scope 3 Greenhouse Gas Emissions:** Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

**Stewardship:** the promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

**Transition risk/ climate transition risk:** the financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.

**Voting:** the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

### **Appendix 3: Important Information**

Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated August 2022 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Nottinghamshire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

The following notices relates to Table 4 (above), which is produced for the Fund by LGPS Central Limited based on a product licensed by MSCI ESG Research LLC. This report confers no suggestion or representation of any affiliation, endorsement or sponsorship between LGPS Central and MSCI ESG Research LLC. Additionally:

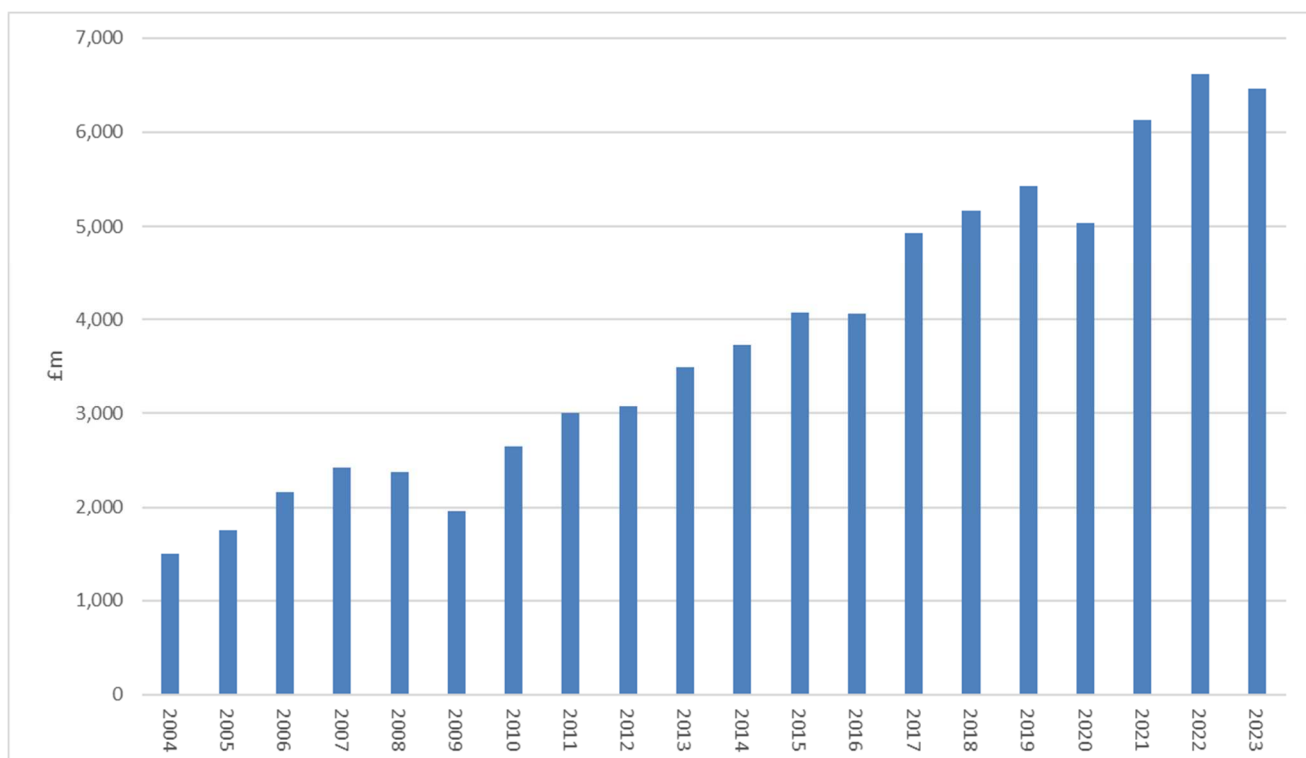
Although LGPS Central's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Financial Performance

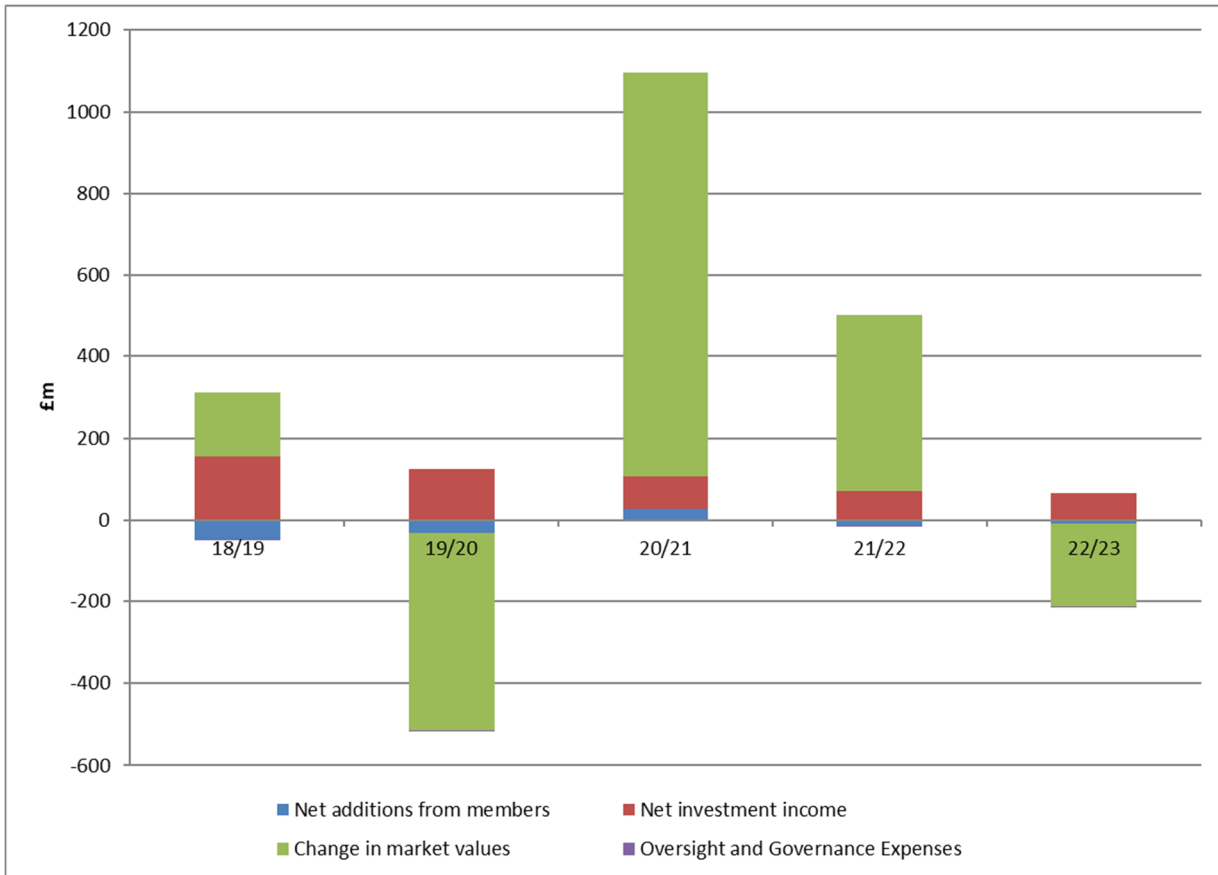
The in-house team of four, led by the Senior Accountant (Pensions and Treasury Management) monitors all externally managed investments. The team also records and accounts for all the Pension Fund investments, producing quarterly valuations for the Pension Fund Committee as well as the annual report and accounts.

The Pension Fund accounts are shown in detail elsewhere in the Annual Report.

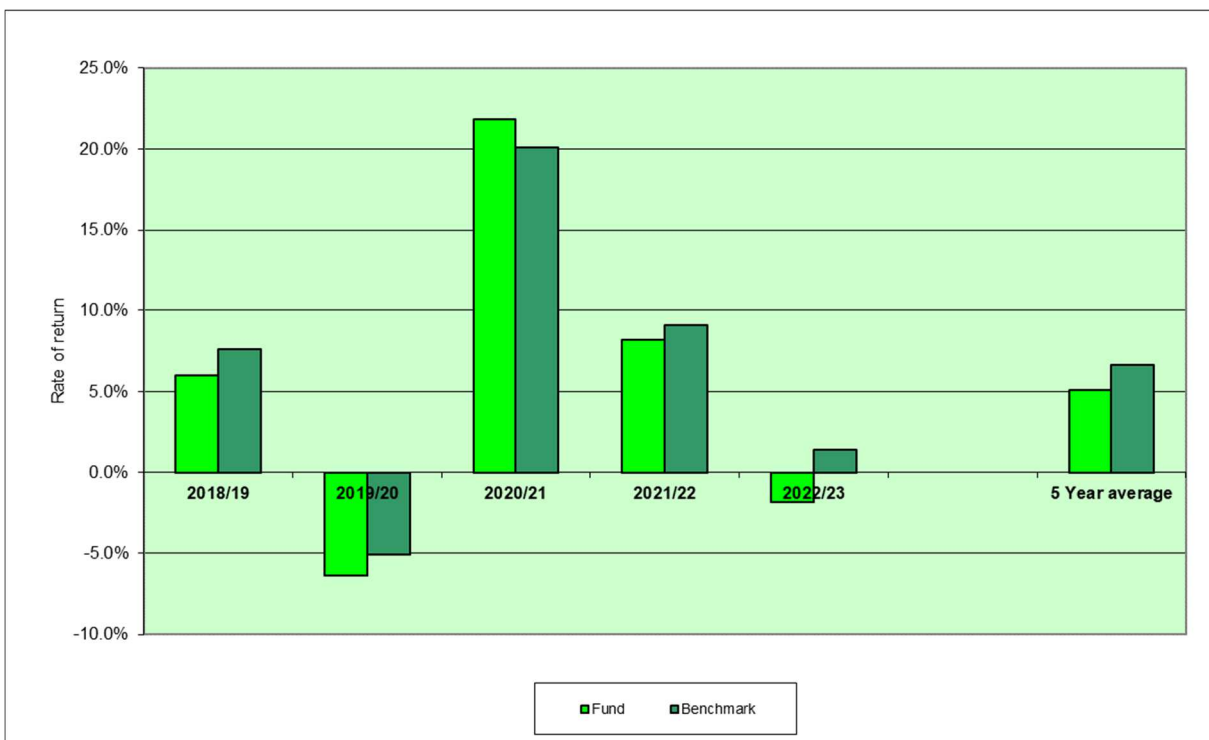
The Fund Account for 2022/23 shows a net outflow of £9m from dealings with members. Investment income for the year was £65m, slightly lower the previous year's figure. However, alongside this income is to be set the loss of £204m relating to a decline in the market value of the Fund's investments, so the overall return on investments (income less market decline) for the year is negative £136m. Overall, the value of the fund has decreased by £150m over the year to stand at £6,467m, as shown in the chart below:



The chart below shows in greater detail how the three main components have contributed to the Fund's value over the last 5 years.



In 2022/23, the fund's overall return from its investments was negative 1.8%, underperforming its strategic benchmark return which was 1.4%. This can be seen in the chart below:



A breakdown of investment performance across the different asset classes during 2022/23 can be seen in the table below:

| To 31 March     | 1 yr<br>%   | 3 yr<br>%  | 5 yr<br>%  |
|-----------------|-------------|------------|------------|
| Listed Equities | 1.0         | 14.6       | 6.7        |
| Gilts           | -17.2       | -10.3      | -3.4       |
| Property        | -9.7        | -2.6       | -0.4       |
| Private Equity  | 16.9        | 25.8       | 20.6       |
| Infrastructure  | 3.3         | 6.3        | 8.6        |
| <b>Total</b>    | <b>-1.8</b> | <b>8.9</b> | <b>5.1</b> |

*This table includes estimates, to be replaced in the final version of the Annual Report. Investment returns data relating to 2022/23 was provided by Ortec.*

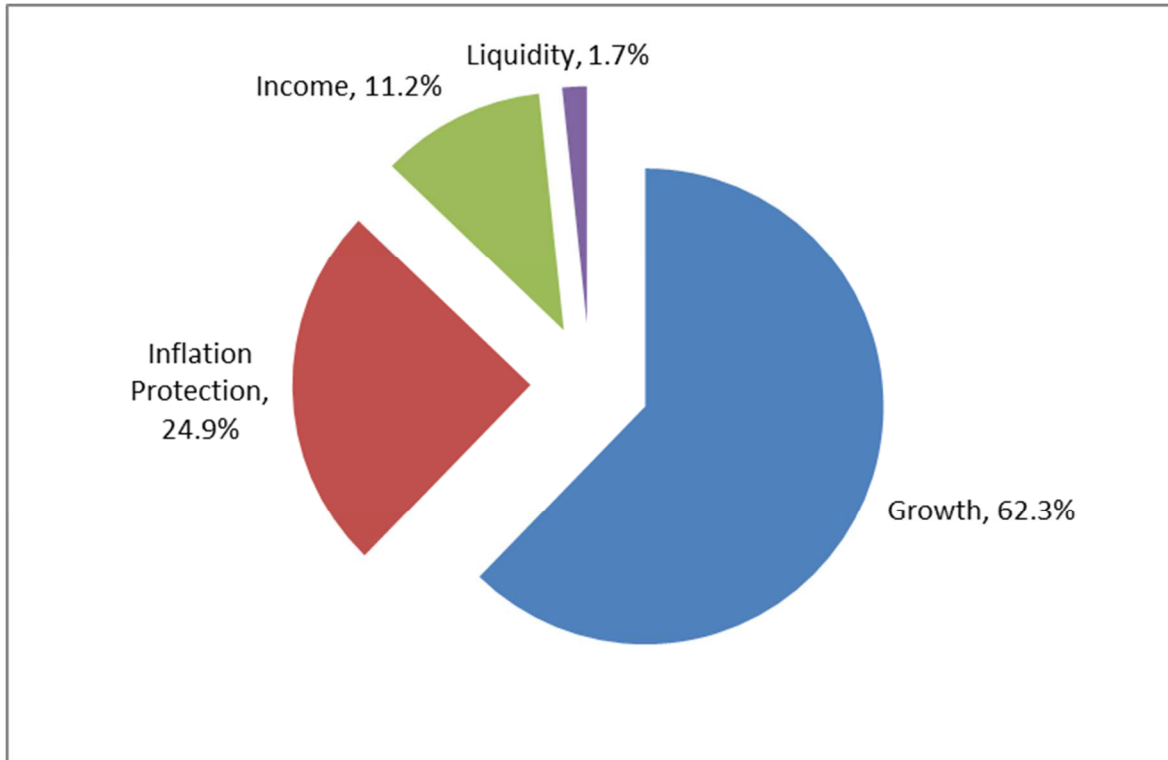
## Asset Allocation

The Fund's asset allocation currently favours 'growth assets' (equities and property) over 'defensive assets' (bonds and cash), as the former are expected to outperform the latter over the long-term. High levels of investment income obviate the need for the Fund to sell assets in order to pay benefits, and thereby allows the Fund to implement a long-term investment strategy.

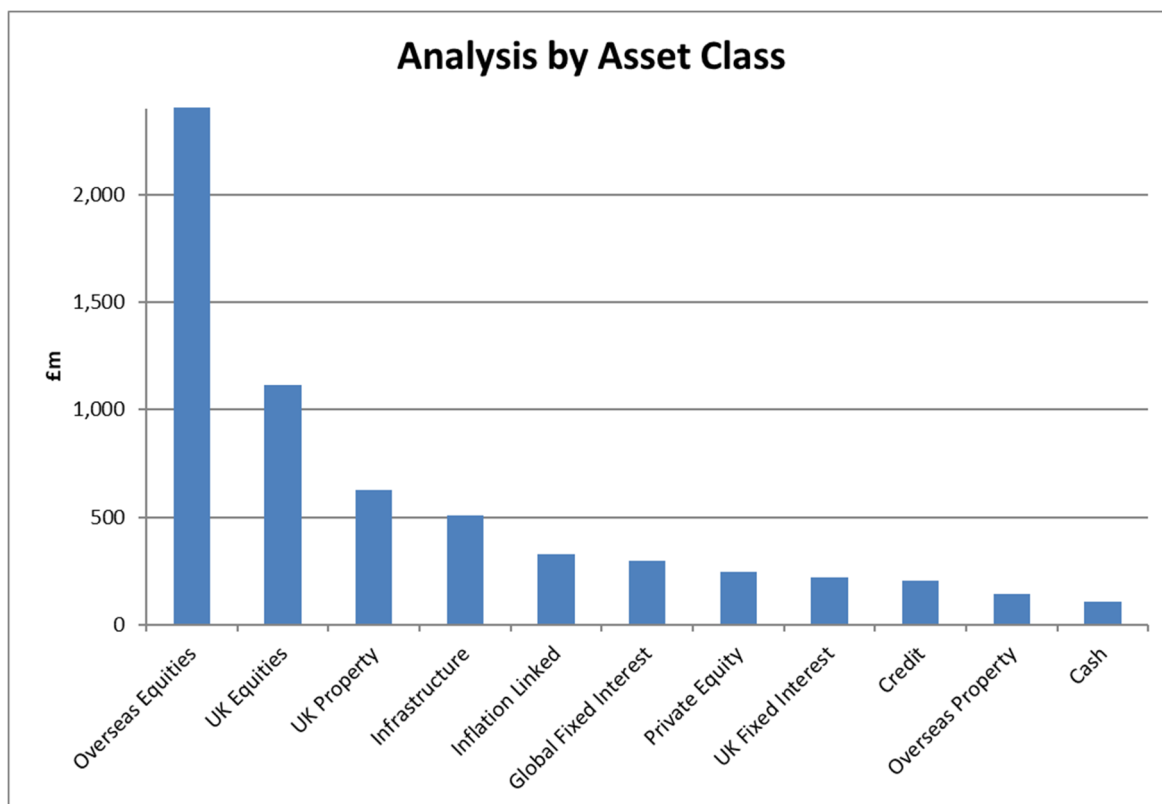
The agreed asset allocation ranges are those aimed at achieving best returns within acceptable risk parameters. These are shown below, together with the actual allocation as at the year-end:

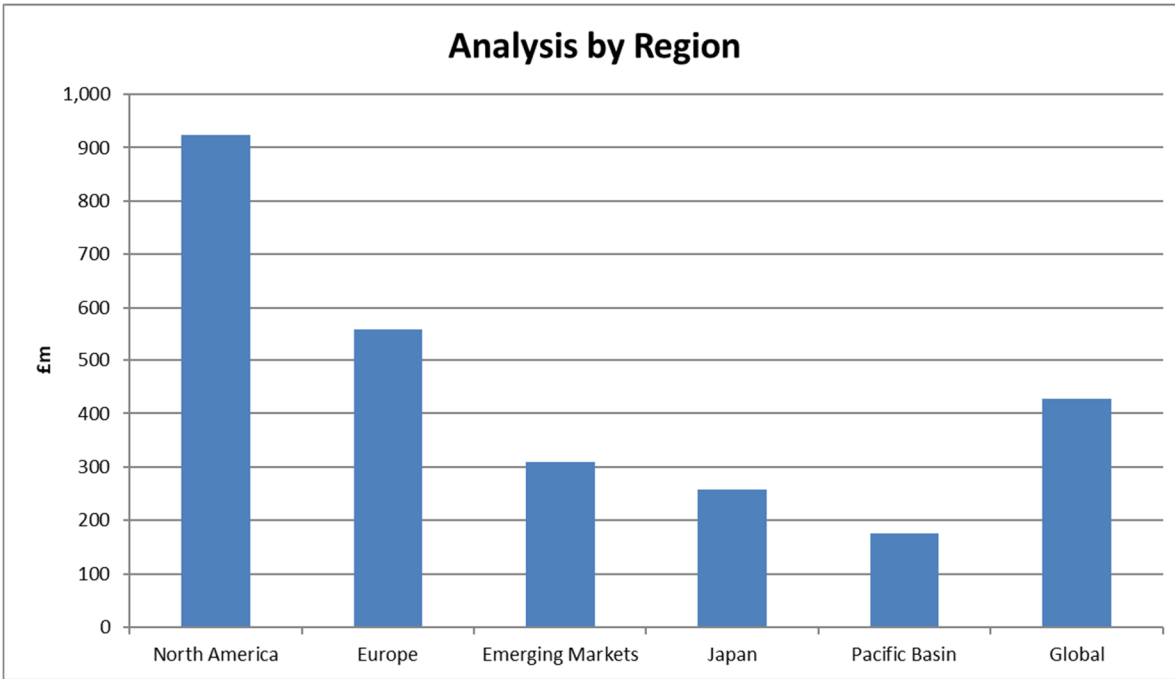
| Asset Class          | Allocation Range | Value (£000)     | Allocation as at 31 Mar 2023 |
|----------------------|------------------|------------------|------------------------------|
| Growth               | 55% to 65%       | 4,007,730        | 62.3%                        |
| Inflation Protection | 18% to 35%       | 1,601,508        | 24.9%                        |
| Income               | 5% to 15%        | 719,549          | 11.2%                        |
| Liquidity            | 0% to 10%        | 107,288          | 1.7%                         |
| <b>Total</b>         |                  | <b>6,436,075</b> | <b>100.0%</b>                |



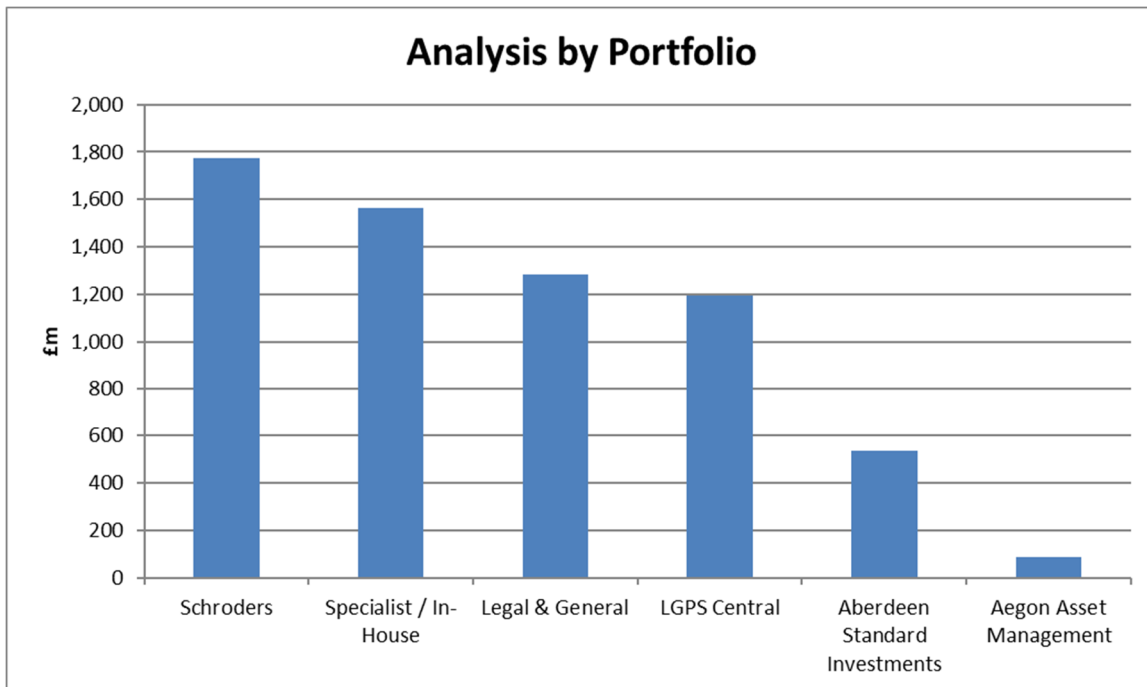


The charts below show the asset allocation of the Fund at 31 March 2023 in further detail, across classes and regions:





The Pension Fund Committee also determines the investment management arrangements to implement the agreed strategy. The assets of the Fund are managed within six portfolios and a breakdown of these as at 31 March 2023 is shown below:



The list of the Fund's 20 largest holdings is shown below. Combined, these represent 48% of the overall value of the Fund.

|  | £m      |
|--|---------|
| 1 LEGAL & GENERAL UK EQUITY INDEX                      | 448.6   |
| 2 AEGON KAMES DIVERSIFIED GROWTH FUND (CLASS B ACC)    | 326.3   |
| 3 LGPS CENTRAL GLOBAL ACT CORP BD MULTI MGR FD         | 296.1   |
| 4 LEGAL & GENERAL EUROPE (EX UK) EQUITY INDEX          | 254.8   |
| 5 LEGAL & GENERAL NORTH AMERICA EQUITY INDEX           | 252.8   |
| 6 RWC EURO FOCUS FUND CLASS 3SR - 2018                 | 158.9   |
| 7 LGPS CENTRAL EMERGING MKTS EQ ACT MULTI FUND A       | 130.7   |
| 8 LEGAL & GENERAL ASIA PAC EX JAP DEV EQTY INDEX       | 124.2   |
| 9 LEGAL & GENERAL JAPAN EQUITY INDEX                   | 123.6   |
| 10 LGPS CENTRAL GLOBAL ACTIVE MAC MULTI MGR FUND (ACC) | 110.2   |
| 11 LGPS CENTRAL GLOBAL SUSTAINABLE EQ ACTV BROAD FD    | 107.5   |
| 12 LGPS CENTRAL GLOBAL SUSTAINABLE EQ ACTV THEMATIC    | 104.0   |
| 13 ABERDEEN STANDARD EUROPEAN PROPERTY GROWTH          | 103.8   |
| 14 LGPS CENTRAL GLOBAL SUSTAINABLE EQ ACTV TARGETED    | 103.0   |
| 15 SCHRODER INSTL DEV MKTS FUND A UNITS                | 99.8    |
| 16 LEGAL & GENERAL WORLD EMERGING MARKETS              | 79.4    |
| 17 LGPS CENTRAL CORE/CORE PLUS INFRA PARTNERSHIP LP    | 74.2    |
| 18 RWC JAPAN STEWARDSHIP FUND PERF FEE CLASS 2 (2017)  | 72.4    |
| 19 SISF GLOBAL SM COS I ACCUMULATION                   | 69.7    |
| 20 DORCHESTER CREDIT                                   | 59.6    |
|  | 3,099.6 |

## Actuary's Statement as at 31 March 2023

### Introduction

The last full triennial valuation of the Nottinghamshire County Council Pension Fund (the Fund) was carried out as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 30 March 2023.

### Asset value and funding level

The results for the Fund at 31 March 2022 were as follows:

- The smoothed value of the Fund's assets for funding purposes as at 31 March 2022 was £6.5bn.
- The Fund had a funding level of 100% i.e. the value of assets for funding purposes was 100% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £9m.

### Contribution rates

The employer contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 19.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2023.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in the triennial valuation report.

## Assumptions

The key assumptions used to value the liabilities at 31 March 2022 are summarised below:

| Assumptions                             | Assumptions used for the 2022 valuation |
|---|---|
| Financial assumptions                   |   |
| Market date                             | 31 March 2022                           |
| CPI inflation                           | 2.9% p.a.                               |
| Long-term salary increases              | 3.9% p.a.                               |
| Discount rate                           | 4.7% p.a.                               |
| Demographic assumptions                 |   |
| Post-retirement mortality               |   |
| <i>Base tables</i>                      | 115% (M) / 110% (F) of S3PA             |
| <i>Projection model</i>                 | CMI 2021                                |
| <i>Long-term rate of improvement</i>    | 1.25% p.a.                              |
| <i>Smoothing parameter</i>              | 7.0                                     |
| <i>Initial addition to improvements</i> | 0% p.a.                                 |
| <i>2020/21 weighting parameter</i>      | 5%                                      |

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2022 valuation report.

