

*Annual Report and Statement
of Accounts 2014-15*

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Introduction

This Annual Report and Statement of Accounts sets out the arrangements by which the Local Government Pension Scheme operates, reports changes which have taken place and reviews the investment activity and performance of the Northamptonshire Local Government Pension Scheme ("Fund") during the year.

The Statement of Accounts has been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2014/15 and the Financial Reports of Pension Schemes – A Statement of Recommended Practice (Pension SORP) 2007.

The accounts summarise the transactions of the Scheme and deal with the net assets at the disposal of the Pensions Committee members. The accounts do not take account of the obligation to pay future benefits which fall due after year end. The actuarial position of the Scheme which takes into account these obligations is available on the Northamptonshire County Council website, <http://northamptonshire.gov.uk>.



Mr M Bowmer

Director of Finance
(Section 151 Officer)

Dated 13 October

2015

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance (Section 151 Officer);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Director of Finance Responsibilities

The Director of Finance is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code)*.

In preparing this statement of accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent; and
- complied with the Local Authority Code.

The Director of Finance (Section 151 Officer) has also:

- kept proper accounting records which are up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of Accounts

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Pension Fund at 31 March 2015 and of its income and expenditure for the year 2014-15, and authorise the accounts for issue.



Mr M Bowmer

Director of Finance
(Section 151 Officer)

Dated 23 October 2015

Chairman's Foreword

It is my honour and privilege to be Chairman of the Pensions Committee and my pleasure to introduce the Northamptonshire Pension Fund Annual Report and Statement of Accounts for 2014-15.

This has been a challenging year for all in the Local Government Pension Scheme with the new 2014 scheme being successfully implemented and embedded, the impending introduction of Pension Boards, auto-enrolment on the way and the latest valuation being effected as well as the retirement of the long-standing Head of Pensions, the change of Independent Adviser and not least, the various economic crises around the world!

There has been a steady growth in the number of members in the Scheme. Active membership has increased from 18,334 in 2014 to 19,407 in 2015, deferred membership has increased from 20,887 in 2014 to 23,377 and pensioners numbers have increased from 14,155 in 2014 to 14,421 in 2015, giving a total membership at 31 March, 2015 of 57,205. This equates to a total Fund increase of 7%. There has also been a steady increase in the number of employers in the Fund. At 31st March, 2015, the Northamptonshire Pension Fund had 217 active employers; an increase of 37 in the reporting period.

At 31st March, 2015, the Fund was valued at £1.86bn, which is an increase in Fund value of £190m from March 2014, equating to an 11.2% increase in asset value.

The Northamptonshire Pension Fund delivered a return of 12.4% for the fiscal year, slightly under-performing the Fund's benchmark return (12.9%) and the average Local Authority Pension Fund (13.2%).

Over the year, the funding level for the Fund has decreased from 77% to 70.4%. This is overwhelmingly due to the value of the liabilities increasing faster than the increase in the value of the assets; something largely outside the Fund's control as liabilities are tied to gilt yields. The Fund obtains regular quarterly updates on the funding level with a formal valuation of the Fund being carried out triennially, the last being 31st March, 2013.

Driven by the funding level, the Fund's investment strategy necessarily remains focused on growth assets which are expected to earn more attractive returns than lower risk investments, over the longer term with recovery planned over a 20 year period. Committee members and officers regularly meet with Fund Managers and Advisers to ensure we are fully apprised of their investment plans and fund details.

Since 2010, Northamptonshire and Cambridgeshire County Councils have operated under a joint partnership, LGSS, to provide pensions administration. This has and continues to deliver savings to both Funds through efficient converged processes, sharing of resources, joint working and economies of scale, which we would be delighted to extend to any other fund looking to join us.

Despite the challenges, I consider that it has been a successful year for the Fund due to the hard work invested by the members of the Pensions and Investment Sub Committees, the guidance of the Director of Finance and the support, dedication and expertise of all the staff, under the leadership of the Deputy Head of Pensions, involved in the administration, governance and investment management of the Fund. We also have excellent investment and actuarial advisers, who have added their considerable knowledge and skills. I would like to thank them for their efforts and for what they have done to ensure that we provide excellent retirement benefits for our and our employers' staff. Members of the public are always welcome to attend Pensions Committee meetings to see them in action!

I am confident that this dedication will continue into 2015-16 and well beyond, when we will be faced with evolving challenges regarding the governance arrangements and uncertain world economy as we seek to maintain the current high standards of the administration of the Fund.

A handwritten signature in black ink, appearing to read 'Graham Lawman', with a long, sweeping horizontal line extending from the end of the signature.

Councillor Graham Lawman
Chairman of Northamptonshire Pensions Committee

Scheme Framework

The Local Government Pension Scheme is a statutory funded pension scheme. It is “contracted-out” of the state scheme and is termed a defined benefit scheme. The operation of the Northamptonshire Local Government Pension Scheme is principally governed by the Local Government Pension Scheme Regulations 2013 [as amended] and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [as amended] which have been made within the context of the Primary legislation of the Public Service Pensions Act 2013. The scheme covers eligible employees of the County Council, the Police Authority, Police and Crime Commissioner, District and Borough Councils and Academies within the county area other than teaching staff, police officers and fire-fighters for whom separate statutory arrangements exist. A number of other bodies are also members of the scheme.

Employers’ contribution rates are set by the Fund’s Actuary every three years following the valuation of the Fund, in order to maintain the solvency of the fund. The last valuation took place on data at 31 March 2013. The results of the valuation resulted in a funding level of 70.5% and an average employer contribution rate of 32.1%. The next valuation is due in 2016.

On 1 April 2014, the new Local Government Pension Scheme 2014 came into effect, allowing more flexibility around paying into the Scheme and when to draw benefits, normal pension age is linked to the state pension age but benefits can be drawn earlier or later, between age 55 and 75. The normal retirement age is the age a member can access their pension in full; if it is claimed before that date it will usually be reduced and if claimed later it will increase. All service built up to 31 March 2014 in the LGPS is fully protected and will continue to be based on a member’s final year’s pay when the individual leaves the LGPS.

Benefits built up before April 2014 also retain their protected Normal Pension Age which for most members is 65, although certain members have a retirement age of 60 for all or part of their membership. There is an additional protection known as the ‘underpin’ for members who were active on 31 March 2012 and were within ten years of their Protected Normal Pension Age on 1 April 2012. These members will get a pension at Least equal to the pension they would have received in the LGPS had it not changed on 1 April 2014 subject to meeting certain criteria.

The new scheme changes have been widely publicised with all stakeholders of the Fund via a range of communication methods including, e-mails, bulletins, seminars, presentations, forums and workshops. The Fund has assisted Scheme members and employers through the transition and provided information and guidance where required.

The below table compares the 2008 and 2014 Schemes -

	LGPS 2008	LGPS 2014
Basis of Pension	Final Salary	Career Average Revaluated Earnings (CARE)
Accrual Rate	1/60th	1/49th
Revaluation Rate	Based on Final Salary	Consumer Prices Index (CPI)
Pensionable Pay	Pay excluding non contractual overtime and non pensionable additional hours	Pay including non-contractual overtime and additional hours
Employee Contribution rates	Between 5.5% and 7.5%	Between 5.5% and 12.5%
Contribution Flexibility	No	Option to pay 50% contributions for 50% of pension benefit
Normal Pension Age	65	Equal to individuals state pension age
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x Pensionable Pay	3 x Pensionable Pay
Death in Service Survivor Benefits	1/160 th accrual based on Tier 1 ill health pension enhancement	1/160 th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 – Immediate payment with service enhanced to Normal Pension Age (65) Tier 2 – Immediate payment with 25% service enhancement to Normal Pension Age (65) Tier 3 – Temporary payment of pension for up to 3 years	Tier 1 – Immediate payment with service enhanced to Normal Pension Age Tier 2 – Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 – Temporary payment of pension for up to 3 years
Indexation of Pension in Payment	CPI (RPI for pre-2011 increases)	CPI
Vesting Period	3 months	2 years

Active Employers (217)

Scheduled Bodies

Abbeyfield School
 Abington Vale Primary School
 Badby Primary Academy
 Barby Academy
 Beanfield Primary School
 Billingbrook Academy
 Bishop Stopford CE Academy
 Blackthorn Primary School
 Boddington C of E Primary
 Borough Council of Wellingborough
 Boughton Primary Academy
 Braunston Academy
 Briar Hill Primary Academy
 Brooke Weston Academy
 Champion Academy
 Caroline Chisholm Academy
 Cedar Road Academy
 Chacombe CEVA Primary Academy
 Chenderit Academy
 Chipping Warden Academy
 Complementary Education Academy
 Corby Borough Council
 Corby Business Academy
 Corby Primary Academy
 Corby Technical School
 Culworth C of E Primary School
 Danetre & Southbrook Learning Village Academy
 Daventry Abbey Junior Academy
 Daventry District Council
 Daventry UTC
 Diocese of Peterborough HQ
 East Northants Council
 Eastfield Academy
 Ecton Brook Primary Academy
 Education Fellowship HQ
 Elizabeth Woodville Academy
 Exeter A Learning Community
 Falconers Hill Academy
 Freemans Endowed C of E Junior School

Friars Academy
 Great Addington CEVA Academy
 Green Oaks Academy
 Greenfields Primary Academy
 Greenfields School and Sports College
 Gretton Primary Academy
 Guilsborough Academy
 Hardingstone Academy
 Hartwell CoE Academy
 Havelock Infants
 Havelock Junior
 Headlands Primary Academy
 Huxlow Science Academy
 Kettering Borough Council
 Kettering Buccleuch Academy
 Kettering Kingsley Academy
 Kettering Science Academy
 Kilsby Academy
 Kings Heath Primary Academy
 Kings Sutton Primary Academy
 Kingsthorpe College Academy
 Kingswood Primary Academy
 Kingswood Secondary Academy
 Latimer Arts College
 Lings Primary Academy
 Loatlands Primary Academy
 Loddington Academy
 Lodge Park Academy
 Lumbertubs Primary Academy
 Magdalen College Academy
 Malcolm Arnold Academy
 Malcolm Arnold Prep Academy
 Manor Academy
 Maplefields School Academy
 Middleton Cheney Academy
 Milton Parochial Primary Academy
 Montsaye Academy
 Moulton Academy
 Moulton College
 Naseby Academy

Newnham Primary Academy	St Barnabas Academy
Nicholas Hawksmoor Academy	St James CofE Academy
Northampton Academy	St Loy C of E Primary Academy
Northampton Borough Council	St Mary's C of E Kettering
Northampton College	St Mary's Primary, Burton Latimer
Northampton Partnership Homes	St Peter's C of E Academy
Northampton School for Boys	Staverton Academy
Northampton School for Girls	Stimpson Avenue Primary Academy
Northamptonshire Chief Constable	Sunnyside Primary Academy
Northamptonshire Coroners	The Arbours Primary Academy
Northamptonshire County Council	The Castle Primary Academy
Northamptonshire Police and Crime Commissioner	The Duston School Academy
Northamptonshire Probation Trust	The Ferrers School Academy
Northgate Academy	The Parker E-Act Academy
Oakley Vale	Thorplands Primary Academy
Oakway Academy	Tresham Institute
Olympic Primary School	University of Northampton
Preston Hedges Primary Academy	Victoria Primary Academy
Queen Eleanor Primary Academy	Warwick Primary Academy
Ringstead CofE Primary	Waynflete Infants Academy
Risedene Academy	Weavers Academy
Rockingham Primary Academy	Weedon Bec Academy
Rothwell Junior School	Welton CofE Primary Academy
Rothwell Victoria Infants School	Weston Favell Academy
Rushden Community Academy	Weston Favell Primary Academy
Rushton Primary Academy	Wilbarston Primary Academy
Ruskin Junior Academy	Windmill Primary School Academy
Silverstone UTC	Woodford Halse Academy
Simon de Senlis Primary Academy	Woodland View Academy
Sir Christopher Hatton Academy	Woodnewton A Learning Community
South Northants Council	Woodvale Primary Academy
Southfield Academy	Wootton Primary Academy
Southfield Primary Academy	Wrenn School Academy
Sponne Academy	
Spring Lane Primary Academy	
St Andrews Primary Academy	

Designated Bodies

Barby Parish Council
 Billing Parish Council
 Brackley Town Council
 Brixworth Parish Council
 Creaton Parish Council
 Deanshanger Parish Council
 Duston Parish Council
 Grange Park Parish Council
 Higham Ferrers Town Council
 Irthlingborough Town Council
 Moulton Parish Council
 Olympus Care Services
 Oundle Town Council
 Raunds Town Council
 Rushden Town Council
 Spratton Parish Council
 Stanwick Parish Council
 Towcester Town Council
 Wollaston Parish Council
 Wootton & East Hunsbury Parish Council

Admitted Bodies

Action for Children (Central)
 Action for Children (Daventry)
 Action for Children (Kettering)
 Action for Children (Northampton East)
 Action for Children (South Northamptonshire)
 Action for Children (Wellingborough)
 Age Concern
 Amey plc
 Balfour Beatty – Street Lighting
 Caterlink Limited
 Caterlink – Denfield Primary
 Community Spaces
 CRI
 Daventry & District Housing
 DC Leisure
 East Northants Cultural Trust
 Easy Clean Contractors
 EMLC
 emPSN

Enterprise Managed Services
 Horizons NPF (Previously Connexions)
 Kier WSP (previously May Gurney and WSP contracts)
 Kingswood Catering (Brixworth)
 Kingswood Catering (Isebrook)
 Kingswood Catering (Kingsley)
 Kingswood Catering (St Lukes)
 Kingswood Catering (Wrenn)
 May Gurney (Nordis)
 North Northants Development Corporation
 Northampton High School
 Northamptonshire Carers
 Northamptonshire Enterprise Ltd
 Northamptonshire Music and Performing Arts Trust
 Northamptonshire Theatres Trust
 Northants Healthcare NHS Foundation Trust
 NHS Arden Commissioning Support
 NSL Ltd
 Parklands Community Association
 Rockingham Forest Trust
 Shaw Healthcare
 South Northants Homes
 Spire Homes Limited
 Spurgeons (East Northamptonshire)
 Spurgeons (North Northamptonshire)
 Spurgeons (West Northamptonshire)
 The Castle (Wellingborough) Limited
 Unity Leisure
 University of Northampton Enterprises Ltd
 Wellingborough Homes Ltd
 Wellingborough Norse

Scheme Management and Advisors

Registered Pension Scheme Number: 00329946RE

Administering Authority

Northamptonshire County Council
P.O. Box 136
County Hall
Northampton
NN1 1AT

Administrator

Mr M Bowmer
Director of Finance
S151 Officer Northamptonshire County Council, LGSS

Pension Board and Investment Sub Committee:

County Council Members

Cllr Graham Lawman (Chairman)
Cllr Jim Hakewill (Vice Chairman)
Cllr Michael Brown
Cllr Matthew Golby – Resigned June 2014
Cllr Malcolm Longley – from June 2014
Cllr Dennis Meredith
Cllr Russell Roberts
Cllr Bob Scott

All other Local Authorities, Police and Fire (Borough and District Representatives)

Cllr Malcolm Ward (Wellingborough Borough Council)
Cllr Martin Wilson (South Northants Council)

Other Employers' Representatives

Alicia Bruce
Roger Morris

Member Representatives

Peter Borley-Cox
Josie Mason

Key Officers supporting the Fund

Deputy Head of Pensions LGSS

Mark Whitby

Investment and Fund Accounting Manager

Paul Tysoe

Operations and Technical Manager

Akhtar Pepper

Governance and Regulations Manager

Joanne Walton

Fund Financial Managers

Richard Perry (Investment)
Temitope Oyelami (Fund)

Investment Advisers

John Harrison (until 31 January 2015)
Mark Stevens (from 1 February 2015)

Mercer Investment Consulting
Belvedere, 12 Booth Street
Manchester M2 4AW

Investment Managers

UBS Global Asset Management (UK) Ltd
4th Floor
21 Lombard Street
London EC3V 9AH

Majedie Asset Management Ltd
10 Old Bailey
London EC4M 7NG

Newton Investment Management Ltd
Mellon Financial Centre
160 Queen Victoria Street
London EC4V 4LA

CBRE Global Investment Partners
Third Floor, One New Change
London EC4M 9AF

Wellington Management International Ltd
Cardinal Place, 80 Victoria Street
London SW1E 5JL

Baillie Gifford & Co.
Calton Square, 1 Greenside Row
Edinburgh EH1 3AN

Skagen Funds
High Holborn House
52-54 High Holborn
London WC1V 6RL

Catapult
11 Burrough Court
Burrough on the Hill
Melton Mowbray
Leicestershire LE14 2QS

Custodian	Northern Trust 50 Bank Street Canary Wharf London E14 5NT
AVC Provider	Prudential Assurance Co Ltd Laurence Pountney Hill London EC4R 0HH Standard Life 1 Baileyfield Crescent Edinburgh EH15 1ET
Fund Actuary	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB
Auditor	KPMG LLP 1 Snow Hill, Queensway Birmingham B4 6GH
Legal Advisor	LGSS Legal Services Shire Hall Castle Hill Cambridge CB3 0AP
Performance reporting	The World Markets Company 525 Ferry Road Edinburgh EH5 2AW
Banker	Barclays Bank Plc 1 Churchill Place Canary Wharf London E14 5HP
Contacts	<p>Further information regarding the accounts and investments can be obtained from: Paul Tysoe, Investment and Fund Accounting Manager, LGSS E-mail: phtysoe@northamptonshire.gov.uk Telephone: 01604 368671</p> <p>Enquiries relating to benefits and administration should be directed to: Mark Whitby, Deputy Head of Pensions, LGSS E-mail: MWhitby@northamptonshire.gov.uk Telephone: 01604 368502</p>

Risk Management

Northamptonshire County Council, the Administering Authority to the Northamptonshire Pension Fund, has a process in place to identify, evaluate, mitigate and monitor risks associated with the activities that the Fund carries out. The arrangements in place which provide for the management of risk are described below. A full review of the Fund's risks, how they are managed and reported will be undertaken during 2015-16.

Managing decision making

Northamptonshire County Council has established a Pensions Committee and Investment Sub-Committee having strategic and operational investment decision making powers, respectively.

Membership of both bodies consist of elected, non-elected and scheme member representatives. All members of the Investment Sub-Committee sit on the Pensions Committee.

The Pensions Committee's business covers all Fund matters with the exception of non-strategic investment issues, which are delegated to the Investment Sub-Committee. Officers across both the administration, investment, accounting and governance functions support the Pensions Committee and Investment Sub-Committee meetings as required.

All meetings of the Pensions Committee and Investment Sub-Committee are duly minuted.

Pensions Committee members and Investment Sub-Committee members are required to attain a desired level of training and knowledge, to ensure decisions being made on behalf of Northamptonshire Pension Fund are made with full understanding of the impact and therefore mitigating the risk of unfounded decisions.

The Committee must at all times be conscious of its accountability to shareholders. It is responsible for determining the nature and extent of any significant risks taken on by the Administering Authority in the pursuit of its strategic objectives. Risk management should be dynamic and comprehensive, considering operational, reputational and environmental, social and governance (ESG) risks in addition to financial risks.

With effect from 1 April 2015, there will be an additional layer of governance for the Fund in the form of a local pension board. The local pension board will be non-decision making but will have the responsibility of assisting the Administering Authority to:

- secure compliance with the Local Government Pension Scheme (LGPS) regulations and other legislation relating to the governance and administration of the LGPS and also the requirements imposed by the Pensions Regulator in relation to the LGPS; and
- ensure the effective and efficient governance and administration of the LGPS.

The local pension board will provide an annual report of its activities to Council at the end of each year.

Managing investment and funding risks

The Northamptonshire Pension Fund has billions of pounds of assets under management as well as even larger long-term liabilities. It is essential to ensure that the Fund's assets are managed appropriately to ensure the Fund can meet the payment of its current and future liabilities.

The Fund currently has eleven investment mandates with eight fund managers.

An Investment Management Agreement is in place for each fund manager, setting out the relevant benchmark, performance target, asset allocation ranges and any statutory restrictions or other restrictions determined by the Pensions Committee and/or Investment Sub-Committee as appropriate.

Fund managers are also instructed to comply with the investment restrictions as set out in the LGPS (Management and Investment of Funds) Regulations 2009.

The constant monitoring of performance relative to a performance target constrains fund managers from deviating significantly from the intended approach, whilst permitting flexibility to manage mandates in such a way as to enhance returns. The appointment of more than one fund manager introduces a level of diversification of manager risk. Fund managers are instructed to diversify between investment types and within each mandate so that the prospects of potential losses are reduced.

Fund managers will bias their portfolios towards stocks which are expected to out-perform in rising or falling markets, but not take such contrarian positions that major under-performance occurs if they are incorrect in their strategies. They are required to operate in such a way that the possibility of underperformance against the target is kept within an acceptable limit. The Investment Sub-Committee monitors fund manager performance at least once every three months through informed meetings with Officers of the Fund as well as formal Committee scrutiny.

The Fund's investment performance is reviewed quarterly by the Investment Sub-Committee and should remedial action be required the Sub-Committee will determine the action to be taken and, where necessary, recommend this action to the Pensions Committee for approval.

An alternative review of performance is undertaken annually upon receipt of data from WM, which provides the perspective of other LGPS funds performance. The Fund's Custodian will be reviewed annually by an independent monitoring service. The aim of this is to receive feedback on the quality and efficiency of services of the existing provider. The review also allows for provisions of transparency and openness with regard to the investment operations of the Fund.

The Fund uses third party providers for investment management and custodian services. The risk of misstatement or error in the processes operated by the third

parties is mitigated by reviewing the ISAE3402 service auditors' assurance reports provided by the investment managers and the Custodian.

The overall risk for any pension scheme is that its assets will be insufficient to meet its liabilities.

In terms of specific investment risk, the Northamptonshire Pension Fund is managed in a way that is designed to control and mitigate against this. Further Asset Liability Studies will be undertaken to help the Pensions Committee and Investment Sub-Committee determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets. As the Fund's liabilities are based in sterling, the majority of the Fund's assets are likely to be sterling denominated. The asset allocation will be formally reviewed following the triennial valuation, and at other times as required.

Over the long-term, the Fund's investments should provide a hedge against inflation and grow in line with the underlying economy. To minimise the risks a broadly based portfolio of stocks is held, spread across different countries and different industrial sectors.

The Fund is subject to actuarial review every three years. The Fund's actuary calculates the contributions required from employing authorities to ensure the solvency of the Fund. The Fund's position is based on the market values of the assets at the time of the review and various other assumptions such as longevity.

At present the Fund has a positive cash flow and is forecast to remain in this position for a number of years. However the Fund is acutely aware of significant potential pressures arising from members opting out of the Scheme, financial pressures on employers, and the general economic climate. The Fund is actively monitoring the situation to ensure it can act quickly should the need arise. It does, however, sell investments from time to time as part of normal investment management activities.

Managing Scheme employer related risks

There are 217 scheme employers in the Northamptonshire Pension Fund all of which have different risks associated with their financial positions. Therefore it is important that close monitoring processes are in place to ensure the Fund and its stakeholders are protected from these risks.

The Fund is aware that it is possible for an increase in the employer contribution rate to become unaffordable for both existing scheme employers and to potential admissions of new employers to the Scheme. In these instances the Fund would seek feedback and evidence from employers on their scope to absorb short-term contribution rises. It is also possible to mitigate the impact through deficit spreading and phasing in of contribution increases where this is possible and where this does not negatively impact the Fund. Another possible option is the "smoothing" of contribution increases over a number of valuation periods. Whichever option is considered, it is essential to ensure that decisions are well informed through actuarial advice and account for current and future asset and liability expectations.

It is essential for the Fund to actively manage those employers that cease to exist particularly those with insufficient funding or bonds in place to meet the liabilities that they leave behind. In some cases the liabilities will pass back to the ceding employer or where this is not an option, the liabilities will be spread across the remaining employers within the Fund. The Fund has in place a comprehensive Admissions Policy which clearly sets out where a guarantee or bond is required in order for a new employer to secure admission to the Fund.

Scheme employers can also present the Fund with risks in the form of the provision of poor quality data. Inaccurate data can lead to the miscalculation of pension benefits which can lead to the misstatement of the benefits the member is actually due. If this occurs on a consistent basis for medium to large employers or even just once for a small employer, it could have a detrimental affect on the size of the employer's liabilities which may result in a higher and potentially unaffordable employer contribution rate at the next valuation. The Fund has and will continue to actively engage with the scheme employers to ensure that they provide accurate data and provide them with the training and tools to do so. The Fund also monitors employer performance in the form of key performance indicators which are regularly fed back to the employers.

Managing demographic risks

The increasing life expectancy of Scheme members over the years has increased the value of the Fund's liabilities which has resulted in a decrease in the funding position. In order to ensure that the funding position doesn't continue to deteriorate it has proved necessary for the employer contribution rates to be increased at each triennial valuation. The Fund also participates in an extra level of analysis of changing life expectancy trends which feed into the Fund's valuation process to ensure that employer contribution rates are calculated based on the most accurate data available.

Financial Performance

The following tables provide details regarding the management of the Fund's income and expenditure.

Three year forecast of income and expenditure

	2014-15 Estimated Outturn £000	2014-15 Final Outturn £000	2015-16 Forecast £000	2016-17 Forecast £000	2017-18 Forecast £000
Contributions.	(90,300)	(91,846)	(94,700)	(99,700)	(104,400)
Transfers in from other pension funds:	(5,500)	(3,634)	(6,000)	(6,000)	(6,000)
TOTAL INCOME	(95,800)	(95,480)	(100,700)	(105,700)	(110,400)
Benefits payable.	81,400	76,785	84,200	87,200	91,200
Payments to and on account of leavers.	41,700	38,684	6,000	6,000	6,000
	123,100	115,469	90,200	93,200	97,200
	27,300	19,989	(10,500)	(12,500)	(13,200)
Management Expenses	7,345	7,596	7,744	7,730	8,326
Investment Income	(30,000)	(30,502)	(32,000)	(35,000)	(38,000)
Taxes on income	0	56	0	0	0
Profit and losses on disposal of investments and changes in the market value of investment	(106,000)	(178,163)	(115,000)	(124,000)	(134,000)
Net return on investments	(136,000)	(208,609)	(147,000)	(159,000)	(172,000)
Net (increase)/decrease in the net assets available for benefits during the year	(101,355)	(181,024)	(149,756)	(163,770)	(176,874)

Performance against budget – net operational expenses

The following table shows the Fund's forecast for total management expenses for 2014-15 compared with the outturn.

	2014-15 Forecast £'000	2014-15 Outturn £'000	Variance £'000
Administration Expenses	1,944	1,934	(10)
Investment Management Expenses	5,008	5,331	323
Oversight and Governance	393	331	(62)
Total Management Expenses	7,345	7,596	251

Timeliness of contributions

The following table shows the amount of regular employee and employer contributions paid during 2014-15 and the value and percentage of which were paid both on time and after the deadline of the 19th day of the month following deduction.

	Total Paid in 2014-15	Total Paid On Time	% Paid On Time	Total Paid Late	% Paid Late
Employer Contributions	£71,263,787	£67,201,751	94.30	£4,062,035	5.70
Employee Contributions	£18,746,789	£17,586,363	93.81	£1,160,426	6.19
Total	£90,010,277	£84,788,115	94.19	£5,222,462	5.81

No interest was charged on any of the late payments.

Movement in assets & liabilities

The table below shows the forecast against the outturn on the Fund's cash flows and asset values in respect of 2014-15.

	2014-15 Estimated Outturn £'000	2014-15 Final Outturn £'000
Cash flows		
Fund (surplus) / deficit cash from dealings with members	27,300	19,989
Management expenses*	7,345	7,596
Returns on investments**	(136,000)	(208,609)
Net increase in the net assets available for benefits during the year	(101,355)	(181,024)
Assets held***		
Index-linked securities	49,424	54,147
Equities – directly held	699,429	704,743
Pooled investments	888,713	916,894
Pooled property investments	122,321	150,173
Private equity/infrastructure	1,648	1,432
Cash deposits	34,052	19,409
Other	370	2,942
Net investment assets	1,795,957	1,849,740

* Higher performance related manager fees have been paid in 2014-15 arising from recent strong asset performance.

** Investments performed more strongly than forecast in 2014-15.

*** All asset classes have performed more strongly than expected in 2014-15, particularly in the final quarter of the financial year.

Recovery of overpayments of pension

The following tables show the analysis of pension overpayments that occurred during 2014-15.

Type of Overpayment	Action Taken	Number of Cases	Amount
			£
Retirement	Recovered	0	0
	Requested	0	0
	Written off	68	10,473
Total		68	10,473
Death	Recovered	27	17,705
	Requested	26	21,654
	Written off	194	14,663
Total		247	54,023
National Fraud Initiative	Recovered	0	0
	Requested	7	18,113
	Written off	64	4,747
	Under investigation	38	Unknown
Total		71	22,861
Total Overpayments		386	87,357

Annual Pensioner Payroll (excluding additional pension awarded by the employer)	£63,507,562
Total write off amount	£29,884
Write offs as a % of payroll	0.047%
Number of cases written off	326
Number of cases in the process of recovery	33
Number of cases recovered	27
Number of cases currently being investigated	38

Northamptonshire Pension Fund has an automatic write off process of any amount less than £250; the average write off amount per individual is £91.67.

