Northamptonshire Pension Fund

Annual Report and Statement of Accounts 2015-16



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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 2015/16.

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

26 September 2016

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 2016 and of its income and expenditure for the year 2015-16, and authorise the accounts for issue.

Mr M Bowmer

Director of Finance (Section 151 Officer)

Dated

26th September 2016

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 2015-16, which has been an interesting and almost exciting year!

The year has presented many challenges, from the successful implementation and running of the Local Pension Boards, through the ongoing work surrounding the Government Reform Agenda, the instrumental role both the Committee and Officers are playing in the vast scope involved in the design and shape of the ACCESS asset pool of eleven counties to the 2016 valuation which is well underway with key training undertaken and project plans designed and, to date, delivered. In addition, the reconciliation on the Guaranteed Minimum Pension data held by HMRC and the LGSS Pensions systems has been making good progress and this has contributed to the data cleansing required for the move to Altair Payroll for pensions, which is due to be implemented in September 2016 after a three-month parallel running period.

Despite a number of officer roles remaining unfilled during the year, and the inevitable additional strain on the service this has caused at a time when the pressures above applied, I am pleased that a high level of administration service has been maintained and offer my thanks to all the hard-working staff who have kept the standard high in governance, finance, administration, and investment departments.

There has been a steady growth in the number of members in the Scheme. Active membership has increased from 19,407 in 2015 to 20,140 in 2016, deferred membership has increased from 23,377 in 2015 to 25,383 and pensioner numbers have increased from 14,421 in 2015 to 14,865 in 2016, giving a total membership at 31 March, 2016 of 60,388. This equates to a total membership increase of 5.6%. There has also been a steady increase in the number of employers in the Fund. At 31st March, 2016, the Northamptonshire Pension Fund had 263 active employers; an increase of 46 in the reporting period.

At 31st March, 2016, the Fund was valued at £1.87bn, which is an increase in Fund value of £6m from March 2015, equating to a 0.32% increase in asset value.

The Northamptonshire Pension Fund delivered a return of 0.2% for the fiscal year, slightly under-performing the Fund's benchmark return (0.6%) but consistent with the average Local Authority Pension Fund (0.2%).

Over the year, the funding level for the Fund has decreased from 70.4% to 67.7%. This is due to the value of liabilities increasing faster than the increase in the value of the assets; something outside the Fund's control as the valuation of liabilities are dependent upon gilt yields. The Fund obtains quarterly updates on the funding level with a formal valuation being carried out triennially. The triennial valuation as at 31 March 2016 is underway and the results will be available in March 2017, however, early indications are that the valuation may prove positive for the Fund.

Driven by the funding level, the Fund's investment strategy remains focused on growth assets which are expected to earn higher returns than lower risk investments, over the longer term, with the Fund's funding level planned to recover over a 20 year period.

Since 2010, Northamptonshire and Cambridgeshire County Councils have operated under a partnership, LGSS, to provide pensions administration and we are delighted to have been able to sign a Service Level Agreement with LGSS. 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 a challenging year, 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 Local Pension Board, the guidance of the Director of Finance and the support, dedication, and expertise of all the staff, under the leadership of the Head of Pensions, involved in the administration, finance, governance, and investment management of the Fund. In particular, I want to commend the staff involved in the creation of the Access Asset Pool, something not done before has been progressed through hard work, great commitment, and a steady hand on the tiller in what could have been choppy waters, trying to blend the demands of eleven county councils and their officers and Chairmen.

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 all they have done to ensure that we provide excellent retirement benefits for all Members of the scheme. Members of the public are always welcome to attend Pensions Committee meetings to see for themselves the level of work undertaken to maintain the Fund.

I am confident that this dedication will continue into 2016-17 and beyond, when we will be faced with evolving challenges of asset pooling and an uncertain world economy as we seek to maintain the current high standards of the administration of the Fund.

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 were a funding level of 70.5% and an average employer contribution rate of 32.1%. The 2016 valuation is underway and results are due to be published in March 2017.