### Progress since the 2022 valuation

#### Assets:

Returns over the year to 31 March 2023 have been lower than assumed at the 2022 valuation. As at 31 March 2023, in market value terms, the Fund assets were less than they were projected to be at the previous valuation.

#### Liabilities:

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2023, the real discount rate is estimated to be higher than at the 2022 valuation due to a reduction in the long term rate of inflation.

The 2023 pension increase order is 10.1%. The increase in liabilities associated with this has however been broadly offset by the reduction in the long-term inflation assumption. This short-

term high inflation and longer-term lower inflation is broadly consistent with what was assumed at the 2022 formal valuation.

However, the financial position of the Fund, as measured by the funding level, is estimated to have decreased when compared on a consistent basis to the position as at 31 March 2022. This is primarily due to flat investment returns which have therefore not kept pace with the discount rate assumed and persistently high levels of inflation which negatively impacts the value of the liabilities.

The next formal valuation will be carried out as at 31 March 2025 with new employer contribution rates set from 1 April 2026. As always, the funding objective is to adopt methods and assumptions that aim for a fully funded position in the long term and to keep employer contribution rates as stable as possible.

**Barry McKay FFA**  
**Partner, Barnett Waddingham LLP**

## **Independent Auditor's Statement**

Independent auditor's statement to the members of Nottinghamshire County Council on the pension fund financial statements of Nottinghamshire County Council Pension Fund included within the pension fund annual report.

### Opinion

We have examined the pension fund financial statements of Nottinghamshire County Council Pension Fund (the 'pension fund') for the year ended 31 March 2023 included within the pension fund annual report, which comprise the Fund Account, the Net Assets Statement, and the notes to the accounts, including the summary of significant accounting policies.

In our opinion, the pension fund financial statements are consistent, in all material respects, with the audited statement of accounts of Nottinghamshire County Council for the year ended 31 March 2023 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

We have not considered the effects of any events between 1 March 2024, being the date we signed our report on the audited statement of accounts of Nottinghamshire County Council, and the date of this statement.

### Respective responsibilities of the Service Director – Finance, Infrastructure & Improvement and the auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Service Director – Finance, Infrastructure and Improvement is responsible for the preparation of the pension fund's financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Our responsibility is to state to the members of Nottinghamshire County Council our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the statement of accounts of Nottinghamshire County Council.

We also read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information comprises the information included in the pension fund annual report, other than the pension fund financial statements and our auditor's statement thereon.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the statement of accounts of Nottinghamshire County Council describes the basis of our opinion on those financial statements.

Use of this auditor's statement

This statement is made solely to the members of Nottinghamshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Nottinghamshire County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Nottinghamshire County Council and the members of Nottinghamshire County Council as a body, for our work, for this statement, or for the opinions we have formed.

A handwritten signature in black ink that reads "Andrew Smith". The signature is written in a cursive, flowing style.

Andrew Smith, Key Audit Partner

**for and on behalf of Grant Thornton UK LLP, Local Auditor**

Birmingham

1 March 2024



## NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

### FUND ACCOUNT

|   | Notes | 2021/22<br>£000  | 2022/23<br>£000  |
|---|-------|------------------|------------------|
| <b>Contributions</b>  | 4     |                  |                  |
| Employer contributions  |       | (165,539)        | (175,315)        |
| Member contributions  |       | (51,127)         | (54,643)         |
|   |       | <b>(216,666)</b> | <b>(229,958)</b> |
| Transfers in from other pension funds   |       | (5,860)          | (18,937)         |
| <b>Benefits</b>   | 5     |                  |                  |
| Pensions  |       | 186,770          | 197,937          |
| Commutation of pensions and lump sum retirement benefits                            |       | 34,297           | 36,224           |
| Lump sum death benefits   |       | 6,945            | 6,202            |
|   |       | <b>228,012</b>   | <b>240,363</b>   |
| Payments to and on account of leavers   | 6     | 8,893            | 17,991           |
| <b>Net (additions)/withdrawals from dealings with members</b>                       |       | <b>14,379</b>    | <b>9,459</b>     |
| Administration expenses   | 7     | 3,246            | 2,687            |
| Oversight and governance expenses   | 8     | 1,531            | 1,701            |
| Investment management expenses  | 9     | 20,657           | 21,838           |
| <b>Net (additions)/withdrawals after fund management expenses</b>                   |       | <b>39,813</b>    | <b>35,685</b>    |
| Investment Income   | 10    | (94,147)         | (90,118)         |
| (Profits)/losses on disposal of investments & changes in value                      |       | (430,524)        | 204,164          |
| Taxes on income   |       | 295              | 404              |
| <b>Net Returns on Investments</b>   |       | <b>(524,376)</b> | <b>114,450</b>   |
| <b>Net (increase)/decrease in net assets available for benefits during the year</b> |       | <b>(484,563)</b> | <b>150,135</b>   |
| Opening net assets of the Fund  |       | 6,132,086        | 6,616,649        |
| <b>Closing net assets of the Fund</b>   |       | <b>6,616,649</b> | <b>6,466,514</b> |

The notes on the following pages form part of these Financial Statements.

## NOTTINGHAMSHIRE COUNTY COUNCIL PENSION FUND

### NET ASSETS STATEMENT FOR THE YEAR ENDED

|                                       | Notes   | 31 March 2022<br>£000 | 31 March 2023<br>£000 |
|---------------------------------------|---------|-----------------------|-----------------------|
| Investment Assets                     | 11 & 15 |                       |                       |
| Fixed Interest Securities             |         | 343,093               | 220,346               |
| Equities                              |         | 1,916,522             | 1,663,353             |
| Pooled Investment Vehicles            |         | 3,670,816             | 4,050,262             |
| Property                              |         | 500,950               | 394,825               |
| Cash deposits                         |         | 161,973               | 107,288               |
| Other Investment Balances             | 13      | 30,953                | 32,425                |
| Investment liabilities                | 13      | (4,651)               | (4,575)               |
|                                       |         | <b>6,619,656</b>      | <b>6,463,924</b>      |
| <br>                                  |         |                       |                       |
| Current assets                        | 14      | 21,545                | 21,250                |
|                                       |         | 6,641,201             | 6,485,174             |
| <br>                                  |         |                       |                       |
| Current liabilities                   | 14      | (24,552)              | (18,660)              |
| <br>                                  |         |                       |                       |
| <b>Closing net assets of the Fund</b> |         | <b>6,616,649</b>      | <b>6,466,514</b>      |

The actuarial present value of promised retirement benefits, as required by the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22*, is shown at note 2d.

The notes on the following pages form part of these Financial Statements.

**1. Accounting Policies****(a) Basis of Preparation**

The Pension Fund accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2022/23* (the Code). On issues where there is no clear guidance in the Code, reference has been made under the hierarchy of standards to *Financial Reports of Pension Schemes: a Statement of Recommended Practice 2018* (the Pensions SORP) or to individual International Accounting Standards (IAS). Disclosures required by IFRS 9 and 15 have been reflected in the accounts where material. Disclosures in the Pension Fund accounts have been limited to those required by the Code. Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. There are a number of minor changes to the Code which will not have a material impact upon the financial statements of the Pension Fund.

The accounts have been prepared on a going concern basis.

**(b) Debtors and Creditors**

The accruals concept is applied to these accounts in compliance with the Code.

**(c) Investments**

Pension Fund investments are carried at fair value in accordance with the Code. Fair value is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Where an active market exists, the quoted market price is used. Where there is no active market, fair value is established by using valuation techniques.

Specific details on the valuation methods for particular classes of assets are listed below:

- Equities traded through a stock exchange are valued at the latest quoted price. Where more than one price is quoted the 'bid' price is used.
- Unit Trusts and managed funds are valued at the closing single price or the bid price where applicable. These reflect the market value of the underlying investments.
- Unquoted securities and pooled private equity investments are valued at fair value by the fund managers based on earnings, revenues and comparable valuations in accordance with industry accepted guidelines. Where these valuations are not available at the time of compiling the financial statements, the most recent valuation is used as an estimate as adjusted for any cash flows before year end as a best estimate of year end valuation.
- The market value of fixed interest investments is based on the 'clean price', i.e. excludes income accrued at 31 March but not yet due for payment.
- Property investments are stated at open market value based on a quarterly independent external valuation in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards at the Net Assets Statement date based on lease terms, nature of tenancies, covenant strength, vacancy levels, estimated rental growth and discount rate.

Transaction costs arising on all investment purchases and sales are charged to the Fund Account within 'Profits & losses on disposal of investments & changes in value' by adding to purchase costs and netting against sale proceeds, as appropriate, for all investment types. This achieves consistency between asset classes and ensures all transaction costs are charged to the Fund Account. It also ensures that the financial statements faithfully represent the economic substance of the transactions. The economic substance of purchases and sales of all asset types is to generate returns for the Fund to help mitigate the cost to employers of providing pensions. Transaction costs are ancillary to this purpose.

The change in fair value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

#### **(d) Investments Income**

Income is accounted for on an accruals basis for the following:

- interest on cash deposits and fixed interest securities is accrued on a daily basis
- dividends from equities are accrued when the stock is quoted ex-dividend
- Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

#### **(e) Taxes on Income**

UK equity dividends are quoted and accounted for at the net rate. The tax credit, which the Fund is unable to recover, is not recognised (in accordance with the Pensions SORP). Overseas equity dividends are accounted for gross of withholding tax, where this is deducted at source. Partial reclaims of withholding tax, where allowed, are adjusted at the year end by outstanding claims.

#### **(f) Foreign Currencies**

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at the rate ruling on the date of the transaction. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

#### **(g) Contributions**

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for on an accruals basis.

#### **(h) Benefits Payable**

Under the rules of the scheme, members can receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised. Other benefits are accounted for on the date the member leaves the scheme or on death.

#### **(i) Transfers to and from Other Schemes**

Transfer values represent the capital sums either receivable (in respect of members from other pension schemes of previous employers) or payable (to the pension schemes of new employers for members who have left the scheme). They take account of transfers where the trustees (or administering authority) of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

#### **(j) Other Expenses**

Management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Nottinghamshire County Council charges the Fund with the costs it incurs in administering the scheme and the Fund. Fees and charges within pooled investment vehicles have the effect of reducing the fair value of those investments. These embedded costs are disclosed at note 10.

### **(k) Property related income**

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

## **2. Operation of the Fund**

### **(a) General**

Nottinghamshire County Council is the Administering Authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire. The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The LGPS is a statutory scheme administered by individual pension funds. The benefits within the scheme are determined by regulation and are guaranteed by statute. The Pension Fund exists to help defray the cost of paying the pension benefits. Members make contributions to the Fund as specified in the regulations and employers make contributions as determined by the Fund's actuary as part of the triennial valuation of the Fund. All new employees are brought into the scheme automatically, unless a positive election not to participate is received from the employee.

The Authority administers the Pension Fund for over 275 participating employers and over 149,000 members. The employers include Nottinghamshire County Council, Nottingham City Council, District Councils and organisations which used to be part of local government (such as Nottingham Trent University, Colleges, Police civilian staff and Academies). They also include organisations which satisfy the conditions to participate in the LGPS and have been admitted to the Fund by the Authority. In general, these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by a local authority.

The operation of the Fund is set out in a number of published policy statements. Under the Nottinghamshire County Council Constitution, the functions as administering authority of the Fund are delegated to the Nottinghamshire Pension Fund Committee.

The Funding Strategy Statement sets out the aims and purpose of the Fund and details the responsibilities of the administering authority as regards funding the scheme.

The Investment Strategy Statement sets out more detailed responsibilities relating to the overall investment strategy of the Fund including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also states the Fund's approach to responsible investment and corporate governance issues.

The Communications Strategy Statement details the overall strategy for involving stakeholders in the Fund. A key part of this strategy is a dedicated Fund website (available at [www.nottspf.org.uk](http://www.nottspf.org.uk)).

A separate annual report for the Fund is also produced and this, along with previous years' reports, will be accessible via the pension fund website. The annual report includes the accounts and the published policies as well as information on the performance of the Fund.

The accounts of the Fund are set out in these pages. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 requires:

- a Fund Account showing the changes in net assets available for benefits;
- a net assets statement showing the assets available at the year end to meet benefits;
- supporting notes.

## (b) Contributions and Solvency

With effect from 1 April 2008 The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 were introduced. The principal changes from the 1997 regulations were: the replacement, for future service, of the existing benefits structure (based on a pension of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump sum of three times this amount) by one based on 1/60th of pensionable pay for each year of pensionable service and no automatic lump sum. Under the 2008 scheme, employees were required to make percentage contributions by deduction from earnings at a rate between 5.5% and 7.5% depending on salary.

From 1 April 2014 the new Local Government Pension Scheme was introduced for service accruing after that date. This is a career average revalued earnings (CARE) scheme with an accrual rate of 1/49th of pensionable pay and a retirement age linked to the state retirement age. Employee contribution rates in the new scheme range from 5.5% to 12.5% depending on salary.

Employers are required to make such balancing contributions, determined by the Actuary, as will maintain the Fund in a state of solvency, having regard to existing and prospective liabilities.

## (c) Actuarial Valuations

As required by the Regulations an Actuarial Valuation of the Fund was carried out as at 31 March 2022. The smoothed market value of the Fund's assets at the valuation date was £6,498 million. The Actuary has estimated that the value of the Fund was sufficient to meet 100% of its expected future liabilities in respect of service completed to 31 March 2022 at Fund level. The certified contribution rates are expected to improve this to 100% within a period of 18 years for all employers. The full actuarial valuation report is available on the Fund's website at [www.nottspf.org.uk](http://www.nottspf.org.uk).

The Actuarial Valuation was carried out using the projected unit method and the key assumptions used within the valuation are shown below.

|                                | <b>31 March 2022</b> |
|--------------------------------|----------------------|
|                                | <b>% pa</b>          |
| Expected investment returns:   |                      |
| Equities                       | 6.9                  |
| Gilts                          | 2.0                  |
| Property and Infrastructure    | 6.4                  |
| Discount Rate                  | 4.7                  |
| Consumer price inflation (CPI) | 2.9                  |
| Long term pay increases        | 3.9                  |
| Pension Increases              | 2.9                  |

The 2022 valuation produced an average employer contribution rate of 21.0%. Employer contributions were certified by the actuaries for the years 2023/24 to 2025/26. For the majority of employers, the rate for future service accrual was certified as a percentage of salary with an additional cash amount specified for deficit recovery. The following list shows the contributions payable by the main employers as certified in the final report:

| <b>Certified employer contributions</b> | <b>2023/24</b> | <b>2024/25</b> | <b>2025/26</b> |
|---|----------------|----------------|----------------|
| Nottinghamshire County Council          | 19.8%          | 19.8%          | 19.8%          |
| Plus:                                   | £3,880,000     | £2,050,000     | £60,000        |
| Nottingham City Council                 | 18.5%          | 18.5%          | 18.5%          |
| Plus:                                   | £6,810,000     | £5,380,000     | £3,810,000     |
| Ashfield District Council               | 19.3%          | 19.3%          | 19.3%          |
| Plus:                                   | £1,400,000     | £1,300,000     | £1,190,000     |
| Bassetlaw District Council              | 20.3%          | 20.3%          | 20.3%          |
| Plus:                                   | £799,000       | £695,000       | £583,000       |
| Broxtowe Borough Council                | 19.0%          | 19.0%          | 19.0%          |
| Plus:                                   | -              | -              | -              |
| Gedling Borough Council                 | 19.6%          | 19.6%          | 19.6%          |
| Plus:                                   | £241,000       | £148,000       | £48,000        |
| Mansfield District Council              | 20.2%          | 20.2%          | 20.2%          |
| Plus:                                   | £1,700,000     | £1,570,000     | £1,420,000     |
| Newark and Sherwood District Council    | 18.6%          | 18.6%          | 18.6%          |
| Plus:                                   | £459,000       | £477,000       | £495,000       |
| Rushcliffe Borough Council              | 18.5%          | 18.5%          | 18.5%          |
| Plus:                                   | £840,000       | £720,000       | £600,000       |

#### (d) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits has been calculated by the Fund's actuaries in accordance with IAS 26. To do this, the actuaries rolled forward the value of the Employers' liabilities calculated for the Triennial valuation as at 31 March 2022 allowing for the different financial assumptions required under IAS 26. The assumptions used for the purposes of the IAS 26 calculations (which are consistent with IAS 19) are as follows:

|  | <b>31 March 2021</b> |                  | <b>31 March 2022</b> |                  | <b>31 March 2023</b> |                  |
|--|----------------------|------------------|----------------------|------------------|----------------------|------------------|
|  | <b>% pa</b>          | <b>Real % pa</b> | <b>% pa</b>          | <b>Real % pa</b> | <b>% pa</b>          | <b>Real % pa</b> |
| CPI increases                          | 2.85                 | -                | 3.25                 | -                | 2.90                 | -                |
| Salary Increases                       | 3.85                 | 1.00             | 4.25                 | 1.00             | 3.90                 | 1.00             |
| Pension Increases                      | 2.85                 | -                | 3.25                 | -                | 2.90                 | -                |
| Discount Rate                          | 2.00                 | (0.85)           | 2.60                 | (0.65)           | 4.80                 | 1.90             |
| Mortality assumptions:                 |                      |                  |                      |                  |                      |                  |
| Longevity at 65 for current pensioners |                      |                  |                      |                  |                      |                  |
| Men                                    | (years)              |                  | 21.6                 |                  | 20.7                 |                  |
| Women                                  | (years)              |                  | 24.3                 |                  | 23.5                 |                  |
| Longevity at 65 for future pensioners  |                      |                  |                      |                  |                      |                  |
| Men                                    | (years)              |                  | 23.0                 |                  | 22.0                 |                  |
| Women                                  | (years)              |                  | 25.8                 |                  | 25.0                 |                  |
| Estimated return on assets             |                      |                  | 8.08%                |                  | -2.09%               |                  |

Members will exchange half of their commutable pension for cash at retirement.

The net liability under IAS 26 is shown below.

|                                    | <b>31 March<br/>2021<br/>£000</b> | <b>31 March<br/>2022<br/>£000</b> | <b>31 March<br/>2023<br/>£000</b> |
|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Present value of funded obligation | 10,909,533                        | 10,848,228                        | 6,972,910                         |
| Fair value of Fund assets          | 6,102,491                         | 6,619,656                         | 6,463,924                         |
| <b>Net Liability</b>               | <b>4,807,042</b>                  | <b>4,228,572</b>                  | <b>508,986</b>                    |

The present value of funded obligation consists of £6,893.4 million in respect of vested obligation and £79.5 million in respect of non-vested obligation.

A ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. The ruling will have implications for the Local Government Pension Scheme which also moved from a final salary to a career average salary scheme. The IAS 26 figures included in the accounts reflect the estimated impact of the McCloud Judgement.

**These figures are presented only for the purposes of IAS 26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.**

#### **(e) Investment Strategy**

The investment strategy of the Fund is designed to maximise growth within acceptable risk parameters to help meet the future liabilities. The powers of investment are governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The current investment policy is set out in the Fund's Investment Strategy Statement, a copy of which is available on the pension fund website.

During 2022/23 the Nottinghamshire Pension Fund Committee was responsible for determining the investment strategy of the Fund and the type of investment management to be used. The Nottinghamshire Pension Fund Committee consisted of eleven elected County Councillors (voting members), three representatives of Nottingham City Council, two representatives of the District Councils, two representatives of the Trade Unions, a representative elected by the other scheduled and admitted bodies and two appointed pensioner representatives (non voting members). Meetings were also attended by an independent adviser and representatives of the Chief Financial Officer.

The investments were managed by officers of the Authority or by organisations specialising in the management of pension fund assets. The Nottinghamshire Pension Fund Committee was responsible for monitoring performance of the fund and met on a quarterly basis to review the Fund's main investment managers and their performance.

#### **(f) Recognition of income on leased properties**

The Fund's investment portfolio includes a number of directly owned properties which are leased commercially to various tenants. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a premium paid at the inception of the lease).



### (g) Major sources of estimation uncertainty

In applying the accounting policies set out in Note 1 above, the Authority has had to make certain estimates about complex transactions or those involving uncertainty about future events. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

**Pension Fund Liability** - The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 2 c). The impact of a 0.1% change in the discount rate is shown in Note 15 c). Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

**Property Investments** - Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data but where this is not possible management uses the best available data. The impact of a variation of 5% on valuation is shown in Note 15 b).

**Level 3 Investments** - Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation. The impact of a variation of 15% on valuation is shown in Note 15 b).

### (h) External Audit

A separate fee is payable to Grant Thornton UK LLP for audit of the Pension Fund. All fees have been included in the accounts for the period to which they relate. The fee for 2022/23 is £70,656, including £17,600 for IAS19 assurance (£44,456 plus £16,000 for IAS 19 assurance for 2021/22).

## 3. Contributors and Pensioners

|                        | Members at 31 March 2023 |              |                   |        | Total          |
|------------------------|--------------------------|--------------|-------------------|--------|----------------|
|                        | County Council           | City Council | District Councils | Other  |                |
| Contributors           | 13,023                   | 7,972        | 3,372             | 22,771 | 47,138         |
| Deferred Beneficiaries | 26,840                   | 12,941       | 4,416             | 20,930 | 65,127         |
| Pensioners             | 19,904                   | 9,033        | 5,382             | 10,034 | 44,353         |
|                        |                          |              |                   |        | <b>156,618</b> |

|                        | Members at 31 March 2022 |              |                   |        | Total          |
|------------------------|--------------------------|--------------|-------------------|--------|----------------|
|                        | County Council           | City Council | District Councils | Other  |                |
| Contributors           | 13,545                   | 7,322        | 3,245             | 20,467 | 44,579         |
| Deferred Beneficiaries | 26,236                   | 12,845       | 4,400             | 18,995 | 62,476         |
| Pensioners             | 19,139                   | 8,662        | 5,181             | 9,536  | 42,518         |
|                        |                          |              |                   |        | <b>149,573</b> |

#### 4. Analysis of Contributions

|                  | Employers       |                 | Members         |                 | Total           |                 |
|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                  | 2021/22<br>£000 | 2022/23<br>£000 | 2021/22<br>£000 | 2022/23<br>£000 | 2021/22<br>£000 | 2022/23<br>£000 |
| County Council   | 39,218          | 41,669          | 12,972          | 13,975          | 52,190          | 55,644          |
| Scheduled Bodies | 118,577         | 124,817         | 35,849          | 38,455          | 154,426         | 163,272         |
| Admitted Bodies  | 7,744           | 8,829           | 2,306           | 2,213           | 10,050          | 11,042          |
|                  | <b>165,539</b>  | <b>175,315</b>  | <b>51,127</b>   | <b>54,643</b>   | <b>216,666</b>  | <b>229,958</b>  |

#### 5. Analysis of Benefits

|                          | 2021/22<br>£000 | 2022/23<br>£000 |
|--------------------------|-----------------|-----------------|
| Pensions                 | 186,770         | 197,937         |
| Commutation and lump sum | 34,297          | 36,224          |
| Lump sum death benefits  | 6,945           | 6,202           |
|                          | <b>228,012</b>  | <b>240,363</b>  |
| Comprising of:           |                 |                 |
| County Council           | 83,566          | 89,092          |
| Scheduled Bodies         | 133,865         | 139,829         |
| Admitted Bodies          | 10,581          | 11,442          |
|                          | <b>228,012</b>  | <b>240,363</b>  |

#### 6. Payments to and on account of leavers

|   | 2021/22<br>£000 | 2022/23<br>£000 |
|---|-----------------|-----------------|
| Refunds to members leaving the Fund       | 517             | 269             |
| Payments for members joining state scheme | (2)             | (1)             |
| Group transfers to other funds            | -               | -               |
| Individual transfers to other funds       | 8,378           | 17,723          |
|   | <b>8,893</b>    | <b>17,991</b>   |

#### 7. Administration Expenses

|                               | 2021/22<br>£000 | 2022/23<br>£000 |
|-------------------------------|-----------------|-----------------|
| Printing and stationery       | 14              | 8               |
| Legal fees                    | 29              | 35              |
| Other external fees           | 1,014           | 271             |
| Bad debts                     | 61              | -               |
| Administering Authority Costs | 2,128           | 2,373           |
|                               | <b>3,246</b>    | <b>2,687</b>    |

## 8. Oversight and Governance Expenses

|                                   | 2021/22<br>£000 | 2022/23<br>£000 |
|-----------------------------------|-----------------|-----------------|
| Training and conferences          | 2               | 6               |
| Subscriptions and membership fees | 36              | 51              |
| Actuarial fees                    | 40              | 75              |
| Audit fees                        | 44              | 71              |
| Legal fees                        | 2               | -               |
| Other external fees               | 1,053           | 1,105           |
| Administering Authority Costs     | 354             | 393             |
|                                   | <b>1,531</b>    | <b>1,701</b>    |

Other external fees include the Fund's share of the running costs of LGPS Central Ltd.

## 9. Investment Management Expenses

|   | 2021/22<br>£000 | 2022/23<br>£000 |
|---|-----------------|-----------------|
| Custody fees  | 296             | 262             |
| Investment management fees                              | 5,109           | 4,520           |
| Estimated embedded costs within pooled investment funds | 15,200          | 16,948          |
| Other external fees                                     | 36              | 53              |
| Administering Authority Costs                           | 16              | 55              |
|   | <b>20,657</b>   | <b>21,838</b>   |

The investment management fees shown above are those fees attributable to external managers and charged directly to the Fund. Additional fees and charges are incurred through pooled investment vehicles. These have the effect of reducing the fair value of the investments. The estimated embedded costs within pooled investment vehicles were £16.5 million or 0.60% of the associated assets in 2022/23 (£15.2 million or 0.63% in 2021/22). Investment Management Fees have been grossed up in line with the Code.