Administrative Management Performance

Key administration performance indicators

The table below shows the number and trend of the top 10 types of scheme administration cases.

Case Type	Target (working days)	Number Received	Number within target	Target	% within target
Confirm transfer-in payment and service credited to scheme member	10	197	181	90%	92%
Provide employer with requested estimate of benefits	10	835	794	90%	94%
Provide a maximum of one estimate to employees per request per year	10	1,535	1,325	90%	87%
Provide a maximum of one cash equivalent transfer to employees per year on request	10	550	504	90%	92%
Notify employees retiring from active membership of benefit award	5	1,119	1,035	95%	92%
Acknowledge death of active/deferred/pensioner member	5	862	851	100%	99%
Change of address	2	2,083	1,889	100%	91%
Expression of Wish form received	2	1,867	1,845	100%	99%
Opt out form received	2	1,444	1,393	100%	96%
Personal change update	2	451	445	100%	98%

The Fund has developed a number of KPIs to monitor service delivery, these KPIs are reviewed internally on a monthly basis to monitor and inform where delivery is met or remedial action is required. The Pensions Committee receives quarterly performance updates within the Business Plan update.

Performance is a partnership between the administration team and the constituent employers of the Fund and the targets shown are well in excess of statutory guidance

therefore representing stretch targets. Where there is material shortfall on the stretch targets we are working with scheme employers to improve timeliness and quality of data received to improve delivery.

An employer satisfaction survey was undertaken in March inviting responses from all of the employers in the Scheme. The response was overall very positive with some key results below:

Question	Result
On average, how efficient were we when responding to your query?	91.56% of responses were of satisfactory level and above
On average, how would you rate the quality of the responses that you received?	91.83% of responses were of satisfactory level and above
Overall how engaging were the bulletins we sent?	98.44% of responses were of satisfactory level and above

In November 2014, a survey was sent to all customers of LGSS to assess the level of satisfaction with the services provided. LGSS Pensions achieved an 86% rating of satisfactory and above.

During 2014-15, 18,424 cases were completed, from which only 3 complaints were received, this equates to 0.02%.

Financial indicators of administrative efficiency

The table below shows the unit costs per member of administering the Fund.

	Northamptonshire Pension Fund	Benchmark
Unit costs per member excluding investment management expenses	£22.13 (2013-14)*	£20.75 <i>CIPFA Benchmarking average (49 LGPS Funds)</i>
Unit costs per member including investment manager expenses	£7,596,000.00 / 57,205 = £132.78 per scheme member	N/A
	<i>* Results from the 2014-15 CIPFA Benchmarking exercise will be published on the LGSS Pensions website once released by CIPFA.</i>	

Key staffing indicators

In 2014-15, the average staff to member ratio was one full time member of staff to 2,668 members and the number of cases per full time member of staff was 808.

5 Year analysis of Fund membership as at year ending 31 March

	2011	2012	2013	2014	2015
Active Members	18,147	16,770	17,277	18,334	19,407
Deferred Beneficiaries	15,956	17,027	20,129	20,887	23,377
Pensions in Payment	12,260	12,993	13,692	14,155	14,421
Total	46,363	46,790	51,098	53,376	57,205

Age profile of Fund membership at 31 March 2015

Age Band Years	Actives	Deferred	Pensioners
<20	137	48	120
20 - 24	809	633	32
25 - 29	1,165	1,642	2
30 - 34	1,577	2,166	1
35 - 39	2,086	2,350	12
40 - 44	3,073	3,496	34
45 - 49	3,597	4,521	78
50 - 54	3,087	4,211	112
55 - 59	2,309	3,052	547
60 - 64	1,265	1,104	2,763
65 -69	256	116	4,015
70 - 74	40	29	2,611
75 - 79	5	8	1,729
80 - 84		1	1,232
85 - 89			705
90 - 94			326
95 - 99	1		74
100 - 104			26
105-109			2

Employee and employer contributions 2014-15

The following table shows the contributions paid by the active employers in the Fund during 2014-15.

Employers	Employee	Employer	Total
	£'000	£'000	£'000
Abbey Junior Academy (Daventry)	8	30	38
Abbeyfield School (Academy)	46	174	220
Abington Vale Academy	11	44	55
Action for Children (Daventry)	2	8	10
Action for Children (Kettering)	10	32	41
Action for Children (Northampton Central)	8	27	35
Action for Children (Northampton East)	13	49	62
Action for Children (South Northamptonshire)	1	3	4
Action for Children (Wellingborough)	5	17	22
Age Concern (Northampton And County)	4	30	34
Amey Plc	20	86	106
Badby Primary Academy	8	20	28
Balfour Beatty Workplace Ltd	7	45	52
Barby Parish Council	1	2	3
Barby Primary Academy	3	12	15
Barry Road Primary	17	65	82
Beanfield Primary	25	97	122
Billing Brook Academy	47	186	233
Billing Parish Council	2	5	7
Bishop Stopford School	62	233	294
Blackthorn Primary Academy	14	57	71
Boddington C of E Primary Academy	3	12	15
Boothville Primary School	24	96	120
Borough Council of Welling. Councillors	0	1	1
Borough Council of Wellingborough	215	1,630	1,844
Boughton Primary Academy	7	24	31
Bracken Leas Primary School	14	55	69
Brackley Town Council	7	38	45
Brambleside Community School	15	59	74
Braunston Primary Academy	6	24	30
Briar Hill Primary Academy	10	42	2
Brixworth Parish Council	1	3	3
Brixworth Primary	19	74	92
Brooke Weston Academy	84	209	293
Broughton Primary	10	41	52
Bugbrooke Primary	12	47	59
Campion School	51	193	244
Caroline Chisholm School	75	248	323
Catalyst Corby	0	1	1
Caterlink - Denfield Park Primary	1	3	3
Cedar Road Primary Academy	11	47	58

Employers	Employee	Employer	Total
	£'000	£'000	£'000
Chacombe CEVA Primary Academy	4	15	19
Chenderit Academy	41	150	190
Chipping Warden School Academy	4	15	19
Churchill Services	1	5	6
Clipston Primary	5	21	26
Community Spaces	1	4	5
Complementary Education (Academy)	40	148	188
Corby Borough Council	514	2,623	3,137
Corby Business Academy	70	233	303
Corby Danesholme Junior School	12	46	58
Corby Old Village Primary School	8	33	42
Corby Primary Academy	2	9	11
Corby Studfall Junior	22	87	110
Corby Technical College	8	30	38
Cottingham C of E Primary School	5	22	27
Creaton Parish Council	0	1	2
CRI (NCC)	7	14	21
Croughton All Saints	4	16	20
Croyland Children's Centre & Nursery	17	65	82
Culworth C of E Primary Academy	5	16	21
Danetre & Southbrook Learning Village	71	277	348
Daventry & District Housing	70	257	327
Daventry District Council	309	1,617	1,926
Daventry UTC	14	51	66
Deanshanger Parish Council	1	3	4
Denfield Park Primary	22	87	108
Diamond Learning Community	9	33	41
Duston Academy	62	241	304
Duston Eldean Primary	12	49	61
Duston Town Council	7	25	32
East Hunsbury Primary	16	65	81
East Midlands Leadership Centre	19	39	58
East Northamptonshire District Council	294	1,379	1,673
East Northants Cultural Trust	10	47	58
Eastfield Academy	10	31	41
Easy Clean Contractors Ltd	1	6	7
Ecton Brook Primary School Academy	27	109	136
Education Fellowship HQ	23	61	84
Elizabeth Woodville Academy	62	232	294
EMBC	19	44	63
Enterprise Managed Services	101	830	930
Exeter - A Learning Community Academy	37	133	170
Fairfields Special School	41	164	205
Falconers Hill Academy	12	47	59
Finedon Infant School	6	26	32
Finedon Mulso CEVA Junior School	6	23	29

Employers	Employee	Employer	Total
	£'000	£'000	£'000
Freemans Endowed C of E Junior Academy	16	33	49
Friars Academy	36	98	134
Gateway School	19	81	100
Grange Community Academy	11	45	56
Grange Park Parish Council	2	5	7
Great Addington CEVA Academy	2	9	11
Great Addington Primary	4	14	18
Great Creaton Primary School	3	12	15
Green Oaks Primary Academy	21	83	105
Greenfields Primary Academy (MAT)	15	61	76
Greenfields School & Arts College	30	119	149
Greenfields School & Sports College	7	30	37
Gretton Primary	5	20	25
Guilsborough School (Academy)	47	171	217
Hall Meadow Primary	10	42	52
Hardingstone Primary Academy	5	21	26
Hartwell Academy	8	24	32
Havelock Infant Academy	12	48	60
Havelock Junior Academy	13	54	68
Headlands Academy	29	110	139
Henry Chichele Primary	6	24	30
Higham Ferrers Junior School	4	16	20
Higham Ferrers Nursery & Infant School	12	48	60
Higham Ferrers Town Council	2	8	10
Hopping Hill Primary	19	76	95
Hunsbury Park Primary	11	45	56
Huxlow Science College	37	147	185
Irchester Primary	12	49	62
Irthlingborough Junior School	13	50	63
Irthlingborough Town Council	4	14	18
Isebrook College Academy	3	11	13
Isebrook School	27	105	132
Kettering Borough Council	656	2,893	3,548
Kettering Buccleuch Academy	54	143	197
Kettering Millbrook Infant School	16	64	81
Kettering Millbrook Junior School	22	87	109
Kettering Science Academy	68	166	234
Kilsby Primary Academy	4	15	18
Kings Heath Academy	19	63	82
Kings Sutton Primary Academy	9	35	44
Kingsley Academy	45	164	209
Kingsley Primary	13	50	63
Kingsthorpe College Academy	57	212	269
Kingswood Primary Academy	14	54	68
Kingswood Secondary Academy	58	223	281
Latimer Arts	40	152	192

Employers	Employee	Employer	Total
	£'000	£'000	£'000
Lings Academy	12	39	51
Loatlands Primary Academy	12	51	63
Loddington CEVA Academy	4	10	14
Lodge Park Academy	49	189	238
Lumbertubs Primary Academy	11	42	53
Magdalen College (Academy)	62	235	297
Magistrates	7	(7)	0
Malcolm Arnold Academy	57	198	254
Malcolm Arnold Prep School	2	6	9
Manor School Sports College	45	167	212
Maplefields Academy	29	115	144
Mawsley Primary School	15	59	74
May Gurney	54	173	227
May Gurney (NORDIS)	14	53	68
May Gurney Fleet & Passenger Services Limited	58	121	179
Middleton Cheney Community Primary Academy	12	49	61
Milton Parochial Primary School	1	2	3
Montsaye Academy	65	242	307
Moulton Academy	58	230	289
Moulton College	271	763	1,034
Moulton Parish Council	3	12	15
Moulton Primary School	20	79	99
Naseby Academy	3	9	12
National Car Parks (NCP)	10	35	44
NBC Housing	74	489	563
Newnham Primary Academy	4	16	19
NHS Arden Commissioning Report	0	10	10
Nicholas Hawksmoor Academy	19	74	93
Northampton Academy	81	206	287
Northampton Borough Council	775	6,515	7,290
Northampton College	275	948	1,223
Northampton Connexions Partnership	106	681	787
Northampton County Council - Councillors	60	0	60
Northampton Enterprise Ltd	20	46	67
Northampton High School	37	128	165
Northampton School for Boys (NonLEA)	69	259	327
Northampton School for Girls (Academy)	67	258	325
Northampton Theatres Trust	23	138	161
Northamptonshire Carers	7	25	32
Northamptonshire County Council	5,983	20,436	26,418
Northamptonshire Healthcare NHS Foundation	54	180	234
Northamptonshire Music and Performing Arts Trust	8	33	42
Northampton Police & Crime Commissioner	(7)	7	0
Northants Chief Constable	1,491	3,947	5,438
Northgate Academy	59	182	241
Northampton BC Councillors	0	0	0

Employers	Employee	Employer	Total
	£'000	£'000	£'000
Oakley Vale Primary Academy	20	60	80
Oakway Academy	10	49	60
Olympic Primary Academy	12	49	62
Olympus Care Services	815	1,749	2,563
Oundle and Kings Cliffe Middle School	18	72	90
Oundle Primary School	10	33	43
Oundle Town Council	8	18	26
Park Infant School (Raunds)	6	22	28
Park Junior School (Kettering)	19	64	83
Parklands Community Association (NCC)	0	2	3
Parklands Primary	11	44	55
Paulerspury Primary School	4	15	19
Peterborough Diocese Education Trust (HQ Staff)	3	10	13
Places for People (DC Leisure)	13	38	51
Polebrook CE Primary	1	5	6
Police & Crime Commissioner (NCC)	80	179	259
Police Support	4	0	4
Preston Hedge's Primary Academy	17	68	85
Prince William School	48	178	226
Probation	57	227	284
Raunds Town Council	3	13	17
Redwell Infants School	16	63	78
Ringstead CE Primary School	4	15	19
Risedene Academy	18	70	87
Rockingham Forest Trust	6	21	27
Rockingham Primary Academy	17	72	89
Rothwell Junior Academy	10	39	49
Rothwell Victoria Infant Academy	16	66	82
Rowan Gate School	31	121	152
Rushden Community Academy	39	148	187
Rushden Town Council	8	29	37
Rushton Primary Academy	5	18	22
Ruskin Junior Academy	15	59	74
Service 6	0	1	1
Shaw Healthcare	26	102	128
Silverstone TUC Academy	23	68	91
Simon de Senlis Primary	15	61	76
Sir Christopher Hatton Academy	52	197	250
South End Infant Rushden	13	54	67
South End Junior Rushden	10	41	51
South Northants Council	393	1,634	2,026
South Northants Homes	141	377	518
Southfield Academy	38	137	175
Southfield Primary Academy (B)	13	52	65
Spire Homes Limited	9	129	138
Sponne School (Academy)	55	209	264

Employers	Employee	Employer	Total
	£'000	£'000	£'000
Spratton Parish Council	1	3	4
Spring Lane Primary Academy	19	75	94
Spurgeons (East Northamptonshire)	12	38	51
Spurgeons (Northampton North)	5	17	22
Spurgeons (Northampton West)	9	31	40
St Andrews CEVA Primary (Kettering)	10	32	41
St Barnabas Church of England School	3	22	25
St James C of E Primary School	4	17	21
St Loys C of E Primary Academy	3	13	16
St Mary's C of E Primary Academy, Burton Latimer	6	26	32
St Mary's CEVA Primary Academy, Kettering	13	52	64
St Mary's Catholic Primary School	8	32	40
St Patrick's Primary School	12	49	61
St Peter's Church of England Academy	5	22	27
Standens Barn Primary	12	49	61
Stanwick Parish Council	1	3	4
Staverton C of E Primary Academy	2	9	11
Stimpson Avenue Academy	19	66	85
Sunnyside Primary (Academy)	9	31	40
The Arbours Primary (Academy)	15	60	75
The Avenue Infants	11	42	53
The Castle (Wellingborough) Limited	3	30	33
The Castle Primary Academy	17	49	66
The Ferrers School Academy	44	168	212
The Grange, Daventry	17	68	85
The King John School, Thrapston	14	55	69
The Queen Eleanor Primary Academy	11	43	54
Thomas Beckett Catholic School	31	118	149
Thorplands Primary Academy	23	91	115
Thrapston Primary	15	58	73
Thrapston Town Council	0	1	2
Towcester CE Primary School	(22)	46	24
Towcester Town Council	3	10	13
Tresham Institute	301	831	1,132
Trinity Lower School	4	16	21
Unity Leisure	92	273	365
University of Northampton	930	2,820	3,750
University of Northampton Enterprises Ltd	57	211	269
Vernon Terrace Primary	16	62	78
Victoria Primary Academy	13	55	68
Warwick Primary Academy	15	61	77
Wayneffete Infants	8	29	37
Weavers Academy	50	191	241
Weedon Bec Academy	9	36	45
Weldon Primary School	8	29	37
Welford, Sibbertoft and Sulby Endowed School	3	11	14

Employers	Employee	Employer	Total
	£'000	£'000	£'000
Well Lady's Catholic Junior School	9	35	44
Wellingborough Croyland Primary	28	112	139
Wellingborough Homes Ltd	38	109	147
Wellingborough Norse	93	203	295
Welton Primary Academy	4	17	21
West Northants Development Corporation *1	7	(1,076)	(1,070)
Weston Favell Academy	47	181	229
Weston Favell Primary Academy	18	73	91
Wilbarston C or E Primary Academy	5	22	27
William Parker Academy	31	116	147
Windmill Primary Academy	6	24	30
Wollaston Community Primary School	9	35	44
Wollaston Parish Council	1	3	3
Wollaston Upper School	43	162	205
Woodford Halse Academy	11	45	56
Woodland View Academy	15	62	77
Woodnewton Learning Academy	58	202	261
Woodvale Primary (Academy)	19	66	85
Wootton Parish Council	7	31	39
Wootton Primary Academy	18	72	89
Wren Spinney Community School	21	84	105
Wrenn School Academy	73	268	341
WSP	106	347	454
Other employer payments such as unfunded recharges and pension strain.	0	1,836	1,836
Total	18,746	73,100	91,846
*1 Cessation payment			

Investment Policy and Performance Report

The investment management of the Fund is governed by the provisions of the Local Government Pension Scheme – (Management and Investment of Funds) Regulations 2009. These seek to ensure that the Fund:

- is suitably invested and has taken appropriate advice;
- has suitably diversified investments;
- has an appropriate number of investment managers who invest fund monies on its behalf;
- relevant investment limits are not exceeded;
- Investments and investment arrangements are regularly monitored and reviewed;
- has an appropriate Statement of Investment Principles;
- understands its powers to borrow; and
- operates a separate bank account.

Investment Asset Allocation

Asset allocation is determined by the Pensions Committee upon recommendation from the Investment Sub-Committee who are informed by officers and professional investment advisors on the categories of investment in which the Fund should invest.

The Fund reviews its asset allocation on an annual basis and conducts a more comprehensive review following the triennial valuation.

A full review conducted in 2013-14 following the 2013 triennial valuation recommended no immediate change to the asset allocation. The triennial valuation indicated that the Fund expects to remain cash flow positive for many years to come.

The asset allocation review focussed on assessing whether making changes to the asset allocation could either drive improvements in the funding level or provide more downside protection.

The current investment strategy seeks long-term return generation rather than short-term risk mitigation and seeks to achieve this by having a core allocation to equities within a strategically diversified overall portfolio. The target allocation to equities at 64% is broadly similar to the average Local Authority pension fund. A further 16% is invested in growth assets offering strategic diversification, split equally between property and a Diversified Growth Fund. This leaves 20% invested in bonds, with half in UK bonds and half in mandates that are less exposed to rising interest rates, such as Total Return and Multi-Strategy Credit.

As the performance and therefore relative value of each investment asset class will vary over time, the Pensions Committee have approved tolerance levels around the target asset allocation percentages by which actual values can vary from the target allocation for each investment asset class.

During the 2014-15 financial year the Fund reviewed the efficiency of its global equities allocation and investigated the options for improving inflation protection in the Fund, as and when this might be appropriate. This latter work will continue in 2015-16. The target asset allocation was unchanged at the end of the 2014-15 financial year.

Role of Investment Managers

Following the approval of the strategic asset allocation by the Pensions Committee, the Investment Sub-Committee appoints external investment fund managers for each asset class. Managers are responsible for all “day to day” investment decisions, providing them with flexibility to manage the Fund in such a way as to enhance returns and achieve the performance objectives for the funds under their management whilst acting within the constraints of an Investment Management Agreement (IMA) that is approved upon their appointment.

With the exception of a passive Global Equities mandate, all external investment managers have been given “active” briefs to outperform agreed specific benchmarks. The IMA for each investment manager will include:-

- the specific class or classes in which they are permitted to invest, in line with the Fund's asset allocation, allowing little or no flexibility between asset classes;
- the value of the mandate under their management to invest. The Fund's allocation to a specific asset class may be divided between more than one manager to minimise disruption should the need arise to replace the manager;
- the relevant performance target above benchmark to reflect the intensity of their specific specialist investment brief; and
- any geographic constraints.

There were no new manager appointments or terminations effective during the year. However, in February 2015 the Investment Sub-Committee approved the transfer of the Wellington UK Fixed Income mandate to a passive index-linked bond fund managed by UBS. The transfer was completed in June 2015.

Investment Manager Profiles and performance targets for 2014-15

The target asset and manager allocation, associated benchmarks and performance targets at 31 March 2014 and 31 March 2015 and which applied throughout the 2014-15 financial year is shown below.

Asset Class	Weighting (%)		Market Benchmark Adopted	Target above bench-mark (%)
UK Equity	23.00			
Majedie	11.50		FTSE All-Share index	+2
UBS	11.50		FTSE All-Share index	+2
Global Equity	41.00			
Newton	15.30		MSCI World AC	+2
Skagen	5.00		Benchmark agnostic (but MSCI World AC can be used as a guide for performance monitoring purposes)	n/a (assume 3% as a guide)
UBS	20.70		FTSE All World (inc EM)* Passive	n/a
Bonds	20.00			
Wellington UK Fixed Income	6.67		Merrill Lynch Sterling Broad Market	+1
	3.33		Merrill Lynch Index-linked Gilts Index	
Wellington Global Total Return	5.00		Bank of America Merrill Lynch T-Bill Index +5%	n/a
Wellington Global Strategic Credit	5.00		No specific benchmark (but Barclays Global Aggregate Credit 1-5yr GBP Hedged Index can be used for performance monitoring purposes)	n/a
Diversified Growth	8.00			n/a
Baillie Gifford	8.00		UK base rate +3.5%	n/a
Property	8.00			
CBRE	8.00		IPD UK All Balanced Property Fund Index	+1
Total	100.00			+1.6**

* In practice may include separate regional equity and bonds for rebalancing purposes.

** Overall Fund Target – the overall performance target is calculated taking into account the weightings for each manager.

The values of actual manager allocations, the percentage of the Fund and variance from the target asset allocation at 31 March 2014 and 31 March 2015 are shown below:

31 March 2014			Asset Class	Manager	31 March 2015		
Market Value (£m)	(%)	Above/ (below) target (%)			Market Value (£m)	(%)	Above/ (below) target (%)
205.3	12.4	0.9	UK Equity	UBS	212.7	11.5	0.0
236.2	14.2	2.7		Majedie	231.7	12.5	1.0
83.2	5.0	0.0	Global Equity	Skagen	88.8	4.8	(0.2)
257.6	15.5	0.2		Newton	301.3	16.3	1.0
327.7	19.8	(0.9)	Passive Global Equity	UBS	390.7	21.1	0.4
137.5	8.3	(1.7)	Fixed Income	Wellington (Core Plus)	159.8	8.6	(1.4)
76.7	4.6	(0.4)		Wellington (Global Total Return)	79.4	4.3	(0.7)
89.1	5.4	0.4		Wellington (Global Strategic Credit)	92.0	5.0	0.0
113.4	6.8	(1.2)	Property	CBRE	147.9	8.0	0.0
131.5	7.9	(0.1)	Diversified Growth	Baillie Gifford	142.1	7.7	(0.3)
1.5	0.1	0.1	Private equity	Catapult	1.4	0.1	0.1
0.1	0.0	0.0	Cash	Cash	1.9	0.1	0.1
1,659.8	100.0		Total		1,849.7	100.0	

Performance monitoring

Investment manager performance is reviewed quarterly by the Investment Sub-Committee of the County Council. The Committee review a comprehensive quarterly performance report that includes the performance of each manager measured against benchmark and target and the actual asset allocation compared to the Fund's target allocation. Managers are subject to challenge in these meetings from the Committee members and the Committee's independent investment adviser.

Investment Performance 2014-2015

Investment performance data comparing the Northamptonshire Pension Fund with other local authority funds and indices are shown in the table below:

% Returns per annum for the financial year ended 31 March 2015						
		The Fund	The Benchmark	Retail Price Index	UK Average Weekly Earnings Index	Local Authority Average
2014-2015	1 year	12.4	12.9	0.9	3.3	13.2
2012-2015	3 years	11.4	10.4	2.2	1.7	11.0
2010-2015	5 years	8.8	8.5	3.1	1.6	8.7
2005-2015	10 years	7.3	8.1	3.0	3.1	7.9

(Source: WM Universe).

Investment Manager Performance for periods ending 2014-15

Asset Class	Manager	1 Year (%)			3 Years (% pa)		
		Return	Benchmark	Variance	Return	Benchmark	Variance
UK Equity	Majedie	7.5	6.6	0.9	16.4	10.6	5.8
	UBS ¹	3.6	6.6	(3.0)	11.9	9.4	2.5
Global Equity	Newton	21.1	19.0	2.1	16.6	14.1	2.5
	Skagen ²	6.7	19.0	(12.3)	n/a	n/a	n/a
	UBS Passive	19.1	19.2	(0.1)	13.9	14.2	(0.3)
Fixed Income	Wellington	16.4	15.7	0.7	7.4	7.1	0.3
	Wellington (Global Total Return)	3.6	5.3	(1.7)	2.5	5.3	(2.8)
	Wellington (Global Strategic Credit)	3.3	3.0	0.3	4.9	3.3	1.6
Diversified Growth Fund	Baillie Gifford ²	8.1	4.0	4.1	n/a	n/a	n/a
Property	CBRE	17.4	16.6	0.8	8.1	9.4	(1.3)

¹The performance of the UBS UK equity mandate over 10 years was 7.4% compared to a benchmark return of 7.2%. No other mandate has been in place for a full 10 years.

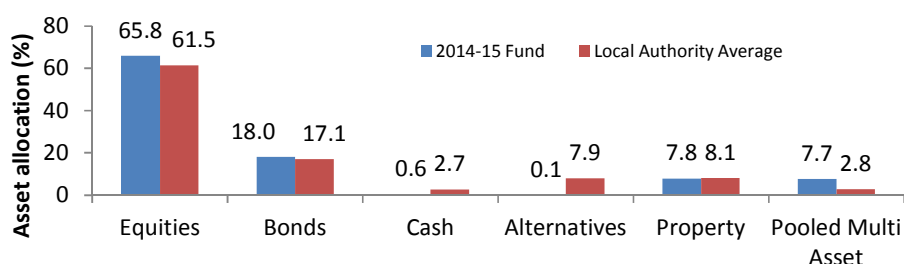
² Skagen and Baillie Gifford were appointed during 2012-13, therefore 3 year returns are not yet measurable.

Performance in comparison with Local Authority Universe

The Local Authority Universe is a national scheme consisting of over 90 Pension Funds. This scheme compares many aspects of Fund performance, the key areas of which are shown on the following pages.

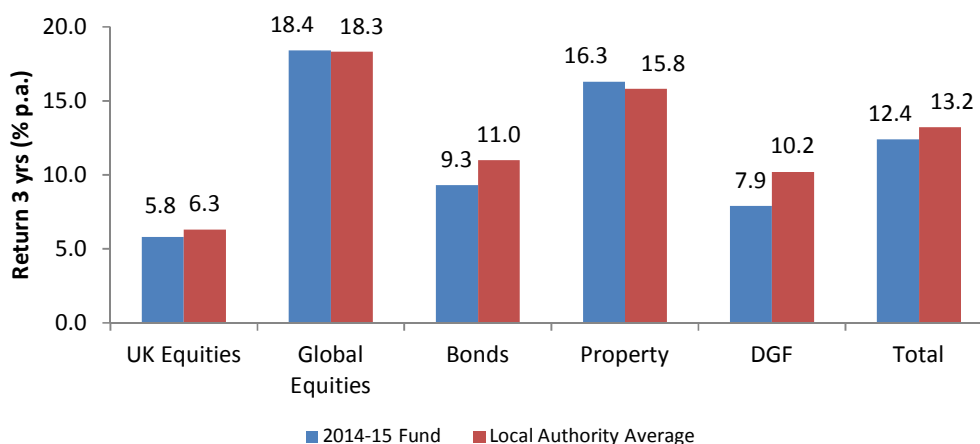
The Fund participates in the WM Company's benchmarking of Local Authority investment performance, which provides useful information on how well the Fund has performed in comparison with other Local Authorities.