On 1 April 2014, the new Local Government Pension Scheme 2014 came into effect, allowing more flexibility around paying into the Scheme and drawing 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 accessed before that date benefits will usually be reduced and if accessed after normal retirement age, benefits may 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 were widely publicised to 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	1/60 th	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
III 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 (263)

Scheduled Bodies

Abbey C of E Academy

Abbeyfield School (Academy)

Abington Vale Academy

Badby Primary Academy

Barby C of E Primary School

Beanfield Primary Academy
Billing Brook Special School

Bishop Stopford School

Blackthorn Primary Academy

Boddington C of E Primary Academy

Boughton Primary Academy

Brambleside Primary School

Braunston Primary Academy

Briar Hill Primary Academy

Brooke Weston Academy

Campion School

Caroline Chisholm School

Ceder Road Primary Academy

Chacombe CEVA Primary Academy

Chenderit Academy

Chipping Warden School Academy

Churchill Contract Services Ltd (Campion School)

Complementary Education (Academy)

Corby Borough Council

Corby Business Academy

Corby Old Village Primary School

Corby Primary Academy

Corby Studfall Junior

Corby Technical College

Cottingham C of E Primary School

Culworth C of E Primary Academy

Danesholme Junior Academy

Danetre & Southbrook Learning Village

Daventry District Council

Daventry UTC

East Northamptonshire Council

Eastfield Academy

Easton Garford CEVA Primary Academy

Ecton Brook Primary School Academy

Elizabeth Woodville Academy

Exeter - A Learning Community Academy

Falconers Hill Academy

Freemans Endowed C of E Junior Academy

Friars Academy

Grange Primary Academy

Great Addington CEVA Academy

Green Oaks Primary Academy

Greenfields Primary Academy (MAT)

Greenfields School & Sports College

Gretton Primary

Guilsborough School (Academy)

Hardingstone Primary Academy

Hartwell Primary School

Havelock Infant Academy

Havelock Junior Academy

Hazel Leys Primary & Nursery

Headlands Academy

Huxlow Science College

Irthlingborough Inf. Academy

Irthlingborough Jnr. Academy

Isebrook College Academy

Kettering Borough Council

Kettering Buccleuch Academy

Kettering Park Infants

Kettering Science Academy

Kilsby Primary Academy

Kings Heath Academy

Kings Sutton Primary Academy

Kings Succon Filliary Academy

Kingsley Special Academy

Kingsthorpe College Academy

Kingsthorpe Grove Primary School

Kingswood Primary Academy

Kingswood Secondary Academy

Lings Academy

Loatlands Primary Academy

Loddington CEVA Academy

Lodge Park Academy

Lumbertubs Primary Academy

Magdalen College (Academy)

Malcolm Arnold Academy

Malcolm Arnold Prep School

Manor School Sports College

Maplefields Academy

Middleton Cheney Community Primary

Academy

Finedon Infants Academy

Milton Parochial Primary Academy

Montsaye Academy Moulton College

Moulton School and Science College

Naseby Academy NBC Housing

Newnham Primary Academy Nicholas Hawksmoor Academy

Northampton Academy

Northampton Borough Council

Northampton College

Northampton Partnership Homes

Northampton School for Boys (NonLEA)

Northampton School for Girls (Academy)

Northamptonshire Coroners Northants Chief Constable

Northgate Academy

Oakley Vale Primary Academy

Oakway Academy

Olympic Primary Academy

Our Lady of Walsingham Catholic Prim. Academy

Peterborough Diocese Education Trust Police & Crime Commissioner (NCC) Preston Hedge's Primary Academy

Prince William School

Pytchley Endowed CEVA Primary Academy

Ringstead C of E Primary Academy

Risdene Academy

Rockingham Primary Academy Rothwell Junior Academy

Rothwell Victoria Infant Academy Rushden Community Academy Rushden Primary Academy Rushton Primary Academy Ruskin Junior Academy

Silverstone UTC

Simon de Senlis Primary Academy Sir Christopher Hatton Academy South Northamptonshire Council

Southfield Academy

Southfield Primary Academy

Sponne School

Spring Lane Primary Academy

St Andrews CEVA Primary (Kettering) St Barnabas Church of England School

St Brendans Catholic Primary Academy

St Edwards Catholic Primary Academy

St James C of E Primary School St Loys C or E Primary Academy St Lukes Academies Trust HQ