## 10 Investment Income

| Analysis by type of investment          | 2021/22<br>£000 | 2022/23<br>£000 |
|---|-----------------|-----------------|
| Interest from fixed interest securities | (7,693)         | (6,877)         |
| Dividends from equities                 | (57,986)        | (44,718)        |
| Income from pooled investment vehicles  | (6,054)         | (5,082)         |
| Income from property pooled vehicles    | (5,052)         | (7,709)         |
| Net rents from property                 | (16,396)        | (19,655)        |
| Interest on cash deposits               | (279)           | (3,127)         |
| Other                                   | (687)           | (2,950)         |
|   | <u>(94,147)</u> | <u>(90,118)</u> |
| Directly held property                  |                 |                 |
| Rental income                           | (17,310)        | (21,431)        |
| Less operating expenses                 | 914             | 1,776           |
| <b>Net rents from property</b>          | <u>(16,396)</u> | <u>(19,655)</u> |

The future minimum lease payments receivable by the Fund are as follows:

|   | 2021/22<br>£000 | 2022/23<br>£000 |
|---|-----------------|-----------------|
| Within one year   | 20,488          | 21,503          |
| Between one and five years                                | 69,322          | 68,422          |
| Later than five years                                     | 172,177         | 157,326         |
| <b>Future lease payments due under existing contracts</b> | <u>261,987</u>  | <u>247,251</u>  |

## 11. Investments

| (a) Investment Analysis              | 31 March 2022<br>£000 | 31 March 2023<br>£000 |
|--------------------------------------|-----------------------|-----------------------|
| Fixed Interest Securities            |                       |                       |
| UK Public Sector                     | 193,725               | 133,618               |
| UK Other                             | 149,368               | 86,728                |
| Equities                             |                       |                       |
| UK                                   | 1,057,105             | 794,607               |
| Overseas                             | 857,417               | 866,746               |
| Unlisted                             | 2,000                 | 2,000                 |
| Pooled Investment Vehicles           |                       |                       |
| Unit Trusts                          | 1,235,577             | 1,433,591             |
| Other Managed Funds                  | 2,125,770             | 2,262,361             |
| Pooled Vehicles Invested in Property |                       |                       |
| Property Unit Trusts                 | 115,756               | 161,424               |
| Other Managed Funds                  | 193,713               | 192,886               |
| Property                             | 500,950               | 394,825               |
| Cash and Currency                    | 161,973               | 107,288               |
| <b>Total Investments</b>             | <u>6,593,354</u>      | <u>6,436,074</u>      |

The original values of investments are based on purchase cost plus transaction costs. If any investments have been held since 1 April 1974 (when the Authority was given the responsibility for the Fund) these are included at the market value as at that date.

|   | 31 March 2022<br>£000 | 31 March 2023<br>£000 |
|---|-----------------------|-----------------------|
| Market Value                                      | 6,593,354             | 6,436,074             |
| Original Value                                    | 5,458,521             | 5,582,679             |
| <b>Excess of Market Value over Original Value</b> | <b>1,134,833</b>      | <b>853,395</b>        |

**(b) Reconciliation of Opening and Closing Values of Investments 2022/23**

|                            | Value at<br>1 April<br>2022<br>£000 | Purchases<br>at Cost<br>£000 | Proceeds<br>of Sales<br>£000 | Embedded<br>Fees<br>£000 | Change in<br>Market<br>Value<br>£000 | Value at<br>31 March<br>2023<br>£000 |
|----------------------------|-------------------------------------|------------------------------|------------------------------|--------------------------|--------------------------------------|--------------------------------------|
| Fixed Interest Securities  | 343,093                             | 103,922                      | (189,254)                    |                          | (37,415)                             | 220,346                              |
| Equities                   | 1,916,522                           | 502,485                      | (730,242)                    |                          | (25,412)                             | 1,663,353                            |
| Pooled Investment Vehicles | 3,361,347                           | 475,545                      | (84,117)                     | (16,948)                 | (39,875)                             | 3,695,952                            |
| Property Pooled Vehicles   | 309,469                             | 64,962                       | (6,057)                      |                          | (14,064)                             | 354,310                              |
| Property                   | 500,950                             | (490)                        | (18,237)                     |                          | (87,398)                             | 394,825                              |
|                            | <b>6,431,381</b>                    | <b>1,146,424</b>             | <b>(1,027,907)</b>           | <b>(16,948)</b>          | <b>(204,164)</b>                     | <b>6,328,786</b>                     |
| Cash deposits              | 161,973                             |                              |                              |                          |                                      | 107,288                              |
|                            | <b>6,593,354</b>                    |                              |                              |                          |                                      | <b>6,436,074</b>                     |

**Reconciliation of Opening and Closing Values of Investments 2021/22**

|                            | Value at<br>1 April<br>2021<br>£000 | Purchases<br>at Cost<br>£000 | Proceeds<br>of Sales<br>£000 | Embedded<br>Fees<br>£000 | Change in<br>Market<br>Value<br>£000 | Value at<br>31 March<br>2022<br>£000 |
|----------------------------|-------------------------------------|------------------------------|------------------------------|--------------------------|--------------------------------------|--------------------------------------|
| Fixed Interest Securities  | 307,787                             | 210,074                      | (153,556)                    |                          | (21,212)                             | 343,093                              |
| Equities                   | 1,716,831                           | 612,553                      | (572,008)                    |                          | 159,146                              | 1,916,522                            |
| Pooled Investment Vehicles | 3,244,365                           | 377,171                      | (444,573)                    | (15,200)                 | 199,584                              | 3,361,347                            |
| Property Pooled Vehicles   | 272,983                             | 25,944                       | (11,123)                     |                          | 21,665                               | 309,469                              |
| Property                   | 350,442                             | 86,592                       | (7,425)                      |                          | 71,341                               | 500,950                              |
|                            | <b>5,892,408</b>                    | <b>1,312,334</b>             | <b>(1,188,685)</b>           | <b>(15,200)</b>          | <b>430,524</b>                       | <b>6,431,381</b>                     |
| Cash deposits              | 210,083                             |                              |                              |                          |                                      | 161,973                              |
|                            | <b>6,102,491</b>                    |                              |                              |                          |                                      | <b>6,593,354</b>                     |

Transaction costs are included in the cost of purchases and sale proceeds. The costs charged directly to the Fund, such as fees, commissions and stamp duty, amounted to £1.7 million in 2022/23 (£6.7 million in 2021/22). In addition, indirect costs are incurred through the bid-offer spread on investments. This amount is not separately provided.

**(c) Management Arrangements**

The assets of the Fund are managed within six portfolios and a breakdown of these as at the Net Assets Statement date is shown below:

|                          | <b>31 March 2022</b> |               | <b>31 March 2023</b> |               |
|--------------------------|----------------------|---------------|----------------------|---------------|
|                          | <b>£000</b>          |               | <b>£000</b>          |               |
| Core Index               | 1,274,480            | 19.3%         | 1,286,977            | 20.0%         |
| Schroder Active Equities | 2,059,008            | 31.2%         | 1,772,074            | 27.6%         |
| LGPS Central             | 854,609              | 13.0%         | 1,194,989            | 18.6%         |
| Fixed Interest           | 149,368              | 2.3%          | 86,728               | 1.3%          |
| Abrdn Property           | 652,077              | 9.9%          | 536,142              | 8.3%          |
| Specialist               | 1,603,812            | 24.3%         | 1,559,164            | 24.2%         |
| <b>Total</b>             | <b>6,593,354</b>     | <b>100.0%</b> | <b>6,436,074</b>     | <b>100.0%</b> |

A breakdown of material pooled holdings managed by external managers within the Core Index, Schroders, LGPS Central, Abrdn Property and Specialist portfolios is shown below:

|                        | <b>31 March 2022</b> | <b>31 March 2023</b> |
|------------------------|----------------------|----------------------|
|                        | <b>£000</b>          | <b>£000</b>          |
| <b>Core Index</b>      |                      |                      |
| Legal & General        | 1,263,470            | 1,283,390            |
| <b>Schroders</b>       |                      |                      |
| Schroders              | 282,294              | 250,870              |
| <b>LGPS Central</b>    |                      |                      |
| LGPS Central           | 660,801              | 1,061,194            |
| <b>Abrdn Property</b>  |                      |                      |
| Abrdn                  | 116,632              | 134,680              |
| <b>Specialist</b>      |                      |                      |
| Aegon Asset Management | 431,466              | 350,441              |
| RWC Capital            | 238,068              | 239,360              |
| Darwin                 | 87,018               | 100,482              |
| Dorchester             | 85,935               | 97,358               |

The following investments represent over 5% of the net assets of the Fund.

|                                 | <b>Market Value</b>  |                  | <b>Market Value</b>  |                  |
|---------------------------------|----------------------|------------------|----------------------|------------------|
|                                 | <b>31 March 2022</b> |                  | <b>31 March 2023</b> |                  |
|                                 | <b>£000</b>          | <b>% of Fund</b> | <b>£000</b>          | <b>% of Fund</b> |
| Legal & General UK Equity Index | 435,415              | 6.6%             | 448,630              | 7.0%             |
| Aegon Diversified Growth Fund   | 346,560              | 5.6%             | 326,264              | 5.1%             |

**(d) Asset Allocation**

The asset allocation of the Fund as at the Net Assets Statement date is shown below:

|                          | 31 March 2022    |        | 31 March 2023    |        |
|--------------------------|------------------|--------|------------------|--------|
|                          | £000             |        | £000             |        |
| UK Fixed Interest        | 343,093          | 5.2%   | 220,346          | 3.4%   |
| Global Fixed Interest    | 299,247          | 4.5%   | 296,110          | 4.6%   |
| UK Equities              | 1,359,974        | 20.6%  | 1,113,252        | 17.3%  |
| Overseas Equities:       |                  |        |                  |        |
| US                       | 904,360          | 13.7%  | 922,778          | 14.3%  |
| Europe                   | 534,987          | 8.1%   | 559,984          | 8.7%   |
| Japan                    | 275,078          | 4.2%   | 256,918          | 4.0%   |
| Pacific Basin            | 183,616          | 2.8%   | 175,704          | 2.7%   |
| Emerging Markets         | 307,704          | 4.7%   | 309,951          | 4.8%   |
| Global Equities          | 121,157          | 1.8%   | 426,948          | 6.6%   |
| UK Property              | 696,176          | 10.6%  | 627,421          | 9.7%   |
| Overseas Property        | 148,965          | 2.3%   | 139,769          | 2.2%   |
| Private Equity           | 313,452          | 4.8%   | 242,194          | 3.8%   |
| Infrastructure           | 390,814          | 5.9%   | 508,054          | 7.9%   |
| Credit                   | 206,198          | 3.1%   | 203,093          | 3.2%   |
| Multi-Asset              | 346,560          | 5.3%   | 326,264          | 5.1%   |
| Forward Foreign Exchange | -                | -      | -                | -      |
| Cash                     | 161,973          | 2.5%   | 107,288          | 1.7%   |
| Total                    | <u>6,593,354</u> | 100.0% | <u>6,436,074</u> | 100.0% |

**(e) Property**

Direct property is shown at open market value (as defined by the International Valuation Standards Committee) as determined by Knight Frank LLP.

The analysis of property is:

|                              | 31 March 2022  | 31 March 2023  |
|------------------------------|----------------|----------------|
|                              | £000           | £000           |
| Freehold                     | 466,800        | 369,025        |
| Leasehold more than 50 years | 34,150         | 25,800         |
|                              | <u>500,950</u> | <u>394,825</u> |
| Original Value               | 399,204        | 379,449        |

Details of movements on directly owned properties are as follows:-

|   | 31 March 2022         | 31 March 2023         |
|---|-----------------------|-----------------------|
|   | £000                  | £000                  |
| <b>Opening balance</b>                  | <b>350,442</b>        | <b>500,950</b>        |
| Additions:                              |                       |                       |
| Purchases                               | 85,433                | (550)                 |
| New construction                        | 1,318                 |                       |
| Subsequent expenditure                  | (159)                 | 60                    |
| Disposals                               | (7,425)               | (18,237)              |
| Net increase/(decrease) in market value | 71,341                | (87,398)              |
| Other changes in fair value             | -                     | -                     |
| <b>Closing balance</b>                  | <u><b>500,950</b></u> | <u><b>394,825</b></u> |

**(f) Analysis of Pooled Investment Vehicles**

The underlying economic exposure of pooled investment vehicles is shown below:

|                       | 31 March 2022<br>£000   | 31 March 2023<br>£000   |
|-----------------------|-------------------------|-------------------------|
| Global Fixed Interest | 299,247                 | 296,110                 |
| UK Equities           | 473,803                 | 476,030                 |
| Overseas Equities:    |                         |                         |
| US                    | 259,512                 | 252,799                 |
| Europe                | 388,946                 | 421,804                 |
| Japan                 | 208,550                 | 198,331                 |
| Pacific Basin         | 183,616                 | 175,704                 |
| Emerging Markets      | 307,704                 | 309,951                 |
| Global                | 121,157                 | 426,948                 |
| UK Property           | 173,999                 | 222,934                 |
| Overseas Property     | 135,470                 | 131,376                 |
| Private Equity        | 311,452                 | 240,194                 |
| Infrastructure        | 254,602                 | 368,724                 |
| Credit                | 206,198                 | 203,093                 |
| Multi-Asset           | 346,560                 | 326,264                 |
| <b>Total</b>          | <b><u>3,670,816</u></b> | <b><u>4,050,262</u></b> |

**(g) Private Equity and Infrastructure Funds**

The Fund has made commitments to a number of funds. The original commitments are shown below in the fund currencies:

|   | Currency | Commitment<br>millions |
|---|----------|------------------------|
| <b>Private Equity Funds</b>                 |          |                        |
| Wilton Private Equity Fund                  | USD      | 14                     |
| Pantheon Europe Fund III                    | EUR      | 10                     |
| East Midlands Regional Venture Capital Fund | GBP      | 5                      |
| Schroders Private Equity Fund of Funds III  | EUR      | 22                     |
| DCM Private Equity Fund II                  | USD      | 18                     |
| Pantheon Europe Fund V                      | EUR      | 15                     |
| Coller International Partners V             | USD      | 18                     |
| Catapult Growth Fund                        | GBP      | 4                      |
| Altius Associates Private Equity Fund       | USD      | 10                     |
| Partners Group Secondary 2008               | EUR      | 13                     |
| DCM Private Equity Fund III                 | USD      | 16                     |
| Coller International Partners VI            | USD      | 16                     |
| Altius Associates Private Equity Fund II    | USD      | 15                     |
| Foresight Nottingham Fund                   | GBP      | 10                     |
| Aberdeen SVG Private Equity                 | USD      | 15                     |
| DCM Private Equity Fund IV                  | USD      | 16                     |
| Coller International VII                    | USD      | 16                     |
| Pantheon Multi-Strategy                     | EUR      | 14                     |
| Capital Dynamics CPEV 15-16                 | GBP      | 10                     |
| Capital Dynamics CPEV 16-17                 | GBP      | 10                     |
| YFM Equity Partners Buyout Fund I           | GBP      | 10                     |
| Darwin Leisure Development Fund             | GBP      | 30                     |
| Darwin Leisure Property Fund                | GBP      | 20                     |
| Capital Dynamics CPEV 17-18                 | GBP      | 10                     |
| Capital Dynamics CPEP 18-19                 | GBP      | 10                     |



|  |     |    |
|--|-----|----|
| YFM Buyout Fund II                         | GBP | 15 |
| LGPS Central PE Primary Fund 2018          | GBP | 10 |
| LGPS Central PE Co-Investments 2018        | GBP | 5  |
| Coller International VIII                  | USD | 35 |
| BGF  | GBP | 8  |
| LGPS Central PE Primary Fund 2021          | GBP | 90 |
| LGPS Central PE Co-Investments 2021        | GBP | 30 |
| Dorchester Capital Secondaries Offshore V  | USD | 50 |
| Dorchester Capital Secondaries Offshore VI | USD | 50 |

#### Infrastructure Funds

|   |     |     |
|---|-----|-----|
| Partners Group Global Infrastructure                  | EUR | 12  |
| Altius Real Assets Fund I                             | USD | 15  |
| Hermes GPE Infrastructure Fund                        | GBP | 25  |
| AMP Capital Global Infrastructure Fund                | USD | 34  |
| SL Capital Infrastructure                             | GBP | 15  |
| JP Morgan IIF UK 1                                    | USD | 22  |
| Green Investment Bank Offshore Wind Fund              | GBP | 15  |
| MacQuarie European Infrastructure Fund 5              | EUR | 24  |
| Equitix Fund IV LP                                    | GBP | 20  |
| Hermes GPE Infrastructure II                          | GBP | 25  |
| Equitix Fund V  | GBP | 10  |
| SL Capital Infrastructure II                          | EUR | 30  |
| Capital Dynamics Clean Energy and Infrastructure VIII | GBP | 20  |
| LGPS Central Infrastructure Fund (Single Asset)       | GBP | 20  |
| LGPS Central Infrastructure Fund (Core Plus)          | GBP | 125 |
| LGPS Central Infrastructure Fund (Value Added)        | GBP | 50  |
| Darwin Bereavement Services Fund                      | GBP | 30  |

#### Credit Funds

|  |     |    |
|--|-----|----|
| Dorchester Credit Opportunities        | USD | 65 |
| Cheyne Real Estate Credit Holdings VII | GBP | 40 |

These commitments are drawn by the funds over time as investments are made in underlying companies or assets. The undrawn commitments as at 31 March 2023 were £362.4 million (£361.1million at 31 March 2022). Of the funds above, the following were new commitments made during 2022/23:-

|  | Currency | Commitment<br>millions |
|--|----------|------------------------|
| Darwin Bereavement Services Fund           | GBP      | 10                     |
| BGF  | GBP      | 1                      |
| Dorchester Capital Secondaries Offshore VI | USD      | 50                     |
| LGPS Central PE Primary Fund 2021          | GBP      | 45                     |
| LGPS Central PE Co-Investments 2021        | GBP      | 10                     |

#### (h) Analysis of derivatives

There were no derivatives held at 31 March 2023 or 31 March 2022.

## 12. Contingent Liabilities

The Fund has no contingent liabilities.

### 13. Other Investment Balances and Liabilities

|                                     | 31 March 2022<br>£000 | 31 March 2023<br>£000 |
|-------------------------------------|-----------------------|-----------------------|
| Other investment balances           |                       |                       |
| Outstanding investment transactions | 4,296                 | 12,332                |
| Investment income                   | 26,657                | 20,093                |
|                                     | <b>30,953</b>         | <b>32,425</b>         |
| Investment Liabilities              |                       |                       |
| Outstanding investment transactions | -                     | -                     |
| Investment income                   | (4,651)               | (4,575)               |
|                                     | <b>(4,651)</b>        | <b>(4,575)</b>        |

### 14. Current Assets and Liabilities

|                                  | 31 March 2022<br>£000 | 31 March 2023<br>£000 |
|----------------------------------|-----------------------|-----------------------|
| Current assets                   |                       |                       |
| Contributions due from employers | 18,973                | 18,877                |
| Other                            | 2,572                 | 2,373                 |
|                                  | <b>21,545</b>         | <b>21,250</b>         |
| Current Liabilities              |                       |                       |
| Payments in advance              | -                     | -                     |
| Sundry creditors                 | (23,880)              | (17,927)              |
| Other                            | (672)                 | (733)                 |
|                                  | <b>(24,552)</b>       | <b>(18,660)</b>       |

## 15. Financial Instruments and Property Investments

- (a) The various financial instruments held by the Fund are valued at fair value or amortised cost. The following tables analyse the value of financial assets and liabilities by asset class.

Property assets are not included in this table as they are not financial instruments, which is otherwise consistent with the figures in note 11.

|                              | 31 March 2023  |   |  | Totals<br>£000   |
|------------------------------|--|---|--|------------------|
|                              | Financial assets<br>measured at Fair<br>Value through<br>profit and loss<br>£000 | Financial<br>assets at<br>amortised<br>cost<br>£000 | Financial<br>liabilities at<br>amortised<br>cost<br>£000 |                  |
| <b>Financial Assets</b>      |  |   |  |                  |
| Fixed Interest Securities    | 220,346  | -   | -  | 220,346          |
| Equities                     | 1,663,353  | -   | -  | 1,663,353        |
| Pooled Investment Vehicles   | 3,695,952  | -   | -  | 3,695,952        |
| Property Pooled Vehicles     | 354,310  | -   | -  | 354,310          |
| Cash deposits                | -  | 107,288   | -  | 107,288          |
| Other investment balances    | -  | 32,425  | -  | 32,425           |
| Current Assets               | -  | 21,250  | -  | 21,250           |
|                              | <b>5,933,961</b>   | <b>160,963</b>                                      | <b>-</b>   | <b>6,094,924</b> |
| <b>Financial Liabilities</b> |  |   |  |                  |
| Investment Liabilities       | -  | -   | (4,575)  | (4,575)          |
| Current Liabilities          | -  | -   | (18,660)   | (18,660)         |
|                              | -  | -   | <b>(23,235)</b>  | <b>(23,235)</b>  |
|                              | <b>5,933,961</b>   | <b>160,963</b>                                      | <b>(23,235)</b>  | <b>6,071,689</b> |

|                              | 31 March 2022  |  |  | Totals<br>£000   |
|------------------------------|--|--|--|------------------|
|                              | Financial assets<br>measured at Fair<br>Value through<br>profit and loss<br>£000 | Assets at<br>amortised<br>cost<br>£000 | Financial<br>liabilities at<br>amortised<br>cost<br>£000 |                  |
| <b>Financial Assets</b>      |  |  |  |                  |
| Fixed Interest Securities    | 343,093  | -                                      | -  | 343,093          |
| Equities                     | 1,916,522  | -                                      | -  | 1,916,522        |
| Pooled Investment Vehicles   | 3,361,347  | -                                      | -  | 3,361,347        |
| Property Pooled Vehicles     | 309,469  | -                                      | -  | 309,469          |
| Cash deposits                | -  | 161,973                                | -  | 161,973          |
| Other investment balances    | -  | 30,952                                 | -  | 30,952           |
| Current Assets               | -  | 21,545                                 | -  | 21,545           |
|                              | <b>5,930,431</b>   | <b>214,470</b>                         | <b>-</b>   | <b>6,144,901</b> |
| <b>Financial Liabilities</b> |  |  |  |                  |
| Investment Liabilities       | -  | -                                      | (4,651)  | (4,651)          |
| Current Liabilities          | -  | -                                      | (24,552)   | (24,552)         |
|                              | -  | -                                      | <b>(29,203)</b>  | <b>(29,203)</b>  |
|                              | <b>5,930,431</b>   | <b>214,470</b>                         | <b>(29,203)</b>  | <b>6,115,698</b> |

No financial assets were reclassified during the accounting period.

- (b) Valuation of financial instruments and Property Investments carried at fair value

The valuation of investments has been classified into three levels according to the quality and reliability of information used to determine fair values.

- Level 1 Fair values derived from quoted market price.
- Level 2 Fair values derived from valuation techniques based significantly on observable inputs.
  - this includes all quoted equity, fixed interest and index linked instruments and quoted funds.
  - this includes unquoted funds containing equity, fixed interest and index linked instruments and unquoted property funds which are regularly traded.
- Level 3 Fair values derived from valuation techniques where at least one significant input is not based on observable market data.
  - this includes unquoted securities and investments in private equity funds.
  - following guidance from IFRS13 property and property funds are classified as level 3 at 31 March 2023.

All property funds except one are now considered level 3, and some of our listed securities held in unquoted funds are now considered level 2. Current and prior year figures have been adjusted accordingly.

The basis of valuation, inputs and key sensitivities for level 2 and 3 investments are described below.

| Description of asset  | Basis of valuation  | Observable and unobservable inputs  | Key sensitivities affecting the valuations provided  |
|---|---|---|--|
| Unquoted pooled fund investments  | Average of broker prices  | Evaluated price feeds   | None   |
| Pooled property funds and hedge funds where regular trading takes place | Closing bid price   | NAV-based pricing set on a forward pricing basis  | None   |
| Freehold and leasehold properties                                       | Property investments are stated at open market value based on a quarterly independent external valuation in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards at the Net Assets Statement date. | <ul style="list-style-type: none"> <li>• lease terms</li> <li>• nature of tenancies</li> <li>• covenant strength</li> <li>• vacancy levels</li> <li>• estimated rental growth</li> <li>• discount rate</li> </ul> | Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices       |
| Unquoted securities   | Unquoted securities and pooled private equity and property investments are valued at fair value by the fund managers in accordance with industry accepted guidelines.   | <ul style="list-style-type: none"> <li>• earnings</li> <li>• revenue</li> <li>• comparable valuations</li> </ul>  | Valuations could be affected by post balance sheet events, changes to expected cashflows, or by any differences between audited and unaudited accounts |

| <b>As at 31 March 2023</b>         | <b>Level 1<br/>£000</b> | <b>Level 2<br/>£000</b> | <b>Level 3<br/>£000</b> | <b>Total<br/>£000</b> |
|------------------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| <b>Financial Assets</b>            |                         |                         |                         |                       |
| Fair value through profit and loss |                         |                         |                         |                       |
| Financial instruments              | 3,060,094               | 1,873,191               | 1,000,676               | 5,933,961             |
| <b>Non Financial Assets</b>        |                         |                         |                         |                       |
| Fair value through profit and loss |                         |                         |                         |                       |
| Freehold and leasehold property    | -                       | -                       | 394,825                 | 394,825               |
| <b>Total</b>                       | <b>3,060,094</b>        | <b>1,873,191</b>        | <b>1,395,501</b>        | <b>6,328,786</b>      |

| <b>As at 31 March 2022</b>         | <b>Level 1<br/>£000</b> | <b>Level 2<br/>£000</b> | <b>Level 3<br/>£000</b> | <b>Total<br/>£000</b> |
|------------------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| <b>Financial Assets</b>            |                         |                         |                         |                       |
| Fair value through profit and loss |                         |                         |                         |                       |
| Financial instruments              | 3,149,197               | 1,875,952               | 905,282                 | 5,930,431             |
| <b>Non Financial Assets</b>        |                         |                         |                         |                       |
| Fair value through profit and loss |                         |                         |                         |                       |
| Freehold and leasehold property    | -                       | -                       | 500,950                 | 500,950               |
| <b>Total</b>                       | <b>3,149,197</b>        | <b>1,875,952</b>        | <b>1,406,232</b>        | <b>6,431,381</b>      |

#### Reconciliation of Fair Value measurements within Level 3

|                                   | Freehold and leasehold<br>property | Unquoted securities |
|-----------------------------------|------------------------------------|---------------------|
|                                   | £000                               | £000                |
| <b>Market value 1 April 2022</b>  | <b>500,950</b>                     | <b>905,282</b>      |
| Transfers into level 3            | -                                  | -                   |
| Transfers out of level 3          | -                                  | -                   |
| Purchases during the year         | (490)                              | 77,928              |
| Sales during the year             | (18,237)                           | (5,263)             |
| Unrealised gains / (losses)       | (84,232)                           | 15,798              |
| Realised gains / (losses)         | (3,166)                            | 6,931               |
| <b>Market value 31 March 2023</b> | <b>394,825</b>                     | <b>1,000,676</b>    |

#### Sensitivity of assets valued at level 3

|                                 | <b>Assessed<br/>valuation<br/>range (+/-)</b> | <b>Value at 31<br/>March 2023<br/>£000</b> | <b>Value on<br/>increase<br/>£000</b> | <b>Value on<br/>decrease<br/>£000</b> |
|---------------------------------|---|--|---------------------------------------|---------------------------------------|
| Freehold and leasehold property | 10%   | 394,825                                    | 434,308                               | 355,343                               |
| Unquoted securities             | 20%   | 1,000,676                                  | 1,200,811                             | 800,541                               |
| <b>Total</b>                    |   | <b>1,395,501</b>                           | <b>1,635,119</b>                      | <b>1,155,884</b>                      |

The potential movement of 10% on property assets represents a combination of a number of factors such as rental increases, vacancy levels, market prices and discount rates which could all move independently in different directions.

The potential movement of 20% for unquoted securities is derived from changes in the underlying profitability of component companies/partnerships noting that the components are forward priced.

#### (c) Nature and extent of risks arising from financial instruments

The aims of the Fund are to:

- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

The key risks to the achievement of these aims, as well as measures to mitigate those risks, are set out in the various Fund policies (available at [www.nottspf.org.uk](http://www.nottspf.org.uk)) including:

- Investment Strategy Statement
- Funding Strategy Statement
- Governance Compliance Statement
- Risk Management Strategy and Risk Register

The Risk Register identifies the highest risks as arising from:

- Inadequate resources are available to manage the Pension Fund
- Fund assets are assessed as insufficient to meet long term liabilities
- Standing data and permanent records are not accurate
- Significant variations from assumptions used in the actuarial valuation

Actions have been agreed to mitigate these risks.

The Fund's primary risk is that its assets fall short of its long term liabilities. The Funding Strategy Statement states that the funding objectives are to:

- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers.
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective.