Asset Mix Compared to the Local Authority Universe



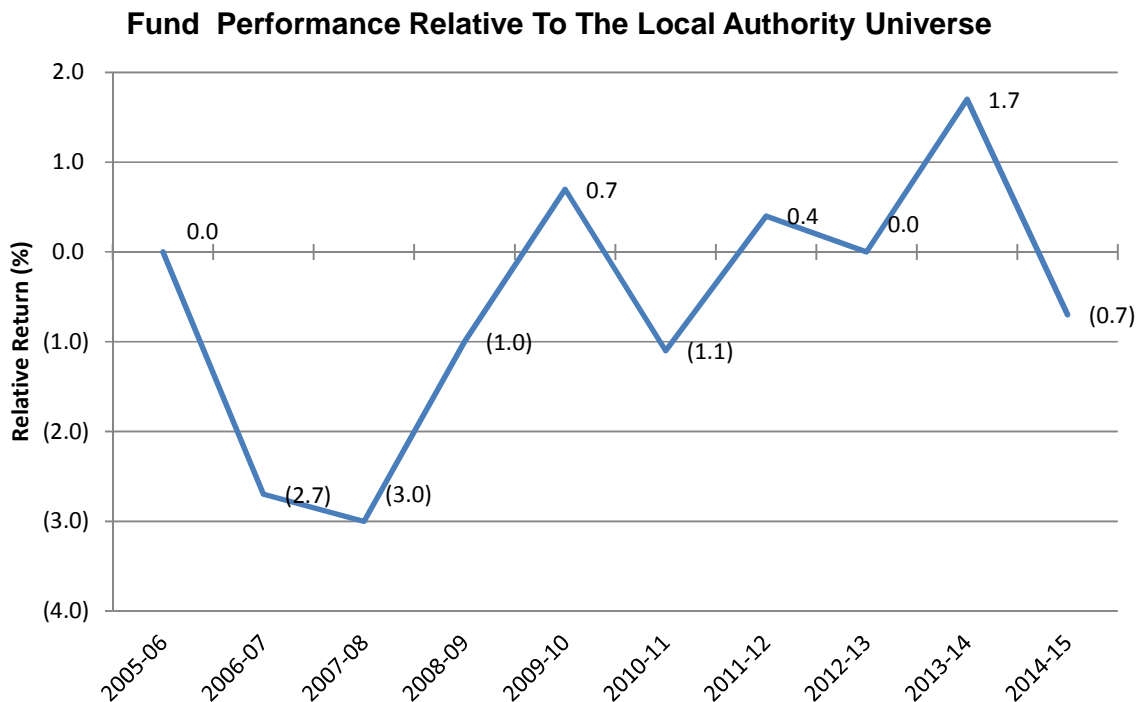
The graph shows that the Fund's asset mix is broadly comparable with the Local Authority Average, the main variances indicating the Fund's preference for equity and bonds, but disfavour of alternatives.

Investment Return Compared to Local Authority Universe 1 year return annualised



Year	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Annual Return (%)										
Total Fund	24.9	4.1	(5.7)	(20.7)	36.1	7.2	3.0	13.8	8.2	12.4
WM Benchmark	24.9	7.0	(2.8)	(19.9)	35.2	8.2	2.6	13.8	6.4	13.2

The table above compares the Fund's performance with the Local Authority Average for the ten years since 2005. The relative performance is shown graphically on the next page.



The graph demonstrates the volatility of annual return comparisons of Fund performance against the Local Authority Universe.

Of the ten years shown, the Fund has outperformed the Local Authority Average on three occasions, underperformed on five occasions and matched the average twice.

Responsible Investment Policy

The Fund defines “responsible investment” as the “integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices”.

The Fund recognises that effective management of ESG issues can enhance long-term financial performance of investments, and therefore ESG factors should be a feature of investment analysis and management. This aligns with the best interests of the Fund’s beneficiaries and is consistent with fiduciary duty.

The Fund only invests with reputable investment managers who will have their own policies and procedures for considering ESG issues in day to day investment decisions as far as they are consistent with their primary obligation to meet performance targets. As well as responsibility to manage day-to-day investments decisions to managers, the Fund has delegated voting rights on company resolutions to its investment managers. Managers regularly report on their ESG activities, voting record and direct engagement on ESG issues with companies.

The Fund supports the UK Stewardship Code and expects the Fund’s investment managers to comply with the UK Stewardship Code. The Fund has produced a Statement of Commitment to the UK Stewardship Code highlighting how the Fund is discharging its stewardship responsibilities which can be found in Appendix D of the Statement of Investment Principles which can be found in Appendix D to this report.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). This initiative enables the Fund to work with other investors to understand the impacts of ESG considerations on financial performance.

The Fund supports the Myners' Principles for good investment governance and has set out in Appendix E of the Statement of Investment Principles (See Appendix D attached to this report) the policies in place and actions taken to evidence compliance.

Custodian Services

Northern Trust has been the Fund's appointed Global Custodian since September 2000. The contract is reviewed regularly and Northern Trust were re-appointed as Custodian with effect from 1 October 2014 following their success in a mini competition involving five providers under the LGPS National Framework for Global Custody Services.

The responsibilities of the Global Custodian are:

- arranging for the custody of the Scheme's assets in compliance with the custody agreement;
- ensuring that all holdings have been registered as assets of the Fund.
- manage the settlement of all deals entered into by the fund managers, collect all dividends and coupons accruing to the Fund and to hold all cash;
- providing the administering authority with monthly valuations of the Scheme's assets and details of all transactions during the quarter; and
- providing details in a timely manner to the WM Company for performance reporting.

Independent Investment Advisor's Annual Investment Review 2014/15

Economic background

The recovery in developed market economies seen during the previous financial year continued into the current financial year. Data during the first quarter supported the view that the global economic recovery remained on track. The US economy continued to lead the way despite a weather affected set back early in the year. Global business surveys indicated that output was rising at the fastest rate for three years. In the UK the economy continued to strengthen with growth forecast to be the strongest of any developed country outside of the US. Unemployment rates in both the US and the UK continued to fall; however growth although positive is still below what would be expected given this rise in employment. This has led to disappointing productivity rates in both economies and has added to the difficulties in determining the level of slack that still exists in the economy. The US is widely expected to lead the upturn in the interest rate cycle and the debate now centres on the timing and in particular the pace of rate hikes. Likely timing for the first rate rise was widely expected to be around the middle of 2015. However this now seems premature as consumer spending data appears to be weakening despite a considerable boost from the very sharp falls in the oil price, that were a major feature of the final quarter of 2014. The pace of any rate rise will be data dependent. The key inputs for that pace of tightening will include evolution of consumer price inflation, wage inflation and the apparent tightness of the labour market.

The advent of 'Abenomics' in Japan has so far failed to deliver the growth in the real economy that had been hoped for. Although the weakening Yen and significant amounts of quantitative easing have driven Japanese equity market sharply higher, corporate profits are growing. However a significant proportion of this comes from the translation affect of a weak Yen, rather than the much heralded corporate reforms. It remains to be seen if increased profitability from corporate Japan will lead to the hope for higher wages and consumer spending. What seems clearer is that at least in the short term the sharp falls in the oil price although providing a boost to real incomes has exacerbated the problem of deflation, which was one of the structural issues 'Abenomics' sought to fix.

In the final quarter of the financial year the ECB announced a full quantitative easing programme aiming to buy €60bn of assets per month until at least September 2016. The stated aim is to revive growth and inflation expectations. Initial reactions were for a fall in the €, further falls in bond yields and a boost for European equity markets. There does appear to be signs that the European economy may be turning a corner after years of sluggish growth. Economic figures released just prior to the end of the financial year beat expectations with retail sales, industrial production and purchasing managers surveys all heading upwards. Despite better economic news and significant central bank intervention Europe is not without issues. Inflation remains stubbornly low, this has lead to the unprecedented situation of as much as € two trillion in outstanding sovereign debt now trading on negative yields. There remains much debate about how negative bond yields will influence decisions in the real economy, but what remains clear is that if this situation were to persist there would be significant issues for the European pensions industry. The possibility of a Greek exit from the Eurozone came sharply into focus following the election of the left wing anti austerity party Syriza in January. Negotiations on debt repayment remain on going and at the

time of writing with the most likely outcome, a last minute compromise with the proverbial “can” once again kicked down the road. It remains to be seen whether Greece provides a catalyst for further contagion concerns in the periphery of Europe as seen immediately post the financial crisis, or whether the progress made in many of these Europe economies since prevents this from reoccurring.

After a difficult period where the ending of the US quantitative easing programme triggered capital withdrawals, which in turn exposed economic imbalances and budget deficits and currency volatility, emerging markets experienced a better year. China continues to manage an economic rebalance away from investment to domestic consumption while simultaneously dealing with slowing growth and managing the gradual deflation of a property bubble. Fears of a Chinese hard landing have receded however and recent reforms to the rules allowing domestic investment into the Hong Kong market have generated sharp rises in the Hang Seng Index. Emerging markets are not without continuing issues however. Lower oil and commodity prices have been detrimental to revenues in counties like Russia and Brazil, with Russia in particular seeing a sharp depreciation in the value of the Rouble. Even with forecast growth rates continuing to fall, it remains the case that the IMF still expects 70% of all global growth to come from emerging markets in 2015.

The UK economy continued to surprise to the upside with only the US delivering stronger growth. Estimates show that the economy grew by around 3% over 2014. Job creation continued at a very healthy pace leading the Bank of England to abandon its 7% unemployment threshold for considering interest rate rises. Inflation remains below the 2% target and following the sharp fall in the oil price, inflation came close to zero, albeit this is expected to be a short lived phenomenon. With wage growth finally beginning to be seen, real incomes are rising for the first time since the crisis, which should underpin consumer spending and confidence. Towards the end of the financial year markets were becoming more concerned about the possibility of a hung parliament and the possibility of prolonged political uncertainty. Other issues remain for the economy however, including the extent to which the UK's largest trading partner, Europe, continues to recover and whether the recent strength of £ against the € will act as constraint on UK exporters benefiting from any European recovery.

Market Returns

Financial market returns for 2014/15 were stronger than the previous year although remaining diverse in nature. Once again developed markets provided better returns than emerging markets, although both enjoyed a strong year. UK equities provided a positive return of 6.6%, which was lowest return amongst the major equity markets. During the year sterling fell 11% against the US\$, but strengthened 14% against the €. For the sterling based investor US equities delivered an extremely impressive 25.1% return. Despite the Japanese yen falling slightly against sterling, Japanese equities still returned 27.1% in sterling terms driven sharply higher by continued government and central bank policies designed to stimulate the Japanese economy. European equities also enjoyed a strong year and responded later in the period to the ECB announcements on quantitative easing. However the weakening of the €, which went hand in hand with the announcement, diluted returns for a £ based investor, with a local currency return of 19.6% reduced to 7.7%.

Bond markets also enjoyed a strong year as comforting noises from the US Federal Reserve and Bank of England appeared to push the inevitable interest rate rises in both countries further into the future. Inflation also remains extremely benign on a global basis. The sharp fall in the oil price particularly towards the end of 2014 added to the deflationary pressures. Global bonds rose 7.6% in sterling terms however UK bond markets were even stronger. Despite a volatile year the UK Index-linked market returned 18.5% with traditional government bonds up 13.9%.

The property market has continued its strong recovery from the financial crisis. Rental growth returned to the market as investor demand spread beyond central London offices. The IPD property index returned 17.8% over the year

Fund Performance

The Northamptonshire County Council Pension Fund marginally underperformed the benchmark during the financial year 2014/15. The fund's total return of 12.4% was behind the bespoke benchmark (12.9%). The main driver of this underperformance was a disappointing return from one of the active global managers.

Despite the slight relative underperformance over one year the longer term performance against the benchmark remains strong. Over three years the Fund has returned 11.4% per annum a full 1% per annum ahead of the benchmark with a major driver to returns being strong performance from active UK equities. Over five years the return is 8.8% per annum against a benchmark of 8.5% per annum.

Economic and Market Outlook

As the financial year ended a number of global equity markets had reached record highs. It remains the case that a major driver of markets returns has been the extended central bank policy accommodation. The ECB and Japanese central bank have taken up the quantitative easing baton from the Federal Reserve and both of these respective markets have started to perform. Record equity market highs have not to the same extent seen strong underlying earnings growth and as a consequence a number of markets are looking fully valued and trading on multiples above historic norms. As another indication of the extent to which financial markets are still being affected by central banks activity, bond markets continue to rise and are trading on historically low and in some cases negative yields.

Given the valuation picture in both equities and bonds, the outlook for asset returns looks fragile. However this has been a feature of the recent past and markets have continued to climb. As the fund moves into the final year of the three year actuarial cycle the committee will be paying particular attention to the likely affects of any US interest rate rise, as well as monitoring the success or otherwise of central bank intervention in Japan and Europe. Possible volatility emanating from the Greek bailout restructuring talks and issues surrounding Russia and Ukraine will also need to be monitored. With the prospects of a hung parliament or even another election to deal with in the near future now eliminated, some of the risks to stability in the UK economy have receded. However it remains to be seen whether the economic momentum established over the recent past can be maintained. The timing of any future interest rate rises will increasingly become the focus of attention for investors.

Strategic Asset Allocation

Given the nature of the liabilities that attach to the pension fund it continues to adopt a long-term investment approach. The last actuarial review that was carried out in 2013 indicated that the fund would be cash flow positive for many years to come. The main investment priority therefore remains focused on long-term return generation rather than short-term risk mitigation.

The current investment strategy, which is unchanged from last year, seeks to achieve this by having a core allocation to equities within a strategically diversified overall portfolio. The target allocation to equities at 64% is broadly similar to the average Local Authority pension fund. A further 16% is invested in growth assets offering strategic diversification, split equally between property and a Diversified Growth Fund. This leaves 20% invested in bonds, with half in UK bond and half in mandates that are less exposed to rising interest rates, such as Total Return and Multi-Strategy Credit.

Mark Stevens
May 2015

Scheme Administration Report

Northamptonshire County Council is responsible for administering the Northamptonshire Pension Fund. In 2010, Northamptonshire County Council and Cambridgeshire County Council formed a joint partnership, LGSS, to deliver pensions administration with the aim of delivering cost savings to both Funds through efficient converged processes, sharing of resources and economies of scale.

The now fully converged LGSS Pensions has seen a reduction of staff from 75.5 FTE to 60 FTE, delivering significant cost savings whilst retaining a high level of performance during this reporting period. This shows that the LGSS Pensions has become more efficient and working at higher capacity, moving closer towards being a Centre of Excellence for pensions administration, a founding principal of LGSS.

Implementing the new LGPS 2014

This financial year has seen LGSS Pensions successfully implement the new Local Government Pension Scheme 2014 changes. The pensions administration system was upgraded to reflect the changes and administrators received training on both the new scheme and the upgraded administration system.

Pension Fund Website

The LGSS Pensions website contains detailed information for all the Fund's stakeholders and has dedicated pages for both members and employers. The information is regularly updated to ensure the accuracy of the information being published. There is a comprehensive suite of forms and factsheets for members, prospective members and employers. Contact details are on the website so support can be sought in conjunction with the online information.

Employer Self Service

Employer Self Service (ESS) gives employers access to the pensions database remotely and securely allowing them to view, create and amend their employees' data, run reports and perform benefit calculations. Employers who have successfully used the system with no issues have been given direct access, allowing them to make live updates to pension records.

ESS continues to be promoted to employers to generate further efficiencies. ESS has been offered to all employers across the Northamptonshire Pension Fund with a concerted effort to increase use in place since January 2015.

Member Self Service

Member Self Service (MSS), allows members to securely access their own records held on the pensions database to enable viewing of their personal information and perform certain benefit calculations.

MSS, like ESS, is expected to generate further efficiencies. MSS has been rolled out to all active members across the Northamptonshire Pension Fund; there has been a take up rate of approximately 18%.

During 2014-15, the MSS facility has been extended to deferred members. This will be further promoted via information contained within deferred annual benefit statements issued in 2015-16.

i-Connect

i-Connect allows employers to securely upload payroll data to the pensions database on a monthly basis, ensuring accurate and timely record maintenance and providing a solution to the demands of automatic enrolment. LGSS Pensions has been working with its largest employers to implement i-Connect. Full implementation will achieve significant efficiencies for both the Fund and scheme employers.

Administration Strategy

The Administration Strategy underwent a review in 2014-15 to update it in line with the 2014 Regulations. It was re-launched in December 2014 following a consultation with scheme employers. The Strategy is viewed as one of the main tools to aid the delivery of a high quality administration service to all stakeholders.

Internal Disputes Resolution Procedure

Safeguards for Scheme members are contained within the LGPS Regulations, which contain comprehensive complaints and disputes procedures. Members are able to seek redress through the Internal Disputes Resolution Procedure which allows access to a two-stage procedure in an attempt to bring a solution to any dispute. If the member or former member is still unhappy with the decision reached at stage two there is the right for the complainant to then lodge their grievance with the Pensions Ombudsman. At any stage a Scheme member has the right to direct their complaint to The Pensions Advisory Service (TPAS).

There were no disputes raised or resolved via IDRP or Pensions Ombudsman with the Administering Authority during 2014/15.

Actuarial Report on Funds

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,545m, were sufficient to meet 71% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £646m.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014. The valuation report can be found at:

<http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/> .

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	4.30%	1.80%
Price inflation/pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current pensioners	22.3 years	24.3 years
Future pensioners*	24.0 years	26.6 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Northamptonshire County Council, the administering authority to the Fund.

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been slightly better than expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.



Douglas Green FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB

Extract from the actuarial valuation report

Executive Summary

We have carried out an actuarial valuation of the Northamptonshire Pension Fund (the Fund) as at 31 March 2013. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the financial position of the Fund at 31 March 2013 in respect of benefits earned by members up to this date.

	31 March 2010 (£m)	31 March 2013 (£m)
Past Service Position		
Past Service Liabilities	1,651	2,191
Market Value of Assets	1,220	1,545
Surplus/(Deficit)	(445)	(646)
Funding Level	73.0%	70.5%

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

	31 March 2010 (% of pay)	31 March 2013 (%of pay)
Contribution Rates		
Employer future service rate (incl. Expenses)	16.2%	19.8%
Past Service Adjustment (20 year spread)	8.4%	12.3%
Total Employer contribution rate (incl. Expenses)	24.7%	32.1%
Employee contribution rate	6.5%	6.2%
Expenses	0.8%	0.9%

Again, the increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate is a theoretical figure – an average across the whole Fund. In practice each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each employer from 1 April 2014 to 31 March 2017 are shown in the Rates and Adjustment Certificate.

The Fund does not undertake formal interim valuations. However, it receives quarterly funding updates based upon the latest triennial valuation funding data. This is reported to the Investment Sub-Committee quarterly.

The key demographic assumptions are formally reviewed with the actuary at the start of each triennial valuation and any changes reflected in the valuation results. The assumptions used in the latest valuation are set out in Appendix E of the Funding Strategy Statement which can be found in Appendix C of this report.

Governance Policy and Compliance Statement

It is a requirement for the Administering Authority to publish a Governance Policy and Compliance Statement since the Local Government Pension Scheme (Administration) Regulations 2008 came into force and this remains the case following the enactment of the Local Government Pension Scheme Regulations 2013 (under regulation 55).

The Governance Policy and Compliance Statement incorporates a statement on how compliant the Administering Authority is against a set of best practice principles issued by Communities and Local Government in 2008. The compliance statement is intended to ensure transparency, accountability and stakeholder involvement.

The Governance Policy and Compliance Statement was last updated in January 2013 and can be found on the Northamptonshire Pension Fund website, <http://pensions.northamptonshire.gov.uk> and in appendix A of this report.

The Governance Policy and Compliance Statement is scheduled for a review in June 2015 following which the Statement will be updated and published on the website.

The activities of the Fund are controlled by the County Council's Pension Fund Committee.

The Pension Fund Committee consists of the following representatives:

Representing	No.
Northamptonshire County Council (County Councillors)	7
All other Local Authorities, Police and Fire	2
All other employers	2
Active Scheme members	1
Deferred and Pensioner Scheme members	1
Total	13

Operational investment matters are dealt with by the Investment Sub-Committee which consists of the following representatives:

Representing	No.
Northamptonshire County Council (County Councillors)	4
All other employers	2
Scheme members	1
Total	7

All members have equal voting rights.

The Pensions Committee meets 4 times a year and holds an Annual General Meeting each July. The Investment Sub-Committee meets 4 times a year.

The following table shows the attendance of committee members at both the Pensions Committee and Investment Sub-Committee meetings during 2014-15.

		Attendance at Pension Fund Committee Meetings	Attendance at Investment Sub-Committee Meetings
County Council Members	Cllr G Lawman	5/5	4/4
	Cllr J Hakewill	4/5	4/4
	Cllr M Brown	4/5	4/4
	Cllr D Meredith	2/5	N/A
	Cllr R Roberts	2/5	2/4
	Cllr B Scott	5/5	4/4
	Cllr M Longley	4/4	N/A
District/Borough /Police and Fire Representatives	Cllr M Ward	2/5	4/4
	Cllr M Wilson	2/5	N/A
All Other Employers' Representatives	Roger Morris	5/5	1/4
	Alicia Bruce	4/5	N/A
Member Representatives	Peter Borley-Cox	2/5	1/4
	Josie Mason	3/5	3/4

Pensions Administration Strategy Report

The Fund's Pensions Administration Strategy is produced in accordance with Regulation 59 of the Local Government Pension Scheme Regulations 2013. The Regulations provide that administering authorities may prepare, maintain and publish a written statement setting out their policy concerning administration matters, and the administering authority and its employing authorities must then have regard to that strategy when carrying out their functions.

The Regulations also require that the administering authority should consult with its employing authorities (and any other persons it considers appropriate) in preparing or reviewing its administration strategy.

In addition, regulation 70 of the Local Government Pension Scheme Regulations 2013 allows an administering authority to recover additional costs from a scheme employer where, in its opinion, they 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 additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

The current Pensions Administration Strategy was approved by the Pension Fund Committee in October 2014, followed by a 30 day consultation period with the Scheme's employers. The strategy is published on the LGSS Pensions website and can be found in Appendix B of this report.

To reinforce the importance of the Pensions Administration Strategy, regular employer forums are held to communicate the performance against agreed standards. Examples of the key performance indicators that are measured are detailed below:

Service Standard	Target (working days)
The provision of named pension contacts for the scheme employer	30 working days
Scheme employers must have published Employer Discretions, accessible to all employees and a copy provided to LGSS Pensions	Within 30 working days of approval
Accurate year end information must be provided for all scheme members	By 30 April

During 2014-15 the scheme did not exercise its powers to recover additional costs from scheme employers.

Funding Strategy Statement

The Fund is required to ensure that sufficient funds are available not only to meet its current liabilities, but also to make advance provision of accruing future liabilities. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made, in addition to the need to ensure sufficient funds are available for its current liabilities.

Although the regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the administering authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- To take a prudent longer-term view of funding those liabilities.

This strategy is both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the administering authority to implement and maintain.

The Funding Strategy Statement is reviewed in line with the valuation cycle to ensure that the strategy is appropriate and relevant.

In 2014-15, contribution increases were implemented in accordance with the Statement to the Rates and Adjustments Certificate attached to the 2013 valuation of the Fund.

New admitted bodies are admitted into the Scheme in accordance with the Funding Strategy Statement and the Admission Bodies, Scheme Employers and Bulk Transfer Policy.

During 2014-15 no new bond provisions were made and twelve new guarantee agreements were put in place as security for the Fund.

The Funding Strategy Statement was updated in March 2014 and can be found on the Northamptonshire Pension Fund website, <http://pensions.northamptonshire.gov.uk> and in Appendix C of this report.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1 January 2010, require an administering authority, after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement of the principles governing its decisions about the investment of scheme money.

The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not comply, the reasons for not complying.

The statement must be reviewed and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policies or breach of compliance, within six months of such change. To meet these requirements the Pensions Committee usually review the SIP at the annual general meeting each July.

The purpose of this document is to satisfy the requirements of these regulations. In addition, Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect 1 April 2004, requiring administering authorities to publish a Funding Strategy Statement (FSS). The FSS must have regard to the Statement of Investment Principles (SIP). This document contains reference to the FSS for information.

The statement is required to state the extent to which the administering authority is compliant with the guidance given by the Secretary of State and also the extent the authority does not comply and if so, the reasons for non compliance. Currently the SIP compliance rating is deemed "fully compliant".

The Statement of Investment Principles was reviewed and approved by the Pensions Committee in March 2015. The SIP that was in force in 2014-15 can be found on the Northamptonshire Pension Fund website, <http://pensions.northamptonshire.gov.uk> and in Appendix D of this report.

Communication Policy Statement

The Communications Policy is guided by the standards set out in regulation 61 of the Local Government Pension Scheme Regulations 2013.

These Regulations require administering authorities to:

- prepare, maintain and publish a written statement setting out their policy concerning communications with:
 - Scheme members
 - representatives of Scheme members
 - prospective Scheme members
 - employing authorities;
- set out their policy on:
 - the provision of information and publicity about the Scheme to members, representatives of members and employing authorities
 - the format, frequency and method of distributing such information or publicity
 - the promotion of the Scheme to prospective members and their employing authorities; and
- keep the statement under review and make such revisions as are appropriate following a material change in the policy on any of the matters mentioned below and if revisions are made, publish a revised statement.

The current Communications Policy was approved by the Pensions Committee in October 2014. The policy is published on the LGSS Pensions website and can be found in Appendix E of the Joint Administration Strategy & Joint Communication Strategy which can be found as Appendix B to this report.

In line with the Communications Policy the Fund's website has dedicated sections that provide up to date and detailed information for members, prospective members and employers.

Communications with the Scheme's employers take place on a regular basis through the use of bulletins which cover subjects ranging from changes to reporting procedures and notification of new employee contribution rate bandings to be applied.

The Fund delivers training and workshops for scheme employers on topics such as employers' responsibilities in the Fund and dealing with ill health retirements.

During 2014-15 presentations were delivered at strategic points around the County to ensure all members were in a reasonable commuting distance to be able to receive information on the new LGPS 2014. These sessions were very well attended with positive feedback received.

Pre-retirement presentations are regularly delivered, normally at the request of the scheme employer and at the employer's establishment to allow ease of access for Scheme members.

Any Other Appropriate Material

A summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities), as at 31 March 2015.

	Active	Ceased	Total
Scheduled body	147	15	162
Admitted body	50	22	72
Designated body	20	3	23
Total	217	40	257

An analysis of fund assets as at 31 March 2015.

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	212.7	88.8	1,065.9	1,367.4
Bonds	-	-	331.2	331.2
Property - direct holdings	-	-	-	-
Alternatives	147.9	-	0.0	147.9
Cash and cash equivalents	1.9	-	-	1.9
Other	-	-	-	0.0
Total	362.5	88.8	1,397.1	1,848.4

An analysis of investment income accrued as at 31 March 2015

	UK	Non-UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	7,520	-	13,484	21,004
Bonds	-	-	3,844	3,844
Property - direct holdings	-	-	-	0
Alternatives	5,460	-	-	5,460
Cash and cash equivalents	194	-	-	194
Other	-	-	-	0
Total	13,174	0	17,328	30,502

Independent auditor's report to the members of Northamptonshire County Council on the pension fund financial statements published with the pension fund annual report

We have examined the pension fund financial statements for the year ended 31 March 2015 on pages 59 to 90.

Respective responsibilities of the Section 151 Officer and the auditor

As explained more fully in the Statement of the Director of Finance (Section 151 Officer) Responsibilities, the Director of Finance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of Northamptonshire County Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Northamptonshire County Council for the year ended 31 March 2015 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters

A handwritten signature in dark ink, appearing to read 'Andrew Cardoza', with a stylized flourish at the end.

Andrew Cardoza

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

29 September 2015

Fund Account, Net Assets Statement and Notes

Introduction to the accounts

The following comprises the Statement of Accounts for the Northamptonshire Local Government Pension Scheme (The Fund). The accounts cover the financial year from 1 April 2014 to 31 March 2015.

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2014-15 based on International Financial Reporting Standards (IFRS) as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis. They do not take account of liabilities to pay pensions and other benefits in the future.