St Mary's C of E Primary Academy, Burton

Latimer

St Mary's C of E Voluntary Aided Primary

Academy, Kettering

St Mary's Catholic Primary School St Peter's Church of England Academy St Thomas More Catholic Primary Academy

Staverton C of E Primary Academy

Stimpson Avenue Academy Sunnyside Primary (Academy) The Arbours Primary (Academy) The Castle Primary Academy

The Duston School

The Education Fellowship
The Ferrers School Academy
The Parker E-ACT Academy

The Queen Eleanor Primary Academy
Thomas Beckett Catholic School
Thorplands Primary Academy
Towcester CE Primary School

Tresham College of Further & Higher

Education

University Of Northampton Victoria Primary Academy Warwick Primary Academy

Wayneflete Infants Weavers Academy Weedon Bec Academy Weldon Primary School

Well Lady'S Catholic Junior School Wellingborough Borough Council

Welton Primary Academy Weston Favell Academy

Weston Favell Primary Academy
Wilbarston C or E Primary Academy

Windmill Primary Academy Woodford Halse Academy Woodland View Academy

Woodnewton Learning Academy
Woodvale Primary (Academy)
Wootton Primary Academy

Wren Spinney Community Special School

Wrenn School

Designated Bodies

Bar Hill Parish Council
Barby Parish Council
Billing Parish Council
Brackley Town Council
Brixworth Parish Council
Desborough town council
Duston Parish Council

East Hunsbury Parish Council Finedon Parish Council Grange Park Parish Council Higham Ferrers Town Council Irthlingborough Town Council

LGSS Law Ltd (NCC)

Moulton Parish Council
Olympus Care Services
Oundle Town Council
Raunds Town Council
Rushden Town Council
Spratton Parish Council
Stanwick Parish Council
Thrapston Town Council
Towcester Town Council
West Haddon Parish Council
Wollaston Parish Council

Wootton, Wootton Fields & Simpson Manor

Parish Council

Admitted Bodies

ABM Catering (Wayneflete)
ABM Catering Limited
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 (Northampton And County)

Amey Plc

Balfour Beatty Living Places Limited

Catalyst Corby

Caterlink - Denfield Park Primary School Clubs for Young People Northamptonshire

Community Spaces

Consortium Audit (Warwickshire)

CRI (NCC)

Cucina Restaurants Ltd
Danesholme Infants School
Daventry & District Housing
East Midlands Leadership Centre
East Northants Cultural Trust
Easy Clean Contractors Ltd
EMLC Academy Trust
emPSN Services Limited
Enterprise Managed Services

G4S

KGB Cleaning & Support Services Ltd Kingswood Catering (Brixworth)

Kingswood Catering (Irchester Primary)

Kingswood Catering (Isebrook)

Kingswood Catering (Kingsley Special)
Kingswood Catering (Mawsley Primary)

Kingswood Catering (Wrenn)

Kingswood Catering (Yardley Gobion)

May Gurney

May Gurney (NORDIS)

May Gurney Fleet & Passenger Services

Limited

National Car Parks (NCP)

NHS Arden Commissioning Report

North Northants Development Corporation Northampton Connexions Partnership

Northampton Enterprise Ltd Northampton High School Northampton Theatres Trust Northamptonshire Carers

Northamptonshire Healthcare NHS Foundation Northamptonshire Music and Performing Arts

Trust

Places for People Leisure Rockingham Forest Trust

Shaw Healthcare

South Northants Homes Spire Homes Limited Spurgeons (Corby)

Spurgeons (East Northamptonshire)
Spurgeons (Northampton North)
Spurgeons (Northampton West)
The Castle (Wellingborough) Limited

Unity Leisure

University of Northampton Enterprises Ltd

Wellingborough Homes Ltd Wellingborough Norse

WSP Management Services Ltd

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 Committee and Investment Sub Committee:

County Council Members

Cllr Graham Lawman (Chairman) Cllr Jim Hakewill (Vice Chairman)

Cllr Michael Brown Cllr Malcolm Longley

Cllr Dennis Meredith – resigned June 2015 Cllr Brendon Glynane – appointed June 2015

Cllr Russell Roberts

Cllr Bob Scott

Cllr Winston Strachan – substitute appointed May 2015 Cllr Mick Scrimshaw – substitute resigned May 2015