The most significant effect on the funding level arises from changes in the discount rate used by the actuaries. The sensitivity analysis below (prepared by the Fund's actuaries) shows the impact of a movement of 0.1% in the discount rate.

|  |           |           |           |
|--|-----------|-----------|-----------|
| Adjustment to discount rate              | +0.1%     | 0.0%      | -0.1%     |
| Present Value of Total Obligation (£000) | 6,860,161 | 6,972,910 | 7,088,657 |

The impact of a movement in the long term salary increase, pension increases and deferred revaluation, and to life expectancy assumptions are also shown below.

|  |           |           |           |
|--|-----------|-----------|-----------|
| Adjustment to long term salary increase  | +0.1%     | 0.0%      | -0.1%     |
| Present Value of Total Obligation (£000) | 6,981,205 | 6,972,910 | 6,964,679 |

|  |           |           |           |
|--|-----------|-----------|-----------|
| Adjustment to pension increases and deferred revaluation | +0.1%     | 0.0%      | -0.1%     |
| Present Value of Total Obligation (£000)                 | 7,082,412 | 6,972,910 | 6,866,228 |

|   |           |           |           |
|---|-----------|-----------|-----------|
| Adjustment to life expectancy assumptions | +1 year   | None      | -1 year   |
| Present Value of Total Obligation (£000)  | 7,237,377 | 6,972,910 | 6,719,214 |

The Fund was assessed at the last triennial valuation as being fully funded.

For the first time in 2013/14 there was a net withdrawal from dealings with members. Since then the net withdrawal/contribution has generally been relatively small.

The Fund continues to receive significant investment income and is therefore unlikely to need to sell assets in order to meet pension benefits in the near future. This allows the Fund to implement a long term investment strategy and minimise the impact of short term fluctuations in investment and currency markets. The strategy, and the assumptions that underpin it, are reviewed on a regular basis and cash flows are monitored closely to ensure there is sufficient liquidity to meet forecast cash flows.

The investment strategy is aimed at achieving best returns in line with the requirements of the triennial valuation whilst minimising risk and overall variability in future employers' contribution rates. Specific risks arising from financial instruments include market risk, interest rate risk, currency risk, credit risk and liquidity risk (described in more detail below). These risks are managed within the Fund through diversification of assets, careful selection of managers and counter parties, and prudent treasury management. The level of risk in the equities block is managed by a balance between passive and active management.

Policies are reviewed regularly to reflect changes in activity and in market conditions. Responsibility for reviewing and revising the policies rests with the Nottinghamshire Pension Fund Committee.

### Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

In consultation with its advisers, the Fund has determined that the following movements in market price risk are reasonably possible in 2023/24. Data is provided on the basis of a 1 standard deviation move, which might be expected to happen either up or down approximately one year in three. It is assumed that all other variables, in particular foreign exchange rates and interest rates, remain the same.

| Asset type            | Value as at<br>31 March 23<br>£000 | Potential market<br>movements (+/-) | Value on<br>increase<br>£000 | Value on<br>decrease<br>£000 |
|-----------------------|------------------------------------|-------------------------------------|------------------------------|------------------------------|
| UK Fixed interest     | 220,346                            | 11.9%                               | 246,567                      | 194,125                      |
| Global Fixed interest | 296,110                            | 8.4%                                | 320,983                      | 271,237                      |
| UK Equities           | 1,113,252                          | 19.4%                               | 1,329,223                    | 897,281                      |
| Overseas equities     | 2,652,283                          | 20.2%                               | 3,188,044                    | 2,116,522                    |
| Property              | 767,190                            | 11.5%                               | 855,417                      | 678,963                      |
| Private Equity        | 242,194                            | 23.6%                               | 299,352                      | 185,036                      |
| Infrastructure        | 508,054                            | 15.9%                               | 588,835                      | 427,273                      |
| Credit                | 203,093                            | 9.9%                                | 223,199                      | 182,987                      |
| Multi-asset           | 326,264                            | 11.3%                               | 363,132                      | 289,396                      |
| <b>Total</b>          | <b>6,328,786</b>                   |                                     | <b>7,414,752</b>             | <b>5,242,820</b>             |

### Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Long-term average rates are expected to move less than 1% from one year to the next.

A 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash balances but they will affect the interest income received on those balances.

The analysis that follows assumed that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates

| Exposure to interest rate risk from directly held investments | Asset values as at 31 March 23 | Impact of 1% decrease | Impact of 1% increase |
|---|--------------------------------|-----------------------|-----------------------|
|   | £000                           | £000                  | £000                  |
| Cash  | 107,288                        | 107,288               | 107,288               |
| Fixed interest bonds  | 220,346                        | 239,048               | 205,955               |
| <b>Total</b>  | <b>327,634</b>                 | <b>346,336</b>        | <b>313,243</b>        |

The Fund is also indirectly exposed to interest rate risk within some pooled investments.

| Exposure to interest rate risk | Interest receivable 2022/23 | Value on 1% increase | Value on 1% decrease |
|--------------------------------|-----------------------------|----------------------|----------------------|
|                                | £000                        | £000                 | £000                 |
| Cash                           | (3,127)                     | (4,683)              | (1,571)              |
| Fixed interest bonds           | (6,877)                     | (6,877)              | (6,877)              |
| <b>Total</b>                   | <b>(10,004)</b>             | <b>(11,560)</b>      | <b>(8,448)</b>       |

### Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. The Fund considers the likely volatility associated with foreign exchange movements to be not more than 15%. A 15% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows.

| Assets directly exposed to currency risk                | Asset value as at 31 March 23 | Potential market movement | Value on increase | Value on decrease |
|---|-------------------------------|---------------------------|-------------------|-------------------|
|   | £000                          | £000                      | £000              | £000              |
| Overseas equities                                       | 866,746                       | 130,012                   | 996,758           | 736,734           |
| Overseas pooled funds                                   | 797,912                       | 119,687                   | 917,599           | 678,225           |
| <b>Total change in assets available to pay benefits</b> | <b>1,664,658</b>              | <b>249,699</b>            | <b>1,914,357</b>  | <b>1,414,959</b>  |

The Fund is also indirectly exposed to currency risk within other investments.



### **Credit risk**

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure of third parties to settle transactions in a timely manner. The Fund has also set limits as to the maximum sum placed on deposit with individual financial institutions. Money market funds chosen all have AAA rating.

The Pension Fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

### **Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The pension fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments through its daily treasury management processes. This cashflow planning and management ensures that the Fund's liquidity risk is low. The Fund's cash holding under its treasury management arrangements at 31 March 2023 was £107.3m (31 March 2022: £162.0m).

## **16. Members Additional Voluntary Contributions**

The Nottinghamshire Fund provides an additional voluntary contribution (AVC) scheme to enable members to purchase additional benefits. Contributions are paid over to, and invested separately by, the two scheme providers, Prudential and Scottish Widows. The contributions are not included in the Fund's accounts in accordance with regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The value of the separately invested AVCs is shown below:

|                 | <b>31 March 2022</b> | <b>31 March 2023</b> |
|-----------------|----------------------|----------------------|
|                 | <b>£000</b>          | <b>£000</b>          |
| Prudential      | 32,559               | 32,559               |
| Scottish Widows | 3,458                | 3,458                |
|                 | <b>36,017</b>        | <b>36,017</b>        |

## 17. Related Party Transactions

Under IAS 24, a party is related to an entity if:

- the party is a member of the key management personnel
- the party is a post-employment benefit plan for the benefit of employees of the entity.

The purpose of related party disclosures is to provide information on transactions and balances that could have an effect on the operations or financial position of an entity. For example, related parties may enter into transactions that unrelated parties would not and transactions between related parties may not be made at the same amounts as between unrelated parties.

Disclosures are required for:

- the nature of the related party relationship.
- key management personnel compensation.
- information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Nottinghamshire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire and is one of the major employers within the scheme. During the reporting period, the council incurred costs of £2.48m in relation to the administration and management of the fund and was reimbursed by the fund for these expenses.

Information regarding key management personnel is provided within the main accounts of Nottinghamshire County Council. The proportion recharged to the Pension Fund is as follows:-

| Post Holder information (Post title and name (where applicable)) | Note | Salary (including fees & allowances)<br>£ | Expenses | Compensation for Loss of Office<br>£ | Employer Pension contributions*<br>£ | Total Remuneration<br>£ |
|--|------|---|----------|--------------------------------------|--------------------------------------|-------------------------|
| Service Director (Customers, Governance and Employees)           | 1    | 15,967                                    | -        | -                                    | 7,552                                | 23,518                  |
| Service Director (Finance, Infrastructure & Improvement)         | 2    | 21,289                                    | 32       | -                                    | 10,069                               | 31,390                  |

\*Pension Contributions are estimated at 22.2% to account for the pensions deficit and are adjusted in accordance with IAS19

1. The Service Director for Customers, Governance and Employees has the statutory responsibility of the Monitoring Officer.
2. The post of Service Director (Finance, Infrastructure and Improvement) has the statutory responsibility of S151 Officer.

Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Nottinghamshire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.

LGPS Central Ltd has been established to manage investment assets on behalf of eight LGPS funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the Pool and is a joint venture in accordance with IFRS 11. Control of LGPS Central Ltd is primarily through the Shareholders Forum, governed by a Shareholders Agreement and operating under company law, which has formal decision making powers. Nottinghamshire Pension Fund has equal voting rights alongside the other participating funds and unanimous decisions are required on key strategic matters. These are specified in the Shareholders Agreement and Articles of Association, and include the appointment and dismissal of the company's senior executives, approval of the company's strategic plan and any significant financial transactions, such as major acquisitions, lending or borrowing.

£1,315,000 has been invested in share capital and £685,000 in a loan to LGPS Central Ltd. This is held at historic cost and are the balances at year end, unchanged from 2021/22. The Fund earned £46,600 in interest during the year (£32,000 in 2021/22) and £46,600 was owed to the Fund at the end of the year (£32,000 in 2021/22).

LGPS Central Ltd has charged £1,384,000 in operating and investment management costs during the year (2021/22 £1,194,000), of which £293,000 (2021/22 £310,000) was outstanding at year end.

Nottinghamshire County Council as the Administering Authority of the Nottinghamshire Pension Fund has guaranteed a share of the pension liability relating to employees of LGPS Central Ltd that transferred into the company on creation. If this guarantee is called this will be funded by the Pension Fund.

Over time, LGPS Central Ltd will manage an increasing proportion of the Pension Fund's investments. At 31 March 2023 investments worth £1,195.3 million (31 March 2022 £854.5 million) were managed by LGPS Central Ltd.

## 18. Post Balance Sheet Events

No adjusting post balance sheet events have been identified.

## LGPS Central (LGPSC) Pool

Nottinghamshire County Council - in conjunction with the administering authorities of Cheshire, Derbyshire, Leicestershire, Shropshire, Staffordshire, West Midlands and Worcestershire - has established of a multi asset investment pool called LGPS Central (LGPSC). LGPSC has a structure that allows participating funds to exercise control (both individually, and collectively), not only as investors in the pooled funds, but also as shareholders (or 'Partner Funds') of the operator company, LGPS Central Ltd. It opened for business with the launch of 3 new mandates on 3 April 2018, and operates out of Wolverhampton, West Midlands, and Matlock, Derbyshire.

The information set out below reflects the information required by Partner Funds to meet the CIPFA Annual Report Pooling Disclosures in 2021/22. Please note that the information request reflects the start-up nature of LGPSC, and the level and complexity of the disclosures required will increase in future years.

The analysis provided by LGPSC relates to Nottinghamshire as a specific Partner Fund. The provision of the information by LGPSC to each Partner Fund ensures consistent reporting across Partner Funds, and allows LGPSC to aggregate, and reconcile back the individual Partner Fund disclosures, to the Company's financial statements.

### Set-Up Costs

| Cumulative 2014/15 to 2018/19      | Total £000   |
|------------------------------------|--------------|
| Set Up Costs                       |              |
| Recruitment                        | 27           |
| Procurement                        | 2            |
| Professional Fees                  | 187          |
| IT                                 | 97           |
| Staff Costs                        | 142          |
| Other Costs (provide details)      |              |
| Premises                           | 49           |
| Staffing-Related Costs             | 5            |
| Travel and Expenses                | 1            |
| Training and Events                | 1            |
| FCA Fees                           | 1            |
| General Admin Costs                | 2            |
| <b>Set-Up Costs Before Funding</b> | <b>514</b>   |
| Share Capital                      | 1,315        |
| Debt                               | 685          |
| Other Costs                        | -            |
| <b>Set-Up Costs After Funding</b>  | <b>2,514</b> |

These remain unchanged since those reported in the 2018/19 Annual Report. The Pool is operational so no further set up costs are anticipated.

## Governance, Operator and Product Development Charged by LGPSC to Partner Funds

| £000                      | At 1 April-22 | Charges in Year | Settled in Year | At 31 March-23 |
|---------------------------|---------------|-----------------|-----------------|----------------|
| Governance Costs          | -             | 257             | -               | -              |
| Operator Costs            | -             | 734             | -               | -              |
| IMMC (*)                  | -             | 258             | -               | -              |
| Product Development Costs | -             | 136             | -               | -              |
| <b>Total</b>              | <b>310</b>    | <b>1,385</b>    | <b>(1,039)</b>  | <b>656</b>     |

(\*) Please note that this is expected to relate to IMMC charges in respect of any discretionary and/or advisory services provided by LGPSC to a Partner Fund.

## Other Transactions between Partner Funds and LGPSC (e.g. service support provided by West Midlands to LGPSC / rent payable by LGPSC to Derbyshire County Council)

| £000             | At 1 April-22 | Charges in Year | Settled in Year | At 31 March-23 |
|------------------|---------------|-----------------|-----------------|----------------|
| Interest Payable | 32            | 46              | (32)            | 46             |
| <b>Total</b>     | <b>32</b>     | <b>46</b>       | <b>(32)</b>     | <b>46</b>      |

## LGPSC Investment Management Expenses Charged to Partner Funds

|   | £000                    | Direct       | Indirect | Total        | <i>Bps Charge</i> |
|---|-------------------------|--------------|----------|--------------|-------------------|
| 1 | Ad Valorem              | 2,250        |          | 2,250        | 15.49             |
| 2 | Performance             | -            |          | -            | -                 |
| 3 | Research                | -            |          | -            | -                 |
| 4 | PRIIPS Compliance       | -            |          | -            | -                 |
| 5 | Other (provide details) | -            |          | -            | -                 |
|   | <b>Management Fees</b>  | <b>2,250</b> | <b>-</b> | <b>2,250</b> | <b>15.49</b>      |
| 6 | Commissions             | 115          |          | 115          | 0.79              |
| 7 | Acquisition/issue costs | -            |          | -            | -                 |
| 8 | Disposal costs          | -            |          | -            | -                 |

|    |                                |              |   |              |              |
|----|--------------------------------|--------------|---|--------------|--------------|
| 9  | Registration/filing fees       | -            |   | -            | -            |
| 10 | Taxes and Stamp Duty           | 103          |   | 103          | 0.71         |
| 11 | Other (provide details)        | -            |   | -            | -            |
|    | Implicit Costs                 | 1,411        |   | 1,411        | 9.72         |
|    | <b>Transaction Costs</b>       | <b>1,628</b> | - | <b>1,628</b> | <b>11.21</b> |
|    |                                |              |   |              | -            |
| 12 | <b>Custody/Depositary</b>      | <b>103</b>   |   | <b>103</b>   | <b>0.71</b>  |
| 13 | <b>Other (provide details)</b> |              |   |              | -            |
|    | Fund Accounting                | 52           |   | 52           | 0.36         |
|    | Transfer Agent                 | 8            |   | 8            | 0.06         |
|    | External Audit                 | 13           |   | 13           | 0.09         |
|    | Performance Reporting          | 21           |   | 21           | 0.15         |
|    | Transaction Charges            | 32           |   | 32           | 0.22         |
|    | MACS Fees                      | -            |   | -            | -            |
|    | <b>Total Costs</b>             | <b>4,107</b> |   | <b>4,107</b> | <b>28.29</b> |

## Investment Management Expenses by Product / Service

| £000                          | 1            | 6          | 10         | 11           | 12         | 13         | Total<br>2022/23<br>Costs | AUM At<br>31<br>March<br>2023 £m | 2022/23<br>Bps<br>Charge |
|-------------------------------|--------------|------------|------------|--------------|------------|------------|---------------------------|----------------------------------|--------------------------|
| UK Passive                    | -            | -          | -          | -            | -          | -          | -                         | -                                |                          |
| Global Passive                | 3            |            | -          | -            | 1          | -          | 4                         | 13                               | 3.08                     |
| Global Multi-Manager          | 71           | 12         | 12         | 80           | 3          | -          | 177                       | 29                               | 52.16                    |
| Emerging Market Equities      | 645          | 55         | 68         | 120          | 31         | 17         | 936                       | 131                              | 73.70                    |
| Corporate Bonds               | 284          | 0          | 0          | 907          | 27         | 13         | 1,231                     | 296                              | 42.00                    |
| Emerging Market Debt          | 67           | 0          | 0          | 100          | 3          | 1          | 171                       | 33                               | 51.72                    |
| Multi-Asset Credit            | 231          | 3          | 0          | 39           | 9          | 15         | 296                       | 110                              | 27.16                    |
| Sustainable Broad             | 236          | 4          | 1          | 15           | 9          | 23         | 288                       | 107                              | 27.69                    |
| Sustainable Target            | 264          | 19         | 19         | 151          | 11         | 23         | 485                       | 103                              | 50.03                    |
| Sustainable Thematic          | 319          | 23         | 3          | 0            | 9          | 35         | 388                       | 104                              | 38.04                    |
| <b>ACS Sub-Funds</b>          | <b>2,119</b> | <b>115</b> | <b>103</b> | <b>1,411</b> | <b>103</b> | <b>127</b> | <b>3,976</b>              | <b>926</b>                       |                          |
|                               |              |            |            |              |            |            |                           |                                  |                          |
| Private Equity 2018 V'tage    | 9            |            |            |              |            |            | 9                         | 15                               | 6.00                     |
| Private Equity 2021 V'tage    | 34           |            |            |              |            |            | 34                        | 120                              | 2.83                     |
| Infrastructure                | 50           |            |            |              |            |            | 50                        | 195                              | 2.56                     |
| <b>Alternative Vehicles</b>   | <b>93</b>    | <b>-</b>   | <b>-</b>   | <b>-</b>     | <b>-</b>   | <b>-</b>   | <b>93</b>                 | <b>330</b>                       |                          |
|                               |              |            |            |              |            |            |                           |                                  |                          |
| UK Gilts                      | 38           |            |            |              |            |            | 38                        | 210                              | 1.81                     |
| Discretionary Mandate 2       |              |            |            |              |            |            | -                         |                                  |                          |
| <b>Discretionary Mandates</b> | <b>38</b>    | <b>-</b>   | <b>-</b>   | <b>-</b>     | <b>-</b>   | <b>-</b>   | <b>38</b>                 | <b>210</b>                       |                          |
| <b>Total</b>                  | <b>2,250</b> | <b>115</b> | <b>103</b> | <b>1,411</b> | <b>103</b> | <b>127</b> | <b>4,107</b>              | <b>1,466</b>                     | <b>28.29</b>             |

Items 1, 6, 10, 11, 12, 13 relate to items listed in the Direct Column of 'Investment Management Expenses Charged to Partner Funds' table above

## Asset Under Management & Performance by Product / Service

| £000                          | AUM At<br>1 April-22<br>£m | AUM At<br>31 March-23<br>£m | One Year<br>Gross<br>Performance<br>% | One Year Net<br>Performance<br>% | Passive Benchmark Used   | One<br>Year<br>Passive<br>Index % |
|-------------------------------|----------------------------|-----------------------------|---------------------------------------|----------------------------------|--|-----------------------------------|
| UK Passive                    | -                          | -                           | -0.19%                                | -0.20%                           | FTSE All Share (UK) Total Return Index   | -0.15%                            |
| Global Passive                | 13                         | 13                          | -3.07%                                | -3.08%                           | FTSE World Europe ex UK TR 33.33%; FTSE All World North America TR 33.33%; FTSE All World Japan TR 16.67%; FTSE All World Pacific ex Japan TR 16.67% | -3.25%                            |
| Global Multi-Manager          | 29                         | 29                          | -3.92%                                | -4.08%                           | FTSE All World Index   | -5.01%                            |
| Emerging Market Equity        | 117                        | 131                         | -5.79%                                | -6.20%                           | FTSE Emerging Markets Index  | -4.07%                            |
| Corporate Bonds               | 299                        | 296                         | -12.85%                               | -12.92%                          | ICE BofAML Sterling Non-Gilt Index 50%; ICE BofAML Global Corporate Index 50%  | -11.26%                           |
| Emerging Market Debt          | 36                         | 33                          | -8.25%                                | -8.39%                           | JPMorgan EMBI Global Diversified Index, hedged to GBP  | -10.09%                           |
| Multi-Asset Credit            | 115                        | 110                         | -6.22%                                | -6.38%                           | 3-month GBP SONIA  | 0.00%                             |
| Sustainable Broad             | -                          | 107                         | 6.90%                                 | 0.00%                            |  | 2.10%                             |
| Sustainable Target            | -                          | 103                         | -3.40%                                | -3.60%                           |  | -2.40%                            |
| Sustainable Thematic          | -                          | 104                         | -3.20%                                | -3.50%                           |  | -2.40%                            |
| <b>ACS Sub-Funds</b>          | <b>609</b>                 | <b>926</b>                  |                                       |                                  |  |                                   |
| Private Equity 2018 Vintage   | 15                         | 15                          |                                       |                                  |  |                                   |
| Private Equity 2021 V'tage    | 65                         | 120                         |                                       |                                  |  |                                   |
| Infrastructure                | 180                        | 195                         |                                       |                                  |  |                                   |
| <b>Alternative Vehicles</b>   | <b>260</b>                 | <b>330</b>                  |                                       |                                  |  |                                   |
| UK Gilts                      | 210                        | 210                         |                                       |                                  |  |                                   |
| <b>Discretionary Mandates</b> | <b>210</b>                 | <b>210</b>                  |                                       |                                  |  |                                   |
| <b>Total</b>                  | <b>1,079</b>               | <b>1,466</b>                |                                       |                                  |  |                                   |



## Annual Voting Record

Nottinghamshire Pension Fund is committed to supporting best practice in corporate governance and has adopted the *UK Stewardship Code* as recommended by the CIPFA *Principles for investment decision making and disclosure*. The *UK Stewardship Code*, issued in September 2012 by the Financial Reporting Council, and revised in 2020, highlights the responsibilities of institutional investors such as the Nottinghamshire Pension Fund. It defines stewardship as ‘the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society’. Stewardship includes, among other things, having a clear policy on voting and on the disclosure of voting activity.

Alongside this the CIPFA *Principles for investment decision making and disclosure* require administering authorities to include a statement of their policy on responsible investment in the Investment Strategy Statement and report periodically on the discharge of such responsibilities. The Fund’s statement on responsible investment states that ‘the Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds’.

The Fund retains responsibility for voting any directly held shares (rather than delegating this to investment managers) and votes the majority of its equity holdings in the UK, Europe, US and Japan. Since 2020 voting has been undertaken by Hermes EOS in line with the voting principles of LGPS Central. An overview of this voting activity during the year is shown overleaf. In summary, during 2022/23 Hermes EOS voted Nottinghamshire Pension Fund shares at 2,850 meetings (a total of 36,656 resolutions). Hermes opposed one or more resolutions at 1,786 meetings and voted with management by exception at 140 meetings. Hermes supported management on all resolutions at 919 meetings and abstained from voting at 5 meetings.

Further detail on the issues raised at company AGMs can be found in LGPS Central’s quarterly *Stewardship Update*. A link to the *Update* can be found on the Nottinghamshire Pension Fund ‘Approach to Responsible Investment’ webpage, under ‘News and Engagement’: <https://www.nottspf.org.uk/about-the-fund/responsible-investment/>

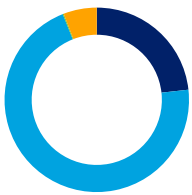
## Nottinghamshire Pension Fund

## EOS at Federated Hermes

Over the last quarter we made voting recommendations at **1,781** meetings (**25,544** resolutions). At **1,260** meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at **104** meetings and abstaining at **three** meetings. We supported management on all resolutions at the remaining **414** meetings.

### Global

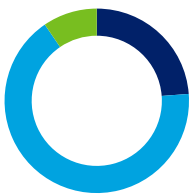
We made voting recommendations at **1,781** meetings (**25,544** resolutions) over the last quarter.



- Total meetings in favour **23.2%**
- Meetings against (or against AND abstain) **70.7%**
- Meetings abstained **0.2%**
- Meetings with management by exception **5.8%**

### Australia and New Zealand

We made voting recommendations at **21** meetings (**128** resolutions) over the last quarter.



- Total meetings in favour **23.8%**
- Meetings against (or against AND abstain) **66.7%**
- Meetings with management by exception **9.5%**

### Developed Asia

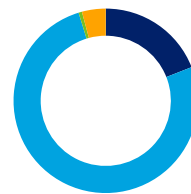
We made voting recommendations at **479** meetings (**5,856** resolutions) over the last quarter.



- Total meetings in favour **30.5%**
- Meetings against (or against AND abstain) **68.7%**
- Meetings with management by exception **0.8%**

### Emerging and Frontier Markets

We made voting recommendations at **168** meetings (**2,342** resolutions) over the last quarter.



- Total meetings in favour **19.0%**
- Meetings against (or against AND abstain) **76.2%**
- Meetings abstained **0.6%**
- Meetings with management by exception **4.2%**

### Europe

We made voting recommendations at **380** meetings (**6,912** resolutions) over the last quarter.



- Total meetings in favour **14.7%**
- Meetings against (or against AND abstain) **77.9%**
- Meetings with management by exception **7.4%**

### North America

We made voting recommendations at **516** meetings (**6,530** resolutions) over the last quarter.



- Total meetings in favour **10.1%**
- Meetings against (or against AND abstain) **79.8%**
- Meetings with management by exception **10.1%**

### United Kingdom

We made voting recommendations at **217** meetings (**3,776** resolutions) over the last quarter.



- Total meetings in favour **56.7%**
- Meetings against (or against AND abstain) **37.3%**
- Meetings abstained **0.9%**
- Meetings with management by exception **5.1%**

The issues on which we recommended voting against management or abstaining on resolutions are shown below.

**Global**

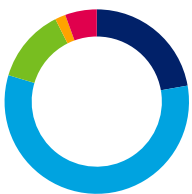
We recommended voting against or abstaining on **3,894** resolutions over the last quarter.



- Board structure **49.2%**
- Remuneration **25.8%**
- Shareholder resolution **11.4%**
- Capital structure and dividends **6.5%**
- Amend articles **2.2%**
- Audit and accounts **2.9%**
- Investment/M&A **0.1%**
- Poison pill/Anti-takeover device **0.2%**
- Other **1.9%**

**Australia and New Zealand**

We recommended voting against or abstaining on **54** resolutions over the last quarter.



- Board structure **22.2%**
- Remuneration **57.4%**
- Shareholder resolution **13.0%**
- Audit and accounts **1.9%**
- Other **5.6%**

**Developed Asia**

We recommended voting against or abstaining on **787** resolutions over the last quarter.