The accounts are set out in the following order:

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which gives supporting accounting policies, detail and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

Fund Account for the year ended 31 March 2015

2013-14 £000		Notes	2014-15 £000
	Dealings with members, employers and others directly involved in the Fund		
(96,163)	Contributions	7	(91,846)
(3,180)	Transfers in from other Pension Funds	8	(3,634)
(99,343)			(95,480)
79,218	Benefits	9	76,785
3,540	Payments to and on account of leavers	10	38,684
82,758			115,469
(16,585)			19,989
5,472	Management expenses	11	7,596
	Returns on investments		
(29,017)	Investment income	12	(30,502)
198	Taxes on income	13	56
(100,539)	Profit and losses on disposal of investments and changes in the market value of investments	15a	(178,163)
(129,358)	Net return on investments		(208,609)
(140,471)	Net (increase)/decrease in the net assets available for benefits during the year		(181,024)

Net Assets Statement as at 31 March 2015

2013-14		Notes	2014-15
£000			£000
1,633,127	Investment assets	15	1,832,628
31,471	Cash deposits	15	19,409
1,664,598			1,852,037
(4,751)	Investment liabilities	15	(2,297)
27,829	Current assets	20	16,551
(4,066)	Current liabilities	21	(1,657)
19,012	Net Current Assets		12,597
1,683,610	Net assets of the Fund available to Fund benefits at the period end		1,864,634
1,543,139	Opening net assets as at 1 April		1,683,610
140,471	Net increase/decrease in the net assets available for benefits during the year		181,024
1,683,610	Closing net assets as at 31 March		1,864,634

Notes to the Accounts

1 Description of the Fund

The Northamptonshire Pension Fund ("the Fund") is part of the Local Government Pension Scheme and is administered by Northamptonshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Northamptonshire Pension Fund Annual Report 2014-15 and the underlying statutory powers underpinning the scheme, namely the Public Services Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended);
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended);
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme administered by Northamptonshire County Council to provide pensions and other benefits for pensionable employees of Northamptonshire County Council, the district councils in Northamptonshire County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Northamptonshire Pensions Committee which is a committee of Northamptonshire County Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Northamptonshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

As at 31 March 2015 there are 217 (2014: 181) employer organisations within Northamptonshire Pension Fund including the County Council itself, an increase of 36, as detailed over the page:

	31 March 2014	31 March 2015
Number of employers with active members	181	217
Number of employees in scheme		
County Council	8,077	8,123
Other Employers	10,257	11,284
Total	18,334	19,407
Number of Pensioners		
County Council	7,678	7,790
Other Employers	6,477	6,631
Total	14,155	14,421
Deferred Pensioners		
County Council	13,937	15,103
Other Employers	6,950	8,274
Total	20,887	23,377

c) Funding

Benefits are funded by contributions and investment earnings. Currently the level of contribution income is sufficient to fund regular benefit payments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 (as amended) 2007 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Employers' contributions comprise a percentage rate on active payroll between 11% and 25.1% and deficit payments of fixed cash amounts set for each employer, as part of the triennial funding valuation.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service from 1 April to 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x Salary. In addition, part of the annual pension can be exchanged for a one off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

e) Career Average Revalued Earnings (CARE) scheme

From 1 April, the scheme became a career average scheme, whereby members accrue benefits based upon 1/49th of each year's pensionable pay which creates a pension pot which is revalued annually by CPI until retirement.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits.

For more details, please refer to the Northamptonshire Pension Fund scheme handbook available from LGSS Pension Services based at John Dryden House, Northampton, or online at pensions.northamptonshire.gov.uk.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the Retail Prices Index to the Consumer Prices Index. This change took effect from 1 April 2011.

2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2014-15 financial year and its position at year end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

3 Summary of Significant Accounting Policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on an accruals basis in the period they are due.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for on an accruals basis, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the coupon rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. This process may vary according to the type of pooled funds.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Management expenses

All administrative expenses are accounted for on an accruals basis. All staff and associated costs of the pension's administration team are charged to the Fund. Management,

accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

Oversight and governance costs are accounted for on an accruals basis.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the Fund has negotiated with the following managers that an element of their fee be performance related:

- Wellington Management International Limited
- Baillie Gifford & Co
- Skagen Funds
- CBRE Global Investment Partners Limited
- Majedie Asset Management Limited
- Newton Investment Management Limited

Performance related fees incurred in the year are shown in Note 14.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund account.

The cost of obtaining investment advice from external consultants is included in investment support costs.

A proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

h) Financial assets

Financial assets are included in the Net Assets Statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Market quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

- Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

- Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind up, less estimated realisation costs.
 - Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
 - Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the Fund manager.
 - Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective Fund Managers in accordance with the guidelines set out by the British Venture Capital Association.
- Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

- Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

m) Contingent Liabilities

Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation, and reflects the present value of expenditures required to settle the obligation where the time value of money is material.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

o) Additional voluntary contributions

Northamptonshire Pension Fund provides an additional voluntary contributions (AVC) scheme option for scheme members, the assets of which are invested separately from those of the Pension Fund by the AVC provider. The Fund has appointed Prudential and Standard Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

4 Critical Judgements in applying Accounting Policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2015 was £1.4m (£1.5m at 31 March 2014).

Pension Fund liability

The Pension Fund liability is calculated every three years by the Fund's appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rates at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. An independent firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £185 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £25million, and a one year increase in assumed life expectancy would increase the liability by approximately £61million.
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £1.4 million. There is a risk that this investment may be under or overstated in the accounts.
Investment Assets	Different pricing methods can be used by the Custodian compared to the Fund Manager, which can result in different valuations of the assets.	The Custodian reconciles to the Fund Manager to 20 basis points.

6 Events After the Balance Sheet Date

There have been no events since 31 March 2015, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7 Contributions Receivable

By category

2013-14 £000		2014-15 £000
76,012	Employers	73,100
20,151	Members	18,746
96,163	Total	91,846

By authority

2013-14 £000		2014-15 £000
31,557	Northamptonshire County Council	31,702
53,536	Scheduled Bodies *	52,259
11,070	Admitted Bodies	7,885
96,163	Total	91,846

* Schools included under Scheduled Bodies

8 Transfers In From Other Pension Funds

2013-14 £000		2014-15 £000
-	Group transfers	-
3,180	Individual transfers	3,634
3,180	Total	3,634

Transfers in from other Pension Funds are contingent on positive transfer elections from new employees with previous pension rights available to transfer. In the current financial climate there is an ongoing restriction on new employees within public sector employers and therefore transfer applications. Significantly, LGSS also introduced a new Transfer In business process in the 2012-13 year with certain self service aspects, passing specific responsibilities from the administering authority to the member. This was predicted to reduce the volume of transfer in elections.

9 Benefits Payable

By category

2013-14 £000		2014-15 £000
63,823	Pensions	62,538
13,478	Commutation and lump sum retirement benefits	11,746
1,917	Lump sum death benefits	2,501
79,218	Total	76,785

By authority

2013-14 £000		2014-15 £000
32,560	Northamptonshire County Council	34,746
42,681	Scheduled Bodies *	37,407
3,977	Admitted Bodies	4,632
79,218	Total	76,785

* Schools included under Scheduled Bodies

10 Payments To and On Account of Leavers

2013-14 £000		2014-15 £000
11	Refunds to members leaving service	80
-	Payments for members joining state scheme	42
-	Group transfers	30,450
3,529	Individual transfers	8,112
3,540	Total	38,684

Individual transfers are dependent on individuals having an approved pension arrangement to transfer their LGPS benefits to after leaving the Northamptonshire Fund and also the relative merits of that destination arrangement in comparison with the LGPS. The current financial climate reduces the opportunity for individuals to join secure pension schemes to which they may wish to transfer their accrued LGPS benefits.

Refunds to members leaving services are extremely sensitive to fluctuations as a result of the small relative value. A lack of new staff would contribute to a reduced figure as would the raising of general pensions awareness through the automatic enrolment campaign.

Group transfers in 2014-15 represent a payment in March 2015 in connection with the transfer of the administration of pensions for the Probation Service to the Greater Manchester Pension Fund.

11 Management Expenses

2013-14 £000		2014-15 £000
1,805	Administrative costs	1,934
3,301	Investment expenses (Note 14)	5,331
366	Oversight and governance costs	331
5,472	Total	7,596

12 Investment Income

2013-14 £000		2014-15 £000
478	Fixed interest securities	491
19,855	Equities	20,774
4,719	Pooled investments	3,535
3,495	Pooled property investments	5,408
154	Interest on cash deposits	117
316	Other (includes stock lending and commission recapture)	177
29,017	Total	30,502

In 2014-15 investment income has been reclassified to be consistent with the classification of investments in Note 15. Prior period values have been re-presented accordingly.

13 Taxes on Income

2013-14 £000		2014-15 £000
198	Withholding tax – equities	56
198	Total	56

14 Investment Expenses

2013-14 £000		2014-15 £000
3,058	Management fees	5,212
243	Investment support costs	119
3,301	Total	5,331

Management fees include performance related fees of £2.2m in 2014-15 (2013-14: £1.6m).

15 Investments

Market value 31 March 2014 £000		Market value 31 March 2015 £000
Investment assets		
45,678	Index-linked securities	54,147
646,422	Equities	704,743
821,361	Pooled investments	916,894
113,051	Pooled property investments	150,173
1,523	Private equity/infrastructure	1,432
	Derivative contracts:	
20	• Futures	-
58	• Forward currency contracts	249
31,471	Cash deposits	19,409
2,787	Investment income due	3,515
1,397	Amounts receivable for sales	1,475
830	Amounts receivable for pending spot FX	-
1,664,598	Total investment assets	1,852,037
Investment liabilities		
	Derivative contracts:	
(7)	• Forward currency contracts	(221)
(3,916)	Amounts payable for purchases	(2,074)
(828)	Amounts payable for pending spot FX	(2)
(4,751)	Total investment liabilities	(2,297)
1,659,847	Net investment assets	1,849,740

During 2014-15 investments in Fixed Interest Securities were reclassified to Pooled Investments. Values at 31 March 2014 have been re-presented accordingly.

15a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2014 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2015 £000
Index-linked securities	45,678	2,978	(2,544)	8,035	54,147
Equities	646,422	215,304	(215,014)	58,031	704,743
Pooled investments	821,361	37,631	(35,552)	93,454	916,894
Pooled property investments	113,051	32,228	(12,839)	17,733	150,173
Private equity/ infrastructure	1,523	121	(63)	(149)	1,432
	1,628,035	288,262	(266,012)	177,104	1,827,389
Derivative contracts:					
• Futures	20	-	(129)	109	-
• Forward currency contracts	51	312	(1,514)	1,179	28
• Spot currency contracts	-	35	-	(37)	(2)
	1,628,106	288,609	(267,655)	178,355	1,827,415
Other investment balances:					
• Cash deposits	31,471			(190)	19,409
• Amounts receivable for sales of investments	1,397			5	1,475
• Investment income due	2,787			-	3,515
• Amounts payable for purchases of investments	(3,914)			(7)	(2,074)
Net investment assets	1,659,847			178,163	1,849,740

During 2014-15 investments in Fixed Interest Securities were reclassified to Pooled Investments. Values at 31 March 2014 have been re-presented accordingly.

Transaction costs are included in the cost of purchases and in sale proceeds. They include costs charged directly to the Fund, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £896k (£1,083k in 2013-14). In addition to these costs, indirect costs are incurred through the bid offer spread on investments within pooled investments.

	Market value 1 April 2013 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2014 £000
Index-linked securities	42,950	11,103	(6,194)	(2,181)	45,678
Equities	595,072	222,842	(240,748)	69,256	646,422
Pooled investments	768,606	75,714	(50,638)	27,679	821,361
Pooled property investments	78,475	56,617	(29,023)	6,982	113,051
Private equity/infrastructure	1,798	60	-	(335)	1,523
	1,486,901	366,336	(326,603)	101,401	1,628,035
Derivative contracts:					
• Futures	(44)	-	(36)	100	20
• Forward currency contracts	818	2,720	(3,586)	98	51
	1,487,675	369,056	(330,225)	101,600	1,628,106
Other investment balances:					
• Cash deposits	31,035			(62)	31,471
• Amounts receivable for sales of investments	879			(3)	1,397
• Investment income due	2,855			(43)	2,787
• Amounts payable for purchases of investments	(1,074)			0	(3,914)
Net investment assets	1,521,370			101,492	1,659,847
Payments to managers:	54			(953)	(9,501)
	1,521,424			100,539	1,650,346

During 2014-15 investments in Fixed Interest Securities were reclassified to Pooled Investments. Movements during 2013-14 have been re-presented accordingly.

15b: Analysis of investments (excluding derivative contracts)

31 March 2014		31 March 2015
£000		£000
	Index-linked securities	
	UK	
45,678	Public sector quoted	54,147
-	Corporate quoted	-
45,678		54,147
	Equities	
	UK	
379,407	Quoted	395,956
	Overseas	
267,015	Quoted	308,787
-	Unquoted	
646,422		704,743
	Pooled funds – additional analysis	
	UK	
179,517	Equity	160,832
179,517		160,832
	Overseas	
257,1321	Fixed income unit trust	276,515
384,712	Equity	479,497
641,844		756,012
	Pooled Property Investments	
113,051		150,173
1,523	Venture Capital	1,432
-	Cash funds	50
114,574		151,655
1,628,035	Total	1,827,389

During 2014-15 investments in Fixed Interest Securities were reclassified to Pooled Investments and certain equity pooled funds were reclassified from UK to Overseas. Values at 31 March 2014 have been re-presented accordingly.

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the Fund and the various investment managers.

Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a portion of the Funds quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by the Fund managers.

There is no specified requirement to use currency hedging within the Fund's Investment Management Agreements. Instead, the Fund managers use their discretion as to whether or not any currency hedging should be used to mitigate any potential risk.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value	Liability Value
		Currency 000s		Currency 000s	£000	£000
Up to one month	GBP	3,072	EUR	(4,005)	173	-
Up to one month	JPY	1,428,778	USD	(12,061)	-	(98)
Up to one month	USD	12,029	JPY	(1,428,778)	76	-
One to six months	GBP	2,130	EUR	(2,951)	-	(9)
One to six months	GBP	13,057	JPY	(1,584,536)	-	(114)
Total					249	(221)
Net forward currency contracts at 31 March 2015						<u>28</u>
Prior Year Comparative						
Open forward currency contracts at 31 March 2014					58	(7)
Net forward currency contracts at 31 March 2014						<u>51</u>

Futures

Type	Expires	Economic Exposure	Market Value 31 March 2014	Economic Exposure	Market Value 31 March 2015
		£000	£000	£000	£000
UK Equity Futures	Less than one year	3,403	20	-	-
Total Assets			20		-
Liabilities					
UK Equity Futures	Less than one year	-	-	-	-
Total Liabilities			-		-
Net Futures			20		-

Investments analysis by Fund manager

Market value 31 March 2014			Market value 31 March 2015	
£000	%		£000	%
532,943	32.2	UBS	603,451	32.6
303,298	18.3	Wellington	331,208	17.9
257,632	15.5	Newton	301,308	16.3
236,176	14.2	Majedie	231,685	12.5
131,550	7.9	Baillie Gifford	142,161	7.7
113,417	6.8	CBRE	147,852	8.0
83,190	5.0	Skagen	88,780	4.8
1,523	0.1	Catapult	1,432	0.1
118		Cash	1,863	0.1
1,659,847	100.0		1,849,740	100.0

All the above companies are registered in the United Kingdom.

The following investments represent more than 5% of the net assets of the scheme

Security	Market value 31 March 2014 £000	% of total Fund	Market value 31 March 2015 £000	% of total Fund
UBS Life World Equity Tracker	301,522	18.2	355,364	19.2
Baillie Gifford Diversified Growth Fund	131,550	7.9	142,160	7.7
Wellington Sterling Core Bond Plus Portfolio GBP	91,398	5.5	105,101	5.7
Wellington Management Port (Cayman) - Global Strategic Class GBP-A Dist (GBP)	89,084	5.4	92,034	5.0
Skagen Funds Global II	83,190	5.0	88,880	4.8

15c: Stock lending

The Fund strategy statement sets the parameters for the Fund's stock lending programme. At the year end, the value of quoted equities on loan was £67.7m (31 March 2014: £52.2m). These equities continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's Custodian. As at 31 March 2015, the Custodian held collateral at fair value of £74.6m (31 March 2014: £55.7m). Collateral consists of acceptable securities and Government debt.

Stock lending commissions are remitted to the Fund via the Custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

16 Financial Instruments

16a: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

Market value 31 March 2014				Market value 31 March 2015			
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	
Financial assets							
45,678	-	-	Index-linked securities	54,147	-	-	
646,422	-	-	Equities	704,743	-	-	
821,361	-	-	Pooled investments	916,894	-	-	
113,051	-	-	Pooled property investments	150,173	-	-	
1,523	-	-	Private Equity/infrastructure	1,432	-	-	
78	-	-	Derivative contracts	249	-	-	
-	31,471	-	Cash	-	19,409	-	
2,227	-	-	Other investment balances	1,475	-	-	
-	2,787	-	Debtors	-	3,515	-	
1,630,340	34,258	-		1,829,113	22,924	-	
Financial Liabilities							
(7)	-	-	Derivative contracts	(223)	-	-	
-	-	(4,744)	Creditors	-	-	(2,074)	
(7)	-	(4,744)		(223)	-	(2,074)	
1,630,333	34,258	(4,744)		1,828,890	22,924	(2,074)	

During 2014-15 investments in Fixed Interest Securities were reclassified to Pooled Investments. Values at 31 March 2014 have been represented accordingly. In addition, creditors have been re-categorised as Financial Liabilities at Amortised Cost and the prior period presentation amended accordingly.

16b: Net gains and losses on financial instruments

Market value 31 March 2014 £000		Market value 31 March 2015 £000
Financial Assets		
101,400	Fair value through profit and loss	177,104
5	Loans and receivables	5
Financial liabilities		
199	Fair value through profit and loss	1,288
(113)	Loans and receivables	(234)
101,491	Total	178,163

16c: Fair value of financial instruments and liabilities

The following table summarises the carrying values of financial assets and liabilities by class of instrument compared with their fair values.

Market value 31 March 2014		Market value 31 March 2015	
Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial Assets			
1,630,340	1,630,340	1,829,113	1,829,113
34,258	34,258	22,924	22,924
1,664,598	1,664,598	1,852,037	1,852,037
Financial liabilities			
(7)	(7)	(223)	(223)
(4,744)	(4,744)	(2,074)	(2,074)
(4,751)	(4,751)	(2,297)	(2,297)

The Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

16d: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quantity and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise of quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where the valuation techniques are used to determine fair value and where techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Northamptonshire County Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the Fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2015	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	827,046	847,353	154,714	1,829,113
Loans and receivables	22,924	-	-	22,924
Total financial assets	849,970	847,353	154,714	1,852,037
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(223)	-	-	(223)
Financial liabilities at amortised cost	(2,074)	-	-	(2,074)
Total financial liabilities	(2,297)	-	-	(2,297)
Net financial assets	847,673	847,353	154,714	1,849,740

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	755,728	753,905	120,707	1,630,340
Loans and receivables	34,258	-	-	34,258
Total financial assets	789,986	753,905	120,707	1,664,598
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(7)	-	-	(7)
Financial liabilities at amortised cost	(4,744)	-	-	(4,744)
Total financial liabilities	(4,751)	-	-	(4,751)
Net financial assets	785,235	753,905	120,707	1,659,847

17 Nature and Extent of Risks Arising From Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) 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, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable level;
- Specific risk exposure is limited by applying risk weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the Fund's asset allocations.

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. This can then be applied to the period end asset mix as follows:

Asset Type	Value at 31 March 2015 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Equities	414,627	10.6	458,660	370,594
Global Equities	788,284	9.2	860,727	715,841
Bonds & Index-linked	330,662	3.7	342,930	318,394
Diversified Growth	142,161	4.0	147,847	136,475
Alternatives	1,432	8.0	1,546	1,318
Property	150,173	3.4	155,204	145,142
Net derivative assets	26	0.0	26	26
Investment income due	3,515	0.0	3,515	3,515
Cash	19,459	0.0	19,459	19,459
Amounts receivable for sales of investments	1,475	0.0	1,475	1,475
Amounts payable for purchases of investments	(2,074)	0.0	(2,074)	(2,074)
Total Assets	1,849,740	6.35	1,967,198	1,732,282

Note: The percentage change for Total Assets includes the impact of correlation across asset classes

Asset Type	Value at 31 March 2014 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Equities	510,564	12.2	573,006	448,122
Global Equities	568,537	11.4	633,066	504,008
Bonds & Index-linked	302,810	3.6	313,590	292,030
Diversified Growth	131,550	4.5	137,470	125,630
Alternatives	1,523	7.1	1,631	1,415
Property	113,051	2.5	115,992	110,179
Net derivative assets	71	0.0	71	71
Investment income due	2,787	0.0	2,787	2,787
Cash	31,471	0.0	31,471	31,471
Amounts receivable for sales of investments	1,397	0.0	1,397	1,397
Amounts payable for purchases of investments	(3,914)	0.0	(3,914)	(3,914)
Total Assets	1,659,847	7.80	1,789,315	1,530,379

Note: The percentage change for Total Assets includes the impact of correlation across asset classes.

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.

The Fund's interest rate risk is routinely monitored by the Council and its investment consultant in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2015 £000	As at 31 March 2014 £000
Cash and cash equivalents	19,409	31,471
Cash balances	8,252	19,817
Fixed interest securities	54,147	45,678
Total	81,808	96,966

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. An 80 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The Fund's investment consultant has advised that long-term average rates are expected to move less than 80 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes 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 +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2015	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	19,409	194	(194)
Cash balances	8,252	83	(83)
Fixed interest securities	54,147	541	(541)
Total change in assets available	81,808	818	(818)

Asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	31,471	315	(315)
Cash balances	19,817	198	(198)
Fixed interest securities	45,678	457	(457)
Total change in assets available	96,966	970	(970)

Currency risk

There are two approaches to determining potential currency risk.

The first method determines the potential volatility of the aggregate currency exposure within the Fund at the period end and applies this single outcome to all non-UK assets. In order to calculate this, a currency basket is created based on the Fund's currency mix.

Repeating this for all of the months in our measurement period allows a measurement of the observed volatility of this unique currency basket's changes relative to GBP. In the Northamptonshire Fund, the result is 5.71% p.a. This change is applied to the Fund's overseas assets as follows;

Asset Type	Value	Percentage Change	Value on Increase	Value on Decrease
	£000		£000	£000
Overseas Equities	791,380	5.71	836,538	746,222
Overseas Fixed Interest	276,515	5.71	292,293	260,736
Total overseas assets	1,067,895		1,128,831	1,006,958

b) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs and also cash to meet investment commitments.

The Council has immediate access to its Pension Fund cash holdings, with the exception of holdings that are fixed when the deposit is placed.

The Fund currently generates surplus cash from its normal activities and therefore does not have access to an overdraft facility. The surplus cash position of the Fund is reviewed periodically and a forecast is also provided as part of its cash management strategy.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2015 the value of illiquid assets was £151.6m, which represented 8.2% of the total Fund assets (31 March 2014: £113.4m, which represented 6.8% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund's investment strategy.

All financial liabilities at 31 March 2015 are due within one year.

c) Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18 Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will be based on Fund information as at 31 March 2016.

The objectives of the Fund's funding policy are:

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the national sub funds allocated to each individual employer.
- To ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business;
- To minimise the degree of short term change in the level of each employer's contributions;
- Not to restrain unnecessarily the investment strategy of the Fund so that the administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- To address the different characteristics of the disparate employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.
- To maintain the affordability of the Funds employers as far as is reasonable over the long-term.

The aim is to achieve 100% solvency over a period the next 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the March 2013 actuarial valuation the Fund was assessed as 70.5% funded (73.0% at the March 2010 valuation), with a deficit of £646m (2010 valuation deficit of £445m).

Contribution increases are phased in over the three year duration of the valuation period with specific rates per employer, including a deficit cash figure to protect recovery of employer deficits. The Fund has a common contribution rate (i.e. the average fund rate) which as at March 2013 is 32.1% (2010 24.7%).

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the funding strategy statement on the Funds website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

Investment return (discount rate)	1.6%	Based on 25 year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation		Assumed to be RPI
Salary Increases	1.8% pa over CPI	
Pension Increases	In line with CPI	Assumed to be 0.8% less than RPI

Mortality assumptions

Future life expectancy based on the actuary's Fund specific mortality review was:

Mortality assumptions at age of 65	Male	Female
Current Pensioners	22.3	24.3
Future Pensioners (assumed current age 45)	24.0	26.6

Historical mortality assumptions

Life expectancy for the year ended 31 March 2013 is based on PFA92 and PMA92 actuarial tables. The allowances for future life expectancy are:

Prospective Pensioners	Current Pensioners
Year of birth, medium cohort with 1% minimum improvements from 2007	Year of birth, medium cohort with 1% minimum improvements from 2007

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre April 2008 and 75% of the maximum for post April 2008 service.

19 Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2015 was £3.09bn (31 March 2014 £2.57bn). The Funds accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of 2013 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used

Inflation/pension increase rate assumption	2.4%
Salary increase rate	4.3%
Discount rate	3.2%

20 Current Assets

31 March 2014 £000		31 March 2015 £000
6,309	Contributions due – employers	5,626
982	Contributions due – employees	522
721	Other debtors	824
-	Funds due from the County Council	1,327
19,817	Cash balances	8,252
27,829	Total	16,551

The significant majority of other debtors are employers in the Fund.

21 Current Liabilities

31 March 2014 £000		31 March 2015 £000
364	Benefits payable	242
2,529	Sundry creditors	1,415
1,173	Funds due to the County Council	-
4,066	Total	1,657

The £0.6m due to the County Council at 31st March 2014 represented the amount payable to the County Council for the administration of the Pension Fund; the amount was paid over in April 2014.

22 Additional Voluntary Contributions

Market value at 31 March 2014 £000		Market value at 31 March 2015 £000
2,727	Prudential	3,113
678	Standard Life	713
3,405	Total	3,826

Total contributions of £751k were paid directly to Prudential during the year (2013-14: £713k).
Total contributions of £14k were paid directly to Standard Life during the year (2013-14: £26k).

23 Related Party Transactions

Northamptonshire County Council

The Northamptonshire Pension Fund is administered by Northamptonshire County Council.

The Council incurred costs of £1.9m (2013-14: £2.2m) in relation to the administration of the Fund and was consequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and paid employer's contributions of £24.6m to the Fund in 2014-15 (2013-14: £27.8m). All monies owing to and issued from the Fund were paid in year.

Governance

There is one member of the Pensions Committee who is in receipt of pension benefits from the Northamptonshire Pension Fund. In addition, there are six committee members who are active members and one deferred member of the Pension Fund.

County Council Members

Cllr Graham Lawman (Chairman)
Cllr Jim Hakewill (Vice Chairman)
Cllr Michael Brown
Cllr Matthew Golby (resigned on 27 April 2014)
Cllr Malcolm Longley (appointed on 27 April 2014)
Cllr Dennis Meredith
Cllr Russell Roberts
Cllr Bob Scott
Cllr Mick Scrimshaw (Substitute Member)
Cllr Bill Parker (Substitute Member)

District/Borough Councils' Representatives

Cllr Malcolm Ward (Wellingborough Borough Council)
Cllr Martin Wilson (South Northants District Council)
Cllr Richard Lewis (East Northants District Council)
(Substitute Member)

Universities and Colleges Representative

Roger Morris

Other Employers' Representatives

Alicia Bruce
Robert Austin (Substitute Member)

Employees' Representatives

Peter Borley-Cox
Josie Mason
Andy Langford (Substitute Representative)

County Council members have declared their interests in their register of members' interests. Other members of the Pensions Committee are required to declare their interests at each meeting.

24 Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2015 totalled £0.3m (31 March 2014: £0.4m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between 10 and 12 years from the date of the original commitment.

25 Contingent Assets

Four admitted body employers in the Northamptonshire Pension Fund hold insurance bonds to guard the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

Appendix A – Governance Policy & Compliance Statement
Appendix B – Joint Administration Strategy & Joint Communication
Strategy
Appendix C – Funding strategy statement
Appendix D - Statement of Investment Principles



Northamptonshire Local Government Pension Fund

Governance Policy & Governance Compliance Statement

January 2013

Northamptonshire Local Government Pension Scheme (LGPS)

Governance Policy Statement

1) Contents	Page No.
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2) Regulation

Governance of local government pension schemes is covered in administration regulations, which require administering authorities to set out in a Governance Compliance Statement how they govern their respective scheme. Such Statements should address the requirements of the regulation, as detailed below:-

31.-

(1) This regulation applies to the written statement prepared and published by an administering authority under regulation 73A of the 1997 Regulations.

(1A) An administering authority that has not published the first such statement as prescribed by regulation 73A(2), must do so on or before 1st November 2008. (SI 2008/2425. /Amended/SI/20082425.htm.)

(2) The authority must-

- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in paragraph (3); and
- (c) if revisions are made-
 - (i) publish the statement as revised, and
 - (ii) send a copy of it to the Secretary of State.

- (3) The matters are-
- (a) whether the authority delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;
 - (b) if it does so-
 - (i) the terms, structure and operational procedures of the delegation,
 - (ii) the frequency of any committee or sub-committee meetings,
 - (iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;
 - (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.
- (4) In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

3) Compliance against the Regulations

This section refers to the sub sections of regulation 31 as detailed above.

- 1) The Northamptonshire Fund (the Fund) has published a Governance Compliance Statement since the original required date of November 2008.
- 2) The Fund has undertaken an annual review of the Governance Compliance Statement since inception.
- 3) The Fund sets out in
 - a. Appendix 1 the Operating Protocol of the Pension Fund Board and the Investment Sub Committee;
- 4) The review of the Governance Arrangements of the Fund has undergone extensive consultation with Pension Committee members and senior officers, supported by the Fund's Actuary Hymans. The County Council approved changes to the constitution to reflect the review of the Powers and creation of the Pension Fund Board and Investment Sub Committee.