Other Local Authorities, Police and Fire (Borough and District Representatives)

Cllr Malcolm Ward (Borough Council of Wellingborough) – resigned

June 2015

Cllr Chris Long (Daventry District Council) appointed November

2015, resigned May 2016

Cllr Martin Wilson (South Northants Council) – resigned May 2015 Cllr Richard Lewis (East Northamptonshire Council) – appointed November 2015, Substitute member prior to this date

Other Employers' Representatives

Alicia Bruce Robert Austin - Substitute

Roger Morris

Member Representatives

Peter Borley-Cox Andy Langford - Substitute

Josie Mason

Local Pension Board Members:

Scheme member representatives:

Paul Evans (Chairman) Penny Smith (Vice Chairwoman)

Nina Thomas

Employer representatives:

Cllr Allan Matthews Cllr Mick Scrimshaw

Audra Statham

Key Officers supporting the Fund

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 Ben Barlow (Fund)

Tracy Pegram (Investment) Richard Perry (Investment)

Investment Advisers Mark Stevens

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 Investment Managers, cont. Catapult

11 Burrough Court Burrough on the Hill Melton Mowbray

Leicestershire LE14 2QS

Custodian The Northern Trust Company

50 Bank Street Canary Wharf London E14 5NT

AVC Providers 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

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

Enquiries relating to benefits and administration should be directed to:

Mark Whitby, Head of Pensions, LGSS E-mail: MWhitby@northamptonshire.gov.uk

Telephone: 01604 368502

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 Risk Strategy was formally agreed in 2015-16 and a revised Risk Register using analysis of the likelihood and impact of risk will be presented to the Committee in the 2016-17 financial year.

The Risk Strategy can be found at -

http://pensions.northamptonshire.gov.uk/wp-content/uploads/2016/04/Risk-Strategy-6.pdf

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 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 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, 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.

The Local Pension Board was established on 1 April 2015, to provide an additional layer of governance to the Fund. The Local Pension Board does not have any decision making authority but has 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 has provided a separate annual report of its activities to Council for this financial year.

Managing investment and funding risks

The Northamptonshire Pension Fund has under £2billion pounds of assets under management as well as even larger long-term liabilities. It is essential 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 within each mandate so that the risks of potential losses are reduced.

Fund managers will bias their portfolios towards stocks which are expected to outperform 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 performance through informed Committee meetings with Officers and Advisers of the Fund, with additional scrutiny by the Local Pension Board.

The Fund's investment performance is reviewed 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. The Local Pension Board also has sight of recommendations to the Committee.

An alternative review of performance is undertaken annually upon receipt of data from The World Markets Company plc ("WM"), which provides the perspective of other LGPS funds performance. The Fund's Custodian is 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 Fund uses third party providers for investment management and custodian services. The risk of misstatement or error in the processes operated by these third parties is mitigated by reviewing the service's independent auditor's ISAE3402 reports.

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 publication of the next 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 risk 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 member longevity.

At present the Fund has a positive cash flow and is forecast to remain positive 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 these pressures to ensure it can act quickly should the need arise. The Scheme does sell investments from time to time as part of normal investment management activities.

Managing Scheme employer related risks

At 31 March 2016 there were 263 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 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 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 from submitting poor quality data. Inaccurate data can lead to the miscalculation of pension benefits which can lead to the misstatement of the benefits a member is entitled to. Any inaccuracy of data 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 scheme employers to provide training, tools and support to improve the accuracy of data. The Fund also monitors employer performance in the form of key performance indicators which are regularly fed back to 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. Employer contribution rates have been increased at each triennial valuation to ensure that the funding position does not continue to deteriorate. The Fund also uses analysis of changing life expectancy trends which is fed 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