- Board structure **79.0%**
- Remuneration **2.9%**
- Shareholder resolution **4.3%**
- Capital structure and dividends **5.6%**
- Amend articles **4.4%**
- Audit and accounts **3.3%**
- Poison pill/Anti-takeover device **0.4%**

**Emerging and Frontier Markets**

We recommended voting against or abstaining on **495** resolutions over the last quarter.



- Board structure **50.9%**
- Remuneration **13.1%**
- Shareholder resolution **2.4%**
- Capital structure and dividends **21.6%**
- Amend articles **5.3%**
- Audit and accounts **3.4%**
- Investment/M&A **0.6%**
- Other **2.6%**

**Europe**

We recommended voting against or abstaining on **1,185** resolutions over the last quarter.



- Board structure **36.7%**
- Remuneration **40.1%**
- Shareholder resolution **5.3%**
- Capital structure and dividends **7.9%**
- Amend articles **0.8%**
- Audit and accounts **5.0%**
- Poison pill/Anti-takeover device **0.2%**
- Other **4.1%**

**North America**

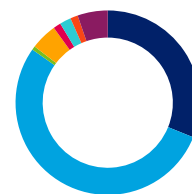
We recommended voting against or abstaining on **1,222** resolutions over the last quarter.



- Board structure **44.8%**
- Remuneration **26.8%**
- Shareholder resolution **26.7%**
- Capital structure and dividends **0.2%**
- Amend articles **1.1%**
- Audit and accounts **0.4%**
- Other **0.1%**

**United Kingdom**

We recommended voting against or abstaining on **151** resolutions over the last quarter.



- Board structure **31.1%**
- Remuneration **53.6%**
- Shareholder resolution **0.7%**
- Capital structure and dividends **4.6%**
- Amend articles **1.3%**
- Audit and accounts **2.0%**
- Poison pill/Anti-takeover device **1.3%**
- Other **5.3%**

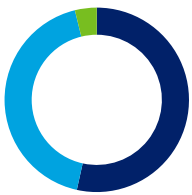
## Nottinghamshire Pension Fund

## EOS at Federated Hermes

Over the last quarter we made voting recommendations at **288** meetings (**3,339** resolutions). At **123** meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at **11** meetings. We supported management on all resolutions at the remaining **154** meetings.

### Global

We made voting recommendations at **288** meetings (**3,339** resolutions) over the last quarter.



- Total meetings in favour **53.5%**
- Meetings against (or against AND abstain) **42.7%**
- Meetings with management by exception **3.8%**

### Australia and New Zealand

We made voting recommendations at **13** meetings (**66** resolutions) over the last quarter.



- Total meetings in favour **30.8%**
- Meetings against (or against AND abstain) **61.5%**
- Meetings with management by exception **7.7%**

### Developed Asia

We made voting recommendations at **44** meetings (**335** resolutions) over the last quarter.



- Total meetings in favour **50%**
- Meetings against (or against AND abstain) **50%**

### Emerging and Frontier Markets

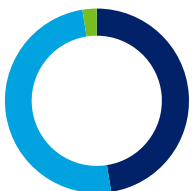
We made voting recommendations at **43** meetings (**328** resolutions) over the last quarter.



- Total meetings in favour **48.8%**
- Meetings against (or against AND abstain) **48.8%**
- Meetings with management by exception **2.3%**

### Europe

We made voting recommendations at **40** meetings (**550** resolutions) over the last quarter.



- Total meetings in favour **47.5%**
- Meetings against (or against AND abstain) **50%**
- Meetings with management by exception **2.5%**

### North America

We made voting recommendations at **32** meetings (**341** resolutions) over the last quarter.



- Total meetings in favour **15.6%**
- Meetings against (or against AND abstain) **71.9%**
- Meetings with management by exception **12.5%**

### United Kingdom

We made voting recommendations at **116** meetings (**1,719** resolutions) over the last quarter.

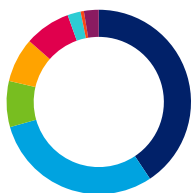


- Total meetings in favour **71.6%**
- Meetings against (or against AND abstain) **25%**
- Meetings with management by exception **3.4%**

The issues on which we recommended voting against management or abstaining on resolutions are shown below.

**Global**

We recommended voting against or abstaining on **3 47** resolutions over the last quarter.



- Board structure **40.6%**
- Remuneration **30.0%**
- Shareholder resolution **8.1%**
- Capital structure and dividends **7.8%**
- Amend articles **8.1%**
- Audit and accounts **2.3%**
- Poison pill/Anti-takeover device **0.6%**
- Other **2.6%**

**Australia and New Zealand**

We recommended voting against or abstaining on **2 4** resolutions over the last quarter.



- Board structure **50%**
- Remuneration **50%**

**Developed Asia**

We recommended voting against or abstaining on **4 1** resolutions over the last quarter.



- Board structure **70.7%**
- Remuneration **9.8%**
- Capital structure and dividends **9.8%**
- Amend articles **7.3%**
- Audit and accounts **2.4%**

**Emerging and Frontier Markets**

We recommended voting against or abstaining on **7 6** resolutions over the last quarter.



- Board structure **46.1%**
- Remuneration **14.5%**
- Shareholder resolution **2.6%**
- Capital structure and dividends **19.7%**
- Amend articles **11.8%**
- Audit and accounts **3.9%**
- Other **1.3%**

**Europe**

We recommended voting against or abstaining on **9 8** resolutions over the last quarter.



- Board structure **36.7%**
- Remuneration **30.6%**
- Shareholder resolution **3.1%**
- Capital structure and dividends **8.2%**
- Amend articles **13.3%**
- Audit and accounts **2.0%**
- Other **6.1%**

**North America**

We recommended voting against or abstaining on **6 4** resolutions over the last quarter.



- Board structure **34.4%**
- Remuneration **26.6%**
- Shareholder resolution **34.4%**
- Amend articles **3.1%**
- Audit and accounts **1.6%**

**United Kingdom**

We recommended voting against or abstaining on **4 4** resolutions over the last quarter.



- Board structure **15.9%**
- Remuneration **68.2%**
- Shareholder resolution **2.3%**
- Amend articles **2.3%**
- Audit and accounts **2.3%**
- Poison pill/Anti-takeover device **4.5%**
- Other **4.5%**

## Nottinghamshire Pension Fund

## EOS at Federated Hermes

Over the last quarter we made voting recommendations at 307 meetings (2,441 resolutions). At 154 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at nine meetings and abstaining at zero meetings. We supported management on all resolutions at the remaining 144 meetings.

### Global

We made voting recommendations at 307 meetings (2,441 resolutions) over the last quarter.



- Total meetings in favour 46.9%
- Meetings against (or against AND abstain) 50.2%
- Meetings with management by exception 2.9%

### Australia & New Zealand

We made voting recommendations at 94 meetings (562 resolutions) over the last quarter.



- Total meetings in favour 13.8%
- Meetings against (or against AND abstain) 83.0%
- Meetings with management by exception 3.2%

### Developed Asia

We made voting recommendations at 39 meetings (277 resolutions) over the last quarter.



- Total meetings in favour 64.1%
- Meetings against (or against AND abstain) 33.3%
- Meetings with management by exception 2.6%

### Emerging & Developing Markets

We made voting recommendations at 39 meetings (250 resolutions) over the last quarter.



- Total meetings in favour 66.7%
- Meetings against (or against AND abstain) 33.3%

### Europe

We made voting recommendations at 34 meetings (218 resolutions) over the last quarter.



- Total meetings in favour 70.6%
- Meetings against (or against AND abstain) 26.5%
- Meetings with management by exception 2.9%

### North America

We made voting recommendations at 39 meetings (415 resolutions) over the last quarter.



- Total meetings in favour 23.1%
- Meetings against (or against AND abstain) 69.2%
- Meetings with management by exception 7.7%

### United Kingdom

We made voting recommendations at 62 meetings (719 resolutions) over the last quarter.



- Total meetings in favour 75.8%
- Meetings against (or against AND abstain) 22.6%
- Meetings with management by exception 1.6%

The issues on which we recommended voting against management or abstaining on resolutions are shown below.

### Global

We recommended voting against or abstaining on 408 resolutions over the last quarter.



- Board Structure 41.4%
- Remuneration 43.4%
- Shareholder Resolution 5.9%
- Capital Structure + Dividends 2.9%
- Amend Articles 3.2%
- Audit + Accounts 1.5%
- Other 1.7%

### Australia & New Zealand

We recommended voting against or abstaining on 204 resolutions over the last quarter.



- Board Structure 31.4%
- Remuneration 60.3%
- Shareholder Resolution 3.9%
- Capital Structure + Dividends 0.5%
- Amend Articles 0.5%
- Audit + Accounts 1.5%
- Other 2.0%

### Developed Asia

We recommended voting against or abstaining on 44 resolutions over the last quarter.



- Board Structure 79.5%
- Remuneration 4.5%
- Capital Structure + Dividends 11.4%
- Amend Articles 2.3%
- Audit + Accounts 2.3%

### Emerging & Developing Markets

We recommended voting against or abstaining on 38 resolutions over the last quarter.



- Board Structure 50.0%
- Remuneration 15.8%
- Capital Structure + Dividends 10.5%
- Amend Articles 23.7%

### Europe

We recommended voting against or abstaining on 28 resolutions over the last quarter.



- Board Structure 28.6%
- Remuneration 39.3%
- Shareholder Resolution 7.1%
- Capital Structure + Dividends 7.1%
- Amend Articles 7.1%
- Other 10.7%

### North America

We recommended voting against or abstaining on 72 resolutions over the last quarter.



- Board Structure 45.8%
- Remuneration 31.9%
- Shareholder Resolution 19.4%
- Audit + Accounts 2.8%

### United Kingdom

We recommended voting against or abstaining on 22 resolutions over the last quarter.



- Board Structure 45.5%
- Remuneration 54.5%

## Nottinghamshire Pension Fund

## EOS at Federated Hermes

Over the last quarter we made voting recommendations at 474 meetings (5,332 resolutions). At 249 meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at 16 meetings and abstaining at two meetings. We supported management on all resolutions at the remaining 207 meetings.

### Global

We made voting recommendations at 474 meetings (5,332 resolutions) over the last quarter.



- Total meetings in favour 43.7%
- Meetings against (or against AND abstain) 52.5%
- Meetings abstained 0.4%
- Meetings with management by exception 3.4%

### Australia & New Zealand

We made voting recommendations at four meetings (28 resolutions) over the last quarter.



- Meetings against (or against AND abstain) 100.0%

### Developed Asia

We made voting recommendations at 237 meetings (1,890 resolutions) over the last quarter.



- Total meetings in favour 55.3%
- Meetings against (or against AND abstain) 43.5%
- Meetings with management by exception 1.3%

### Emerging & Developing Markets

We made voting recommendations at 55 meetings (502 resolutions) over the last quarter.



- Total meetings in favour 34.5%
- Meetings against (or against AND abstain) 63.6%
- Meetings with management by exception 1.8%

### Europe

We made voting recommendations at 97 meetings (1,736 resolutions) over the last quarter.



- Total meetings in favour 23.7%
- Meetings against (or against AND abstain) 68.0%
- Meetings abstained 2.1%
- Meetings with management by exception 6.2%

### North America

We made voting recommendations at 38 meetings (492 resolutions) over the last quarter.



- Total meetings in favour 13.2%
- Meetings against (or against AND abstain) 73.7%
- Meetings with management by exception 13.2%

### United Kingdom

We made voting recommendations at 43 meetings (684 resolutions) over the last quarter.



- Total meetings in favour 67.4%
- Meetings against (or against AND abstain) 30.2%
- Meetings with management by exception 2.3%



The issues on which we recommended voting against management or abstaining on resolutions are shown below.

### Global

We recommended voting against or abstaining on 669 resolutions over the last quarter.



- Board Structure 47.7%
- Remuneration 27.2%
- Shareholder Resolution 7.9%
- Capital Structure + Dividends 1.9%
- Amend Articles 4.8%
- Audit + Accounts 5.4%
- Investment/M&A 0.1%
- Poison Pill/Anti-Takeover Device 0.3%
- Other 4.6%

### Australia & New Zealand

We recommended voting against or abstaining on 10 resolutions over the last quarter.



- Board Structure 30.0%
- Remuneration 70.0%

### Developed Asia

We recommended voting against or abstaining on 221 resolutions over the last quarter.



- Board Structure 59.3%
- Remuneration 16.3%
- Shareholder Resolution 8.1%
- Amend Articles 5.9%
- Audit + Accounts 10.0%
- Other 0.5%

### Emerging & Developing Markets

We recommended voting against or abstaining on 85 resolutions over the last quarter.



- Board Structure 29.4%
- Remuneration 24.7%
- Shareholder Resolution 2.4%
- Capital Structure + Dividends 4.7%
- Amend Articles 8.2%
- Audit + Accounts 9.4%
- Investment/M&A 1.2%
- Other 20.0%

### Europe

We recommended voting against or abstaining on 222 resolutions over the last quarter.



- Board Structure 50.5%
- Remuneration 32.0%
- Shareholder Resolution 1.4%
- Capital Structure + Dividends 3.6%
- Amend Articles 4.5%
- Audit + Accounts 2.3%
- Other 5.9%

### North America

We recommended voting against or abstaining on 93 resolutions over the last quarter.



- Board Structure 48.4%
- Remuneration 32.3%
- Shareholder Resolution 18.3%
- Audit + Accounts 1.1%

### United Kingdom

We recommended voting against or abstaining on 38 resolutions over the last quarter.



- Board Structure 7.9%
- Remuneration 44.7%
- Shareholder Resolution 34.2%
- Capital Structure + Dividends 2.6%
- Amend Articles 5.3%
- Poison Pill/Anti-Takeover Device 5.3%

## **Scheme Administrative Arrangements**

### **Introduction**

Responsibility for the administration of the Pension Fund is delegated to the County Council's Pensions Committee.

The Fund is administered in-house on a day today basis by the Pensions Team which is part of the Nottinghamshire County Council Business Services Centre.

The LGPS (Local Government Pension Scheme) 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.

During 2022-23, 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.

### **The Pensions Office**

The Pensions Office is the part of the Nottinghamshire Pension Fund responsible for the administration of the Nottinghamshire Local Government Pension Scheme (LGPS), including the Councillors' LGPS.

Pension 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 benefit
- 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.

The office is currently separated into the following areas of work:

- Pensions Administration
- Employer Support and Compliance
- Technical/Communications
- Technical/Performance
- Pension System Team (Part of the BSC Competency Centre)

The Pensions Team has Full Time Equivalent Staff FTE:

|  | Establishment                                    | As at<br>31.03.2021 | As at<br>31.03.2022 | As at<br>31.03.2023 |
|--|--|---------------------|---------------------|---------------------|
| Pension Team   | 26.20  | 25.77               | 23.18               | 27.33               |
| Pension System Team  | 4 FTE<br><br>This includes 1 FTE FTC for McCloud | 3                   | 4                   | 4                   |
| GMP Project Manager (Temporary post until 31.12.22)                                    | 1  | 1                   | 1                   | 1                   |
| <b>McCloud Project – all posts current offered as fixed term contracts for 2 years</b> |  |                     |                     |                     |
| Project Manager  | 1  | 1                   | 1                   | 1                   |
| Data Officer   | 1  | N/A                 | 1                   | 1                   |
| Admin Team   | 7  | N/A                 | 0                   | 1                   |
| Employer Support & Compliance  | 1  | N/A                 | 0                   | 1                   |
|  | 40.2   | 30.77               | 30.18               | 36.33               |

The Pensioner payroll is provided by Nottinghamshire County Council Business Services Centre.

The Total cost of administration expressed as a cost per member for the past five years was:

| <b>£ per member</b>                              | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| The Fund cost per member                         | £14.37      | £14.08      | £14.08      | £15.35      | n/a         |
| Average cost per member in the benchmarking club | £21.34      | £20.02      | £21.05      | £21.69      | n/a         |

The Pension Fund Membership Profile is as follows:

| <b>Type of Member</b> | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> | <b>2020-21</b> | <b>2021-22</b> | <b>2022-23</b> |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Active Members        | 44,436         | 46,350         | 47,841         | 43,957         | 44,579         | 47,138         |
| Deferred members      | 46,448         | 47,365         | 56,068         | 60,935         | 62,476         | 65,127         |
| Pensioners            | 35,245         | 37,157         | 38,923         | 40,481         | 42,518         | 44,353         |
| Total Membership      | 126,129        | 130,872        | 142,832        | 145,373        | 149,573        | 156,618        |

The majority of employees of our scheme employers will be brought into the pension scheme automatically, whether through ‘contractual enrolment’ under the scheme’s rules or under the Governments ‘auto- enrolment’ rules. Members can though elect to opt out of the scheme after their first day of employment if they wish.

Performance statistics in the table below represent the fourth quarter of 2022/23 and compares the performance of the Administration Team fund KPIs against the CIPFA benchmark legal requirement. Overall, the fund performance average against our KPIs is 75% against 67% the previous year. This has been impacted by the increased activity in retirements, transfers, and deaths of pension members. The fund continues to see an increase in the number of deferred members taking their benefits.

**1st April 2022 to 31st March 2023.**  
**Annual Fund Key Performance Indicators for Cipfa benchmark**

| Process   | Cipfa Benchmark Legal Requirement (from notification) | % of cases completed within the CIPFA KPI | No. cases completed |
|---|---|---|---------------------|
| <b>Deaths (ALL)</b>   | 2 Months  | 89.14                                     | 962                 |
| or  |   |   |                     |
| <b>Deaths – Acknowledging death of member Letter</b>                                | 2 Months  | 82.42                                     | 421                 |
| <b>Deaths – Letter notifying amount of dependants pension</b>                       | 2 Months  | 63.77                                     | 541                 |
|   |   |   |                     |
| <b>Deferments</b>   | 2 Months  | 25.74                                     | 2887                |
|   |   |   |                     |
| <b>Retirements (All)</b>  | 2 Months  | 88.21                                     | 7058                |
| or  |   |   |                     |
| <b>Retirements – Process &amp; Pay Pension Benefits (at next available payroll)</b> | 2 Months  | 85.19                                     | 2668                |
| <b>Retirements –Estimate of retirement benefits Letter (Cat A)</b>                  | 2 Months  | 96.61                                     | 1387                |
| <b>Retirements –Estimate of retirement benefits Letter (Cat B)</b>                  | 2 Months  | 92.11                                     | 76                  |
| <b>Deferred Retirement Quotes (No SLA Equiv)</b>                                    | 2 Months  | 86.88                                     | 2927                |
|   |   |   |                     |
| <b>Transfer Quotes</b>  | 2 Months  | 40.72                                     | 781                 |
| <b>Transfers (No BP Equiv)</b>  | **  | **  | **                  |
|   |   |   |                     |
| <b>Divorce Quotes (No SLA Equiv)</b>  | 3 Months  | 97.85                                     | 279                 |
| <b>Divorce Settlement (No SLA Equiv)</b>  | 3 Months  | 27.27                                     | 11                  |
|   |   |   |                     |
| <b>Refund (No SLA Equiv)</b>  | 2 Months  | 95.38                                     | 303                 |
|   |   |   |                     |

Table 1 details the total number of completed processes in the Financial Year with the measurement commencing in 2018/2019. This table shows the increase in the number of completed processes year on year with the exception for 2020-2021, where a decrease was recorded. However as can be seen from the figures for 2022-2023 the number of completed processes within KPIs has increased to 58,576 an increase of 1,676 completed processes or 2.95%.

| <b>Table 1</b>                   |                |                |                |                |                |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Years</b>                     | <b>2018/19</b> | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> | <b>2022/23</b> |
| <b>No of Processes completed</b> | 51,976         | 56,722         | 53,121         | 56,900         | 58,576         |
| <b>Difference</b>                | 0              | 4,746          | -3,601         | 3,779          | 1,676          |
| <b>% Change in Difference</b>    | → 0.00%        | ↑ 9.13%        | ↓ -6.35%       | ↑ 7.11%        | ↑ 2.95%        |

Table 2 gives a comparison of KPI activities reported in the Pension Administration System, which shows a slight increase in figures in 2021/22 with another increase for 2022/23. This can be explained that overall, the Pension Admin Team has seen an increase in work across the function which has impacted on the Admin Team's ability to meet its KPIs. The scheme has seen an increase in retirements especially from deferred members over fifty-five seeking initial release of pension benefits, and this trend has continued into the current financial year.

| <b>Table 2</b>                       |                |                |                |                |                |                |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Years</b>                         | <b>2017/18</b> | <b>2018/19</b> | <b>2019/20</b> | <b>2020/21</b> | <b>2021/22</b> | <b>2022/23</b> |
| <b>No of KPI Processes Completed</b> | 7,617          | 10,688         | 12,138         | 11,723         | 14,773         | 13,130         |
| <b>Difference</b>                    | 0              | 3,071          | 1,450          | -415           | 3,050          | -1,643         |
| <b>% Change in difference</b>        | → 0.00%        | ↑ 40.32%       | ↑ 13.57%       | ↓ -3.42%       | ↑ 26.02%       | ↓ -11.12%      |

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. However, in table 1 there has been an overall increase in the number of total processes that the fund has completed and gives an understanding in increased work overall. In contrast the scheme has seen a decrease in KPI processes completed which indicates that the fund has shifted resources to undertake other work, including work on the Valuation activities like checking data for the final valuation. The table above shows there has been a slight decrease in the numbers of completed KPI processes across the fund.

The Pensions Office, as part of measuring its administration cost and performance against other Administering Authorities, belongs to the Pensions Administration Benchmarking Club. This Club is run by the Chartered Institute of Public Finance Limited and we have been a member of it since 2000. Our performance in terms of cost per member has always been lower than the national average, and we continue to remain one of the cheaper cost-per-member authorities for administration in the country.

### **Complaints, Appeals & Ombudsman Escalations**

Set out below are three tables which outline the number of written complaints received by the Administering Authority in 2022-2023 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.

| Recorded Written Complaints |       |        |             |           |                   |               |
|-----------------------------|-------|--------|-------------|-----------|-------------------|---------------|
| Date                        | Total | Closed | Outstanding | Justified | Partial Justified | Not Justified |
| 2022/23                     | 23    | 18     | 5           | 4         | 2                 | 12            |
| 2021/22                     | 31    | 15     | 16          | 7         | 6                 | 4             |
| 2020/21                     | 26    | 24     | 2           | 14        | 3                 | 9             |
| 2019/20                     | 25    | 23     | 2           | 4         | 6                 | 13            |

### Main Reasons

- Transfers in and out - timescales
- Deferred record future review dates
- AVC complaints related to the Prudential
- Benefit calculations

### Independent Disputes Resolution Procedure (IDRP)

IDRP - Stage 1 Appeals against the Administering Authority and Employers 2022-2023

| Total | Appeals upheld | Appeals dismissed | Progressed to stage 2 | Awaiting Decision |
|-------|----------------|-------------------|-----------------------|-------------------|
| 5     | 2              | 3                 | 2                     | 0                 |

IDRP - Stage 2 Appeals against the Administering Authority

| Total | Appeals upheld | Appeals dismissed | Progressed Ombudsman | Awaiting Decision |
|-------|----------------|-------------------|----------------------|-------------------|
| 3     | 2              | 0                 | Not Made aware       | 1                 |

## **Pensions Administration System**

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. All new developments and upgrades from the software supplier are evaluated, assessed, and deployed in line with the requirements of the Pension Office

## **Communications**

The Fund's Communications Strategy Statement details the overall strategy for involving stake holders in the pension fund. A key part of this strategy is a dedicated pension fund website. This is available at [www.nottspf.org.uk](http://www.nottspf.org.uk) and includes all of the policy statements as well as a great deal more information about the investments and benefits of the pension fund. A new website is currently in development and will be rolled out later this year, which will improve accessibility to pension fund information.

## **Benefit Statements**

The Pensions Office is required each year to send annual benefits statements to its active and deferred members. The statement is intended to inform the scheme member of the value of their benefits and provide an overview of when they may become payable.

## **Website**

The pension's website ([www.nottspf.org.uk](http://www.nottspf.org.uk)) covers all aspects of the LGPS and has information for all different types of stakeholders including active members, councillor members, deferred members, pensioners, their dependants and employers. There is also a section which gives details on the investment performance of the Fund and related matters.

The website improves communication to pensioners, members of the scheme and employers. It also helps to answer questions, and provide up to date information on the LGPS, and support communication with the Pensions administration team. The website meets modern website design criteria, and is accessible via multiple devices, that will encourage members and pensioners to use the site, making it easy to find the information that they need. There are plans to update the site to make sure it remains relevant in these changing times.

With the roll out of the new website, future developments are planned to provide members with restricted access to their own pension record enabling them through secure access to update personal details such as address, complete online forms and against certain criteria simulate pension estimates. This will have the advantage of reducing direct administration contact to more priority cases, and therefore reducing administration costs. Until this



development is implemented the Pension Fund continue to improve access to information for members and Employers through the website.

### **Employer Support and Compliance Function**

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.

The team also have the following contact with Nottinghamshire LPGA 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

The Team continues to monitor the performance of scheme employers to ensure that scheme employers meet their statutory requirements in the administration of the scheme.

The Team has continued to collaborate with employers to improve the submission of pension data to the Fund.

In addition, there are also statutory requirements for participating scheme employers to provide timely and accurate year-end data. For the year 2022-2023, participating employers in the scheme were required to provide accurate year-end data by 5 May 2023.

The annual benefit statements were issued to deferred members of the scheme by June 2023 with all active benefit statements issued by week commencing 14 August 2023. There will be a further issue of benefit statements, where data was either provided late to the fund or there were queries with the submitted data which had to be rectified before benefit statements could be issued.

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.

# **Joint Administration Strategy and Service Level Agreement**

## **1.0 Introduction**

An administration strategy as allowed for by the Local Government Pension Scheme, is seen as one of the tools which can help in delivering a high-quality administration service to the scheme member and other interested parties. Delivery of a high-quality administration service is not the responsibility of one person or organisation but is the joint working of a number of different parties.

The following is the Pension Administration Strategy of the Nottinghamshire Fund, administered by Nottinghamshire County Council (the administering authority).

The aim of this strategy statement is to set out the quality and performance standards expected of:

1. Nottinghamshire County Council in its role of administering authority and scheme employer.
2. All other scheme employers within the Nottinghamshire Pension Fund.

It seeks to promote good working relationships, improve efficiency, and enforce quality amongst the scheme employers and the administering authority.

From 1 April 2015 the Pensions Regulator (TPR) took responsibility for setting the standards of administration and governance requirements on all administrative aspects of the Local Government Pension Scheme (LGPS).

In addition, the Nottinghamshire Local Pension Board has now been established to provide an independent scrutiny role which will assist the Nottinghamshire Pension Fund to achieve regulatory compliance, effective and efficient administration, and governance of the pension fund.

## **2.0 Background**

The LGPS represents a significant benefit to scheme members. Much of the success in promoting the scheme to members and ensuring a high-quality service depends upon the relationship between the administering authority and scheme employers in the day-to-day administration of the scheme.

The administering authority also reminds or alerts employers to the value of the LGPS, thereby helping with recruitment, retention, and motivation of employees.

The fund comprises of over 281 scheme employers with active members, and approximately 149,515 (in March 2022) scheme members in relation to the Local Government Pension Scheme (LGPS).

The efficient delivery of the benefits of the LGPS is dependent on sound administrative procedures being in place between the administering authority and scheme employers.

### **3.0 Strategic aims**

The aim of this strategy is to continue progress towards a seamless, automated pension service, employing appropriate technologies and best practice which both significantly improve the quality of information overall and the speed with which it is processed to provide better information for scheme employers and stakeholders and a more efficient service to members. It outlines, in conjunction with the Pension Administration Service Level Agreement as attached, the quality and required performance standards of all funds, scheme employers and admission bodies within the fund.