4) Performance and Risk Monitoring

- 1) In respect of investments the Fund employs professional and Industry recognised investment performance measuring providers to measure and report on the performance and risk of individual portfolios and the Total Fund.

- 2) The Fund employs a professional and industry recognised actuary, who provides wider Fund specific performance and risk information in particular covering Fund and Employer matters.
- 3) All such arrangements are governed by formal agreement.
- 4) The Pension Fund Board, the Investment Sub-Committee and the Funds Officers consider formally the performance and risk issues in relation to managers and the Total Fund. Additionally, quarterly reports provided by suitable external providers are distributed to members of the Investment Sub-Committee on a quarterly basis.
- 5) An annual review of performance is undertaken, in line with the production of the Annual Report and Statement of Accounts.

5) Accountability and Publication of Information

Details of Pension Fund Board meetings are published on the Northamptonshire County Council website together with agendas, reports to be considered by the Board and minutes of proceedings. The meetings of the Pension Fund Board which are usually held at the County Council Offices in George Row, Northampton, NN1 1DF, are open to the public.

An Annual Pension Scheme Report and Accounts is published on the County Council's website, (pensions.northamptonshire.gov.uk, within the Key Documents Library), reporting on the activities and investment performance during the year. Details of matters considered during the year and meetings held are reported and a copy of the annual report is available on the Council's website. Extracts of the annual report and details of its availability are also reported in the members newsletters sent to all scheme members.

**Published
January 2013**

Governance Compliance Statement

Best Practice Principles

This section sets out the extent to which the delegation complies with guidance from the Secretary of State, with reasons.

PART II/A - Structure

Recommended Principle:

- 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) 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.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- 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.

Existing NCC Position:

II/A	Not Compliant				Fully Compliant
a)					X
b)					X
c)					X
d)					X

- a) Northamptonshire County Council agreed at the Full Council meeting of 21st June 2012 to establish a Pension Fund Board (PFB) and Investment Sub-Committee (ISC) with both having decision making powers.
- b) Pension Fund Board and Investment Sub Committee Membership are set out on the following table. Membership of the Investment Sub-Committee is drawn from Pension Fund Board membership.

APPENDIX A

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

Representatives of	PFB	ISC
Northamptonshire County Council	7	4
All other local authorities and police	2	2
All other employers	2	
Active Scheme Members	1	1
Deferred and Pensioner Scheme Members	1	
Total Board Membership	13	7

- c) Investment Sub-Committee meetings take place a number of weeks before Pension Fund Board meetings, to facilitate the monitoring of ISC business through vehicles such as ISC minutes. The same members sit on both, therefore members receive papers for both. Hence the two bodies are closely linked.
- d) All members of the Investment Sub-Committee sit on the Pension Fund Board.

Proposed Action:

- b) Implement and embed the new Board and Investment Sub Committee structures and governance arrangements.

Timescale:

2013-14

PART II/B - Representation

Recommended Principle:

- a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-
- i) employing authorities (including non-scheme employers, e.g. admitted bodies);
 - ii) scheme members (including deferred and pensioner scheme members),
 - iii) where appropriate independent professional observers, and
 - iv) expert advisors (on an ad-hoc basis).
- 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.

Existing NCC Position:

II/B	Not Compliant				Fully Compliant
a) i)					X
a) ii)					X
a) iii)					X
a) iv)					X
b)					X

- a) i) & ii) Pension Fund Board membership

The Fund is fully compliant with this principle as demonstrated on the table from section PARTII/A above.

Note: each employer group as the autonomy to select its representatives including substitutes.

- iii) According to guidance, an independent professional observer could be invited to:
- Participate in the governance arrangement to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels.

- Carry out independent assessments of compliance against Myners' principles, together with other benchmarks that the Scheme authority's performance is measured against.
- Offer a practical approach to address and control risk, their potential effects, what should be done to mitigate them and whether the costs of doing so are proportionate.

The Scheme has access to actuarial and benefits support through Hymans Robertson.

- iv) In addition an independent Investment Consultant (Mercers) is invited to attend all Pension Fund Board Meetings and Investment Sub Committee meetings.

Other expert advisors are available to the scheme as required ie WM Universe.

- b) A lay member, according to guidance, is a formal member of the committee other than an elected member. Membership of the Pension Fund Board and Investment Sub-Committee consists of a mixture of elected, non-elected and scheme representatives. All members have full voting rights and receive all papers.

Proposed Action:

- b) Implement and embed the new Board and Investment Sub Committee structures and governance arrangements.

Timescale:

2013-14

PART II/C - Selection and role of lay members

Recommended Principle:

- 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) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

Existing NCC Position:

II/C	Not Compliant*				Fully Compliant
a)					X
b)					X

- a) Members are briefed on what is required of them on election to the Pension Fund Board and Investment Sub-Committee meetings. Members and officers are required to undergo regular training to develop their skills and knowledge and awareness. The training programme and log of attendance is maintained.
- b) At the start of Pension Fund Board and Investment Sub-Committee meetings, members are invited to declare any interests in any items to be discussed on the agenda.

Elected members of the County Council need only declare the existence of any interest if that interest is **not** already listed in their register of Members' interests.

Members of the Pension Fund Board and Investment Sub-Committee need to consider whether any of the matters for discussion and/or decision conflict with their own interests. These could include areas such as: -

- i) Membership of the Local Government Pension Scheme as an individual, Councillor or dependent.
- ii) Being in receipt of or potential future receipt of benefits from the Local Government Pension Scheme.
- iii) Decisions that could impact or conflict with their own financial or pecuniary interests.
- iv) Decisions that could impact on or be impacted on by their status, role or function within any other Committee.

Proposed Action:

- a) The Governance Compliance Statement includes at Appendix 1 an Operating Protocol approved at the September 2012 Pension Fund Board to remind the members of their duties and to ensure that non-elected members are fully compliant and understand the code of conduct.
- b) To embed Protocol during 2013-14.

PART II/D – Voting

Recommended Principle:

- 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.

Existing NCC Position:

II/D	Not Compliant*				Fully Compliant	
a)						X

- a) All committee representatives appointed to either the Pension Fund Board or the Investment Sub-Committee and have full voting rights.

Proposed Action:

- a) No further action proposed.

PART II/E - Training/Facility time/Expenses

Recommended Principle:

- 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) 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.

Existing NCC Position:

II/E	Not Compliant*				Fully Compliant
a)					X
b)					X

- a) A training policy is in place.

Part 6 (Members' Allowances Scheme) of the 'Constitution of Northamptonshire County Council' covers reimbursement of expenses for members.

- b) Training and reimbursement of expenses applies equally to all members of the Pension Fund Board and Investment Sub-Committee.

Proposed Action:

- a) To deliver the training plan approved at the October 2012 Pension Fund Board.
- b) To review the process of reimbursement of expenses to make more efficient and easier to use.

Timescale:

2013-14

PART II/F - Meetings (frequency/quorum)

Recommended Principle:

- a) That an administering authority's main committee or committees meet at least quarterly.
- 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.
- 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.

Existing NCC Position:

II/F	Not Compliant*				Fully Compliant
a)					X
b)					X
c)					x

- a) The Pension Fund Board meets at least five times per year.
- b) The Investment Sub-Committee meets at least four times per year.
- c) Lay members are represented as shown in the structure of the Pension Fund Board. In addition, Employer seminars are held on an ad hoc basis.

Proposed Action:

No further action proposed.

PART II/G - Access

Recommended Principle:

- 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 fails to be considered at meetings of the main committee.

Existing NCC Position:

II/G	Not Compliant*				Fully Compliant
a)					X

- a) To be on the Investment Sub Committee members must be on the Pension Fund Board, therefore members of the Investment Sub Committee receive all papers of both bodies.

Non Investment Sub Committee members receive electronic copies of Investment Sub Committee papers, and are able to attend the Investment Sub Committee in an observatory capacity.

Proposed Action:

- a) No further action proposed.

PART II/H - Scope

Recommended Principle:

- a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

Existing NCC Position:

II/H	Not Compliant*				Fully Compliant
a)					X

- a) The Pension Fund Board's business covers all Fund matters with the exception of operational investment issues, which is delegated to the Investment Sub Committee.

Officers who work in Pensions Services or the Investment Team attend Pension Fund Board and Investment Sub-Committee meetings as required.

Members and Officers also keep abreast of wider scheme issues and developments by attending external seminars (e.g. NAPF, LAPFF) and Local Authority Pension User Group meetings.

With reference to the powers of the Pension Fund Board and Investment Sub-Committee it is clear that the Administering Authority has facilitated wider scheme issues within the scope of their wider governance arrangements.

The Fund has approved a training plan which requires members to attain and maintain Skills and Knowledge standards and attend external seminars and conferences to maintain knowledge and awareness of current issues.

Proposed Action:

- a) Embed the new training plan. Review and update training plan for March 2014.

Timescale:

2013-14

PART II/I - Publicity

Recommended principle:

- 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.

Existing NCC Position:

II/I	Not Compliant*				Fully Compliant
a)					X

- a) The latest Governance Policy & Governance Compliance Statement is currently available on the Council's internet site and the Fund's specific website: pensions.northamptonshire.gov.uk.

Proposed Action:

- a) No further action proposed.

Appendix 1

Northamptonshire Pension Fund Board and Investment Sub-Committee

OPERATING PROTOCOL

NOTE:

- a) Nothing in this Operating Protocol can override legislation or the procedures and information contained in Northamptonshire County Council's Constitution including its Code of Conduct.
- b) This document will form part of Northamptonshire Pension Fund's Governance Policy and will be subject to review on an annual basis, which may result in recommendations to update the Council's Constitution in relation to Pension Fund matters.

A. Contents:

- 1 Role, powers and membership of PFB and ISC
- 2 Meeting Protocols
- 3 Article 8 and Part 3 of the Constitution
- 4 Appendix A - Guidance Note in Respect of Co-opted Members
- 5 Appendix B - Disclosable Pecuniary Interests

B. Constitution

- 1 On the 21 June 2012, Northamptonshire County Council approved the amendment of its Constitution to implement a new governance structure for Northamptonshire Pension Fund consisting of:
 - A Pension Fund Board ("PFB"), and
 - An Investment Sub-Committee ("ISC"),
- 2 The amendments to the Constitution showing the Terms of Reference of the PFB and ISC are attached as Appendix 1.
- 3 This Operating Protocol has been developed to provide an overview of how the PFB and ISC will operate in practice.

C. Background

- 4 The Northamptonshire Pension Fund is an LGPS Fund under the Local Government Pension Scheme (Administration) Regulations 2008 and any ancillary regulations or legislation, as amended. Under that legislation Northamptonshire County Council are specified as the administering authority, and therefore required to maintain and manage the Fund.

D. PFB Role and Powers

- 5 The role of the PFB is to manage the Northamptonshire Pension Fund ("the Fund") and have responsibility for all Fund matters except those that are the responsibility of the ISC. The Terms of Reference included in the Council's Constitution summarise the function of the PFB as:

- Overall responsibility for all administering authority pension fund matters
- Responsibility for developing and reviewing all policies and strategies in relation to administering authority pension fund matters.
- Responsibility for the governance of the pension fund and ensuring that the fund complies with all relevant legislation.
- Responsibility for ensuring appropriate arrangements for the administration of benefits are in place.

- 6 The following specific powers have been delegated to the PFB under the Constitution:

- Power to set the pension fund's objectives and determine and maintain appropriate strategies, policies and procedures with ongoing monitoring in relation to the following areas:
 - Funding Strategy - ongoing monitoring and management of the liabilities including ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
 - Investment strategy - to determine the Fund's investment objectives and to set and review the long-term high level investment strategy to ensure these are aligned with the Fund's specific liability profile and risk appetite.
 - Administration Strategy – the administration of the fund including collecting payments due, calculating and paying benefits, gathering from and providing information to scheme members and employers.
 - Communications Strategy – determining the methods of communications with the various stakeholders including scheme members and employers.
 - Discretions – determining how the various administering authority discretions are operated for the Fund.
 - Governance - the key governance arrangements for the Fund, including representation.
 - Risk Management Strategy – to include regular monitoring of the Fund's key risks and agreeing how they are managed and/or mitigated.

APPENDIX A GOVERNANCE POLICY AND COMPLIANCE STATEMENT

- Power to approve and apply the policy on, and to take decisions relating to, employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- Power to agree the terms and payment of bulk transfers into and out of the Fund in consultation with the S.151 Officer.
- Power to consider and agree business plans at least annually and monitor progress against them and to monitor compliance with the Myners Principles on an annual basis.
- Power to develop and maintain a training policy for all Pension Fund Board and sub-committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring attendance at training events.
- Power to select, appoint, monitor and where necessary terminate advisors to the Fund not solely relating to investment matters.
- Power to agree the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- Power to consider and determine where necessary, alternative investment strategies for participating employers.
- Power to oversee the work of the Investment Sub-Committee and consider any matters put to them by the Investment Sub-Committee
- Power to set up Sub-Committees and Task and Finish Groups including jointly with other LGPS Administering Authorities
- Power to review and amend the Statement of Investment Principles on an annual basis, in consultation with the S.151 Officer.
- Power to manage any other strategic or key matters pertaining to the Fund not specifically listed above.

E. ISC Role and Powers

7 The role of the ISC is to address all secondary investment issues in relation to the Fund. The following specific powers have been delegated to the ISC under the Constitution:

- Power to implement the Fund's investment strategy
- Power to review and maintain the detailed asset allocation of the Fund within parameters agreed with the PFB.
- Power to appoint and terminate investment managers to the Fund and to monitor the performance of investment managers leading to review and decisions on termination where necessary.
- Power to appoint and monitor and where necessary terminate external advisors and service providers solely relating to investment matters, for example, the Fund

APPENDIX A GOVERNANCE POLICY AND COMPLIANCE STATEMENT

Custodian, independent investment advisers, investment consultants and investment managers.

- Power to set benchmarks and targets for the Fund's investment managers.
- Power to monitor the risks inherent in the Fund's investment strategy in relation to the Fund's funding level
- Power to determine operational matters such as rebalancing and the most appropriate methodology for asset transitions within parameters agreed by the Pension Fund PFB.
- Power to monitor and review:
 - Legislative, financial and economic changes relating to investments and their potential impact on the Fund;
 - The investment management fees paid by the Fund and to implement any actions deemed necessary;
 - The transactions costs incurred by the Fund across its investment mandates and raise relevant issues and concerns with the investment managers as necessary;
 - The investment managers' adoption of socially responsible investment considerations, on an annual basis, including corporate governance matters and a review of compliance with the UK Stewardship Code.
- Power to receive reports on Interim Manager meetings and other operational meetings
- Power to undertake any task as delegated by the Pension Fund PFB.
- Power to refer any matter to the Pension Fund PFB as they consider appropriate.
- Power to provide minutes and such other information to the Pension Fund PFB as they may request from time to time

F. Other Sub-Committees and Task and Finish Groups

- 8 The Council's Constitution includes the power for the PFB to set up Sub-Committees and Task and Finish Groups including jointly with other LGPS Administering Authorities.
- 9 These Sub-Committees may be established as short-term or otherwise. The PFB will be responsible for outlining the powers and purpose of any such Sub-Committee or Group, including expectations in relation to reporting back to the PFB.
- 10 This Operating Protocol will apply equally to any such Sub-Committees or Task and Finish Groups unless the PFB specify otherwise or any areas within the Operating Protocol are considered not relevant as agreed by the Chairman.

G. Membership of PFB and ISC

- 11 The membership of the PFB has been agreed as part of the Council's Constitution to be thirteen members representing a range of Fund stakeholders as follows:

APPENDIX A

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

Representatives of	Number of Representatives
Northamptonshire County Council	7
All other local authorities and police	2
All other employers	2
Active scheme members	1
Deferred and pensioner scheme members	1

- 12 The term of appointment for all PFB members is approximately four years in accordance with the following cycles. The table also provides information on how the appointments are agreed:

Representatives of	Cycle and Method of Appointment
Northamptonshire County Council	Membership reviewed after each County Council main election (2013, 2017, etc). Appointments made by Northamptonshire County Council.
All other local authorities and police	Reviewed after Council elections in 2015, 2019, etc. The Leaders or Chief Executives of these authorities will agree the representatives.
All other employers	To be appointed via voting by eligible employers during 2014, 2018, etc.
Active scheme members	To be appointed by Unison during 2014, 2018, etc. Where Unison fails to nominate a member for any period of 6 months or more, nominations will be requested from all active scheme members and a representative appointed following interviews.
Deferred and pensioner scheme members	To be appointed by Unison during 2014, 2018, etc. Where Unison fails to nominate a member for any period of 6 months or more, nominations will be requested from all active scheme members and a representative appointed following interviews.

- 13 The membership of the ISC has been agreed as part of the Council's Constitution to be seven members representing a range of Fund stakeholders as shown in the following table. All ISC members must be drawn from PFB members.

Representatives of	Number of Representatives
Northamptonshire County Council	4
All other employers	2
Scheme member representative	1

- 14 The table provides information on how the appointments to ISC are agreed:

Representatives of	Method of Appointment
Northamptonshire County Council	The Northamptonshire County Council representatives on the PFB agree which members are to be appointed to the ISC.
All other employers	The “All other local authorities and police” and “All other employers” representative on the PFB determine which representatives are to be appointed to the ISC.
Scheme member representative	The Active and Deferred/Pensioner Representatives on PFB determine which representative is to be appointed to the ISC.

H. Role of Members on PFB and ISC

- 15 Though Members of the PFB and ISC are each representing a specific category of stakeholder (e.g. Northamptonshire County Council, other employers or scheme members) each Member is required to have due regard to the purpose of the PFB i.e.
- Overall responsibility for all administering authority pension fund matters
 - Responsibility for developing and reviewing all policies and strategies in relation to administering authority pension fund matters.
 - Responsibility for the governance of the pension fund and ensuring that the fund complies with all relevant legislation.
 - Responsibility for ensuring appropriate arrangements for the administration of benefits are in place.
- 16 Accordingly all Members are expected to work jointly with the key purpose of governing (and hence safeguarding) the pension fund putting aside any individual views of any stakeholders. This should not take away from Members sharing their knowledge on how decisions might impact specific stakeholders of the Fund.

I. Chairman and Vice Chairman’s Term of Office

- 17 The Chairman and Vice Chairman of the PFB shall also be the Chairman and Vice Chairman of the ISC.

- 18 The PFB's Chairman is appointed (or removed) by the Council at its Annual General Meeting. The Chairman shall be a member of Northamptonshire County Council. The Vice Chairman is appointed (or removed) by the PFB.
- 19 The normal term for the PFB's Chairman and Vice Chairman's shall be one year subject to earlier removal by vote of the Council (for the PFB Chairman) or the PFB (for the Vice Chairman).

J. Attendance and Absences of Members and of the Chair

- 20 All Members of the PFB and ISC are expected to regularly attend meetings. Records of attendance of all Members will be maintained and reported to the PFB on at least an annual basis.
- 21 Substitutes may be appointed for the PFB in accordance with the appointments process for PFB representatives outlined in the Constitution i.e.:
- The Council will determine substitutes to attend should a Northamptonshire County Council members be unable to attend
 - The Chief Executives or Leaders of the other local authorities and police shall appoint one or more substitutes to attend should their appointed representatives be unable to attend
 - All other employers shall appoint one or more substitutes should their appointed representatives be unable to attend
 - Unison shall appoint one or more substitutes should their appointed representatives be unable to attend.
- 22 Substitutes may be appointed for the ISC by ISC members. Substitutes to the ISC should be PFB members (not substitutes to the PFB) and relevant to the specific representative class of the ISC member unless such a PFB member is not available.
- 23 If a PFB Member or ISC Member is unable to attend a meeting, then the relevant Member shall, where possible, identify the appropriate substitute member to attend in his/her place. Any reference to PFB Members or ISC Members in this Operating Protocol shall include substitute members unless stated otherwise.
- 24 Substitutes are welcome to attend all PFB meetings. However, they will not be able to participate in any voting unless they are substituting for a full Member of the PFB.
- 25 Non ISC Members (including substitutes) are welcome to attend all ISC meetings where they are not required to substitute for a full Member of the ISC however they will not be able to participate in any voting.
- 26 The Chairman shall preside at PFB and ISC meetings if s/he is present. In his/her absence the Vice Chairman shall preside. If both are absent the PFB (or ISC as appropriate) shall appoint from amongst its members an acting Chairman for the meeting in question.

K. Training Requirements

- 27 The Council's Constitution states that Members may not take part in meetings of the PFB or ISC unless they have complied with any training requirements set out by the Chairman.
- 28 The Fund will develop and keep under review a Training Policy which may set out targets to be achieved by PFB and ISC Members. Members of the PFB and ISC will be provided with training to assist them in achieving these targets. Members (including substitutes) are expected to undertake the necessary training to assist them in achieving targets set out in the Training Policy.

L. Quorum

- 29 The quorum for any PFB meeting is 6 (1/3 plus 1) of PFB Members. The quorum for any ISC meeting is 4 (1/3 plus 1) ISC Members.
- 30 No business requiring a decision shall be transacted at any meeting of the PFB or ISC unless the meeting is quorate. If it arises during the course of a meeting that a quorum is no longer present, the Chairman shall either suspend business until a quorum is re-established or declare the meeting at an end and arrange for the completion of the agenda at the next meeting or at a special meeting.

M. Voting

- 31 All PFB Members and ISC Members have the right to vote in meetings. All matters to be decided by the PFB or ISC shall be decided by a simple majority of the Members present. In the case of an equality of votes, the person presiding as Chairman at the meeting shall have a second or casting vote. All votes shall be taken by a show of hands unless decided otherwise by the Chairman and duly recorded, if necessary, in the minutes of the meeting.

N. Frequency of Meetings

- 32 The PFB will meet a minimum of five times a year. The Chairman may call meetings more frequently if deemed necessary.
- 33 The ISC will meet a minimum of four times a year. The Chairman may call meetings more frequently if deemed necessary.
- 34 The Chairman may convene additional meetings of the PFB or ISC, including at short notice to consider matters of urgency. The notice convening such meetings shall state the particular business to be transacted.
- 35 The Chairman will be required to convene a special meeting of the PFB or ISC if s/he is in receipt of a written request to do so signed by no fewer than three other PFB Members or ISC Members, respectively. Such request shall specify the business to be transacted and no other business shall be transacted at such meeting. The meeting must be held within ten working days of the Chairman's receipt of the request or such longer period as may be agreed with the Members who signed the request.
- 36 By the decision of the Chairman of the PFB, or by the decision of a majority of those present at a meeting of the PFB, meetings of the PFB may be adjourned at any time to be reconvened at any other day, hour and place, as the PFB shall decide subject to

ensuring that the appropriate public notices can be posted. The same principle applies to the ISC.

O. Conduct

- 37 Members of the PFB and ISC are expected to comply with the Code of Conduct for Northamptonshire County Council elected members.
- 38 At all meetings of the PFB and ISC, it shall be the duty of the Chairman to preserve order and to ensure that all PFB and ISC Members and those in attendance are treated fairly. S/he shall decide all questions of order that may arise.

P. Declaration of Interests

- 39 Any PFB member or person in attendance as a co-opted member having the right to vote on an item at a PFB or ISC meeting must declare any interest which is known as a 'disclosable pecuniary interest'. Such interests are listed in Appendix A of this document and apply not only to the member/co-opted member concerned, but also to their spouse, civil partner etc who may have such an interest. Failure to disclose disclosable pecuniary interests is a criminal offence punishable by a fine of up to £5,000 and/or disqualification from holding such a position for up to 5 years.
- 40 In addition all PFB Members and co-opted members having the right to vote must also declare what is called non-statutory interests. Failure to declare these is not a criminal offence and such interests fall into two groups:
- Items of business that can affect your wellbeing or the wellbeing of any family members or close associate to a greater extent than they would affect the wellbeing of the majority of Council Tax payers.
 - The items of business to be declared relate to the categories of interest listed in Appendix A but in respect of any family member or close associate.
- 41 If any such PFB Member or co-opted member having the right to vote has a query or any potential interest then they should consult with the appropriate clerk at the respective meeting who will provide appropriate advice. Any declared interest must be noted in the minutes of that particular meeting.

Note:

- i) Please note that in addition to the list of interests provided in Appendix A, a Guidance Note has been enclosed for co-opted members.
- It is also important to note that the consequences of having a 'disclosable pecuniary interest' and possibly a non-statutory interest means that neither a PFB member and/or a co-opted member can speak or vote or remain in the meeting when the matter is being considered. The Monitoring Officer to the Council has limited power to grant dispensations and these are referred to in the Guidance Note.
- ii) It is important to read both documents in Appendix A, which includes the Guidance Note.
- Please note that any query you may have can be referred to the clerk of the meeting or any officer of the Council present at the meeting.

Q. Authority

- 42 The PFB and ISC shall receive written and/or oral information and may seek any information it requires from any employee of Northamptonshire County Council, other Council, supplier responsible for administering the Northamptonshire Pension Fund or stakeholder of the Fund. The PFB may agree to such persons attending PFB and/or ISC as considered appropriate including private items where it is considered appropriate.
- 43 The PFB or ISC may obtain independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. All such advisers shall be those officially appointed to contracts with Northamptonshire Pension Fund unless there are appropriate reasons for this not to be the case as considered by the PFB or ISC. The costs, if any, of obtaining such third party advice shall be charged to the Northamptonshire Pension Fund. The PFB may agree to such persons attending PFB and/or ISC as considered appropriate including private items where it is considered appropriate.

R. Meeting Administration

- 44 PFB and ISC meetings shall be advertised and held in public and be administered by Northamptonshire County Council. The County Council shall give at least five clear working days' notice in writing to each Member of every ordinary meeting of the PFB and ISC, to include any agenda of the business to be transacted at the meeting. Papers for each PFB and ISC meeting will be sent out five working days in advance. Late papers will be sent out or tabled only in exceptional circumstances.
- 45 The PFB and ISC may hold certain agenda items in private session when deemed appropriate in view of the nature of business to be discussed.
- 46 All PFB and ISC reports, agenda and minutes, other than those reports or parts of agendas and minutes relating to private items of business, will be published on the Northamptonshire County Council website.
- 47 The County Council shall prepare minutes in relation to all PFB and ISC:
- a) The names of all PFB (or ISC, if it is such a meeting) members present at a meeting and those in attendance
 - b) Apologies
 - c) Details of all proceedings, decisions and resolutions of the meetings and received reports.
- 48 Minutes shall be printed and circulated to each PFB Member before the next meeting of the PFB when they shall be submitted for the approval of the PFB. The same principle applies to the ISC. When the minutes of the previous meeting have been approved they shall be signed by the Chair.
- 49 Substitutes shall receive all papers in the same way as full Members of the PFB. All non-ISC Members will also receive all ISC papers.

Review

- 50 There shall be an annual review of this Operating Protocol as part of the annual review of the Fund's Governance Policy.
- 51 In addition, there will be a regular review (at least biennially) of the effective working of the PFB and the ISC, the results of which will be reported back to the PFB.

Article 8 of the Constitution

Pension Fund Board (Pensions Committee) – Functions

- Overall responsibility for all administering authority pension fund matters
- Responsibility for developing and reviewing all policies and strategies in relation to administering authority pension fund matters.
- Responsibility for the governance of the pension fund and ensuring that the fund complies with all relevant legislation.
- Responsibility for ensuring appropriate arrangements for the administration of benefits are in place.

Part 3 of the Constitution

Pension Fund Board (Pensions Committee)

Membership

Northamptonshire Pension Fund Board:

Representatives of	Number of Representatives	Term of Appointment	Method of Appointment
Northamptonshire County Council	7	4 years from County Council elections	Determined by Northamptonshire County Council.
All other local authorities and police	2	4 year periods commencing from 2015	Nominations determined by a leaders/CEX group. Selection would be following the Council elections in 2015 and 4 year periods thereafter. Details of process to be agreed by the Chairman.
All other employers	2	4 year periods commencing from 2014	Nominations to be determined by eligible employers. Details of process to be agreed by the Chairman.
Active scheme members	1	4 year periods commencing from 2014	Determined by Unison. Where Unison fail to nominate a Board Member for any period of 6 months or more, nominations will be requested from all eligible active scheme members and a representative will be picked following interviews. Details of process to be agreed by the Chairman.

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Deferred and pensioner scheme members	1	4 year periods commencing from 2014	Determined by Unison. Where Unison fail to nominate Board Member for any period of 6 months or more, nominations will be requested from all eligible deferred and pensioner scheme members and a representative will be picked following interviews. Details of process to be agreed by the Chairman.
Total Board Members	13		

Note – the periods of appointment may not be exactly four calendar years due to the dates of the respective elections or nominations.

Substitutes

Substitutes for Board members will be identified which relate to the same representative group using the same process for appointment as outlined in the table above.