	2015-16 Estimated Outturn	2015-16 Final Outturn	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast
	£000	£000	£000	£000	£000
Contributions.	(94,700)	(97,993)	(93,479)	(93,254)	(96,971)
Transfers in from other pension funds:	(6,000)	(2,042)	(3,400)	(3,400)	(3,400)
TOTAL INCOME	(100,700)	(100,035)	(96,879)	(96,654)	(100,371)
Benefits payable.	84,200	82,713	81,530	83,083	84,668
Payments to and on account of leavers.	6,000	4,447	3,400	3,400	3,400
	90,200	87,160	84,930	86,483	88,068
	(10,500)	(12,875)	(11,949)	(10,171)	(12,303)
Management Expenses	9,954	7,750	8,560	8,727	8,834
Investment Income Taxes on income Profit and losses on disposal of investments and changes in the market value of investment	(32,000) 0 (115,000)	(32,241) 50 30,924	(31,000) 0 (53,000)	(32,000) 0 (56,000)	(33,000) 0 (59,000)
Net return on investments	(147,000)	(1,267)	(84,000)	(88,000)	(92,000)
Net (increase)/decrease in the net assets available for benefits during the year	(147,546)	(6,392)	(87,389)	(89,444)	(95,469)

Performance against budget – net operational expenses

The following table shows the Fund's forecast for total management expenses for 2015-16 compared with the outturn.

	2015-16 Forecast	2015-16 Outturn	Variance
	£'000	£'000	£'000
Administration Expenses	1,795	1,851	56
Investment Management Expenses	7,744	5,750	(1,994)
Oversight and Governance	415	149	(266)
Total Management Expenses	9,954	7,750	(2,204)

Timeliness of contributions

The following table shows the amount of regular employee and employer contributions paid during 2015-16 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 2015-16	Total Paid on Time	% Paid on Time	Total Paid Late	% Paid Late
Employer	£69,417,187	£66,709,917	96.10%	£2,707,270	3.90%
Contributions					
Employee	£17,354,297	£16,837,139	97.02%	£517,158	2.98%
Contributions					
Total	£86,771,484	£83,547,056	96.28%	£3,224,428	3.72%

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 2015-16.

	2015-16 Estimated Outturn £'000	2015-16 Final Outturn £'000
Cash flows		
Fund (surplus) / deficit cash from dealings with members	(10,500)	(12,875)
Management expenses	9,954	7,750
Returns on investments	(147,000)	(1,267)
Net increase in the net assets available for benefits during the year	(147,546)	(6,392)
Assets held		
Index-linked securities	60,861	-
Equities – directly held	792,131	677,033
Pooled investments	1,030,589	971,588
Pooled property investments	168,794	174,032
Private equity/infrastructure	1,610	1,173
Cash deposits	21,816	28,979
Other	3,307	5,238
Net investment assets	2,079,108	1,858,043

Returns on investments were significantly lower than estimated during the year, resulting from general poor performance across a range of markets. Management expenses were also lower than expected, significantly impacted by vacant staff positions during the year, and lower than expected investment costs.

Recovery of overpayments of pension

The following tables show the analysis of pension overpayments that occurred during 2015-16.

Type of Overpayment	Action Taken	Number of Cases	Amount
			£
Retirement	Recovered	2	£2,578.77
	Requested	6	£55,387.73*
	Written off	1	£10.50
Total		9	£57,977.00
Death	Recovered	12	£5,061.43
	Requested	20	£13,100.79
	Written off	152	£11,788.22
Total		184	£29,950.44
Cessation of Eligibility	Recovered	•	ı
(Child Pension)	Requested	1	£333.07
	Written Off	2	£114.64
Total		3	£447.71
Total Overpayments		196	£88,375.15

^{*£38,381.62} of this total amount was due to a change in an employer decision via an appeals process resulting in the member becoming ineligible to receive their lump sum and pension payment already received.

From the 2014/15 National Fraud Initiative exercise all cases have now been investigated and the value of £327.60 remains outstanding. The value of £436.25 was written off in addition to the previous cases reported.

Annual Pensioner Payroll (excluding additional pension awarded by the employer)	£66,216,547
Total write off amount	£11,913.36
Write offs as a % of payroll	0.017%
Number of cases written off	155
Number of cases in the process of recovery	27
Number of cases recovered	14

The average write off amount per individual is £76.86.

Northamptonshire Pension Fund has an Overpayment of Pension Policy which details how overpayments should be managed once identified.