This strategy is designed to move towards the highest standards of administration through the most efficient and cost-effective practices, thereby ensuring a consistent approach to pension administration across all scheme employers in partnership with the fund so that all scheme members ultimately receive the highest standard of service in the most efficient and effective way possible.

### **4.0 Regulatory framework**

The development and implementation of an Administration Strategy is part of the regulatory framework of the Local Government Pension Scheme Regulations 2013. These provide the conditions and regulatory guidance surrounding the production and implementation of an Administration Strategy.

Regulation 59 (1) enables an LGPS administering authority to prepare a document (“the Pension Administration Strategy”) which contains the following:

- procedures for liaison and communication with their relevant employing authorities
- the establishment of levels of performance which the administering authority and the relevant employing authorities are expected to achieve in carrying out their functions under the LGPS by:
  - the setting of performance targets
  - the making of agreements about levels of performance and associated matters
  - such other means as the administering authority considers appropriate.
- procedures which aim to secure that the administering authority and the relevant employers comply with the statutory requirements in respect of those functions and with any agreement about levels of performance.
- procedures for improving the communication of information by the administering authority and the relevant employing authorities.
- the circumstances in which the administering authority may consider giving written notice to a relevant employing authority on account of that employer’s unsatisfactory performance in carrying out its functions under these regulations when measured against levels of performance.
- such other matters as appear to the administering authority to be suitable for inclusion in that strategy.

In addition, Regulation 59(6) of the administration regulations also requires that where a Pension Administration Strategy is produced, a copy is issued to each of the relevant employing authorities as well as to the Secretary of State. Similarly, when the strategy is revised at any future time the administering authority (following a material change to any

policies contained within the strategy) must notify all of its relevant employing authorities and also the Secretary of State.

It is a requirement that, in preparing or revising any Pension Administration Strategy, the administering authority must consult its relevant employing authorities and such other persons as it considers appropriate.

In addition, Regulation 70 of the Administration Regulations allows an administering authority to recover additional costs from a scheme employer where, in its opinion, the costs are directly related to the poor performance of that scheme employer. Where this situation arises, the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that the additional costs should be recovered and, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

The following strategy statement and the Service Level Agreement, sets out the requirements of regulation 59(1). They form the basis of the day-to-day relationship between the Nottinghamshire Pension Fund and scheme employers. They also set out the circumstances under Regulation 70 where additional costs are incurred as a result of the poor performance of a scheme employer, together with the steps that would be followed before any such action were taken.

## **5.0 Nottinghamshire Local Pension Board**

The Nottinghamshire Local Pension Board was appointed in April 2015 to assist Nottinghamshire County Council, as administering authority, in securing compliance with legislation and any requirements imposed by the Pensions Regulator. The Board also assists in ensuring effective and efficient governance and administration of the scheme are achieved.

## **6.0 Key objectives**

The key objectives of this strategy are to ensure that:

- the Nottinghamshire Pension Fund and Scheme employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in the Pensions Administration Service Level Agreement attached to this document)
- the Nottinghamshire Pension Fund operates in accordance with LGPS Regulations and is aligned with the Pensions Regulator's requirements by demonstrating compliance and scheme governance.
- communication processes are in place to enable both the fund and scheme employers to engage with each other proactively and responsively through the new website and the Employer Support and Compliance Team
- accurate records are maintained for the purpose of calculating pensions entitlements and scheme employer liabilities, ensuring all information and data is communicated accurately, on a timely basis and in a secure and compliant manner
- the fund and scheme employers have appropriate skills, and that training is in place to deliver a quality service and advise scheme employers on the changing pensions agenda.

- standards are set and monitored for the delivery of specified activities in accordance with LGPS Regulations standards as set out in the Pension Administration Service Level Agreement attached to this document.

## **7.0 Establishing levels of performance standard**

The LGPS prescribes those certain decisions are taken by either the administering authority or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Nottinghamshire Pension Fund should agree levels of performance between itself and the scheme employers. These are set out in the Service Level Agreement which is appended to this strategy statement.

## **8.0 Quality Legislation**

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the administering authority and scheme employers will, as a minimum, comply with overriding legislation, including:

- Pension Act 1995 and associated disclosure legislation
- Freedom of information Act 2000
- Age Discrimination Act 2006
- Data Protection Act 1998
- Equality Act 2010
- Finance Act 2004and
- Health and Safety legislation.
- General Data Protection Regulations (GDPR) 2018

Where agreed, the administering authority and scheme employers will comply with local standards which go beyond the minimum requirements set out in overriding legislation. Such best practice standards are outlined in the following sections.

## **9.0 General Data Protection Regulations (GDPR)**

On 25 May 2018 the EU's General Data Protection Regulation (GDPR) comes into force containing new standard of protection of individual's personal data in the European Economic Area. The change will impact on the way pensions scheme can lawfully collect, use, retain and share information. GDPR applies to organisations that handle the personal data of EU residents and will replace the UK's Data Protection Act 1998 (DPA)

## **10.0 Administration standards**

Both the administering authority and scheme employers will ensure that all tasks are carried out to agreed quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the information provided on the LGPS website.

- work is to be completed in the required format, using the appropriate forms contained on the LGPS Website
- information to be legible, accurate and in the required format.
- communications to be easy to read and understand.
- information provided to be checked for accuracy.
- information to be authorised by an agreed signatory in line with the scheme employers audit requirements.
- actions are carried out, or information is provided, within the timescales set out in this strategy and Service Level Agreement document.

### **11.0 Performance standards**

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. The scheme sets out a number of requirements for the administering authority and scheme employers to provide information to each other, regarding scheme members and prospective scheme members, their dependents, and/ or other regulatory bodies. Within the Service Level Agreement performance standards have been set which cover all aspects of the administration of the scheme, and where appropriate go beyond the overriding legislative requirements.

For the avoidance of doubt “accuracy” in this strategy is defined as when the administering authority has received a fully completed form with no gaps in mandatory areas and with no information which is either contradictory within the document or which requires clarification.

The timeliness relates to a date of event being either the date the member started or left the Nottinghamshire Pension Fund or any other material change that affects a scheme member’s pension record.

### **12.0 Procedures for compliance**

Compliance is the responsibility of the administering authority and scheme employers. The Nottinghamshire Pension Fund, Employer Support and Compliance Team will work closely with all scheme employers to ensure compliance with all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this administration strategy. The Pensions Administration Team will also work with employers to ensure that overall quality and timeliness is continually improved. Various methods will be employed, in order to ensure such compliance and service improvement, these will include:

- audit
- performance monitoring

In addition, where there is a failure of statutory compliance the Pensions Manager is required to update and inform the Pensions Regulator.

## **13.0 Liaison and communication**

### **13.1 Authorised contact for employers**

Each employer will nominate a contact to administer the five main areas of employer responsibilities within the LGPS as follows:

- a strategic contact for valuation, scheme consultation and, discretionary statements
- an internal disputes resolution procedure lead officer for stage 1
- an administration contact for day-to-day administration of the Nottinghamshire Pension Fund, undertaking the completing of forms and responding to day-to-day queries
- a year end activity lead officer.
- a finance contact for completion and submission of the monthly postings and co-ordination of exception reports.

All nominated officers will have access to the employer's area of the Nottinghamshire Pension Fund website and as services change access to the employer's portal of the pension fund administration system once implemented (projected date April 2017).

It is the responsibility of the scheme employer to ensure that the nominated officers are trained appropriately in their responsibilities.

### **13.2 Liaison and communication with employers**

Nottinghamshire Pension Fund will provide the following contact information for employers and their members:

- a contact point for regulatory advice, guidance, and administration queries.
- an Employer Support and Compliance Team for advice and guidance with monthly returns process.
- a helpline for members at certain points in the year e.g., helpline for ABS queries.
- an e-mail address (generic).
- pension fund access 8:00am to 5:00pm Monday to Thursday and 4:30pm Friday (face to face, telephone, and e-mail for both – scheme members and employers).
- website availability with employers and members area.
- employer and member information and forms available on the website.
- annual year end briefing for year-end activities.
- Pension Fund Annual General Meeting.

## **14.0 Improving employer performance**

The Employer Support and Compliance Team will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance, provide the opportunity for necessary training and appropriate advice.

Where persistent and ongoing failure has been identified and no improvement is demonstrated by an employer, the following sets out the steps that will be taken to address the situation in the first instance:

- the Pensions Team will contact and/ or meet with the employer to discuss the area(s) of concern and how they can be addressed.
- where no improvement has been demonstrated by the employer, or where there has been a failure to take agreed action by the employer, the Pensions Team will issue a formal written notice to the employer setting out area(s) of poor performance that has been identified and, the steps taken to resolve it. The letter will provide notice that the additional costs are now to be reclaimed.
- Nottinghamshire Pension Fund will clearly set out the calculations of any loss or additional costs, taking account of time and resources in resolving the specific area of poor performance.
- Nottinghamshire Pension Fund will make a claim against the scheme employer, setting out the reasons for doing so, in accordance with the regulations.

### **15.0 Circumstances where the Administering Authority may levy costs associated with the Employing Authority's poor performance**

Regulation 70 of the Local Government Pension Scheme Regulations 2013 provides that an administering authority may recover from an employing authority any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that employing authority. Where an administering authority wishes to recover any such additional costs, they must give written notice stating:

- the reasons in their opinion why the scheme employer's poor performance has contributed to the additional cost.
- the amount of the additional cost incurred.
- the basis on how the additional cost was calculated and
- the provisions of the Pension Administration Strategy relevant to the decision to give notice.

### **16.0 Circumstances where costs might be recovered**

Any additional costs to the Nottinghamshire Pension Fund in the administration of the LGPS that are incurred as a direct result of poor performance will be recovered from the scheme employer. The circumstances where such additional costs will be recovered from the scheme employer:

- persistent failure to provide relevant information to the administering authority, scheme member or other interested party in accordance with specified performance targets (either as a result of timeliness of delivery or quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets
- failure to deduct and pay over correct employee and employer contributions to the Nottinghamshire Pension fund within stated timescales
- instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pension Regulator, Pensions Ombudsman, or other regulatory body.



## **17.0 Calculation of costs incurred**

For a persistent failure to resolve an isolated case satisfactorily the Fund will recharge costs from the point in time at which a formal letter is issued to the scheme employer until the case is resolved, at a rate of £37 for each hour an officer spends trying to resolve the matter.

For persistent and ongoing failure to meet targets, following the intervention to assist the employer concerned, the Fund will recharge the additional costs due to the employer's poor performance at the rate of £37 for each hour, see appendix B the schedule of charges which identifies the main employer activities where a charge maybe made for poor performance.

Where the under performance of the scheme employer results in fines and/or additional costs being levied against the Fund, the Fund will recharge the full costs it has incurred to the relevant employer.

## **18.0 Disputes**

The Nottinghamshire Pension Fund has a clear internal disputes resolution procedure (IDRP) set out for members of the LGPS which can be found on the pension fund's website. Scheme employers are, however, required to nominate an adjudicator to deal with disputes at stage 1 of the process. Scheme employers are asked to supply the details of their stage 1 adjudicators together with details of their stage 1 Adjudicators as identified in their Discretionary Policy Statements. They should advise the fund immediately of changes made in this regard.

## **19.0 Consultation**

This document and associated SLA has been consulted upon with Nottinghamshire Pension Fund Employers.

## **20.0 Review process**

The Nottinghamshire Pension Fund will review the Administration Strategy to ensure it remains up to date and meets the necessary regulatory requirements at least every two years.

## **Appendix A: Service Level Agreement**

### **Administering Authority duties and responsibilities**

**The Nottinghamshire Pension Fund Administration Team will ensure the following functions are carried out:**

- provide a helpdesk facility for enquiries, available during normal office hours providing a single point of access for information relating to the LGPS. Along with a helpline at certain times of the year e.g., Annual Benefit Statement time
- create a member record for all new starters admitted to the LGPS, based on the information provided by the scheme employer.
- collect and reconcile employer and employee contributions.
- maintain and update member's records for any changes received by the administration team.
- at each actuarial valuation the fund will provide the required data in respect of each member and provide statistical information over the valuation period to the fund actuary so that he can determine the assets and liabilities for each employer
- communicate the results of the actuarial valuation to the fund to each employer.
- provide every active, deferred and pension credit member with a benefit statement each year.
- provide estimate of retirement benefits on request by the employer
- calculate and pay retirement benefits, deferred benefits, and death in service benefits in accordance with LGPS rules, member's options, and statutory limits on request by the employer.
- comply with HMRC legislation.

### **Discretionary powers**

The Nottinghamshire Pension Fund will ensure the appropriate Administration Authority policies are formulated, reviewed, and publicised in accordance with scheme regulations.

### **Internal Disputes Resolution Procedure (IDRP)**

The fund will nominate an adjudicator to deal with appeals at stage one where the appeal is against a decision the Pension Fund has made or is responsible for making.

### **Fund performance levels**

A description of the performance activity and performance action and level of performance is identified in the table below:

| <b>Action</b>   | <b>Timescale</b>   |
|---|--|
| Publish and review the administration strategy  | Within one month of any agreed changes with employers, Pensions Committee, and the Pensions Board    |
| Website   | Continual process of updating the members and employers' information                                 |
| Issue and keep up to date all current forms for completion by either scheme members, prospective scheme members or scheme employers       | 30 working days of any changes   |
| Issue and update administering authority's discretions within the scheme  | Within 30 working days of policy being agreed by the Pensions Committee and the Pensions Board       |
| Notify scheme employers and scheme members of changes to the scheme rules   | Within 30 working days of the change(s) coming into effect. Subject to receipt of statutory guidance |
| Notify scheme employer of issues relating to scheme employer's poor performance   | Within 30 working days of performance issue becoming apparent  |
| Notify scheme employer of the decision to recover additional costs associated with the scheme employer's poor performance                 | Within 10 working days of scheme employer failure to improve performance, as agreed                  |
| Issue annual benefit statements to active members as of 31 March each year  | By the following 31 August subject to receipt of full and correct information from employers         |
| Issue annual benefit statements to deferred benefit members as of 31 March each year  | By the following 31 August. Subject to full and correct information from employers                   |
| Issue pension saving statements to active members who breach the Annual Allowance threshold as of 5 April and to members who request such | By the following 6 October   |
| Provide a helpline and telephone service to support members enquiries and questions   | Ongoing and additional specific helpline at certain times of the year                                |

| <b>Fund administration task</b>  | <b>Timescale</b>   |
|--|--|
| Make available formal valuation results (including individual employer details)  | 10 working days from receipt of final certified results from fund actuary                                |
| Carry out interim valuation exercise on cessation of admission agreements or scheme employer ceasing participation in the fund   | Referral to the fund actuary within one month from receipt of all required data from the scheme employer |
| Arrange for the setting up of separate admission agreement, where required (including the allocation of assets and notification to the Secretary of State)                                   | Within three months of agreement to set up such funds  |
| All new admitted bodies to be required to undertake a risk assessment and to put in place a bond or alternative security to protect other scheme employers participating in the pension fund | To be completed before the body can be admitted to the Fund  |
| All admitted bodies to undertake a review of the level of bond or indemnity required to protect the other scheme employers participating in the pension fund                                 | Annually, or such other period as may be agreed with the administering authority                         |

| <b>Scheme administration task</b>   | <b>Timeline</b>   |
|---|---|
| New Starters – make all administration decisions in relation to a new scheme member   | Within two months from receipt of all necessary information.  |
| General enquiries - provide a response  | 10 days from receipt of all necessary information.  |
| Provide transfer in quote to scheme member  | Two months from receipt of all the necessary information  |
| Confirm receipt of transfer in payment and update pension record  | One month from receipt of all necessary information.<br>Scheme member responsibility to chase the transfer.   |
| Arrange for the transfer of scheme member additional voluntary contributions into in-house arrangement  | Two months from receipt of all necessary information.   |
| Provide requested estimates of benefits to employees/ employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy, or business efficiency | Two months from receipt of all necessary information<br>Subject to the demands of the service, prioritisation, and statutory requirement to provide information'          |
| Notify leavers of deferred benefit entitlements   | Within two months of receipt of all necessary information.  |
| Details of transfers out quotation  | Within two months of receipt of all necessary information   |
| Payment of transfers out  | One Month from receipt of all necessary information   |
| Notify retiring employees of options following request from member (as per retirement pack)   | One month of receipt of all necessary information   |
| Payment of retirement lump sum and pension  | Lump sum paid within 30 days of retirement subject to receipt of necessary information. Pension to be paid in the next available pay run. Into the nominated bank account |
| Death notifications – issue initial information, requesting certificates  | Within 10 working days following notification of death  |
| Notification of survivor benefits   | 10 working days following receipt of all necessary information  |
| Undertake Life Certificates checks with the DWP   | Periodic  |
| Operate the Tell us Once service  |   |

## **Scheme employer duties and responsibilities**

Employers are responsible for ensuring that member and employer contributions are deducted at the correct rate, including additional contributions.

The Nottinghamshire Pension Fund is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. That responsibility rests with the employer.

Any over-payment as a result of inaccurate information being supplied by the employer shall be recovered from that employer at the discretion of the Administering Authority.

In the event of the Nottinghamshire Pension Fund being fined by the Pensions Regulator, this fine will be passed onto the relevant employer where that employer's actions or inaction caused the fine.

### **Discretionary powers**

The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy in respect of the key discretions as required by the regulations to its employees and must provide a copy to the Administering Authority.

### **Member contribution bands**

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member. The employer must also inform the member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

### **Payments and charges**

#### **Payments by employing authorities**

Employing authorities will make all payments required under the LGPS regulations, and any related legislation, promptly to Nottinghamshire Pension Fund and/or its Additional Voluntary Contribution (AVC) providers (Prudential/Scottish Widows) as appropriate.

#### **Paying contributions**

Member and employer contributions can be paid over at any time and should be accompanied by a monthly posting's submission, the latest date contributions can be paid is the 17<sup>th</sup> day of the month following the month in which the deductions were made.

#### **AVC deductions**

Employers will pay AVCs to the relevant provider by the 17<sup>th</sup> of the following month of them being deducted.

#### **Payment method**

Contributions (but not AVCs) should be paid to Nottinghamshire Pension Fund by BACS payment to Nottinghamshire Pension Fund bank account.

**Early retirement and augmentation costs**

Employers are required to pay the full early retirement costs within one month of request.

**Interest on late payment**

In accordance with the LGPS regulations, the Nottinghamshire Pension Fund reserves the right to charge interest on any amount overdue from an employer by more than one month depending on circumstances.

**Employer contributions**

Employer's contribution rates are not fixed, and employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

**Actuarial valuation**

An actuarial valuation of the fund is undertaken every three years by the fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer and assesses the appropriate contribution rate and deficit payment if appropriate for each employer for the subsequent three years.

**Administration charge**

The cost of running the Nottinghamshire Pension Fund is charged directly to the fund, the actuary takes these costs into account in assessing employer's contribution rates.

## Employer activities

| Communication requirements – task   | Timescale  |
|---|--|
| Provide and publish policies in relation to all areas where the employing authority may exercise discretion within the scheme. A copy of the policy to be provided to the administering authority | Within 30 working days of policy being formally agreed by the employer. To be reviewed annually  |
| Provide details of employer and employee contributions  | 17th of the month following deduction  |
| Respond to enquiries from administering authority   | Within 10 working days   |
| Provide year end information for the purposes of annual benefit statements, annual allowance, and lifetime allowance calculations   | By 30 April following the year end in the required format (following the implementation of the employer portal information may be provided through the portal by April 2017) |
| Provide year end information in a valuation year  | By 30 April following the year end   |
| Distribute information provided by the Admin Authority to scheme members/potential scheme members which is provided either direct from Pensions Office or where notified through the website      | Within 20 days of receipt or notification  |
| Provide new scheme members with scheme information and new joiner forms   | At appointment of employee or change in contractual conditions   |
| Inform the Pension Fund of all cases where prospective new employer or admitted body may join the fund  | Notify the Pension Fund at least three months before the date of transfer  |
| Payment of additional fund payments in relation to early payment of benefits  | Within 30 working days of receipt of invoice from the pension fund/ within timescales specified in each case   |



| <b>Employer responsibilities-task</b>   | <b>Timescale</b>  |
|---|---|
| New starters must be notified to the Pensions Office.   | 10 working days of the scheme member joining.   |
| Arrange for the correct deduction of employee contributions from scheme members pensionable pay on becoming a scheme member                                   | Immediately upon commencing scheme membership either through auto enrolment opting in or change in circumstances.   |
| Reassessment of employee contribution rate in line with employer's policy   | Immediately following change of circumstances.  |
| Ensure correct deduction of pension contributions during any period of child related leave, trade union dispute or other forms of leave of absence from duty  | Immediately, following receipt of election from scheme member to make the necessary pension contributions.  |
| Commence/amend/cease deductions of additional pension contributions   | Commence/ amend in month following election to pay contributions or notification received from administering authority, cease immediately following receipt of election from scheme member. |
| Employers are responsible for assessing and reassessing the contribution band that is allocated to an employee  | The employer must inform the employee of the band have been allocated on joining the scheme and when they have been reallocated to a different band   |
| Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s)  | Commence deduction of AVCs upon receipt of notification of provider. Pay over contributions to the AVC provider(s) by the 17th of the month following the month of election.                |
| Refund any employee contributions when employees opt out of the pension scheme before three months  | Month following month of opt out.   |
| Cease deduction of employee contributions where a scheme member opts to leave the scheme  | Month following month of election, or such later date specified by the scheme member.   |
| Send a completed end of year contribution return to enable the production of annual benefit statements, annual allowance, and lifetime allowance calculations | By 30th April each year (this process will change pending the implementation of an electronic employers' portal)  |
| Provide the administering authority with all material (personal and contract) changes in employee's details   | Within 10 days of the change  |
| Provide scheme leavers details to administering authority   | Within 10 days of leaving   |

| <b>Employer responsibilities-task</b>   | <b>Timescale</b>   |
|---|--|
| Provide retirement notification and pay details. Following the issue of retirement pack to retiring member.   | No later than 10 days prior to the date of retirement. In order that all information is in place to allow the processing of retirement benefits. |
| Provide member estimate details   | At the point of request from the member  |
| To have access to an independent medical practitioner qualified in Occupational health medicine, in order to consider all ill health retirement applications as an employer | Within one month of commencing participation in the scheme, and having arrangements in place on an ongoing basis                                 |
| Appoint a nominated person for stage 1 of the pension dispute process and provide full details to the administering authority   | Within 10 working days following the resignation of the current/ new employer to the fund "appointed person"                                     |

### **Measuring performance**

Both employer and administering authority performance will be measured and reported to the Pensions Committee and the Pensions Board at regular intervals.

### **Unsatisfactory performance**

Where an employer materially fails to operate in accordance with standards described in this service level agreement, which leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that this extra cost be met by the employer.

## Appendix B – Schedule of Charges

| Employer Activities  | Reason for Charge   | Basis of Charge  |
|--|---|--|
| Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employee, if the total overpaid is more than £50.  |   | Actual amount overpaid (could include Lump Sum and Pension) + admin charge based on the following:<br>£37.00 Total per hour spent. This may also include the cost of other recovery actions (court and legal fees) |
| Contributions to be paid anytime but latest date by 17 <sup>th</sup> month. (Weekends and bank holidays on the last working day before 17 <sup>th</sup> ).   | Due by 17 <sup>th</sup> month-late receipt of funds, plus cost of additional time spent chasing payment                                   | Number of day's late interest charged at base rate plus 1%.  |
| Monthly scheme employer contribution return provided at the latest by 17 <sup>th</sup> , errors on the return i.e., employer/employee rate deducted incorrectly, exception reporting errors to be resolved within 2 months | Due by 17 <sup>th</sup> month, any additional work caused by late receipt of information, incorrect information, incorrect contributions. | Failure to provide appropriate information, resulting in significant work will result in an admin charged at £37.00 per hour + VAT.  |
| Change in member details to be notified as per the administration strategy for example: -<br>a. New Starters<br>b. Leavers<br>c. Material changes in pension records   |   | Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT  |
| Early leaver's information to be notified as per the administration strategy.  |   | Failure to provide correct information on the appropriate pension admin form, resulting in significant work will result in an admin charge at £37.00 per hour + VAT  |

| <b>Employer Activities</b>   | <b>Reason for Charge</b>  | <b>Basis of Charge</b>  |
|--|---|---|
| Retirement notifications   | Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy – additional work caused by late receipt of information. | Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + Vat |
| Death in Service Payment   | Due within 7 working days of the notification – additional work caused by late receipt of information from employer   | Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT |
| AVC deducted from pay to be paid anytime but latest date by 17 <sup>th</sup> of the month.   | Additional investigative work caused through lack of compliance by employer.  | Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT |
| Re-issue of invoices   | Charge based on number of requests  | Failure to provide appropriate information, resulting in significant work will result in an admin charge at £37.00 per hour + VAT |
| Member requests estimate   | The first estimate provided in each financial year is free, then subsequent estimates are chargeable  | 1 <sup>st</sup> request in each financial year is free. Additional request is charged at a notional charge of £50 + VAT is made.  |
| Pension sharing order  | For pension sharing order work, each party will be charged according to the instruction in the court order  | The charge is £607 incl VAT. Total payment to be received prior to work being completed.  |
| Miscellaneous items: <ul style="list-style-type: none"> <li>• Benefit recalculation.</li> <li>• Members file search and record prints.</li> <li>• Supplementary information requests.</li> </ul> | Where information is requested by members that is in addition to routine  | £37.00 per hour + VAT.  |

# Communications Strategy Statement

## 1. Introduction

This is the communication strategy of the Nottinghamshire Pension Fund, administered by Nottinghamshire County Council (the Administering Authority).

This statement provides an overview of how the fund will communicate with its customers (members and employers) and stakeholders. An effective communication strategy is vital for the fund to meet its objective of providing a high quality and consistent service.

Scheme communications are a critical activity; they are the external face of the fund and provide a key link with its customers and stakeholders. The fund has 292 active employers with contributing members and a total membership of over 145,373 scheme members, these members are split into the following categories and with the following numbers of members in each category at January 2020.

| Type of Pension Fund membership | Totals  |
|---------------------------------|---------|
| Active members                  | 44,299  |
| Deferred                        | 62,501  |
| Pensioners                      | 42,715  |
| Total                           | 149,515 |

The Fund continuously looks at ways to enhance its communications, and this policy statement will be reviewed regularly.

## 2. Regulatory Framework

This strategy has been produced in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013. This regulation states that:

(1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with-

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers

(2) The statement must set out its policy on-

- (a) the provision of information and publicity about the scheme to members, representatives of members and scheme employers;
  - (b) the format, frequency and method of distributing such information or publicity;
- and

(c) the promotion of the scheme to prospective members and their employers.

The strategy must be revised and published by the administering authority following a material change in their policy on any matters referred to in paragraph (2).

### **3. Minimum Standards**

Under the Occupational Pension Schemes (Disclosure of Information Regulation) 1996, administrators of the Local Government Pension Scheme (LGPS) are required to provide the following:

- A copy of the scheme regulations and any overriding legislation, on request, - either through providing a personal copy, a copy for inspection or details of how to obtain a copy; members, employers, prospective members, their spouses, beneficiaries and recognised trade unions are entitled to this information.
- Basic information about the scheme must be given automatically to every prospective member before starting, or, if this is not practical, within two months of joining. This information must be provided on request – unless issued within the previous 12 months – to current members, prospective members, spouses, beneficiaries and recognised trade unions within two months of receipt of a written request.
- Details of any material changes to the LGPS notified to all members and beneficiaries (except excluded persons, that is, deferred pensioners whose present address is unknown) where possible before the change takes effect. Otherwise the change must be notified not later than three months after it has taken effect.
- An annual benefit statement to all active, deferred and pension credit members.