Delegated Authority	Statutory Reference
<p>Power to set the pension fund's objectives and determine and maintain appropriate strategies, policies and procedures with ongoing monitoring in relation to the following areas:</p> <ul style="list-style-type: none"> • Funding Strategy - ongoing monitoring and management of the liabilities including ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer. • Investment strategy - to determine the Fund's investment objectives and to set and review the long-term high level investment strategy to ensure these are aligned with the Fund's specific liability profile and risk appetite. • Administration Strategy – the administration of the fund including collecting payments due, calculating and paying benefits, gathering from and providing information to scheme members and employers. • Communications Strategy – determining the methods of communications with the various stakeholders including scheme members and employers. • Discretions – determining how the various administering authority discretions are operated for the Fund. • Governance - the key governance arrangements for the Fund, including representation. • Risk Management Strategy – to include regular monitoring of the Fund's key risks and agreeing how they are managed and/or mitigated. 	<p>Regulations under the Superannuation Act 1972.</p>

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Power to approve and apply the policy on, and to take decisions relating to, employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	As above
Power to agree the terms and payment of bulk transfers into and out of the Fund in consultation with the S.151 Officer.	As above
Power to consider and agree business plans at least annually and monitor progress against them and to monitor compliance with the Myners Principles on an annual basis.	As above
Power to develop and maintain a training policy for all Pension Fund Board and sub-committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring attendance at training events.	As above
Power to select, appoint, monitor and where necessary terminate advisors to the Fund not solely relating to investment matters.	As above
Power to agree the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	As above
Power to consider and determine where necessary, alternative investment strategies for participating employers.	As above
Power to oversee the work of the Investment Sub-Committee and consider any matters put to them by the Investment Sub-Committee	As above
Power to set up Sub-Committees and Task and Finish Groups including jointly with other LGPS Administering Authorities	As above
Power to review and amend the Statement of Investment Principles on an annual basis, in consultation with the S.151 Officer.	As above
Power to manage any other strategic or key matters pertaining to the Fund not specifically listed above.	As above

Pension Fund Board Investment Sub-Committee

The Pension Fund Board shall establish an Investment Sub-Committee with the following membership and powers:-

Membership

Northamptonshire Investment Sub-Committee:

All Investment Sub-Committee Members must be drawn from Board membership. The Chairman and Vice Chairman of the Investment Sub-Committee must be the Chairman and Vice Chairman of the Board respectively.

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Representatives of	Number of Representatives	Term of Appointment	Method of Appointment
Northamptonshire County Council	4	As above	Determined by Northamptonshire County Council representatives on the Board. Details of process to be agreed by the Chairman.
All other employers	2	Up to term of office ceasing in accordance with Board membership or six years whichever is later	Determined by non-Northamptonshire County Council employer representatives at the Board. Details of process to be agreed by the Chairman.
Scheme member representative	1	Up to term of office ceasing in accordance with Board membership or six years whichever is later	By agreement between Active and Deferred/Pensioner Representatives on Board. Details of process to be agreed by the Chairman.

Substitutes

Members of the Investment Sub-Committee may appoint substitutes for the Investment Sub-Committee. Where possible substitutes to the Investment Sub-Committee should be full Pension Fund Board members and relate to the same representative class as the absent Investment Sub-Committee member.

Investment Sub-Committee

Delegated Authority	Statutory Reference
Power to implement the Fund's investment strategy	Regulations under the Superannuation Act 1972.
Power to review and maintain the detailed asset allocation of the Fund within parameters agreed with the Board.	As above
Power to appoint and terminate investment managers to the Fund and to monitor the performance of investment managers leading to review and decisions on termination where necessary.	As above

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Power to appoint and monitor and where necessary terminate external advisors and service providers solely relating to investment matters, for example, the Fund Custodian, independent investment advisers, investment consultants and investment managers.	As above
Power to set benchmarks and targets for the Fund's investment managers.	As above
Power to monitor the risks inherent in the Fund's investment strategy in relation to the Fund's funding level	As above
Power to determine operational matters such as rebalancing and the most appropriate methodology for asset transitions within parameters agreed by the Pension Fund Board.	As above
Power to monitor and review: <ul style="list-style-type: none"> Legislative, financial and economic changes relating to investments and their potential impact on the Fund; The investment management fees paid by the Fund and to implement any actions deemed necessary; The transactions costs incurred by the Fund across its investment mandates and raise relevant issues and concerns with the investment managers as necessary; The investment managers' adoption of socially responsible investment considerations, on an annual basis, including corporate governance matters and a review of compliance with the UK Stewardship Code. 	As above
Power to receive reports on Interim Manager meetings and other operational meetings	
Power to undertake any task as delegated by the Pension Fund Board.	As above
Power to refer any matter to the Pension Fund Board as they consider appropriate. Power to provide minutes and such other information to the Pension Fund Board as they may request from time to time	As above

Special Rules of Procedure for the Pension Board and Investment Sub-Committee.

The Council's Rules of Procedure set out in Part 4 of the Constitution apply to the Pension Board and the Investment Sub-Committee except where they concern the following matters:-

- Frequency of meetings
- Appointment of Chairman and Vice Chairman
- Voting Rights
- Quorum
- Training Requirement

in which case the rules are modified as necessary to accommodate the provisions set out in the table below.

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Frequency of Meetings	<p>The Board will meet a minimum of five times a year. The Chairman may call meetings more frequently if deemed necessary.</p> <p>The Investment Sub-Committee will meet a minimum of four times a year. The Chairman may call meetings more frequently if deemed necessary.</p>
Chairman and Vice Chairman's Term of Office	<p>The normal term for the Pension Board's Chairman and Vice Chairman's shall be one year subject to earlier removal by vote of Council or the Pension Fund Board in the case of the Vice Chairman.</p> <p>The appointment or removal of the Pension Board's Chairman shall be a function of Full Council. The appointment of the Pension Board's Vice Chairman shall be a function of the Pension Fund Board.</p> <p>The Chairman and Vice Chairman of the Board shall also be the Chairman and Vice Chairman of the Investment Sub-Committee.</p>
Voting Rights	<p>All Board Members and Investments Sub-Committee Members shall have the right to vote in meetings.</p>
Quorum	<p>6 (1/3 plus 1) Board Members shall form a quorum for meetings of the Board.</p> <p>4 (1/3 plus 1) of Investment Sub-Committee Members shall form a quorum for meetings of the Investment Sub-Committee.</p> <p>No business requiring a decision shall be transacted at any meeting of the Board or Investment Sub-Committee unless the meeting is quorate. If it arises during the course of a meeting that a quorum is no longer present, the Chairman shall either suspend business until a quorum is re-established or declare the meeting at an end and arrange for the completion of the agenda at the next meeting or at a special meeting.</p>
Training Requirement	<p>Members may not take part in meetings of the Pension Fund Board or Investment Sub-Committee unless they have complied with any training requirements set out by the Chairman.</p>

Appendix A

Guidance Note in Respect of Co-opted Members

Any person who is not a Councillor and is appointed to a County Council committee, board or similar body will be bound by the provisions of the Localism Act 2011 in the same way as any Councillor. Such persons are often referred to as co-opted members. However, the Guidance set out in this note in respect of disclosable pecuniary interests will only apply to co-opted members who are able to vote at the appropriate council body to which they are appointed.

Accordingly, a non-councillor member of a Local Authority body who can partake in discussions and vote will need to register and if necessary declare what is termed:

- disclosable pecuniary interests; and
- non-statutory interests.

Disclosable pecuniary interests are set out in the Appendix to this note and failure to declare such an interest or interests is a criminal offence punishable by a fine of up to £5,000 and/or disqualification for up to 5 years to hold such a position. As stated above, this statutory provision only applies if you have the ability to vote on a matter at the meeting which you are attending.

What is a disclosable pecuniary interest?

These are set out in the enclosed Appendix 'B' to this note and such interests have to be declared if they held by not only yourself, but also your spouse, civil partner or similar person.

All such interests have to be registered with the Monitoring Officer of the Council within 28 days of appointment to a Local Authority body etc. and if a co-opted member has a disclosable pecuniary interest in a matter under consideration at a meeting then they must not participate or vote on that matter.

The need to declare a disclosable pecuniary interest only arises if you have such an interest or you are aware that your spouse, civil partner etc. has such an interest. You are not under legal obligation to ask them but if you are aware that they have such an interest, then you

must register it as if it were your own.

If your interests change then you are under a similar obligation to declare them to the Monitoring Officer and/or the meeting you are attending where such an interest arises.

Consequences of having a disclosable pecuniary interest

You cannot speak or vote or remain in the meeting when the matter is being considered. This means you will not be able to participate in any debate unless you have obtained a dispensation to speak from the Council's Monitoring Officer. It is important to note that before you have any meeting where such an interest arises you are entitled to make representations, give evidence or answer questions prior to the commencement of the debate on that matter.

The Monitoring Officer has limited power to grant a dispensation and these can be far ranging, but examples are:

- it may be appropriate to grant a dispensation; or
- without a dispensation there would not be a required quorum for the meeting.

If you consider that you will need a dispensation then the matter can be raised with the Council's Monitoring Officer, but in general it should only be granted in exceptional circumstances.

The Register of Disclosable Pecuniary/Interests:

The Council maintains a register of all such interests and there is a legal obligation to make such a register available for inspection and to publish it on the Council's website. You are not required to disclose the name of your spouse or civil partner etc. when listing such interests.

An interest can be exempted from publication if it is a "sensitive interest". This can arise if a co-opted member or someone connected to them might be subject to intimidation or violence. The decision on sensitivity is a matter for the Monitoring Officer to consider and decide.

Non-Statutory Interests – What are they?

In addition to the legal requirement to declare disclosable pecuniary interests, the Council has elected in addition, to adopt what is termed “non-statutory disclosable interests”. Failure to disclose such interests does not carry any criminal penalty as in the case of “disclosable pecuniary interests”.

Non-statutory interests fall into two groups:

- Items of business that affect your wellbeing or the wellbeing of any family members or close associate to a greater extent than they would affect the wellbeing of the majority of Council Tax payers.
- the items of business to be declared relate to the categories of interest listed in Appendix B but in respect of any family member or close associate.

What are the consequences of having a non-statutory interest?

If you have a non-statutory interest in any matter then you must declare at the meeting unless you have already referred it to the Monitoring Officer to be entered into the Council's register of interests. You may of course, voluntarily register such interests in the Council's register and then no longer have an obligation to declare them at the meeting you are attending.

Must I leave the meeting if I have a non-statutory interest?

If the non-statutory interest is one which a member of the public would reasonably regard as so significant that it is likely to prejudice your judgment of the public interest, then you must leave the meeting whilst the matters is being debated. Although you may make representations, give evidence or answer questions prior to the commencement of the debate on the matters.

Conclusion

The need to be aware of disclosable pecuniary interests and non-statutory interests is

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largely a matter of common sense. The sanctions for failure to disclose disclosable pecuniary interests are criminal, but not in the case of a similar failure to disclose a non-statutory interest. These still fall within those set out in Appendix B, but only as they would apply to other members of your family, besides a spouse, civil partner etc. and will also include a close associate.

- nb. Please do not hesitate to raise any question/query you may have on this note with any officer present at the meeting you are attending or of course, contact the Council's Monitoring Officer.

Appendix B

Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011. Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows:

<u>Interest</u>	<u>Prescribed description</u>
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992).
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority –</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to M's knowledge) –</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where-</p> <p>(a) that body (to M's knowledge) has a place of</p>

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business or land in the area of the relevant authority;
and

(b) either –

(i) the total nominal value of the securities exceeds
£25,000 or one hundredth of the total issued share
capital of that body; or

(ii) if the share capital of that body is of more than one
class, the total nominal value of the shares of any one
class in which the relevant person has a beneficial
interest exceeds one hundredth of the total issued
share capital of that class.

‘M’ means a member of a relevant authority.

Cambridgeshire **Northamptonshire**
Pension Fund Pension Fund

CAMBRIDGESHIRE PENSION FUND &
NORTHAMPTONSHIRE PENSION FUND

JOINT ADMINISTRATION STRATEGY &
JOINT COMMUNICATION STRATEGY

January 2015

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1. Introduction

This document incorporates the joint Administration and Communication Strategies of Cambridgeshire Local Government Pension Fund and Northamptonshire Local Government Pension Fund, managed by Cambridgeshire County Council and Northamptonshire County Council respectively (the Administering Authorities). The administration of these Funds is carried out by LGSS, the shared service partnership between Cambridgeshire County Council and Northamptonshire County Council.

Together the two Funds have around 400 scheme employers with contributing members and a total membership of over 119,000 scheme members.

2. Administration Strategy

The Local Government Pension Scheme (LGPS) represents a significant benefit to scheme members. Much of the success in promoting the scheme amongst scheme members and ensuring a high quality service delivery depends upon the relationship between the administering authority and scheme employers in the day to day administration of the scheme. Good quality administration can also help in the overall promotion of the scheme and remind or alert employees to the value of the LGPS, thereby helping with recruitment, retention and motivation of employees.

Development of an administration strategy, as allowed for by the regulations governing the LGPS, 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 rather the joint working of a number of different parties.

This Administration Strategy has been developed following consultation with scheme employers in the Cambridgeshire and Northamptonshire Pension Funds.

The aim of this strategy statement is to set out the quality and performance standards expected of Cambridgeshire County Council and Northamptonshire County Council in their roles of administering authority and scheme employer, as well as all other scheme employers within the Funds. It seeks to promote good working relationships, improve efficiency and enforce quality amongst the scheme employers and the administering authority.

The efficient delivery of the benefits of the LGPS is dependent on sound administrative procedures being in place between a number of interested parties, including the administering authorities and scheme employers. This Strategy Statement sets out the expected levels of performance of the administering authorities and their scheme employers, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

This Administration Strategy is effective from the 1st April 2015. It will be reviewed annually to ensure the strategic objectives remain relevant.

A separate Business Plan including actions in relation to administration matters is published and reviewed annually. This outlines how the Funds intend to deliver this strategy, including how the Funds achieve their objectives, the measurements in place to monitor success and a timetable of events.

Regulatory framework

This document has been produced in accordance with Regulation 59 of the Local Government Pension Scheme Regulations 2013. The Regulations provide that administering authorities may prepare, maintain and publish a written statement setting out their policy concerning administration matters, and the administering authority and its scheme employers must then have regard to that strategy when carrying out their functions.

The Regulations state that the strategy may include some of these areas:

- procedures for liaison and communication with its scheme employers;
- levels of performance which the administering authority and its scheme employers are expected to achieve in carrying out their Scheme functions such as:
 - the setting of performance targets;
 - the making of agreements about levels of performance and associated matters;
 - the use of such other means as the administering authority considers appropriate;
- procedures which aim to secure that the administering authority and its scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- procedures for improving the communication by the administering authority and its scheme employers to each other of information relating to those functions;
- the circumstances in which the administering authority may consider giving written notice to any of its scheme employers with regard to recovering additional costs on account of that scheme employer's unsatisfactory performance in carrying out its Scheme functions;
- the publication by the administering authority of annual reports dealing with:
 - the extent to which that authority and its scheme employers have achieved the levels of performance;
 - such other matters arising from its pension administration strategy as it considers appropriate; and
- such other matters as appear to the administering authority, after consulting its scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

The Regulations also require that the administering authority should consult with its scheme employers (and any other persons it considers appropriate) in preparing or reviewing its administration strategy.

In addition, regulation 70 of the Local Government Pension Scheme Regulations 2013 allows an administering authority to recover additional costs from a scheme employer where, in its opinion, they 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 additional costs should be recovered, the amount of the

additional costs, together with the basis on which the amount has been calculated and the provisions of the Administration Strategy relevant to the decision.

Therefore, this Administration Strategy of the Cambridgeshire Pension Fund and Northamptonshire Pension Fund sets out the information as required by the Regulations mentioned above.

Current trends

This Administration Strategy is produced during a considerable period of change. Key issues currently around are:

- major changes impacting the LGPS and other public sector schemes which provide significant communication challenges;
- ongoing conversion of schools to academies which requires a considerable amount of employer liaison;
- increased governance and regulatory requirements to ensure the LGPS offers value for money;
- scheme employers outsourcing activity in a variety of ways which requires a considerable amount of employer liaison and also impacts the number of people eligible to be members of the LGPS;
- changes to scheme membership which will accelerate the maturity point of the LGPS (the point where annual expenditure exceeds annual income); and
- increasing awareness of the value of the LGPS among the membership and the consequent demands for relevant information.

Key objectives

The administration of Cambridgeshire Pension Fund and Northamptonshire Pension Fund will be delivered in line with these objectives. We aim to:

- provide a high quality, friendly and informative administration service to the Funds' stakeholders;
- administer the Funds in a cost effective and efficient manner utilising technology;
- ensure the Funds and their stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds;
- put in place standards for the Funds and their scheme employers and ensure these standards are monitored and developed as necessary;
- ensure the Funds and their stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment;
- ensure benefits are paid to, and income collected from, the right people at the right time in the right amount;

- maintain accurate records and ensure data is protected and has authorised use only; and
- understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.

Measurements are in place to determine if these objectives are being met which are published in the Administration Section of the Funds' Business Plans.

*References to the Funds refer to the staff employed by the Administering Authority to carry out the administration of the Funds.

Delivering the objectives

Method of delivery

There are a number of options to administering the Funds, including in-house administration, and third party administration.

The Funds' administration benefits from the efficiencies of joint delivery whilst retaining control within the two administering authorities in order to meet the objectives outlined above, e.g. in relation to a quality service and accurate record keeping. The Funds will be proactive in setting strategies to which the LGSS services should adhere, including this Administration Strategy.

At the time of writing, LGSS provides administration services to the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund, though it is envisaged further LGPS Funds will join LGSS in the future, which will benefit the Funds through increased efficiencies, particularly sharing of development costs between greater numbers of Funds. At that point LGSS will encourage those Funds to adopt this Administration Strategy so as to maximise the efficiency opportunities.

Procedures for liaison and communication with employers and other stakeholders

The delivery of a high quality administration service is not the responsibility of just the administering authority, but depends on the joint working of the administering authority with a number of individuals in different organisations to ensure scheme members, and other interested parties, receive the level of service in line with the Funds' objectives as well as ensuring that statutory requirements are met.

Agreements will be made with the Funds' key stakeholders so that service standards are explicit. Key stakeholders are:

- Scheme employers and their payroll and other providers;
- AVC providers;
- Fund Actuaries; and
- Approved Independent Registered Medical Practitioners

In particular, each administering authority relies on its scheme employers in providing them with the appropriate information to maintain accurate records and pay accurate benefits. The Funds acknowledge that this is a partnership arrangement:

- Each Fund is committed to providing a service in line with the objectives outlined above. This will include:

- providing a named contact (and deputy) at the Fund for all employer communications and queries;
 - providing clear instructions and forms/interfaces to allow seamless transfer of information by employers;
 - aim to provide information and services within the performance standards outlined in this Strategy;
 - ensure all information provided is correct by having appropriate quality review in place; and
 - be helpful and courteous when dealing with all employers.
- In return, the employers within each Fund are expected to:
 - provide a named contact (and deputy) at the employer for all Fund communications and queries. Where multiple contacts are provided (for different duties) name one person who is ultimately responsible for ensuring the employer carries out their roles and responsibilities;
 - provide information to the Fund as outlined in instructions using the Fund's approved forms and/or interfaces;
 - aim to provide information within the performance standards outlined in this Strategy;
 - ensure all information provided is correct by having appropriate quality review in place;
 - be helpful and courteous when dealing with the Fund; and
 - provide feedback to the Fund on an ad-hoc basis, at performance review meetings or as part of consultations, e.g. around how services are delivered or about changes to the funding strategy.

Full details of the procedures for liaison and communication between the Funds and their stakeholders are included within the Funds' Communication Strategy – see Appendix E. .

Performance standards

The LGPS prescribes that certain decisions be 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 the Funds' administration objectives as outlined above, and also to comply with overriding disclosure requirements, the Funds must ensure that appropriate standards are in place and being measured. These standards fall into two distinct areas; quality and timeliness.

Quality

The Funds will ensure that all functions/tasks are carried out to agreed quality standards. In this respect the standards to be met are:

- compliance with relevant regulations including the Local Government Pension Scheme Regulations, Pensions Acts, etc;

- aiming to achieve the Funds' agreed objectives and compliance with all Fund agreed strategies, policies and procedural guides;
- ensuring appropriate checking of work by an appropriately qualified member of staff, in particular calculations of benefits; and
- all payments information provided to be authorised by an agreed signatory and other designated duties to be carried out in line with internal Schemes of Delegation.

Timeliness

Overriding legislation dictates minimum timescales that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. The scheme itself sets out a number of requirements for the administering authority or scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. Locally agreed performance standards have been agreed which cover all aspects of the administration of the scheme, where appropriate going beyond the overriding legislative requirements. Standards for the Funds are set out in Appendix B. Headline standards for scheme employers are set out in Appendix C.

Procedures for ensuring compliance with statutory requirements and measuring levels of performance

Various means will be employed, as determined from time to time, to assist in monitoring compliance with this Administration Strategy. More detailed methods may be included in the individual employer SLA.

Methods may include:

Audit

The Funds will be subject to regular audits of their processes and internal controls. Fund auditors may require employer auditors to carry out relevant checks e.g. of employee contribution collection.

Performance monitoring

The Funds will monitor their timeliness performance against specific tasks as outlined in Appendix D. In addition, they may monitor employers against the employer requirements outlined in Appendix C and Service Level Agreements.

The Funds will monitor performance regularly by benchmarking with other administering authorities by using the CIPFA Pensions Benchmarking Club.

The Funds may also put in place other measurements to determine how, or if, they are achieving the objectives of this Administration Strategy.

Employer liaison

Employer liaison will take place as follows:

- key performance information will be shared annually with each scheme employer;
- the opportunity for a biennial review meeting between a representative of the administering authority and the scheme employer to monitor and review performance against targets, the quality of information exchange and ensure compliance with statutory obligations and review the SLA for the period until the next review meeting;
- where an employer is not delivering in accordance with an SLA a performance improvement plan will be agreed with appropriate liaison arrangements. This may be initiated outside of the biennial reviews where necessary;
- the administering authority will run seminars and training sessions;
- Employer Pension Forums will be held, at least on an annual basis; and
- the administering authority will ensure an employer liaison helpdesk is available from 9 am to 5 pm during normal working days to answer one-off queries by telephone or email. The helpdesk may be available outside these hours.

Improving administration

Using the means mentioned above, the Funds will monitor progress against this Administration Strategy. This information will from time to time be reported to the respective Funds' Pension Fund Board where any ongoing action will be agreed. In addition, key performance indicators relating to the Funds' performance will be reported in their respective Annual Report and Accounts.

Circumstances where the administering authority may levy costs associated with the scheme employer's poor performance

Regulation 70 of the Local Government Pension Scheme Regulations 2013 provides that an administering authority may recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that scheme employer. Where an administering authority wishes to recover any such additional costs they must give written notice stating:-

- the reasons in their opinion that the scheme employer's poor performance 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.

In instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, these costs will be recoverable immediately.

Circumstances where costs might be recovered

It is not the policy of either Cambridgeshire Pension Fund or Northamptonshire Pension Fund to move immediately to recovering additional costs incurred in the administration of the LGPS as a direct result of the poor performance of the administering authority, any scheme employer or third party service provider. Instead, the Funds will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance, provide the necessary training and development and put in place an improvement plan to improve the level of service delivery into the future.

Where persistent failure occurs and the improvement plan is not followed by a scheme employer additional administration costs will be recovered. In particular, this will only be pursued where the Fund has carried out the following steps:

- written to the scheme employer, setting out area(s) of poor performance;
- met with the scheme employer to discuss area(s) of poor performance, and how these can be addressed, and agreed an improvement plan, but no or little improvement has been demonstrated; and
- the appropriate Pension Fund Board has agreed to reclaim administration costs following a report to them on the circumstances. Before making a decision the Pension Fund Board shall offer the employer the opportunity to make representations in person to the Board, or in writing if the employer so chooses, and to facilitate this will provide 21 days before the meeting a copy of the report to be considered by the Board.

The circumstances where this might be necessary are:

- 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 Fund within the stated timescales;

Where the respective Pension Fund Board agrees costs should be reclaimed, the following sets out the steps the Fund will take in dealing with poor performance by a scheme employer:

- issue formal written notice, where no improvement is demonstrated by the scheme employer/failure to take agreed action by the scheme employer, setting out the area(s) of poor performance that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed;
- clearly set out the calculations of any loss resulting to the Fund or administering authority, or additional cost, taking account of time and resources in resolving the specific area of poor performance, including any fines levied against the administering authority by the Pension Regulator, Pensions Ombudsman or other regulatory body resulting from the employer's poor performance; and

- make a claim against the scheme employer, setting out reasons for doing so, in accordance with the Regulations.

3. Further information

If you would like more information about the Scheme please contact us at the address below.

LGSS Pensions Service
PO Box 202
John Dryden House
8-10 The Lakes
Northampton
NN4 7YD

01604 366537

pensions@northamptonshire.gov.uk

<http://pensions.northamptonshire.gov.uk>
<http://pensions.cambridgeshire.gov.uk>

4. Appendices

Appendix A – Key performance standards

The following are the key performance indicators which will be published annually by LGSS Pensions. These key indicators also appear in the relevant Appendix B, C or D below, depending on whether they represent the performance of the whole Fund, the scheme employer only or the administering authority only.

Function / Task	Indicator	Target
Notify leavers of deferred benefit entitlements	Deferred award letter sent within 40 working days of last day of employment.	90%
Payment of retirement benefits from active employment	Payment of lump sum within 5 working days of payable date or date of receiving all necessary information if later. First pension paid in the month of leaving or in month of receiving all necessary information if later.	95%
Award dependant benefits	Issue award within 5 working days of receiving all necessary information.	95%
Arrange for the correct deduction of employee and employer contributions and pay contributions to Pension Fund in a timely manner, providing an associated monthly statement/schedule in a format acceptable to the Administering Authority	Number of months in the year where contributions were in the Pension Fund by the 19 th calendar day of month after deduction and statement/schedule was received by the same date as payment	100%
Provide LGSS Pension Service with accurate year end information in prescribed format	Accurate year end information to be provided for all Scheme members by 30 April following contribution year end	100%
Provide LGSS Pensions Service with all necessary information regarding new starters and hours/weeks per year variations in a format acceptable to Administering Authority	Accurate information provided within 10 working days of the relevant calendar month end or within 30 days of commencement/change if earlier where employer automatic enrolment duties apply	95%

Function / Task	Indicator	Target
Notify the employer and scheme members of changes to the scheme rules	Within one month of the LGSS Pensions Services being informed of the change	95%
Issue annual benefit statements to active members as at 31 March each year	By the following 31 August (pending timely receipt of satisfactory year end data from the scheme employer)	100%
Provide a maximum of one estimate of benefits to active members per year on request	Estimate in agreed format provided within 10 working days from receipt of all information	90%
Provide transfer-in quote to scheme member	Letter issued within 10 working days of receipt of all appropriate information	95%

Appendix B – Whole Fund administration performance standards

The following are key indicators where the target can only be achieved by the administering authority and scheme employers both delivering high levels of administration.

Function / Task	Indicator	Target
Notify leavers of deferred benefit entitlements	Deferred award letter sent within 40 working days of last day of employment.	90%
Payment of retirement benefits from active employment	Payment of lump sum within 5 working days of payable date or date of receiving all necessary information if later. First pension paid in the month of leaving or in month of receiving all necessary information if later.	95%

Appendix C – Scheme employer performance standards

The following are the performance targets that the scheme employer will be expected to meet.

Function/Task	Indicator	Target
Confirm nominated representatives	Representative confirmed within 30 working days of employer joining and or change to nominated representative	100%
Arrange for the correct deduction of employee and employer contributions and pay contributions to Pension Fund in a timely manner, providing an associated monthly statement/schedule in a format acceptable to the Administering Authority	Number of months in the year where contributions were in the Pension Fund by the 19 th calendar day of month after deduction and statement/schedule was received by the same date as payment	100%
Upon receipt of a notification from an Additional Voluntary Contribution (AVC) provider of an employee's election to pay, vary the amount or cease AVCs (or Shared Cost AVCs where applicable), to apply the notification accordingly and where applicable deduct from a member's pay the contributions as instructed by the AVC provider	Within 1 month of receipt of notification from the AVC provider	100%
Pay over to the specified AVC provider contributions deducted from a member's pay	Within 7 days of deduction from pay	100%
Upon receipt of a notification from the LGSS Pensions Service of an employee's election to pay Additional Pension Contributions (to buy additional pension), to apply the notification accordingly and where applicable deduct from a member's pay and pay over to the LGSS Pensions Service, the contributions as instructed by LGSS Pensions Service	Within 1 month of notification from LGSS Pensions Service	100%
Provide LGSS Pension Service with accurate year end information	Accurate year end information to be provided for all Scheme members by	100%

Function/Task	Indicator	Target
in prescribed format	30 April following contribution year end	
Respond to enquiries from LGSS Pensions Service in respect of retirements, estimates or any other query identified as urgent	Response received within 5 working days from receipt of enquiry.	100%
Respond to enquires from the LGSS Pensions Service in respect of those queries deemed as non urgent	Response received within 10 working days from receipt of enquiry.	95%
Provide new employees with scheme information	Within the automatic enrolment joining window.	100%
Determine appropriate rate of employee contributions for new scheme members in the LGPS	Decisions made by time of first salary payment.	100%
Provide LGSS Pensions Service with all necessary information regarding new starters and hours/weeks per year variations in a format acceptable to Administering Authority	Accurate information provided within 10 working days of the relevant calendar month end or within 30 days of commencement/change if earlier where employer automatic enrolment duties apply	95%
Determine reason for leaving and Final/Cumulative Pensionable Pay, issue leavers certificate to LGSS Pensions Services for leavers NOT entitled to immediate payment of pension	Certificate received within 15 working days of date of leaving	95%
Determine reason for leaving and Final/Cumulative Pensionable Pay, issue retirement pack to member and leavers certificate to LGSS Pensions Service for retirees entitled to immediate payment of pension	Certificate received at least 10 working days <u>before</u> date of leaving.	95%
Must have published Employer Discretions, accessible by all employees and copy provided to LGSS Pensions Service	Discretions published and provided to LGSS Pensions Service within 30 days of approval	100%
Discretions must be reviewed and amended as necessary	Any amendments to discretion must be confirmed in writing within 30 days from change	100%

Appendix D – LGSS Pensions Service performance standards

The following are the headline performance targets that LGSS Pensions Service will be expected to meet.