### **4. Key Objectives**

The Nottinghamshire Pension Fund recognise that communicating with scheme stakeholders and customers is a critical activity for the fund and has established communication practices.

The fund has identified the following key objectives of its communication strategy:

- Provide clear, and timely communication to its customers and stakeholders.
- Recognise the requirement for different methods of communication for different customers and stakeholders.
- Seek continuous improvement in the way the fund communicates.
- Inform customers and stake holders to enable them to make the decisions regarding pension matters.
- Inform customers and stakeholders about the management and administration of the fund.
- Consult major stakeholders about the management and administration of the fund.

- Promote the LGPS as an attractive benefit to scheme members and an important tool in recruitment to employers.
- Support employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the scheme.
- Treat information security with importance and in line with the current data protection legislation along with the requirements of the Pension Regulator.

## **5. Stakeholders of the Fund**

The Strategy outlines the scope of communications and sets out the mechanisms which are to be used to meet those communication needs. The Pensions Office will use the most appropriate communication medium for the audiences receiving information. This may involve using more than one method of communication.

There are several key stakeholder groups with whom the Pensions Office needs to communicate. These are:

- a) Active Scheme members
- b) Prospective Scheme members
- c) Deferred Scheme members
- d) Pensioners and dependants
- e) Scheme Employers
- f) Pension Fund Staff
- g) Trustees of the Fund, which includes the Pensions Committee and the Pensions Board
- h) External bodies

## **6. Active Scheme members**

The Pensions Office have a website containing extensive details of the scheme and the Pension Fund and from where scheme leaflets, forms and guides may be downloaded. There are links on the website to other organisations which are relevant to scheme members, such as contacts for Employers, AVC Providers and bodies that may provide independent help for members.

Communications with pensioners are being continually developed using the website to communicate on pertinent issues, the most current issues relate to such subjects as Finances, Pension Regulator initiatives on Pension Scams, and news relating to AVC Provision by the Fund providers. The Pensions Office also liaises with the Fund's Scheme Employers to ensure that member's information is kept up to date.

The Pensions Office send benefit statements to all active members on an annual basis, subject to the members Scheme Employer providing timely year end information to the

Pensions Administration Team. The statements are sent as soon as the year end data is reconciled but before the 31 August which is the statutory deadline.

A dedicated telephone help line has been established and is widely publicised in the Scheme literature.

There are other miscellaneous actions taken for scheme members, such as dealing with specific customer complaints and commendations, and using appropriate process in the tracking and contacting of deferred beneficiaries.

## **7. Prospective Scheme members**

As part of the Government's aim to encourage the public to save for the future, the Pensions Office targets prospective members through scheme employers. This is done by ensuring that all new appointees receive the scheme booklet and are referred to the Fund's website for further information.

There are several factsheets on the website that provide more detail on topics such as increasing benefits and making nominations. These factsheets can be sent out to individual members and are also available to download from the website.

The Pension Fund has two Additional Voluntary Contribution (AVC) providers (Prudential and Scottish Widows) who provide a choice on AVC benefits.

## **8. Deferred members**

A yearly summary of each member's details held including a current valuation of their deferred pension benefits is issued by 31 August each year and sent by post to their home address. This also acts as a prompt to notify the fund of any change of circumstances including current nominations. Undelivered statements which are returned to the fund allow us to trace missing members before their benefits are due for payment.

Deferred members can contact the fund helpline to discuss any issues or specific points regarding membership. The Pensions Office offer information on all aspects of scheme membership and benefits for all active, deferred and pensioner members.

## **9. Pensioners and Dependants**

Pay advice communications are issued in paper copy form to pensioners 4 times a year March to June by the Pension Fund Payroll provider, which is the County Council Payroll Services, this coincides with the annual pension increase and the annual HMRC tax notification changes. Throughout the rest of the year, a pay advice is only sent if the net pension changes by more than £5. Returned pay advice alerts the Fund to a change in circumstances, allowing the fund to trace missing members. Each member also receives a P60 by post by the end of May each year. However, the Payroll provider is now transitioning Pay advice communication to electronic format giving pensioners the opportunity to receive their pay advice online. All new pensioners are being given the option, and communication is being issued to encourage existing pensioners to transition to electronic payslips.



There is a dedicated section on the fund's website that is available for pensioner members. This provides detailed and informative links allowing members to be kept up to date with the latest news and changes. There is also a quick link which allows pensioners to contact the fund using an electronic form.

Pensioners can also send correspondence including changes details, such as address or bank details to both the fund and the pension Payroll by e-mail and post.

## **10. Scheme Employers**

The Pensions Office aims to work in partnership with Scheme Employers to assist them in the application of the Scheme. The Pension Fund attends regular quarterly meetings with District Councils and arranges meetings with other group Employers when required to pass across information and identify and resolve cases. An Administration Strategy is in place with Scheme Employers which includes a Service Level Agreement which outlines the requirements of employers and the Pensions Administration Team.

A password protected section on the fund's website is available for our employers, this provides detailed and informative links allowing employers to be kept up to date with latest news and changes. Electronic copies of all relevant forms, scheme literature, policies and reports are also available to download, along with training documents and tools, plus links to other organisations e.g. Local Government Employers.

Administration forms are available with guidance notes to notify the fund of key events affecting pension benefits.

Annual meetings are arranged inviting employers to enable the fund to update employers on the requirements of the year end activities. There is also a plan of action within the Employer Support and Compliance Team to update scheme employers on their employer responsibilities.

We currently utilise the website to inform our Scheme Employers of their administration responsibilities. This is available on the employer's part of the website.

The Pensions Office uses the 'CIVICA UPM' database to hold member records. Future developments include achieving greater web compatibility and the transmission of data electronically. Following the success of a pilot project on the development of an Employer Portal, the employer Portal is now being rolled out to scheme employers. This development will allow employers to have access through the internet to the pension records of their employees, and will enable employer to undertake a number of tasks, plus provide data to the Pension Fund electronically.

## **11. Pension Fund Staff**

The Pensions Office currently ensures that all new staff receive induction and training, so that they can undertake their duties and responsibilities effectively. The Pensions Office has Team Meetings and Management Team Meetings to discuss issues ranging from planning to communications.

The Pensions website site is also a resource centre for the Administration team as it has links to the National website, and all employer /member documents are available on the site.

## **12. Trustees of the Fund, which includes the Pensions Committee and the Pensions Board**

The Pensions website contains relevant information for Trustees and Scheme Employers with regards to information about their respective roles. The development of knowledge and training is also provided by the Fund's Investment & Administration Officers and this is also supplemented by attendance at relevant external training sessions, conferences, and seminars. In addition to the Pensions Committee, following the Public Service Pensions Act 2013 a local Pensions Board has been set up to support the governance and administration of the Nottinghamshire Pension Fund which helps to ensure effective and efficient governance and administration of the Local Government Pension Scheme. The respective Committee and Pensions Board members are provided with information and reports on all relevant pension matters as required.

## **13. External Bodies**

The fund communicates with additional external bodies these include:

The Department for Levelling Up, Housing and Communities (DLUHC) who are the owners of the LGPS and are responsible for drafting and laying the LGPS regulations before parliament.

The scheme also communicates with the Department for Work and Pensions (DWP) and communicates in relation to the contracting out details of scheme members and combined pension benefit forecasts.

The Nottinghamshire Pension Fund ensures it pays all benefits in compliance with both the lifetime allowance and annual allowance.

The fund is also represented at the East Midlands Pension Officers Group, which meets quarterly to discuss all aspects of the LGPS knowledge sharing and collaborative working are key features of this group's discussion.

The Pension Administration Manager also attends the Pension Managers Group within the Central Pool and supports the Pension Board Chair at various Pension Board Chairs Meetings.

The Pensions Office is a member of the Pensions Administration Benchmarking Club which is run by the Chartered Institute of Public Finance and Accountancy (CIPFA). We provide information on membership numbers and administration costs and subsequently benchmark our costs and service with all members and specified members of the Club.

The Local Government Pension Scheme Advisory Board is a body set up under section 7 of the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 110-113. The purpose of the Board is to be both reactive and proactive. It seeks to encourage best practice, increase transparency and coordinate technical and standards issues across the Local Government Pension Scheme.

The Local Government Association also supports the LGPS through representing employers' interests to Central Government and other bodies on local government pensions policy. There is a dedicated who represent local authorities' interests to Government and provide the secretariat service for the Local Government Pension Committee. They also offer training events in relation to the LGPS, along with Governance arrangements, including the establishment of scheme advisory boards. Finally the LGA Team produce bulletins for pensions' practitioners.

## HM Revenue and Customs

The Government Actuaries Department works on behalf of the Government to provide actuarial skills that help decision makers take account of risk and uncertainty. Their mission is to improve the stewardship of Public Sector Finances by supporting effective decision making and robust financial reporting through actuarial analysis, modelling and advice.

### **14. Unscheduled Communication**

There will be times throughout the year when the Pension fund will be required to communicate information to fund stakeholders which is unscheduled and ad hoc. This could include changes to LGPS regulations, or other pension information which may have an impact on employers or members of the scheme.

### **15. Other Relevant Documentation**

In addition to the communication documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers the Fund publishes several key documents relating to the administration and governance of the Fund. These are as follows: -

#### **a. Funding Strategy Statement**

LGPS Regulations require that all Administering Authorities publish a Funding Strategy Statement (FSS). The Fund's FSS sets out our commitment to meeting our liabilities while at the same time maintaining stable employer rates.

#### **b. Governance Compliance Statement**

LGPS Regulations require all Administering Authorities to publish a Governance Policy Statement. The fund's compliance statement sets out how it delegates its responsibilities including duties and terms of reference and stakeholder representation.

#### **C. Administration Strategy**

LGPS Regulations require the Administering Authority to have a Administration Strategy which details responsibility standards, levels of performance and policies required to deliver statutory requirements for the LGPS and comply with requirements of the Pension Regulator.

### **16. Equality**

Our communications are tailored to the individual needs of our stakeholders. We will make every effort to provide communications to our stakeholders in their preferred language or format on request.

## **17. Freedom of Information**

This communication strategy identifies the classes of information that each Fund publishes or intends to publish in compliance with the Freedom of Information Act. Anyone has a right under the Freedom of Information Act to request any information held by the Fund which is not already made available. Requests should be made in writing to the Pension Administration Manager at the address at the end of this document.

A fee may be charged, and the Fund reserves the right to refuse if the cost of providing the information is disproportionately high; if following prompting the request is unclear; and when the requests are vexatious or repeated.

### **Contact us:**

Tel: 0115 9772727 Option 3

Or Email: [lgpensions@nottscc.gov.uk](mailto:lgpensions@nottscc.gov.uk)

Or visit our website: <http://www.nottinghamshire.gov.uk/npf>

Or write to us at: Nottinghamshire Pension Fund, Nottinghamshire County Council, County Hall, West Bridgford, Nottingham, NG2 7QP.

# **Risk Management Strategy**

## **Introduction**

1. This is the Risk Management Strategy for the Nottinghamshire County Council Pension Fund. Risk Management is a key element in the Fund's overall framework of internal control and its approach to sound governance. However, it is not an end in itself, but a means of minimising the costs and disruption to the Fund caused by undesirable or unexpected events. The aim is to eliminate or reduce the frequency of risk events occurring (where possible and practicable) and minimise the severity of the consequences if they do occur.
2. Risk can be defined as any event or action which could adversely affect the Fund's ability to achieve its purpose and objectives. Risk management is the process by which:
  - risks are systematically identified.
  - the potential consequences are evaluated.
  - the element of risk is reduced where reasonably practicable.
  - actions are taken to control the likelihood of the risk arising and reducing the impact if it does.

## **Purpose and Objectives of the Fund**

3. The purpose of the Fund is to:
  - Pay pensions, lump sums and other benefits provided under the LGPS Regulations
  - Meet the costs associated in administering the Fund.
  - Receive contributions, transfer values and investment income.
  - Invest any Fund money not needed immediately to make payments.
4. The funding objectives are to:
  - Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund.
  - Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.
5. The following principles underpin the Fund's investment activity:
  - The Fund will aim to maintain sufficient assets to meet all its obligations on a continuing basis.
  - The Fund will be invested in a diversified range of assets.
  - Proper advice on the suitability of types of investment will be obtained and considered at reasonable intervals.
  - The Fund will aim to conduct its business and to use its influence in a long-term responsible way.

## **Key Parties**

6. The key parties involved in the Fund and their responsibilities are as follows.

### **The Administering Authority**

7. The Administering Authority for the Pension Fund is Nottinghamshire County Council. Under the terms of the Council's constitution, the functions of the Council as administering authority are delegated to the Nottinghamshire Pension Fund Committee. The full governance arrangements of the Fund are detailed in the Fund's Governance Compliance Statement.

The main responsibilities of the Administering Authority are to:

- Collect employee and employer contributions.
- Invest the Fund's assets.
- Pay the benefits due to Scheme members.
- Manage the actuarial valuation process in conjunction with the Fund Actuary
- Prepare and maintain the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) after consultation with other interested parties as appropriate.
- Monitor all aspects of the Fund's performance.

### **Committee members**

8. The members of the Committee are not trustees (as the LGPS is a statutory scheme) but do have fiduciary duties towards the scheme members and employers. The main responsibilities of the Committee are to:

- Determine the overall investment strategy, and what restrictions, if any, are to be placed on particular types and market locations of investments.
- Determine the type of investment management to be used and appoint and dismiss fund managers.
- Receive quarterly reports on performance from the main fund managers and question them regularly on their performance.
- Receive independent reports on the performance of fund managers on a regular basis.
- Be encouraged to receive suitable training to help them discharge their responsibilities and attend such training courses, conferences and meetings that deliver value for money to the Fund.

### **Scheme Employers**

9. In addition to the Administering Authority, a number of other Scheme Employers, including Admission Bodies, participate in the Fund. The responsibilities of each Scheme Employer that participates in the Fund, including the Administering Authority, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within the statutory timescales.
- Notify the Administering Authority of any new Scheme members and any other membership changes promptly.
- Exercise any discretions permitted under the Regulations.
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures.
- Notify the Administering Authority of significant changes in the employer's structure or membership.

### **Fund Actuary**

10. The Fund Actuary for the Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations
- Advise on other actuarial matters affecting the financial position of the Fund.

### **Chief Finance Officer**

11. Under the Council's constitution, the Service Director Finance, Infrastructure & Improvement is designated the Council's Chief Finance Officer (also known as the Section 151 Officer). The Group Manager (Financial Services) is the deputy Section 151 Officer. Financial Regulations specify that the Section 151 Officer is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).

12. Representatives of the Service Director Finance, Infrastructure & Improvement provide advice to the Committee on investment matters and attend meetings of the Nottinghamshire Pension Fund Committee as required.

### **Service Director Customers, Governance and Employees**

13. The Service Director Customers, Governance and Employees is responsible for the Pensions Administration function, operated by the Pensions Office within the Business Support Centre. This function covers:

- Pensions administration and employers support
- Pensions administration systems
- Communications
- Technical/performance support

14. Representatives of the Service Director Customers, Governance and Employees provide advice to the Committee on pension administration matters and attend meetings of the Nottinghamshire Pension Fund Committee as required.

### **Independent Adviser**

15. The Fund has an Independent Adviser who attends meetings of the Nottinghamshire Pension Fund Committee and Pensions Working Party as required.

16. The Independent Adviser is engaged to provide advice on:

- the objectives and policies of the fund
- investment strategy and asset allocation
- the fund's approach to responsible investment
- choice of benchmarks
- investment management methods and structures
- choice of managers and external specialists
- activity and performance of investment managers and the fund
- the risks involved with existing or proposed investments
- the fund's current property portfolio and any proposals for purchases, sales, improvement or development
- new developments and opportunities in investment theory and practice

## **Risk Management Strategy**

17. The risk tolerance of the Fund is agreed with the Nottinghamshire Pension Fund Committee, the investment team and independent adviser through the setting of the investment beliefs, funding and investment objectives. The Fund will only take sufficient risk in order to achieve its long term funding objectives described in paragraph 4.
18. The Pension Fund's Risk Management Strategy is to:
- a) identify key risks to the achievement of the Fund's aims.
  - b) assess the risks for likelihood and impact.
  - c) identify mitigating controls.
  - d) allocate responsibility for the mitigating controls.
  - e) maintain a risk register detailing the risk features in a)-d) above.
  - f) review and update the risk register on an annual basis.
  - g) report the outcome of the review to the Nottinghamshire Pension Fund Committee.
19. The Risk Register is a key part of the Risk Management Strategy as it identifies the main risks to the operation of the Fund, prioritising the risks identified and detailing the actions required to further reduce the risks involved.
20. All staff involved in the Pension Fund and Members of the Nottinghamshire Pension Fund Committee need to have an appropriate level of understanding of risk and how risks affect the performance of the Fund. To consolidate the risk management process, the Nottinghamshire Pension Fund Committee will be asked to:-
- agree the Risk Management Strategy
  - approve the Risk Register and agreed actions.
  - receive and approve the Annual Governance Statement, which will comment upon the Fund's risk management process.
21. By adopting this approach, the Pension Fund will be able to demonstrate a clear commitment, at a strategic level, to the effective management of Pension Fund risks. The Risk Management Strategy and Risk Register will be kept under review and will be revised following any material changes in policy.



## Pension Fund Risk Register

### Objectives

22. The objectives of the Risk Register are to:

- identify key risks to the achievement of the Fund's objectives
- assess the significance of the risks
- consider existing controls to mitigate the risks identified
- Identify additional action required.

### Risk Assessment

23. Identified risks are assessed separately and for each the following is determined:

- the likelihood of the risk materialising
- the severity of the impact/potential consequences if it does occur.

24. Each factor is evaluated on a sliding scale of 1 to 5 with 5 being the highest value i.e. highest likelihood/most severe impact/consequences. The risk evaluation tables below have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value.

| <b>LIKELIHOOD:</b> |                |                  |
|--------------------|----------------|------------------|
| <b>1</b>           | Rare           | 0 to 5% chance   |
| <b>2</b>           | Unlikely       | 6 to 20% chance  |
| <b>3</b>           | Possible       | 21 to 50% chance |
| <b>4</b>           | Likely         | 51 to 80% chance |
| <b>5</b>           | Almost certain | 81%+ chance      |

| <b>IMPACT:</b> |               |                  |
|----------------|---------------|------------------|
| <b>1</b>       | Insignificant | 0 to 5% effect   |
| <b>2</b>       | Minor         | 6 to 20% effect  |
| <b>3</b>       | Moderate      | 21 to 50% effect |
| <b>4</b>       | Significant   | 51 to 80% effect |
| <b>5</b>       | Catastrophic  | 81%+ effect      |

25. Having scored each risk for likelihood and impact, the risk ratings can be plotted onto the following matrix to enable risks to be categorised into Low, Medium, High and Very High Risk.

### Risk Rating Matrix

|                        |                      |                            |          |          |        |                |
|------------------------|----------------------|----------------------------|----------|----------|--------|----------------|
| <b>Relative Impact</b> | Catastrophic<br>(5)  | M                          | H        | VH       | VH     | VH             |
|                        | Significant<br>(4)   | M                          | H        | VH       | VH     | VH             |
|                        | Moderate<br>(3)      | M                          | M        | H        | H      | H              |
|                        | Minor<br>(2)         | L                          | L        | M        | M      | M              |
|                        | Insignificant<br>(1) | L                          | L        | L        | L      | L              |
|                        |                      | (1)                        | (2)      | (3)      | (4)    | (5)            |
|                        |                      | Rare                       | Unlikely | Possible | Likely | Almost Certain |
|                        |                      | <b>Relative Likelihood</b> |          |          |        |                |

26. This initial assessment gives the inherent risk level. Existing controls are then identified and each risk is re-assessed to determine if the controls are effective at reducing the risk rating. This gives the current (or residual) risk level. The current risk rating scores and categories are then used to prioritise the risks shown in the register in order to determine where additional action is required in accordance with the following order of priority:

**Red = Very High Priority**

Take urgent action to mitigate the risk.

**Orange = High Priority**

Take action to mitigate the risk.

**Yellow = Medium Priority**

Check current controls and consider if others are required.

**Green = Low Priority**

No immediate action other than to set a review date to re-consider your assessment.

## NOTTINGHAMSHIRE PENSION FUND RISK REGISTER - SUMMARY

Key to risk rating change since previous version of Risk Register:

↑ Increase

↓ Decrease

↔ No Change

★ New

| Risk Description   | Inherent Risk |           |   | Current Risk |           |   |
|--|---------------|-----------|---|--------------|-----------|---|
|  | Rating        | Change    |   | Rating       | Change    |   |
| <b>Risk Gov4</b> Inadequate resources are available to manage the pension fund.  | 20            | VERY HIGH | ↔ | 20           | VERY HIGH | ↑ |
| <b>Risk Gov5</b> Failure to adhere to relevant legislation and guidance.   | 20            | VERY HIGH | ↑ | 12           | HIGH      | ↑ |
| <b>Risk Adm1</b> Standing data & permanent records are not accurate.   | 16            | VERY HIGH | ↔ | 9            | HIGH      | ↔ |
| <b>Risk Inv3</b> Fund assets are assessed as insufficient to meet long term liabilities.   | 16            | VERY HIGH | ↔ | 9            | HIGH      | ↔ |
| <b>Risk Inv4</b> Significant variations from assumptions used in the actuarial valuation   | 12            | HIGH      | ↔ | 9            | HIGH      | ↔ |
| <b>Risk Inv6</b> LGPS Central incurs net costs or decreases investment returns   | 12            | HIGH      | ↔ | 9            | HIGH      | ↔ |
| <b>Risk Adm2</b> Inadequate controls to safeguard pension fund records   | 15            | VERY HIGH | ↔ | 6            | MEDIUM    | ↔ |
| <b>Risk Adm4</b> Scheme employers may fail to administer the scheme efficiently, leading to disruption to the discharge of administering authority functions (employer Risk)<br>Potential data quality issues.   | 15            | VERY HIGH | ↔ | 6            | MEDIUM    | ↔ |
| <b>Risk Adm5</b> Serious breach of law regarding the management of data/information, including an unauthorised release requiring notification to ICO, leading to disruption to the discharge of administering authority functions (Administrative Risk). | 15            | VERY HIGH | ↔ | 6            | MEDIUM    | ↔ |
| <b>Risk Inv1</b> Inappropriate investment strategy is adopted.   | 12            | VERY HIGH | ↔ | 6            | MEDIUM    | ↔ |
| <b>Risk Inv5b</b> Custody arrangements   | 12            | VERY HIGH | ↔ | 6            | MEDIUM    | ↔ |
| <b>Risk Inv7</b> Financial risk of climate change  | 12            | HIGH      | ↔ | 8            | MEDIUM    | ↔ |
| <b>Risk Inv2</b> Fund cash is insufficient to meet its current obligations.  | 12            | HIGH      | ↑ | 6            | MEDIUM    | ↔ |

|  |   |        |   |   |        |   |
|--|---|--------|---|---|--------|---|
| <b>Risk Gov1</b> Pension Fund governance arrangements are not effective            | 9 | HIGH   | ↔ | 6 | MEDIUM | ↔ |
| <b>Risk Gov2</b> Pension Fund objectives are not defined and agreed.               | 9 | HIGH   | ↔ | 6 | MEDIUM | ↔ |
| <b>Risk Gov3</b> An effective performance management framework is not in place.    | 9 | HIGH   | ↔ | 6 | MEDIUM | ↔ |
| <b>Risk Inv5a</b> Fund manager mandates  | 9 | HIGH   | ↔ | 6 | MEDIUM | ↔ |
| <b>Risk Inv5d</b> Financial Administration   | 9 | HIGH   | ↔ | 6 | MEDIUM | ↔ |
| <b>Risk Adm3</b> Failure to communicate adequately with all relevant stakeholders. | 9 | HIGH   | ↔ | 6 | MEDIUM | ↔ |
| <b>Risk Inv5c</b> Accounting arrangements  | 6 | MEDIUM | ↔ | 4 | LOW    | ↔ |
| <b>Risk Inv5e</b> Stewardship  | 6 | MEDIUM | ↔ | 4 | LOW    | ↔ |

| <b>Governance</b>  |   |                |                     |                 |
|--|---|----------------|---------------------|-----------------|
| <b>Risk description: Gov1 - Pension Fund governance arrangements are not effective</b> |   |                |                     |                 |
|  | <b>Likelihood:</b>  | <b>Impact:</b> | <b>Risk Rating:</b> |                 |
| <b>Inherent Risk:</b>  | 3   | 3              | <b>9</b>            | <b>HIGH</b> ↔   |
| <b>Current Risk:</b>   | 2   | 3              | <b>6</b>            | <b>MEDIUM</b> ↔ |
| <b>Current Controls:</b>   | <ul style="list-style-type: none"> <li>• The Council's constitution clearly delegates the functions of administering authority of the pension fund to the Nottinghamshire Pension Fund Committee.</li> <li>• Under the LGPS Regulations the Administering Authority has established a Pension Board</li> <li>• The terms of reference of the Nottinghamshire Pension Fund Committee are agreed.</li> <li>• The terms of reference of the Nottinghamshire Pension Board are agreed.</li> <li>• The Fund publishes a Governance Compliance Statement which details the governance arrangements of the Fund and assesses compliance with best practice. This is kept regularly under review.</li> <li>• A training policy is in place which requires Members to receive continuing training and encourages all new Members to attend the Local Government Pension Scheme Fundamentals training course.</li> <li>• Nottinghamshire Pension Board Members are also required to undertake training</li> <li>• Officers of the Council attend meetings of the Nottinghamshire Pension Fund Committee and the Nottinghamshire Pension Board.</li> <li>• The Fund has a formal contract for an independent adviser to give advice on investment matters. They are contracted to attend each Nottinghamshire Pension Fund Committee meeting.</li> <li>• The Administering Authority has a formal contract for an independent adviser to give advice on LGPS regulations to the Nottinghamshire Pension Board</li> </ul> |                |                     |                 |
| <b>Action Required:</b>  | <ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> <li>• Confirmation of Pension Board meetings</li> <li>• Pension Board Vacancies to be filled</li> </ul>   |                |                     |                 |
| <b>Responsibility:</b>   | Group Manager (Financial Services)<br>Group Manager (BSC)<br>Group Manager (Legal Services)<br>Pension Manager<br>Senior Accountant - Pensions & TM   |                | <b>Timescale:</b>   | On-going        |

| <b>Governance</b>  |   |                |                     |                 |
|--|---|----------------|---------------------|-----------------|
| <b>Risk description: Gov2 - Pension Fund objectives are not defined and agreed</b> |   |                |                     |                 |
|  | <b>Likelihood:</b>  | <b>Impact:</b> | <b>Risk Rating:</b> |                 |
| <b>Inherent Risk:</b>  | 3   | 3              | 9                   | <b>HIGH</b> ↔   |
| <b>Current Risk:</b>   | 2   | 3              | 6                   | <b>MEDIUM</b> ↔ |
| <b>Current Controls:</b>   | <ul style="list-style-type: none"> <li>Purpose and objectives are outlined in the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). Both documents are approved by the Nottinghamshire Pension Fund Committee and reviewed on a regular basis.</li> </ul> |                |                     |                 |
| <b>Action Required:</b>  | <ul style="list-style-type: none"> <li>Continue to monitor via existing processes.</li> </ul>   |                |                     |                 |
| <b>Responsibility:</b>   | Nottinghamshire Pension Fund Committee;<br>Group Manager (Financial Services)   |                | <b>Timescale:</b>   | On-going        |