Function / Task	Indicator	Target
LIAISON AND COMMUNICATION		
Confirm nominated employer liaison officer	10 working days of employer joining fund or change to nominated officer	100%
Publish and keep under review the administration strategy	Within three months of decision to develop an administration strategy or one month of any changes being agreed with scheme employers	100%
Keep up to date the employer website, including procedural guides, scheme guide and all other documents and forms	20 working days from date of change/amendment	100%
Formulate and publish policies in relation to all areas where the Administering Authority may exercise a discretion within the scheme	Within 30 working days of policy being agreed by the Pension Fund Board	100%
Organise bespoke training sessions for Scheme employers, subject to fair use of training resource	Training date agreed with employer within one month of request	100%
Notify the employer and scheme members of changes to the scheme rules	Within one month of the LGSS Pensions Services being informed of the change	95%
Notify the employer of any issues relating to its poor performance (including arranging meeting if required)	Within 20 working days of performance issue becoming apparent	90%
Notify the employer of decisions to recover additional costs associated with their poor performance (including any interest that may be due)	Within 10 working days of the decision of the Pension Fund Board	100%
Issue annual benefit statements to active members as at 31 March each year	By the following 31 August (pending timely receipt of satisfactory year end data from the scheme employer)	100%

Function / Task	Indicator	Target
Issue annual benefit statements to deferred benefit members as at 31 March each year for those which we have an up to date address	By the following 30 June	100%
FUND ADMINISTRATION		
Issue formal valuation results (including individual employer details)	20 working days from receipt of results from Fund Actuary (but in any event no later than 31 March following the valuation date)	100%
Carry out cessation valuation exercise on cessation of admission agreements or employer ceasing participation in the Cambridgeshire Pension Fund or Northamptonshire Pension Fund	Initiated within 40 days with Fund Actuary plus results issued to employer within 2 months of clean data	100%
Publish, and keep under review, the Administering Authority's governance policy statement	Within 30 working days of policy being agreed by the relevant Pension Fund Board	100%
Publish and keep under review the Pension Fund's funding strategy statement	To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's Actuary. Revised statement to be issued with the final valuation report	100%
Publish the Pension Fund annual report and any report from the auditor	By 31 August following the year end	100%
Provide an FRS17/IAS19 report to employers for their chosen accounting date	Within one month of the 31 March, 31 July or 31 August accounting date, providing employer has returned required data to LGSS Pensions Service by the 1 st of the month in which the accounting date falls	100%
SCHEME ADMINISTRATION		
Provide transfer-in quote to scheme member	Letter issued within 10 working days of receipt of all appropriate information	95%

Function / Task	Indicator	Target
Confirm transfer-in payment and service credited to scheme member	Letter issued within 10 working days of receipt of transfer payment by Pension Fund (or receipt of all information needed to complete calculations if later)	90%
Notify the employer of scheme member's election to pay or cease paying additional pension contributions (to buy additional pension) and other contracts, including all required information to enable deductions to commence or finish	Email sent within 5 working days of receipt of election from scheme member	95%
Calculate revised cost of additional regular/additional pension contributions, and notify scheme member	Letter sent within 10 working days of receipt of revised factors from DCLG	90%
Provide requested estimates of benefits to employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency	Estimate in agreed format provided within 10 working days from receipt of all information	90%
Provide a maximum of one estimate of benefits to employees per year on request	Estimate in agreed format provided within 10 working days from receipt of all information	90%
Provide a maximum of one cash equivalent transfer value (CETV) to employees per year on request	Provided within 10 working days from receipt of all information	90%
Provide a divorce quotation to employees on request	Provided within 10 working days from receipt of all information	90%
Notify leavers of deferred benefit entitlements or concurrent amalgamation	Notification issued within 15 working days of receiving all necessary information.	90%
Notify employees retiring from active membership of benefits award	Issue award within 5 working days after payable date or date of receiving all necessary information if later.	95%

Function / Task	Indicator	Target
Payment of ongoing pension (not including the first pension payment)	Eligible payments made on the publicised payment date.	100%
Acknowledge death of active/deferred/pensioner member	Letter issued within 5 working days following notification of death	100%
Award dependant benefits	Issue award within 5 working days of receiving all necessary information.	95%
Provide responses to other enquiries from scheme members, scheme employers, personal representatives, dependants and other authorised persons	Full response within 5 working days from receipt of all information needed to respond to enquiry	90%
Where a full response will not be available within the published service standards send an acknowledgement and provide the expected timescale	Acknowledgement within 5 working days from receipt of initial enquiry	100%
Appoint stage 2 “adjudicator” for the purposes of the pension dispute process and notify all scheme employers of the appointment	Within 30 working days following the resignation of the current “adjudicator”	100%
Process all stage 2 pension dispute applications	Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required.	100%
Publish and keep under review the Pension Fund policy on the abatement of pension on re-employment	Notify scheme members and scheme employers within one month of any changes or revisions to the policy	100%

Appendix E – Communications Strategy

Cambridgeshire **Northamptonshire**
Pension Fund Pension Fund

CAMBRIDGESHIRE PENSION FUND &
NORTHAMPTONSHIRE PENSION FUND

JOINT COMMUNICATION STRATEGY

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1. Introduction

This is the joint Communications Strategy for the Cambridgeshire Local Government Pension Fund and the Northamptonshire Local Government Pension Fund managed by Cambridgeshire County Council and Northamptonshire County Council respectively (the Administering Authorities). The administration of these Funds is carried out by the LGSS Pensions Service, which incorporates administration for both the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund.

Together the Funds have around 400 employers with contributing members and a total membership of over 119,000 scheme members. These members are split into the following categories and with the following approximate numbers of members in each category:

Category	Cambridgeshire Pension Fund	Northamptonshire Pension Fund
Active scheme members	24,854	18,334
Deferred scheme members	25,793	20,887
Pensioner members	14,991	14,155

This document outlines our strategic approach to communications and is effective from 1 November 2014. It will be reviewed annually to ensure the key objectives remain relevant.

2. Communication Strategy

Regulatory framework

This Statement has been produced in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013. The Regulation requires Administering Authorities to:

- Prepare, maintain and publish a written Statement setting out their policy concerning communications with:
 - Scheme members (active, deferred, retired and dependant)
 - representatives of scheme members
 - prospective scheme members
 - scheme employers
- Set out their policy on:
 - the provision of information and publicity about the Scheme
 - the format, frequency and method of distributing such information or publicity
 - the promotion of the Scheme to prospective scheme members and their employers.
- Keep the Statement under review and make such revisions as are appropriate following a material change in the policy on any of the matters included. If revisions are made, a revised statement must be published.

Key objectives

The communications of Cambridgeshire Pension Fund and Northamptonshire Pension Fund will be delivered in line with these objectives. We aim to:

- Provide clear information about the Scheme, including changes to the Scheme, to educate and engage with scheme members so that they can make informed decisions about their membership, contributions and benefits
- Deliver a clear and consistent message, that is engaging, factual and presented in plain language
- Promote the Scheme as a valuable benefit
- Seek and review regular feedback from all stakeholders about communications and shape future communications appropriately
- Look for efficiencies in delivering communications including through greater use of technology and partnership working

Measurements are in place to determine if these objectives are being met – see ‘Implementation of Communication Key Objectives’.

Stakeholders of the Fund

There are several categories of stakeholder as detailed below.

- Active Scheme members
- Prospective Scheme members
- Deferred Scheme members
- Retired and Dependant Scheme members
- Scheme Employers
- Fund staff
- Pension Fund Committee
- External bodies
 - Trades Unions
 - Her Majesty's Revenue & Customs (HMRC)
 - Department for Communities and Local Government (DCLG)
 - The Pensions Regulator
 - National Fraud Initiative

- Audit Commission

Brand Identity

The Funds recognise that our visual identification is one of our most powerful assets. It tells people who we are and influences how they remember and relate to us. Our branding increases our reputation whilst uniting us visually. When branding our communications it is important that:

- We have individual Fund identities that are distinct from each other and the County Council/LGSS identities.
- The look and feel of a communication should be identical where possible, but with separate Fund branding – e.g. newsletters should be identical where possible but would clearly display separate Fund branding on the front cover and only refer to the relevant Fund throughout the text.
- If it is unreasonable to produce different materials (e.g. cost difference, logistical challenges, etc) a joint brand is to be considered.
- Both Pension Fund Boards will be required to sign off high-level branding decisions.
- The brand will need to be adaptable to other funds that may become part of LGSS in the future

Confidentiality

The fund is registered under the Data Protection Act 1998 as part of Cambridgeshire County Council and Northamptonshire County Council. Information will be shared between Cambridgeshire County Council and Northamptonshire County Council for the purposes of pensions administration. Information regarding scheme members and organisations is treated with respect by all our staff.

Disclosure

Each Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC providers.

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.

Freedom of information

This Communications 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 Head of Pensions at the address at the end of this document.

A fee may be charged and the Funds reserves the right to refuse a request 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.

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JOINT ADMINISTRATION STRATEGY & JOINT COMMUNICATION STRATEGY

Implementation of Communication Key Objectives

This table sets out the implementation of the delivery of the Funds key communication objectives.

The agreed objectives with measures for success that form the 'Communication Strategy' are:

Objective	Measures of success	Review process
Provide clear information about the Scheme, including changes to the Scheme, to educate and engage with scheme members so that they can make informed decisions about their benefits	<p>Communication includes information and changes to the scheme that supports all stakeholder understanding</p> <p>Communication is delivered via the most appropriate media to the audience</p> <p>Effective promotion of new media or change of processes to all stakeholders</p> <p>Feedback from all stakeholders that they have understood the communication enough to make an informed decision</p>	<p>Surveys and polls (on websites and by post). Focus groups.</p> <p>Surveys and polls on websites. Focus groups. Monitor hits on website.</p> <p>Use appropriate media to convey relevant messages.</p> <p>Surveys and polls on websites. Focus groups. Monitor incoming telephone call and email volumes.</p>
Deliver a clear and consistent message, that is engaging, factual and presented in plain language	<p>An effective implementation of the Communications Timetable to all audiences that is understood and timely.</p> <p>Feedback from all audiences on the quality and language used in the communication sent.</p>	<p>Monitor enquiries from Stakeholders as to when events will take place. (Reduced enquiries mean effective delivery).</p> <p>Surveys and polls on websites. Focus groups.</p>

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	Feedback on the simplicity, relevance and impact of the communication sent.	Surveys and polls on websites. Focus groups.
Promote the Scheme as a valuable benefit	<p>Identify trends in opt outs. Communication to opt outs includes positive messaging and invites feedback.</p> <p>Positive feedback from all stakeholders</p> <p>All communications promote the scheme as a valuable benefit in a way that it understood by the audience</p>	<p>Monitor opt out rates and reasons, to identify trends.</p> <p>Surveys and polls on websites.</p> <p>Review scheme communications for effectiveness. Online rating of document usefulness.</p>
Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately	The Communications Strategy is reviewed and adapted where appropriate, as a result of feedback from stakeholders	<p>Regular feedback is actively sought by the most appropriate media</p> <p>Processes are reviewed and adapted where appropriate to ensure the effective delivery of communication to all stakeholders</p>
Look for efficiencies in delivering communications through greater use of technology and partnership working	<p>Appropriate media is used for all stakeholders while balancing cost efficiency</p> <p>Reduction in costs on printing through larger print runs covering both authorities</p> <p>Reduction in postage costs</p>	<p>Compare previous communication costs (postage, print and design) with new costs and seek continual improvements.</p> <p>Year on year comparisons.</p>

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	<p>All processes that support the communication delivery are efficient</p> <p>More efficient communications through sharing of knowledge, resources and practice through regional communication working parties</p>	<p>Continual review of processes and communications.</p> <p>Year or year comparisons of cost and quality</p>
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Methods of Communication and Key Messages/Objectives for Stakeholders

The Funds aim to use the most appropriate method of communication when dealing with stakeholders. This may involve more than one communication method. We have recently obtained two new and improved ways of communicating with our stakeholders:

The Pensions Website

In 2012 the LGSS Pensions Service implemented a new website:

- <http://pensions.cambridgeshire.gov.uk>
- <http://pensions.northamptonshire.gov.uk>

Both domain names lead to the same site, which has joint Fund branding ensuring the identity of each Fund is respected.

Whilst the Funds aim to use the most appropriate communication medium for the audience receiving the information we hope that our website will be the first port of call for all stakeholders where appropriate. For the immediate future the Funds will continue to use paper based communications as our main means of communicating with our stakeholders, for example by sending letters and paper copies of Newsletters and Annual Benefit Statements. However, we are committed to using technology to enhance our service and reduce costs, where appropriate, and will therefore continue to explore and develop the use of electronic communications through our website, emails and Self Service.

Self Service

Member and Employer Self Service is an internet based application that allows the individual access to information held by the Pensions Service.

Employer Self Service has been implemented and employers are now able to update their member's records and carry out benefit calculations.

Access to Member Self Service has been offered to the active membership of each Fund. It gives the individual controlled access to their own details, allowing them to update their personal information and carry out benefit calculations.

One of the many benefits of self service for both scheme employers and scheme members is the increased communication and engagement it allows – whilst in its infancy now this is an avenue we will be exploring more thoroughly in the future.

Table Showing our Methods of Communication and Key Message/Objective for Stakeholders

The table below shows the Funds main methods of communicating with the different stakeholder groups, other than the 'usual' day to day communications, plus the key messages and objectives we hope to achieve:

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Stakeholder	Communication	Key message/Objective
Active Scheme members	Annual Newsletter Annual Benefit Statements Calculations and costings (e.g. estimates) 'Short guide to LGPS' 'Full guide to LGPS' Website (in particular 'Latest News' page) Member Self Service External training sessions as requested by employer LGSS Welcome Events LGSS training events Roadshows	Key Messages: <ul style="list-style-type: none"> • Your pension is a valuable benefit • You need to make sure you're saving enough for retirement Objectives: <ul style="list-style-type: none"> • To improve understanding of how the LGPS works • To inform scheme members of their rights and benefits • For queries and complaints to be reduced • To make pensions information more readily available
Scheme employers	Pension Bulletins Ad hoc email alerts Biannual forums Website (in particular 'Latest News' page) Seminars/workshops Bespoke ad hoc training	Key Messages: <ul style="list-style-type: none"> • You need to be aware of your responsibilities regarding the LGPS • The Fund is a valuable benefit for scheme members and is a good tool for retention of staff Objectives: <ul style="list-style-type: none"> • To increase understanding of how the Fund works and the effects on

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JOINT ADMINISTRATION STRATEGY & JOINT COMMUNICATION STRATEGY

	<p>sessions</p> <p>Welcome/Joiner information</p>	<p>scheme members of any legislation changes</p> <ul style="list-style-type: none"> • To improve relationships • Continue to improve the accuracy of data being provided to us • To make pensions information more readily available
<p>Prospective Scheme members And Opt-Outs</p>	<p>Information on website</p> <p>Scheme Information Leaflets</p> <p>LGSS Welcome Event</p> <p>LGSS training events</p>	<p>Key Messages:</p> <ul style="list-style-type: none"> • The pension benefits are a valuable part of your reward package • The LGPS is still one of the best pension arrangements available <p>Objectives:</p> <ul style="list-style-type: none"> • To improve take up of the LGPS • To decrease opt out rate and increase understanding of contribution flexibility i.e. 50/50 option • To increase understanding of how the Scheme works and what benefits are provided • To make pensions information more readily available
<p>Deferred Scheme members</p>	<p>Annual Benefit Statements</p> <p>Calculations and costings (e.g. estimates)</p>	<p>Key Messages:</p> <ul style="list-style-type: none"> • It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes

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	<p>Scheme Information Leaflets</p> <p>Retirement Packs</p> <p>Website</p>	<ul style="list-style-type: none"> The LGPS is still a valuable part of your retirement package <p>Objective:</p> <ul style="list-style-type: none"> To improve understanding of how the LGPS works To make pensions information more readily available
<p>Retired/Dependant</p> <p>Scheme members</p>	<p>Annual Newsletter</p> <p>Payslips (when criteria is met)</p> <p>P60</p> <p>Lifetime Allowance</p> <p>Calculations and costings (e.g. estimates)</p>	<p>Key Messages:</p> <ul style="list-style-type: none"> It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes The LGPS is still a valuable part of your retirement package <p>Objectives:</p> <ul style="list-style-type: none"> To improve understanding of how the LGPS works To make pensions information more readily available
Fund staff	<p>Monthly service meetings</p> <p>Team meetings</p> <p>Ad hoc meetings</p> <p>Consultations</p> <p>1:1 / Appraisals</p> <p>Training & Development</p>	<p>Objectives:</p> <ul style="list-style-type: none"> To ensure staff are kept up to date with important information regarding the Service, the Employing Authority and the wider world of pensions as a whole For staff to feel a fully integrated member of the team For management to feedback to staff regarding their individual progress

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		<ul style="list-style-type: none"> To give staff a chance to feedback their views and suggestions
Pension Fund Boards and Investment Sub Committees	Committee Papers Presentations Consultations Agendas Minutes	Objectives: <ul style="list-style-type: none"> To update on the implementation of a policy To monitor success against the agreed measures
External authorities <ul style="list-style-type: none"> Trade Unions Her Majesty's Revenue & Customs (HMRC) Department for Communities and Local Government (DCLG) Pensions Regulator Audit Commission 	Response to enquiries and consultations. Response to changes in legislation.	Objectives: <ul style="list-style-type: none"> To response to enquiries/statutory requirements.

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Communication Timetable

MONTH	ACTIVITY							
	Active Scheme members	Scheme employers	Prospective Scheme members	Opt - outs	Deferred Scheme members	Retired Scheme members	Dependant Scheme members	Fund staff
JAN								Monthly team meeting Service meeting
FEB								Monthly team meeting Service meeting
MAR						Newsletter incorporating Pensions Increase notification, plus pay dates and other relevant information to be sent out with payslip.	Newsletter incorporating Pensions Increase notification, plus pay dates and other relevant information to be sent out with payslip.	Monthly team meeting Service meeting

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APR						Payslip	Payslip	Monthly team meeting Service meeting
MAY					Annual Benefit Statements - LGPS & Councillors	LTA% on payslip.	LTA% on payslip.	Monthly team meeting Service meeting
JUN	Fire Annual Benefit Statements*							Monthly team meeting Service meeting
JUL	Police Annual Benefit Statements*							Monthly team meeting Service meeting
AUG	Annual Benefit Statements - LGPS and Councillors							Monthly team meeting Service meeting
SEPT								Monthly team meeting Service meeting
OCT								Monthly team meeting

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								Service meeting
NOV								Monthly team meeting Service meeting
DEC	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts	Annual reports & accounts Monthly team meeting Service meeting
Ad hoc Comms	LGSS Training Days Website	Procedures training – road shows. Pension Bulletins Website Valuation Report (every 3 yrs)	LGSS Welcome Events Posters Website	Website	Website	Website	Annual review of entitlement – May/June. Website	Regional Pension Officer Groups Website Pension Managers Annual Conference Pension Committee Valuation Report (every 3 yrs) CLASS User Group/AGM

* Must be an active scheme member as at 31st March in the financial year that the statement relates.

3. Further information

If you have any enquiries in relation to this Communications Strategy please do not hesitate to contact us.

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Northamptonshire Pension Fund

Funding Strategy Statement

March 2014

Main contact:

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Funding Strategy Statement

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Northamptonshire Pension Fund ("the Fund"), which is administered by Northamptonshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 25th December 2013.

1.2 What is the Northamptonshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Northamptonshire Fund, in effect the LGPS for the Northamptonshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment principles.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Paul Tysoe, LGSS Funding and Governance Manager in the first instance at e-mail address phtysoe@northamptonshire.gov.uk or on telephone number 01604 368671.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in [Appendix E](#). Note that this is a notional Fund-wide, not employer specific, contribution rate.

The Fund’s actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in [Section 3](#). It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances. These may be suitably adjusted for employers who are approaching cessation from the Fund.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31st March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in [Section 3](#). This will also include consideration of whether the employer appears to be heading for cessation from the Fund (eg due to having a low and reducing number of active members).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status; in addition, other forms of school (such as Free Schools) can be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The provision of benefits to ex-employees and their families has broader benefits to society, such as a healthier local economy and reduced means-tested State benefit payments;
- Unlike other public sector pension schemes, the LGPS Funds must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security

provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf ([3.3](#)) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Police, Fire, Colleges etc	Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Yes - see Note (b)	Academies contribution rate Note (b)	No	No	No but see Note (i)
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	Average expected future working lifetime	Average expected future working lifetime	Outstanding contract term (or future working lifetime, if less)
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Percentage of pay	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes – Note (e)	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	3 years or outstanding contract term if less
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Reviewed annually by request in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement, or similar. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising. If cessation prior to end of contract then see Note (j) .

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the *discount rate* used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see headings in table below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

Type of employer	Less mature* tax-raising authority, police authority	More mature* tax-raising authority	Academy **	College or University
Base cont rate	Actual 2013-14 rate	Actual 2013-14 rate	County rate plus 1% of pay	Actual 2013-14 rate
Max cont increase each year	+1% of pay	+2% of pay	+1% of pay	+1% of pay
Max cont decrease each year	-1% of pay	-2% of pay	-1% of pay	-1% of pay

The 4th year (2017-18) contributions are being held exactly as the 3^d year (2016-17 contributions), subject to adverse market conditions not making it unsafe to do so.

*The split in maturity is based on criteria such as ratio of liabilities to payroll ("gearing") and current contribution rate, after discussion between the actuary and Administering Authority, on the basis of analysis carried out by the actuary. The criterion for "less mature" is that the gearing ratio should be no more than 9, with higher gearing relating to a "more mature" authority.

**The Academy stabilised rate is a single minimum rate applicable for all academies in the Fund as an alternative to their individual calculated rate, if the latter is higher. This rate will normally be close to (but not exactly equal to) the rates applicable to the ceding Local Authority.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2018. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors. At the 2013 valuation the Administering Authority adopted a policy of ensuring the stabilised rates would remain in force for two years (as opposed to one year) after each future valuation date, to provide sufficient advance notice to such employers regarding possible changes in their contribution rates.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 10 years, unless other arrangements are in place (such as pooling).

Note (d) (Deficit Recovery Payments)

Deficit recovery payments for each employer covering the four year period until the next valuation will typically be set as a monetary sum as opposed to a percentage of salaries. However, where a percentage of salaries approach is adopted, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or

- the employer has closed the Fund to new entrants.

For certain employers the Fund may split contributions in recognition of different groups of employees, and apply different contribution approaches accordingly. Any such arrangements will be identified in the Rates & Adjustments Certificate produced with the formal valuation report.

Note (e) (Phasing in of contribution changes)

It has been agreed at the 2013 valuation that contributions will be set for the next four years (ie to 2017/18), moving to three-yearly thereafter: this will assist employers in their budget planning process in future. All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at the date of this valuation will not be phased.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee. In other words, if higher contributions are required then these will be implemented immediately (and will therefore supersede the rates put forward at the formal 2013 valuation), to be in force for the remaining period to the next valuation.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;
- e) As an alternative to (d), the academy will have the option to elect to pay contributions outlined in Note (b) above (regarding stabilised contribution rates). These have been calculated in line with the ceding Local Authority. However, this election will not alter the academy's asset or liability allocation as per (b) and (c) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (d) and (e) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

In some cases it may be deemed that the risk is minimal, in which case no security will be required: this will only apply with the agreement of the Administering Authority, and recorded as such.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Under the standard approach, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Instead of the above approach, employers which "outsource" have flexibility and can share the pension risk potentially taken on by the contractor. In particular there are three different risk-sharing routes that such employers may wish to adopt, in place of the above standard approach. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit. A variation of this is where the letting employer is paying a "stabilised" contribution rate, and permits the contractor to pay the same rate.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in a side agreement between the contractor and letting employer (such as the transfer agreement), as opposed to the Admission Agreement. The side agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note that, as such risk-sharing arrangements are by agreement between the letting employer and the contractor (as opposed to the Fund), then these will normally fall outside the Admission Agreement: the Admission Agreement will still require that the contractor pays full (and variable) contributions to the Fund, and any adjustments are then settled between the letting employer and the contractor separately.

It should be noted that a letting employer which establishes a number of risk-sharing arrangements will inevitably face different (and possibly higher) pension costs and risks to itself in the future. This arises due to the retention of risk but the transfer-out of staff and revenue. This situation may require further analysis, and changes in contribution arrangements, for the letting employer.

Note (j) (Admission Bodies and Designating Employers Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund;
or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

Where a cessation event has been triggered as per the above, or for non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in [Appendix E](#);
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers, and change or alter the membership of such pools. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools (other than academies) are generally pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority, and/or it is considered appropriate to adopt a probabilistic-based analysis on the employer's contributions and obligations.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Normally such payments are required in a single lump sum immediately. However, with the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 3 years
Community Admission Bodies and Designating Employers	- up to 3 years
Academies	- up to 3 years

3.7 Ill health early retirement costs

At the time of writing, all employers have ill health liability insurance (see 3.8 below) which means that such costs are met (at least up to a point) by a single lump sum paid by the relevant insurer.

3.8 Ill health insurance

The Administering Authority has arranged a current insurance policy covering ill health early retirement strains for all employers in the Fund, on a mandatory basis. The employer's contribution to the Fund each year includes its share of that year's insurance premium. The existence of whole Fund insurance therefore has no impact on the total contributions paid to the Fund.

The Administering Authority will keep the employers notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(j\)](#)) and consequently have no further obligation to the Fund.

Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund;
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- Notwithstanding the above, the Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment principles

4.1 What are the Fund's investment principles?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is described as the investment principles.

Investment principles are set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment principles are set for the long-term, but reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and kept under review annually between actuarial valuations to ensure that they remain appropriate to the Fund's liability profile.

The same investment principles are currently followed for all employers.

4.2 What is the link between funding strategy and investment principles?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment principles). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment principles?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment principles of the Fund. The asset outperformance assumption contained in the discount rate (see [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g.

equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see [3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment principles, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2018, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Board meetings, and also to employers through newsletters and Employers Forums.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- “to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was made available for comment on the Fund website in November 2013.
- b) Comments were requested within [30] days;
- c) There was an Employers Forum on 13 November at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, in [December 2013].

A3 How is the FSS published once finalised (after the consultation)?

The FSS is made available through the following routes:

- Published on the website, at [<http://pensions.northamptonshire.gov.uk>];
- A full copy linked from the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Board and would be included in the relevant Board Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at <http://pensions.northamptonshire.gov.uk>.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and

- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Large scale outsourcings affect letting employer's ability to meet legacy liabilities	Situation monitored for all such employers (mainly local authorities), and Officers liaise with Actuary to determine whether further analysis is necessary in any given case.
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level. Appropriate probability margin used in target funding level for stabilised employer.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is provided.</p>
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there

Risk	Summary of Control Mechanisms
	<p>is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Change in local government landscape (eg due to large scale outsourcings and reorganisations, and/or budget cuts) reduce local authorities' ability to properly fund pension obligations	Position monitored at triennial valuations, and full discussions with local authorities to ensure proper understanding of long term obligations, costs and risk.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in	The Administering Authority maintains close contact with its specialist advisers.

Risk	Summary of Control Mechanisms
some way	<p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See [Section 3](#) for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see [Appendix E](#)), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see [Section 3](#)).

The approach used to calculate each employer’s future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

¹ See LGPS (Administration) Regulations 36(5).