| <b>Governance</b>  |  |                |                     |                 |
|--|--|----------------|---------------------|-----------------|
| <b>Risk description: Gov3 - An effective performance management framework is not in place.</b> |  |                |                     |                 |
|  | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b> |                 |
| <b>Inherent Risk:</b>  | 3  | 3              | 9                   | <b>HIGH</b> ↔   |
| <b>Current Risk:</b>   | 2  | 3              | 6                   | <b>MEDIUM</b> ↔ |
| <b>Current Controls:</b>   | <ul style="list-style-type: none"> <li>Investment performance is reported quarterly to the Nottinghamshire Pension Fund Committee. The Fund's main investment managers attend each quarter and officers receive regular updates from the Fund's other investment managers.</li> <li>Poor investment performance is considered by the Nottinghamshire Pension Fund Committee. The Nottinghamshire Pension Fund Committee's actions are monitored by the Nottinghamshire Pension Board</li> <li>A Fund strategic benchmark has been implemented to improve monitoring of decisions regarding asset allocation and investment management arrangements.</li> <li>Performance of the administration function is managed through an Administration Strategy</li> </ul> |                |                     |                 |
|  | <ul style="list-style-type: none"> <li>Performance of the Administration function is managed through a set of performance indicators and reported to Pension Committee and Pension Board</li> </ul>  |                |                     |                 |
| <b>Action Required:</b>  | <ul style="list-style-type: none"> <li>Continue to review the performance monitoring framework for Fund Administration.</li> </ul>   |                |                     |                 |
| <b>Responsibility:</b>   | Nottinghamshire Pension Fund Committee<br>Group Manager (Financial Services);<br>Group Manager (BSC)<br>Pension Manager<br>Senior Accountant - Pensions & TM   |                | <b>Timescale:</b>   | On-going        |

| <b>Governance</b>  |  |                |                     |                    |
|--|--|----------------|---------------------|--------------------|
| <b>Risk description: Gov4 - Inadequate resources are available to manage the pension fund.</b> |  |                |                     |                    |
|  | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b> |                    |
| <b>Inherent Risk:</b>  | 5  | 4              | 20                  | <b>VERY HIGH</b> ↔ |
| <b>Current Risk:</b>   | 5  | 4              | 20                  | <b>VERY HIGH</b> ↑ |
| <b>Current Controls:</b>   | <ul style="list-style-type: none"> <li>• The pension fund investments are managed by the Pensions &amp; Treasury Management team.</li> <li>• Pension administration is managed by the Pension Team Manager within the BSC</li> <li>• Operating costs are recharged to the pension fund in accordance with regulations.</li> <li>• Staffing levels and structures are kept under regular review.</li> <li>• Additional resources have been requested to meet new requirements across the LGPS. It is challenging to recruit to both the current and additional roles.</li> <li>• Pension Costs and resources monitored against the CIPFA Benchmarking club</li> </ul> |                |                     |                    |
| <b>Action Required:</b>  | <ul style="list-style-type: none"> <li>• Continue to monitor resource requirements via existing processes.</li> <li>• Consider the impact of increased demands on Pensions Administration arising from additional contacts from Members due to the current economic position.</li> </ul>   |                |                     |                    |
| <b>Responsibility:</b>   | Group Manager (Financial Services);<br>Group Manager (BSC)<br>Pension Manager<br>Senior Accountant - Pensions & TM   |                | <b>Timescale:</b>   | On-going           |

| <b>Governance</b>   |   |                |                     |                    |
|---|---|----------------|---------------------|--------------------|
| <b>Risk description: Gov5 - Failure to adhere to relevant legislation and guidance.</b> |   |                |                     |                    |
|   | <b>Likelihood:</b>  | <b>Impact:</b> | <b>Risk Rating:</b> |                    |
| <b>Inherent Risk:</b>   | 5   | 4              | 20                  | <b>VERY HIGH</b> ↑ |
| <b>Current Risk:</b>  | 4   | 3              | 12                  | <b>HIGH</b> ↑      |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>• An established process exists to inform members and officers of statutory requirements and any changes to these. The Good Governance Action plan has been submitted to DLUHC. The Pension Fund will be required to implement the recommendations.</li> <li>• Sufficient resources are required to implement LGPS changes while continuing to administer the scheme.</li> <li>• Membership of relevant professional groups ensures changes in statutory and other requirements are registered before the implementation dates.</li> </ul> |                |                     |                    |

|                         |   |                   |          |
|-------------------------|---|-------------------|----------|
|                         | <ul style="list-style-type: none"> <li>Any breaches in statutory regulations must be reported to the Pension Regulator.</li> </ul>  |                   |          |
| <b>Action Required:</b> | <ul style="list-style-type: none"> <li>Consider recommendations of Good Governance report and create action plan</li> <li>Review resources against statutory requirements</li> <li>Continue to monitor requirements via appropriate sources to ensure adherence to legislation and guidance.</li> </ul> |                   |          |
| <b>Responsibility:</b>  | Group Manager (Financial Services);<br>Group Manager (BSC);<br>Senior Accountant - Pensions & TM<br>Pension Manager   | <b>Timescale:</b> | On-going |

| <b>Investments</b>  |   |                   |                     |                    |
|---|---|-------------------|---------------------|--------------------|
| <b>Risk description: Inv1 - Inappropriate investment strategy is adopted.</b> |   |                   |                     |                    |
|   | <b>Likelihood:</b>  | <b>Impact:</b>    | <b>Risk Rating:</b> |                    |
| <b>Inherent Risk:</b>   | 3   | 4                 | 12                  | <b>VERY HIGH</b> ↔ |
| <b>Current Risk:</b>  | 2   | 3                 | 6                   | <b>MEDIUM</b> ↔    |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>The investment strategy is in accordance with LGPS investment regulations and is documented, reviewed and approved by the Nottinghamshire Pension Fund Committee.</li> <li>In setting asset allocation to deliver the Fund Return Target the Fund will seek as far as possible to invest in a diversified range of uncorrelated assets in order to reduce the level of investment risk.</li> <li>The Strategy takes into account the expected returns assumed by the actuary at the triennial valuation.</li> <li>Investment performance is monitored against the Fund's strategic benchmark.</li> <li>A regular review takes place of the Fund's asset allocation strategy by the Pension Fund Working Party.</li> <li>An Independent Adviser provides specialist guidance to the Nottinghamshire Pension Fund Committee on the investment strategy.</li> </ul> |                   |                     |                    |
| <b>Action Required:</b>   | <ul style="list-style-type: none"> <li>Continue to monitor via existing processes.</li> </ul>   |                   |                     |                    |
| <b>Responsibility:</b>  | Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM  | <b>Timescale:</b> | On-going            |                    |



| <b>Investments</b>   |   |                |                     |                 |
|--|---|----------------|---------------------|-----------------|
| <b>Risk description: Inv2 - Fund cash is insufficient to meet its current obligations.</b> |   |                |                     |                 |
|  | <b>Likelihood:</b>  | <b>Impact:</b> | <b>Risk Rating:</b> |                 |
| <b>Inherent Risk:</b>  | 4   | 3              | 12                  | <b>HIGH</b> ↑   |
| <b>Current Risk:</b>   | 2   | 3              | 6                   | <b>MEDIUM</b> ↔ |
| <b>Current Controls</b>  | <ul style="list-style-type: none"> <li>• Fund cash flow is monitored daily and a summary fund account is reported to the Nottinghamshire Pension Fund Committee each quarter</li> <li>• Annual accounts are produced for the pension fund and these show the movements in net cash inflow</li> <li>• Regular assessment of Fund assets and liabilities is carried out through actuarial valuations.</li> <li>• The Fund's Investment and Funding Strategies are regularly reviewed</li> </ul> |                |                     |                 |
| <b>Action Required:</b>  | <ul style="list-style-type: none"> <li>• Consider the impact of the triennial valuation on contributions and net cash flow. Take any required action.</li> <li>• Continue to monitor via existing processes.</li> </ul>   |                |                     |                 |
| <b>Responsibility:</b>   | Nottinghamshire Pension Fund Committee;<br>Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM   |                | <b>Timescale:</b>   | On-going        |

| <b>Investments</b>  |   |                |                     |                    |
|---|---|----------------|---------------------|--------------------|
| <b>Risk description: Inv3 - Fund assets are assessed as insufficient to meet long term liabilities.</b> |   |                |                     |                    |
|   | <b>Likelihood:</b>  | <b>Impact:</b> | <b>Risk Rating:</b> |                    |
| <b>Inherent Risk:</b>   | 4   | 4              | 16                  | <b>VERY HIGH</b> ↔ |
| <b>Current Risk:</b>  | 3   | 3              | 9                   | <b>HIGH</b> ↔      |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>• Fund assets are kept under review as part of the Fund's performance management framework.</li> <li>• Regular assessment of Fund assets and liabilities is carried out through Actuarial valuations.</li> <li>• The Fund's Investment and Funding Strategies are regularly reviewed.</li> <li>• An external adviser provides specialist guidance to the Pension Fund Committee on the investment strategy.</li> <li>• Strength of covenant of new employers carefully assessed</li> <li>• Risks relating to existing employers are reviewed periodically</li> </ul> |                |                     |                    |
| <b>Action Required:</b>   | <ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> <li>• Consider the impact on employers of current inflationary pressures and the ongoing National Economic position.</li> </ul>   |                |                     |                    |
| <b>Responsibility:</b>  | Nottinghamshire Pension Fund Committee<br>Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM  |                | <b>Timescale:</b>   | On-going           |

| <b>Investments</b>  |  |                |                            |
|---|--|----------------|----------------------------|
| <b>Risk description: Inv4 - Significant variations from assumptions used in the actuarial valuation occur</b> |  |                |                            |
|   | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b>        |
| <b>Inherent Risk:</b>   | 4  | 3              | 12 <b>HIGH</b> ↔           |
| <b>Current Risk:</b>  | 3  | 3              | 9 <b>HIGH</b> ↔            |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>• Actuarial assumptions are reviewed by officers and discussed with the actuaries</li> <li>• Sensitivity analysis is undertaken on assumptions to measure impact</li> <li>• Valuation are undertaken every 3 years</li> <li>• Monitoring of cash flow position.</li> <li>• Contributions made by employers vary according to their member profile.</li> </ul> |                |                            |
| <b>Action Required:</b>   | <ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> <li>• Review cash flow projections prepared by actuaries on a regular basis.</li> </ul>  |                |                            |
| <b>Responsibility:</b>  | Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM   |                | <b>Timescale:</b> On-going |

| <b>Investments</b>  |  |                |                            |
|---|--|----------------|----------------------------|
| <b>Risk description: Inv5 - Inadequate controls to safeguard pension fund assets.</b> |  |                |                            |
| <b>Inv5a - Investment managers</b>  |  |                |                            |
|   | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b>        |
| <b>Inherent Risk:</b>   | 3  | 3              | 9 <b>HIGH</b> ↔            |
| <b>Current Risk:</b>  | 2  | 3              | 6 <b>MEDIUM</b> ↔          |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>• Complete and authorised client agreements are in place. This includes requirement for fund managers to report regularly on their performance. The main managers attend Nottinghamshire Pension Fund Committee on a regular basis.</li> <li>• Investment objectives are set, and portfolios must be managed in accordance with these</li> <li>• AAF 01/06 (or equivalent) reports on internal controls of service organisations are reviewed for main managers.</li> <li>• Internal decisions have a robust framework in place which is tested by internal audit</li> <li>• Fund Managers maintain an appropriate risk management framework to minimise the level of risk to Pension Fund assets.</li> </ul> |                |                            |
| <b>Action Required:</b>   | <ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> </ul>  |                |                            |
| <b>Responsibility:</b>  | Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM   |                | <b>Timescale:</b> On-going |
| <b>Inv5b - Custody arrangements</b>   |  |                |                            |
|   | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b>        |

|   |  |                |                     |                  |   |
|---|--|----------------|---------------------|------------------|---|
| <b>Inherent Risk:</b>                   | 3  | 4              | 12                  | <b>VERY HIGH</b> | ↔ |
| <b>Current Risk:</b>                    | 2  | 3              | 6                   | <b>MEDIUM</b>    | ↔ |
| <b>Current Controls:</b>                | <ul style="list-style-type: none"> <li>• Complete and authorised agreements are in place with the external custodian.</li> <li>• AAF 01/06 (or equivalent) report on internal controls is reviewed for external custodian.</li> <li>• Regular reconciliations carried out to check external custodian records.</li> <li>• Where assets are custodied in-house, physical stock certificates are held in a secure cabinet to which access is limited.</li> </ul>   |                |                     |                  |   |
| <b>Action Required:</b>                 | <ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> </ul>  |                |                     |                  |   |
| <b>Responsibility:</b>                  | Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM   |                | <b>Timescale:</b>   | On-going         |   |
| <b>Inv5c - Accounting arrangements</b>  |  |                |                     |                  |   |
|   | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b> |                  |   |
| <b>Inherent Risk:</b>                   | 3  | 2              | 6                   | <b>MEDIUM</b>    | ↔ |
| <b>Current Risk:</b>                    | 2  | 2              | 4                   | <b>LOW</b>       | ↔ |
| <b>Current Controls:</b>                | <ul style="list-style-type: none"> <li>• Pension Fund accounting arrangements conform to the Local Authority Accounting Code, relevant IFRS/IAS and the Pensions' SORP.</li> <li>• The Pension Fund subscribes to the CIPFA Pensions Network and Technical Information Service and officers attend courses as appropriate.</li> <li>• Regular reconciliations are carried out between in-house records and those maintained by the external custodian and investment managers.</li> <li>• Internal Audits are carried out regularly.</li> <li>• External Audit review the Pension Fund's accounts annually.</li> </ul>                           |                |                     |                  |   |
| <b>Action Required:</b>                 | <ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> </ul>  |                |                     |                  |   |
| <b>Responsibility:</b>                  | Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM   |                | <b>Timescale:</b>   | On-going         |   |
| <b>Inv5d - Financial Administration</b> |  |                |                     |                  |   |
|   | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b> |                  |   |
| <b>Inherent Risk:</b>                   | 3  | 3              | 9                   | <b>HIGH</b>      | ↔ |
| <b>Current Risk:</b>                    | 2  | 3              | 6                   | <b>MEDIUM</b>    | ↔ |
| <b>Current Controls:</b>                | <ul style="list-style-type: none"> <li>• The Pension Fund adheres to the County Council's financial regulations with appropriate separation of duties and authorisation limits for transactions.</li> <li>• Daily cash settlements are made with the external custodian to maximise returns on cash.</li> <li>• Investment transactions are properly authorised, executed and monitored.</li> <li>• Contributions due to the fund are governed by Scheme rules which are overseen by Pensions Administration. Contributions checked at the beginning of the year and the end of the year and reconciled and balanced at the year-end.</li> </ul> |                |                     |                  |   |



|                            |   |                   |                     |
|----------------------------|---|-------------------|---------------------|
|                            | <ul style="list-style-type: none"> <li>Pension Fund cash is invested according to the Treasury Management Strategy which is approved annually by Pension Fund Committee.</li> <li>The Pension Fund maintains a bank account which is operated within regulatory guidelines.</li> </ul>  |                   |                     |
| <b>Action Required:</b>    | <ul style="list-style-type: none"> <li>Continue to monitor via existing processes.</li> </ul>   |                   |                     |
| <b>Responsibility:</b>     | Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM  | <b>Timescale:</b> | On-going            |
| <b>Inv5e – Stewardship</b> |   |                   |                     |
|                            | <b>Likelihood:</b>  | <b>Impact:</b>    | <b>Risk Rating:</b> |
| <b>Inherent Risk:</b>      | 3   | 2                 | 6 <b>MEDIUM</b> ↔   |
| <b>Current Risk:</b>       | 2   | 2                 | 4 <b>LOW</b> ↔      |
| <b>Current Controls:</b>   | <ul style="list-style-type: none"> <li>The Pension Fund aims to be a long term responsible investor.</li> <li>Effective management of financially material social, environmental and corporate governance (ESG) risks should support the requirement to protect investment returns over the long term. ESG considerations are taken into account in the selection, non-selection, retention and realisation of investments by both the Pension Fund and underlying managers on the Fund's behalf</li> <li>The Fund has a Climate Stewardship Plan which is implemented and reported on with the support of LGPS Central</li> <li>The Fund is a member of Local Authority Pension Fund Forum (LAPFF) and supports their work on shareholder engagement.</li> <li>The pension fund has a contract in place for a proxy voting services. Voting is reported to the Nottinghamshire Pension Fund Committee each quarter and published on the Fund website.</li> </ul> |                   |                     |
| <b>Action Required:</b>    | <ul style="list-style-type: none"> <li>Continue to monitor via existing processes.</li> </ul>   |                   |                     |
| <b>Responsibility:</b>     | Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM  | <b>Timescale:</b> | On-going            |

|   |  |                   |                     |
|---|--|-------------------|---------------------|
| <b>Inv6 - LGPS Central incurs net costs or decreases investment returns</b> |  |                   |                     |
|   | <b>Likelihood:</b>   | <b>Impact:</b>    | <b>Risk Rating:</b> |
| <b>Inherent Risk:</b>   | 4  | 3                 | 12 <b>HIGH</b> ↔    |
| <b>Current Risk:</b>  | 3  | 3                 | 9 <b>HIGH</b> ↔     |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>We are shareholders in LGPS Central and have significant influence on them through involvement in Shareholders Forum, Joint Committee and PAF</li> <li>Costs and performance will be monitored</li> </ul> |                   |                     |
| <b>Action Required:</b>   | <ul style="list-style-type: none"> <li>Continue to attend meetings relevant meetings</li> <li>Continue to monitor via existing processes.</li> </ul>   |                   |                     |
| <b>Responsibility:</b>  | Nottinghamshire Pension Fund Committee<br>Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM   | <b>Timescale:</b> | On-going            |

| <b>Inv7 – Climate change affects the financial returns of the Fund.</b> |   |                |                     |                 |
|---|---|----------------|---------------------|-----------------|
|   | <b>Likelihood:</b>  | <b>Impact:</b> | <b>Risk Rating:</b> |                 |
| <b>Inherent Risk:</b>   | 4   | 3              | 12                  | <b>HIGH</b> ↔   |
| <b>Current Risk:</b>  | 4   | 2              | 8                   | <b>MEDIUM</b> ↔ |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>• The financial impact of climate change on the fund can be mitigated. Businesses and individuals will have to change their behaviour and consumption to reduce their carbon footprint and this presents both opportunities and threats as investors.</li> <li>• We engage with management of the companies we own through LGPS Central, LAPFF and Hermes EOS to influence them to consider climate change and their sustainability.</li> <li>• Climate change risks are already considered as part of the purchasing and holding decision</li> <li>• Climate risk analysis undertaken on an annual basis with the assistance of LGPS Central.</li> <li>• The Fund has a Climate Risk strategy and a Climate Stewardship plan</li> </ul> |                |                     |                 |
| <b>Action Required:</b>   | <ul style="list-style-type: none"> <li>• The current impacts of climate change are affecting particular industries and regions and the Pension Fund will look to reduce exposure to these.</li> <li>• Continued move towards our long term asset allocation.</li> </ul>   |                |                     |                 |
| <b>Responsibility:</b>  | Nottinghamshire Pension Fund Committee<br>Group Manager (Financial Services);<br>Senior Accountant - Pensions & TM  |                | <b>Timescale:</b>   | On-going        |

| <b>Administration</b>   |  |                |                     |                    |
|---|--|----------------|---------------------|--------------------|
| <b>Risk description: Adm1 - Standing data and permanent records are not accurate.</b> |  |                |                     |                    |
|   | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b> |                    |
| <b>Inherent Risk:</b>   | 4  | 4              | 16                  | <b>VERY HIGH</b> ↔ |
| <b>Current Risk:</b>  | 3  | 3              | 9                   | <b>HIGH</b> ↔      |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>• Business processes are in place to identify changes to standing data.</li> <li>• Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input.</li> <li>• Documentation is maintained in line with agreed policies.</li> <li>• The Administration Strategy supports the monitoring of employer compliance.</li> <li>• A change of details form is sent out to members alongside their annual statement.</li> <li>• Data matching exercises (National Fraud Initiative) help to identify discrepancies.</li> <li>• Mortality Screening i is being reviewed along with looking to procure a new screening partner.</li> </ul> |                |                     |                    |

|                         |   |                   |          |
|-------------------------|---|-------------------|----------|
|                         | <ul style="list-style-type: none"> <li>• The Data Improvement Plan is being implemented as reported to committee.</li> <li>• The GMP Reconciliation Project is progressing to conclusion</li> <li>• Employer annual returns are reviewed and monitored any. Breaches are reported to committee as appropriate.</li> </ul> |                   |          |
| <b>Action Required:</b> | <ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> <li>• Improve monitoring of returns from major fund employers</li> <li>• Implementation of Data Improvement plan</li> <li>• Progress GMP rectification</li> <li>• Progress McCloud project</li> </ul>                           |                   |          |
| <b>Responsibility:</b>  | Group Manager (BSC)<br>Pension Manager  | <b>Timescale:</b> | On-going |

| <b>Administration</b>  |  |                   |                     |   |
|--|--|-------------------|---------------------|---|
| <b>Risk description: Adm2 - Inadequate controls to safeguard pension fund records.</b> |  |                   |                     |   |
|  | <b>Likelihood:</b>   | <b>Impact:</b>    | <b>Risk Rating:</b> |   |
| <b>Inherent Risk:</b>  | 3  | 5                 | 15                  | VERY HIGH  |
| <b>Current Risk:</b>   | 2  | 3                 | 6                   | MEDIUM     |
| <b>Current Controls:</b>   | <ul style="list-style-type: none"> <li>• ICT Disaster Recovery Plan and Security Plan are agreed and in place</li> <li>• The Administration Authority has an Operational Security and Risk Team, a Security Architect providing strategic direction, an Information Governance Team headed by the Data Protection Officer and an Information Governance Board, chaired by the SIRO, providing oversight. The network has been certified as PSN Code of Connection compliant for the last decade and comprises internal and perimeter firewalls, anti-virus software, intrusion detection and response platforms, secure baseline operating system builds, annual penetration tests, multi-factor authenticated remote access and offline backups, aligning with National Cyber Security Centre best practice at all points.</li> <li>• New back up arrangements are in place</li> <li>• Software is regularly updated to meet LGPS requirements.</li> <li>• Audit trails and reconciliations are in place.</li> <li>• GDPR awareness training and documentation is in place</li> <li>• Pension Administration Documentation is maintained in line with agreed policies.</li> <li>• Physical records are held securely in the Pension Office.</li> <li>• Pensions and other related administration staff undertake data management training as required.</li> </ul> |                   |                     |   |
| <b>Action Required:</b>  | <ul style="list-style-type: none"> <li>• Continue to monitor via existing processes.</li> </ul>  |                   |                     |   |
| <b>Responsibility:</b>   | Group Manager (BSC)<br>Pension Manager   | <b>Timescale:</b> | On-going            |   |

| <b>Administration</b>   |   |                |                     |                 |
|---|---|----------------|---------------------|-----------------|
| <b>Risk description: Adm3 - Failure to communicate adequately with all relevant stakeholders.</b> |   |                |                     |                 |
|   | <b>Likelihood:</b>  | <b>Impact:</b> | <b>Risk Rating:</b> |                 |
| <b>Inherent Risk:</b>   | 3   | 3              | 9                   | <b>HIGH</b> ↔   |
| <b>Current Risk:</b>  | 2   | 3              | 6                   | <b>MEDIUM</b> ↔ |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>• A communications strategy is in place and is regularly reviewed.</li> <li>• The Fund website is being refreshed and has been relaunched</li> <li>• Member information guides are reviewed.</li> <li>• The Fund has an annual meeting aimed at all participating employers.</li> <li>• The Nottinghamshire Pension Fund Committee has representatives of the County Council, City Council, Nottinghamshire Local Authorities, Trade Unions, Scheduled and Admitted Bodies.</li> <li>• Meetings are held regularly with employers within the Fund.</li> <li>• District and City Council employers and other ad hoc employer meetings take place as required</li> <li>• A briefing for employers takes place in February or March each year in preparation for year end</li> <li>• Benefit Illustrations are sent annually to contributing and deferred Fund members.</li> <li>• Annual report, prepared in accordance with statutory guidelines, is published on the website.</li> </ul> |                |                     |                 |
| <b>Action Required:</b>   | • Continue to monitor via existing processes.   |                |                     |                 |
| <b>Responsibility:</b>  | Group Manager (BSC)<br>Pension Manager  |                | <b>Timescale:</b>   | On-going        |

| <b>Administration</b>   |  |                |                     |                    |
|---|--|----------------|---------------------|--------------------|
| <b>Risk description: Adm4 - Scheme employers may fail to administer the scheme efficiently, leading to disruption to the discharge of administering authority functions (employer risk)</b> |  |                |                     |                    |
| <b>Potential data quality issues.</b>   |  |                |                     |                    |
|   | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b> |                    |
| <b>Inherent Risk:</b>   | 3  | 5              | 15                  | <b>VERY HIGH</b> ↔ |
| <b>Current Risk:</b>  | 2  | 3              | 6                   | <b>MEDIUM</b> ↔    |
| <b>Current Controls:</b>  | <ul style="list-style-type: none"> <li>• Clear communication of requirements to scheme employers.</li> <li>• Employer data is being reviewed as part of the data improvement plan.</li> <li>• Planned roll out of the employer portal to improve the transfer of data to the Pension Fund.</li> <li>• Actuary makes prudent assumptions at valuation.</li> </ul> |                |                     |                    |
| <b>Action Required:</b>   | • Continue to monitor via existing processes.  |                |                     |                    |
| <b>Responsibility:</b>  | Group Manager (BSC)<br>Pension Manager   |                | <b>Timescale:</b>   | On-going           |

| <b>Administration</b>   |  |                |                     |                    |
|---|--|----------------|---------------------|--------------------|
| <b>Risk description: Adm5 - Serious breach of law regarding the management of data/information, including an unauthorised release requiring notification to ICO, leading to disruption to the discharge of administering authority functions.</b> |  |                |                     |                    |
|   | <b>Likelihood:</b>   | <b>Impact:</b> | <b>Risk Rating:</b> |                    |
| <b>Inherent Risk:</b>   | 3  | 5              | 15                  | <b>VERY HIGH</b> ↔ |
| <b>Current Risk:</b>  | 2  | 3              | 6                   | <b>MEDIUM</b> ↔    |
| <b>Current Controls:</b>  | • Information Governance oversee policies and procedures   |                |                     |                    |
|   | • Data breach procedure in place   |                |                     |                    |
|   | • Assurance obtained from third party providers and contractors on compliance with relevant legislation. |                |                     |                    |
|   | • Identified Data Protection Officer   |                |                     |                    |
|   | • Appropriate access levels in the Pension Administration system.  |                |                     |                    |
| <b>Action Required:</b>   | • Continue to monitor via existing processes.  |                |                     |                    |
| <b>Responsibility:</b>  | Group Manager (BSC)<br>Pension Manager   |                | <b>Timescale:</b>   | On-going           |