² See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the “Projected Unit Method” of valuation with a one year period, i.e. only considering the cost of the next year’s benefit accrual and contribution income. If future experience is in line with assumptions, and the employer’s membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers’ contributions, the “Attained Age” funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund’s actuary is required to report on the “solvency” of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

‘Solvency’ is defined to be the ratio of the market value of the employer’s asset share to the value placed on accrued benefits on the Fund actuary’s chosen assumptions. This quantity is known as a funding level.

For the value of the employer’s asset share, see [D5](#) below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer’s current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

D4 What affects a given employer’s valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer’s liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

It should be noted that, whilst this assumption will affect the pre-2013 accrual of liabilities (and hence deficits), it will no longer be relevant for most employers under the new 2014 LGPS design: this is because of the Career Average approach replacing the current final salary basis.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is to add around 1% per annum per year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide future service rate plus past service adjustment . It should be noted that this will differ from the actual contributions payable by individual employers .
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit . A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and liabilities values for each employer are individually tracked, together with its future service rate at each valuation .
Funding level	The ratio of assets value to liabilities value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active members , excluding members' contributions but including Fund

	administrative expenses. This is calculated using a chosen set of actuarial assumptions . It is usually expressed as a percentage of pay.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer’s annual contribution which relates to past service deficit repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit , or (if

formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see [3.4](#)).

Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% funding level , ie where the assets value equals the liabilities value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both future service rate and past service adjustment , which would be calculated on the standard actuarial basis , before any allowance for stabilisation or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

NORTHAMPTONSHIRE LOCAL GOVERNMENT PENSION SCHEME

Statement of Investment Principles

February 2015

Statement of Investment Principles

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A. Introduction

- A.1 The Pension Fund Board (PFB) of the Northamptonshire Local Government Pension Scheme acting with the delegated authority of the Northamptonshire County Council (the Administering Authority) has approved this Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This statement is available to the public on the Fund's website at: <http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/> . This document supersedes all previous versions of the SIP.
- A.2 This Statement of Investment Principles (SIP) must cover the Fund's policy on:-
- a) the types of investment to be held;
 - b) the balance between different types of investments;
 - c) risk, including the ways in which risks are to be measured and managed;
 - d) the expected return on investments;
 - e) the realisation of investments;
 - f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
 - g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
 - h) stock lending.
- A.3 The SIP must be reviewed and if necessary, revised, by the Administering Authority from time to time and, in the case of any material change in the authority's policies or breach of compliance, within six months of such change. To meet this requirement the PFB reviews the SIP annually.
- A.4 The SIP has been prepared taking into account the most recent actuarial valuation and the Funding Strategy Statement (FSS).

B. Compliance Statement

- B.1.1 The SIP is required to state the extent to which the Administering Authority is compliant with the Guidance given by the Secretary of State and also the extent the authority does not comply and if so the reasons for non compliance.
- B.1.2 The table below sets out the requirements of the contents of the SIP, and the section within the SIP evidences this. This document therefore demonstrates that the Fund is currently Fully Compliant with all its requirements under the Regulations.

Document Ref	Requirement <i>That the SIP covers statements on:</i>	Compliance Status
D2	The types of investment to be held	Fully Compliant
D3	The balance between different types of investments	Fully Compliant
D4, Appendix C	Risk, including the ways in which risks are to be measured and managed	Fully Compliant
D5	The realisation of investments	Fully Compliant
D6	The expected return on investments	Fully Compliant
D7	Stock Lending	Fully Compliant
Section E, Appendices D & E	The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments	Fully Compliant
Section E, Appendices D & E	The exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy	Fully Compliant

C. Funding objectives

C.1 Funding objective

C.1.1 The primary objective of the Fund is to achieve a funding level of 100% over the long-term (on a prudent basis) whilst ensuring that there are sufficient resources available to pay pensions and other benefits as and when they fall due. These payments will be met by contributions or asset returns and income. To the extent that the accumulated assets fall short, then higher cash contributions are required from employers, and vice versa.

C.1.2 The Fund is subject to an actuarial review every three years, in preparation for which the Fund, in conjunction with the Fund's Actuary and taking investment advice, prepares a Funding Strategy Statement (FSS) that sets out the strategy to ensure the long-term solvency of the Fund whilst recognising the need for a minimum (where possible and subject to a level of prudence) and, stable level of employer contributions. The FSS is published on the Fund's website at:
<http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/> .

D. Investment Principles

D.1 Investment Policy

- D.1.1 The investment objectives are to maximise investment returns over the long term within specified reasonable risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income combined).
- D.1.2 The investment style is to appoint suitable expert fund managers with a clear performance benchmark and place maximum accountability for performance against that benchmark on the fund manager.

D.2 Types of Investment to be held

- D.2.1 In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the acceptable types of investment which the fund managers may hold include:
- Equities
 - Fixed Interest Bonds
 - Index linked instruments
 - Property Unit Trusts
 - Hedge Fund of Funds
 - Private Equity Fund of Funds
 - Alternatives Investments such as Infrastructure, Futures, Derivatives and Commodities
 - Cash Instruments
 - Relevant Insurance Instruments

D.3 Balance between different types of investment

- D.3.1 The PFB reviews the allocation over the different types of investment formally as part of the triennial funding valuation; however reviews can occur more frequently should material issues arise.
- D.3.2 Following the strategic review and allocation of investment types, the Fund will review and if necessary change, its mix of external fund managers to efficiently deliver the Fund's investment portfolio.
- D.3.3 The Fund holds assets across a range of products and managers in order to diversify the investment manager risk, and currently has eleven investment mandates with seven fund managers. Each will have an agreement in place that sets out the relevant benchmark against which performance will be measured, a performance target and any constraints and parameters within which the manager must operate. Appendix A and B show the detailed breakdown of managers and mandates as at the date of this report.
- D.3.4 Over time the actual asset allocation will deviate from the strategic percentage allocation due to the differential relative performance of each investment type. The Fund's Investment Sub Committee has agreed that the

actual value of each major investment type can vary within the following tolerances:

	<u>Allowable variation compared to the total value of the Fund</u>
Equities	+/- 5%
Bonds	+/- 3%
Alternatives	No formal range due to liquidity constraints

Asset balances are rebalanced within these tolerances and the ISC review the actual asset allocation compared to the strategic target allocation each quarter.

- D.3.5 The Administering Authority believes the current strategic asset allocation and blend of fund managers, provides a strong diversification, specialisation and spread of risk for the investments of the Fund's assets.

D.4 Investment Risk

- D.4.1 Managers are monitored relative to their long term return targets and stated risk levels. Care is also taken to understand the circumstances under which managers are expected to perform well and the converse, with the aim of avoiding short term decision making. The appointment of more than one fund manager introduces a level of diversification of manager risk and style.

- D.4.2 Fund managers are expected to exhibit a diversified portfolio within their strategy remit and demonstrate that risks are sufficiently controlled and the potential for losses is reduced. The nature and extent of risks arising from financial instruments is disclosed in the Pension Fund Statement of Accounts each year.

Fund managers are also instructed to observe the Fund's restrictions in investments as set out in the Investment Regulations 2009.

- D.4.3 Fund managers will bias their portfolios towards stocks which are expected to out-perform in rising or falling markets, but not take such contrarian positions that major under-performance occurs if they are incorrect in their strategies. They are required to operate in such a way that the possibility of under-performance against the long term target is kept within an acceptable limit. Fund managers will use and report on the risk measures employed on a regular basis.

D.5 The realisation of investments

- D.5.1 Some fund managers are required to maintain portfolios that consist of assets that are readily realisable. The majority of the Fund's investments are quoted on major stock markets and thus may be realised relatively quickly if required.

- D.5.2 The PFB has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

D.6 Expected return on investments

- D.6.1 The Fund is expected to produce a return over the long term in excess of the investment return assumed in the actuarial valuation. The majority of the Fund's assets are managed on an active basis and, overall, the Fund is expected to out-perform its benchmarks over the long term.
- D.6.2 At the last actuarial valuation, an excess return of 1.6% p.a. over gilts was assumed for the Fund's assets. The Fund monitors investment return against the valuation assumptions, through quarterly performance monitoring from WM Company (the Fund's performance reporter) and meeting with managers at quarterly ISC and Interim meetings to discuss performance relative to their benchmark and longer term objectives. Additionally WM Company and the Fund's Investment Consultant, Mercer Limited, report on fund performance and manager prospects annually at the PFB and ISC.

D.7 Stock Lending

- D.7.1 The Fund actively engages in Stock Lending as permitted by the LGPS regulations through the Fund's custodian with a formal agreement in place and approved collateral to protect the Fund's assets. Lending is limited to 35% of the stock held by the Fund, although actual activity in 2013-14 averaged 7.5% and in 2012-13 9.2%.

D.8 Operational Risk

- D.8.1 The overall risk for any Pension Scheme is that its assets will be insufficient to meet its liabilities. The risk is negligible for Local Authority Funds as they are open to future accrual and new members and the overall covenant of the major employers is generally strong..
- D.8.2 In terms of specific investment risk, the Northamptonshire Pension Fund is managed in a way that is designed to control and mitigate against this.
- D.8.3 Further Asset Liability Studies will be undertaken to help the PFB and ISC determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets, whilst maintaining the required level of expected return. The asset allocation will be formally reviewed following the triennial valuation, and at other times as required.
- D.8.4 The Fund will normally hold a large proportion of its assets in equities, which although they don't match the liabilities, are expected to give a long term return in excess of gilts and so will help recover the deficit and keep future contributions low. There is a risk associated with this view and so the Fund also invests in a range of diversified assets and is looking to build up a level of protection against high inflation (which along with interest rates is the biggest risk in relation to the deficit increasing)..
- D.8.5 The performance of the Fund's Custodian and associated activities of the Investment Managers will be reviewed annually. The aim of this is to:

- Gain feedback on the quality of services from the existing providers and comparisons with alternative providers.
- Provide transparency and openness with regard to the investment operations of the Fund and the related fees and costs.

E. Responsible Investment Policy

E.1. Responsible Investment – Position, Definition and Beliefs

- E.1.1 The Fund is a long-term investor, with a commitment to responsible investment (RI). The Fund defines “responsible investment” as the “integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices.
- E.1.2 The Fund recognises that effective management of ESG issues can enhance long-term financial performance of investments, and therefore ESG factors should be a feature of investment analysis and management. This aligns with the best interests of the Fund’s beneficiaries and is consistent with fiduciary duty.
- E.1.3 With regard to RI, the Fund is mindful of recent Law Commission recommendations on pension trustees’ duties when setting an investment strategy which state that:
- E.1.3.1 Trustees should take into account factors which are financially material to the performance of an investment. Where trustees think ethical or environmental, social or governance (ESG) issues are financially material they should take them into account.
- E.1.3.2 Whilst the pursuit of a financial return should be the predominant concern of pension trustees, the law is sufficiently flexible to allow other, subordinate, concerns to be taken into account. The law permits trustees to make investment decisions that are based on non-financial factors, provided that:
- (a) they have good reason to think that scheme members share the concern; and
 - (b) the decision does not involve a risk of significant financial detriment to the fund.

E.2. Scope

- E.2.1 This RI Policy covers the Fund’s activities as an asset owner, specifically the decisions and activities that we undertake as we manage the Fund’s assets and liabilities.
- E.2.2 The Fund’s assets are managed by third-party investment managers. Monitoring how the investment managers are meeting the Fund’s

expectations set out in this policy is therefore a major part of how we meet our objectives in this area.

E.3. Governance of the RI Policy

- E.3.1 The Fund's PFB is responsible for the development, implementation and monitoring of this policy. The PFB is also responsible for reviewing and, if necessary, updating this policy on an annual basis.
- E.3.2 The PFB has delegated responsibility for monitoring the Fund's investment managers to the Fund's ISC. The ISC is responsible for monitoring the RI activities of the Fund's investment managers and for reporting on the Fund's RI activities to members.
- E.3.3 RI reporting will focus on areas such as the development of the Fund's manager monitoring activities, including their voting and engagement activities.

E.4. Engagement – encouraging ESG best practice

- E.4.1 The Fund's objective in addressing RI and related issues is to use its influence to encourage ESG best practice by its investment managers. All managers have statements which detail the principles by which they invest in and engage with companies.
- E.4.2 The Fund supports the UK Stewardship Code and expects the Fund's investment managers to comply with the UK Stewardship Code. In Appendix D, the Fund has issued a Statement of Commitment to the UK Stewardship Code highlighting how the Fund is discharging its stewardship responsibilities.
- E.4.3 The Fund will exercise its ownership responsibilities by:
- Ensuring that all investment management agreements clearly set out the Fund's expectations regarding the consideration of ESG issues.
 - Managers should have a clear process for integrating ESG considerations into investment decision-making processes.
 - Managers will be expected to adhere to all relevant stewardship guidelines (e.g. the UK Stewardship Code) on a comply or explain basis.
 - Monitoring the Fund's investment managers annually to determine the extent to which our expectations are being met.
 - Where portfolio companies fail to meet certain minimum ESG standards, investment managers must explain what steps are being taken to bring them up to the minimum level.
 - Managers will report regularly (at least annually) and in detail to the ISC on how they are meeting or addressing the Fund's ESG requirements.

E.5. Collaborative engagement

- E.5.1 At times the Fund finds it more effective to work in collaboration with other investors to achieve its aims. For example, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF). This initiative enables the Fund to work with other investors to understand the impacts of ESG considerations on financial performance.

E.6. Corporate Governance and Proxy Voting

- E.6.1 The Fund has used best practice standards to develop a view on the most important high-level governance issues. With respect to investments in the UK, we expect the managers to have due regard to the UK Corporate Governance Code. With respect to overseas investments, we expect the managers to have due regard to relevant recognised standards, including the ICGN's [International Corporate Governance Network] Global Governance Principles and Securities Lending Code of Best Practice as well as the OECD [Organisation for Economic Co-operation and Development] Corporate Governance Guidelines.

- E.6.2 These principles are as follows:

- **Effective Boards:** An effective board of directors is essential to the long-term success of a company. The board provides strategic guidance to as well as oversight of the executive directors on behalf of shareholders. The board should also consider the interests of company stakeholders including employees, suppliers, customers, the environment and society. To do this requires sufficient independence from the executives as well as the right mix of skills, competence and experience.
- **Accountability & Risk Management:** The board must at all times be conscious of its accountability to shareholders. It is responsible for determining the nature and extent of any significant risks taken on by the company in the pursuit of its strategic objectives. Risk management should be dynamic and comprehensive, considering operational, reputational and ESG risks in addition to financial risks.
- **Shareholder Rights:** Shareholders should be encouraged to participate in supporting good governance – voting rights should be equal across all shareholders; the exercise of voting rights should not be subject to unnecessary hurdles; directors should engage shareholders to explain voting issues where necessary; shareholders should have a say on major decisions (e.g. approving executive remuneration and major share issuance, nominating and appointing directors and external auditors etc.).
- **Shareholder responsibilities:** Shareholders should remain conscious of their duties to beneficiaries at all times including when considering corporate governance and other ESG issues. This can be achieved by considering ESG issues when assessing the risk of portfolio companies; exercising voting rights actively and intelligently and by collaborating with other investors. Beneficial owners should also aim to integrate ESG criteria into investment management mandates where appropriate.

- **Remuneration:** Remuneration policies should reinforce (rather than undermine) company culture. The board should use remuneration policies to align the interests of executives and shareholders, incentivising behaviour that encourages long-term financial health and promotes sound risk management. Significant aspects of remuneration policy should be developed through formal and transparent processes and be adequately disclosed to and approved by shareholders.
- **Transparency:** The board should ensure that shareholders receive accurate, relevant and timely information regarding financial, strategic, operational, and ESG issues. Accounting, governance, remuneration and wider corporate responsibility policies should be clearly disclosed and come with a statement of support by the board.
- **Stock lending:** Prior to engaging in a programme of stock lending beneficial owners should consider the risks inherent in this activity.

E.6.3 The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed by the ISC as part of the Fund's manager monitoring processes.

E.6.4 The Fund expects its investment managers to demonstrate adherence to the above principles in the proxy voting decisions undertaken in relation to the Fund's assets. The PFB will capture the extent to which this has happened through the Fund's manager monitoring process.

E.6.5 The Fund expects that its delegated investment managers will:

- Vote all shares (for listed equity assets) without exception unless a valid reason is provided as to why not (such as share blocking)
- Not undertake stock-lending to any third party without the prior agreement of the Fund.

E.7. Manager Monitoring

E.7.1 Manager monitoring is a key element of the Fund's RI strategy. The PFB monitors the progress of its investment managers regarding the integration of ESG issues into their investment decision-making processes.

E.7.2 The Fund's monitoring process will look for evidence of positive momentum towards its ESG expectations by:

- Developing a formal but straightforward system of monitoring our investment managers based on the Fund's ESG expectations
- Using this system to keep track of progress
- Using information obtained from this monitoring process to demonstrate progress to the Fund's members via reporting on the Fund's website.

E.7.3 The Fund's manager monitoring process for the integration of ESG covers all asset classes.

E.8. Negative screening/investment exclusions

- E.8.1 The Fund adopts the view that it should seek out investment opportunities on the basis that they meet the needs of its long-term investment strategy and the nature of its liabilities.
- E.8.2 In line with this policy and the Fund's commitments to responsible investment, the Fund recognises that it must do this whilst considering ESG issues whenever they are relevant
- E.8.3 The Fund has adopted a policy of engagement rather than exclusion.
- E.8.4 The PFB will continue to review the Fund's position on exclusions on an annual basis.

E.9. Compliance with the Myners Principles

- E.9.1 In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Fund's compliance with the Myners principles is set out in Appendix E.

Appendix A - Fund Managers and Mandates

Target Asset Allocation and Fund Specific Benchmarks February 2015

The table below shows the Fund's asset allocation together with the specific benchmarks (indices) against which to measure investment performance.

UK Equity		23.0%	
Majedie	11.5%	FTSE All-Share index	
UBS	11.5%	FTSE All-Share index	
Global Equity		41.0%	
UBS	20.7%	FTSE All World (inc EM)* Passive	
Newton	15.3%	MSCI World AC	
Skagen	5.0%	Benchmark agnostic (but MSCI World AC is used as a guide for performance monitoring purposes)	
Fixed Income		20.0%	
Wellington UK Fixed Income	10.0%	6.67% BofA Merrill Lynch Sterling Broad Market 3.33% BofA Merrill Lynch Index Linked Gilts Index	
Wellington Global Total Return	5.0%	BofA Merrill Lynch T-Bill Index + 5%	
Wellington Global Strategic Credit	5.0%	No specific benchmark (but Barclays Global Aggregate Credit 1-5y GBP Hedged Index is used for performance monitoring purposes)	
Property		8.0%	
CBRE	8.0%	IPD All Balanced Funds Index	
Diversified Growth Fund		8.0%	
Baillie Gifford	8.0%	UK base rate + 3.5%	
		100.0%	

Appendix B – Performance Targets

The Managers appointed to the Fund and their individual performance targets over the benchmark indices above [over a rolling three year period] are:

Investment Manager	Asset Class	Performance Target above benchmark
UBS	UK Equity	2%
Wellington	UK Fixed Interest	1%
	Global Strategic Credit	n/a
	Global Total Return	n/a
Majedie	UK Equities	2%
Skagen	Global Equities	n/a (assumed 3% as guide)
Newton	Global Equities	2%
UBS	Passive Global Equities	0%
Baillie Gifford	Diversified Growth	0%
CBRE	Property	1%
Overall Fund Target – the overall performance target is calculated taking into account the weightings for each manager		1.6%

Appendix C - Key Risks and Controls

Risk	Summary of Controls	Risk Index 1: Low...5:High
KEY RISKS AND CONTROLS		
Inappropriate long-term investment strategy.	<ul style="list-style-type: none"> Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. 	3
Inappropriate investment decisions are made due to inaccurate or unreliable data, insufficiently trained or competent members to make decisions or inappropriate advice.	<ul style="list-style-type: none"> Performance measurement is produced by the Fund's external providers and reviewed by Officers. Market data, such as the performance record of alternative Fund Managers is sourced by the investment consultants from their proprietary database. Members participate in a Skills & Knowledge programme that is refreshed regularly. Only reputable professional advisers are employed following a rigorous procurement process. The Fund has appointed an Independent Investment Adviser to provide an additional level of review and challenge to investment decisions. 	3
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<ul style="list-style-type: none"> Only anticipate long-term return on a relatively prudent basis to reduce the risk of under-performing. Analyse progress at three yearly valuations for all employers. Inter-valuation monitoring of investment performance. 	5
Fall in risk-free returns on government bonds, leading to a rise in the value placed on liabilities.	<ul style="list-style-type: none"> Inter-valuation monitoring of investment performance. Asset Allocation reviews 	3
Active investment manager under performance relative to benchmark over the medium term.	<ul style="list-style-type: none"> Quarterly monitoring of market performance and active managers' performance relative to their benchmark and longer 	3

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	term objectives.	
Pay and price inflation significantly more than anticipated.	<ul style="list-style-type: none"> • The focus of the actuarial valuation process is on the real return on assets, net of price and pay increases. • Inter valuation monitoring provides early warning. • Some investment in index-linked bonds helps to mitigate this risk. 	3

Appendix D - Statement of Commitment to the UK Stewardship Code

The Northamptonshire Local Government Pension Scheme (the “Fund”) believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Fund’s beneficiaries and aligned with fiduciary duty. Therefore, the Fund supports the principles of the UK Stewardship Code (the “Code”).

The Fund believes that Environmental, Social and Corporate Governance (“ESG”) issues can affect the performance of investment portfolios and are therefore considered as part of the Fund’s investment process.

Principle	Evidence of compliance
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	<p>The Fund has given its managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Fund’s investments. This policy is outlined in the Fund’s Responsible Investment Policy in section D.3 of the SIP, which is publicly available and is reviewed on an annual basis.</p> <p>The Fund supports the UK Stewardship Code and expects the Fund’s investment managers to comply with the UK Stewardship Code. The Fund monitors the investment managers in this regard on an annual basis.</p>
Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed	<p>The Fund encourages the investment managers to adopt effective policies addressing potential conflicts of interest with regards to stewardship activities. The Fund monitors the investment managers in this regard.</p> <p>The Funds’ overriding obligation is to act in the best financial interests of the members. Our policy of constructive engagement with companies is consistent with the Funds’ fiduciary responsibilities.</p>
Principle 3 – Institutional investors should monitor their investee companies	<p>The Fund has delegated responsibility of the management of its equity holdings to investment managers and monitoring investee companies is part of this responsibility. The Fund encourages investment managers to monitor companies, intervene where necessary and report back regularly on activity undertaken.</p> <p>The Fund undertakes regular monitoring of the activities of the investment managers.</p>

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Principle	Evidence of compliance
Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their Stewardship activities	<p>Responsibility for stewardship activities is delegated to the Fund's investment managers.</p> <p>As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary and the Fund monitors the investment managers in this regard.</p> <p>We expect the approach to engagement on our behalf to be value orientated and focussed on long term profitability. We expect the Fund's investment managers to disclose their guidelines for such activities in their own statements of commitment to the Code.</p>
Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate	<p>The Fund is willing to work collaboratively with other investors, where appropriate, to enhance the influence that it has on individual companies.</p> <p>The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"), which engages with companies over ESG issues on behalf of its members.</p>
Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity	<p>The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed as part of the Fund's manager monitoring processes.</p> <p>The Fund expects its delegated investment managers to vote on all shares held (without exception unless a valid reason is provided as to why not (such as share blocking)).</p> <p>Reporting on voting and engagement activities is provided to the Fund on a regular basis and the Fund monitors the investment managers in this regard.</p>
Principle 7 – Institutional investors should report periodically on their stewardship and voting activities	<p>The Fund expects the investment managers to report regularly on their stewardship and voting activities.</p> <p>In addition, the Fund encourages the investment managers to consider and report the impact of engagement activity.</p> <p>The Fund reports annually on stewardship activity through a specific section on Responsible Investment in the Funds' annual report and accounts.</p>

Appendix E - Compliance with the Principles of Good Investment Practice (“the Myners Principles”)

The Myners Principles are a set of principles for good investment governance, originally created in 2001 and subsequently updated in 2008. Local government pension funds are required to produce a statement in their annual report regarding compliance with these Principles on a ‘comply or explain’ basis. The Myners Principles are:

Principle	Evidence of compliance
<p>Effective Decision Making</p> <p>Administering authorities should ensure that:</p> <ul style="list-style-type: none"> Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>The Pension Fund Board meets on a quarterly basis and is the main committee for the Fund addressing strategic and policy matters.</p> <ul style="list-style-type: none"> The Pension Fund Board is supported by the Investment Sub Committee - formed to specifically implement Investment and funding strategy. They consider the Fund's strategic asset allocation following the results of the triennial actuarial valuation. The Investment Sub Committee has appointed suitably qualified investment managers to manage the investments of the Fund on their behalf. The Fund takes advice from its appointed professional investment consultants who attend the quarterly Investment Sub Committee meetings. This is in addition to the advice received from the Fund's actuary. A formal training programme, in accordance with the requirements of the CIPFA Knowledge and Skills Framework, has been implemented to support informed decision making. Compliance with the Fund's Skills and Knowledge Framework is reported in the Business Plan when appropriate.

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Principle	Evidence of compliance
Clear Objectives <ul style="list-style-type: none"> An overall investment objective(s) should be set for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers through employer contributions, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers. 	<ul style="list-style-type: none"> The overall Fund objective is directly linked to the risks and returns outlined in the Actuary's report, with the expected return on investments contained within the Statement of Investment Principles. The Fund's strategic asset allocation is specifically designed to achieve the Fund objective. Specific asset allocation weightings are detailed in the Statement of Investment Principles. In determining the Fund's asset allocation, the Pension Fund Board and Investment Sub Committee consider all asset classes in terms of their suitability and diversification benefits.
Risk and Liabilities <ul style="list-style-type: none"> In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	<ul style="list-style-type: none"> The overall risk for any pension scheme is that its assets will be insufficient to meet its liabilities. The risk is negligible for Local Authority Funds as these are assessed on an actuarial basis every 3 years (Fund Valuation) and contribution rates are adjusted to ensure solvency. The Funding Strategy Statement specifically addresses employer issues. The Fund is subject to actuarial review every three years. The Fund's position is based on the market values of the assets at the time of the review. The Fund's actuary calculates the contributions required from employing authorities to ensure the solvency of the Fund. The Fund is managed in a way that is designed to control and mitigate against specific investment risk. Further Asset Liability Studies will be undertaken to help the Pension Fund Board and Investment Sub Committee determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets. As the Fund's liabilities are based in sterling, the majority of the

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Principle	Evidence of compliance
	<p>Fund's assets are likely to be sterling denominated. The asset allocation will be formally reviewed following the triennial valuation, and at other times as required.</p> <ul style="list-style-type: none"> The Fund will normally hold a large proportion of its assets in equities, which are considered to be the most appropriate match with the Fund's liabilities. Over the long term, they should provide a hedge against inflation and grow in line with the underlying economy. To minimise the risks associated with this policy, a broadly based portfolio of stocks is held, spread across different countries and different industrial sectors.
<p>Performance Assessment</p> <ul style="list-style-type: none"> Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members. 	<ul style="list-style-type: none"> The Fund monitors manager performance, through quarterly performance monitoring from WM Company (the Fund's performance reporter) and meeting with managers at quarterly Investment Sub Committee and interim manager review meetings to discuss performance relative to their benchmark and longer term objectives. Additionally WM Company and the Fund's Investment Consultant, Mercer Limited, report on Fund performance annually at the Pension Fund Board and Investment Sub Committee. There is a regular review (at least biennially) of the effective working of the Pension Fund Board and Investment Sub Committee, the results of which are reported back to the Pension Fund Board.
<p>Responsible Ownership</p> <p>Administering authorities should:</p> <ul style="list-style-type: none"> adopt, or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents include a statement of their policy on responsible ownership in the Statement of 	<ul style="list-style-type: none"> The Fund has a clear policy regarding Responsible Investment (section D of this document) and will exercise its ownership responsibilities by: <ul style="list-style-type: none"> Ensuring that all investment management agreements clearly set out the Fund's expectations regarding the consideration of ESG issues. Monitoring the Fund's investment managers annually to determine the extent to which our expectations are being met. The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies,

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Principle	Evidence of compliance
<p>Investment Principles</p> <ul style="list-style-type: none"> report periodically to scheme members on the discharge of such responsibilities. 	<p>including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed by the ISC as part of the Fund's manager monitoring processes.</p>
<p>Transparency and Reporting</p> <p>Administering Authorities should:</p> <ul style="list-style-type: none"> Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Provide regular communication to scheme members in the form they consider most appropriate. 	<p>The following documents are published on the Pension Fund's website:</p> <ul style="list-style-type: none"> Pension Fund Annual Report and Statement of Accounts. Statement of Investment Principles Governance Policy & Compliance Statement Funding Strategy Statement Administration Strategy Communications Strategy Cash Management Strategy Administering Authority Discretions Actuary Valuation Report Pension Fund Board and Investment Sub Committee Agendas and Minutes are available on the Northamptonshire County Council's website.