The Policy can be found at -

http://pensions.northamptonshire.gov.uk/wp-content/uploads/2012/11/NPF-Overpayment-of-Pension-Policy-.pdf

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	77	72	90%	94%
Provide employer with requested estimate of benefits	10	688	643	90%	93%
Provide a maximum of one estimate to employees per request per year	10	1400	1161	90%	83%
Provide a maximum of one cash equivalent transfer to employees per year on request	10	603	494	90%	82%
Notify employees retiring from active membership of benefit award	5	1099	1070	95%	97%
Acknowledge death of active/deferred/pensioner member	5	796	791	100%	99%
Change of address	2	1543	1488	100%	96%
Expression of Wish form received	2	1248	1244	100%	99%
Opt out form received	2	911	909	100%	99%
Personal change update	2	357	353	100%	99%

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 most of the targets shown are well in excess of statutory guidance therefore representing stretch targets. Targets concerning the provision of estimates and cash equivalent transfers were not met during the year as Freedom of Choice legislation has resulted in an increase in enquiries and requests for estimates and cash transfers. This significant increase in volume has proved difficult to process on a timely basis. Additional staff have now been recruited to manage the additional workload. We continue to work with scheme employers to improve timeliness and quality of data received to improve delivery.

In October 2015, a survey was sent to all customers of LGSS to assess the level of satisfaction with the services provided. LGSS Pensions achieved a 94% rating of satisfactory and above, comparing favourably to a rating of 86% in November 2014.

Financial indicators of administrative efficiency

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

	Northamptonshire Pension Fund	Benchmark
Unit cost per member excluding investment management expenses	£18.75 <i>(2014/15)</i>	£19.17
Unit cost per member including investment manager expenses	£7,596,000 / 57205 members = £132.79 (2014/15)	N/A

Key staffing indicators

In 2015/16, the average staff to member ratio was one full time member of staff to 2,693 members (2014/15: 1:2,668) and the number of cases per full time member of staff was 896 (2014/15: 808).

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

	2012	2013	2014	2015	2016
Active Members	16,770	17,277	18,334	19,407	20,140
Deferred	17,027	20,129	20,887	23,377	25,383
Beneficiaries					
Pensions in Payment	12,993	13,692	14,155	14,421	14,865
Total	46,790	51,098	53,376	57,205	60,388

Age profile of Fund membership at 31 March 2016:

Age Band Years	Actives	Deferred	Pensioners
<20	230	118	122
20 – 24	1089	867	22
25 – 29	1339	1867	1
30 – 34	1777	2429	3
35 – 39	2358	2612	13
40 – 44	3239	3897	36
45 – 49	3590	4911	82
50 – 54	3121	4478	139
55 – 59	2151	3024	870
60 – 64	1045	1028	3073
65 – 69	174	114	4066
70 – 74	26	28	2578
75 – 79	1	9	1694
80 – 84		1	1169
85 – 89			634
90 – 94			274
95 – 99			63
100 – 104			25
105 – 109			1

For reference scheme regulations disallow any scheme member to defer or continue to pay into the scheme once they have reached the age of 75. The reasons for active and deferred member records over the age of 75 mostly relates to: members who have failed to keep their contact details up to date over the years and we are now unable to make contact with; and members with small amounts of contributions who are yet to claim their refund.

Employee and employer contributions 2015-16

The following table shows the contributions paid by the active employers in the fund during 2015-16.

Employers	Employee	Employer	Total	
Employers	£000	£000	£000	
Abbey C of E Academy	9	33	42	
Abbeyfield School (Academy)	48	187	235	
Abington Vale Academy	14	59	73	
ABM Catering (Wayneflete)	-	1	1	
Action for Children (Central)	7	24	31	
Action for Children (Daventry)	3	12	15	
Action for Children (Kettering)	4	12	16	
Action for Children (Northampton East)	18	60	78	
Action for Children (South Northamptonshire)	1	3	4	
Action for Children (Wellingborough)	4	12	16	
Age Concern (Northampton And County)	3	47	50	
Amey Plc	15	79	94	
Badby Primary Academy	8	30	38	
Balfour Beatty Living Places Limited	11	36	47	
Bar Hill Parish Council	-	1	1	
Barby C of E Primary School	5	19	24	
Barby Parish Council	1	5	6	
Barry Road Primary	20	72	92	
Beanfield Primary Academy	31	117	148	
Billing Brook Special School	53	199	252	
Billing Parish Council	1	6	7	
Bishop Stopford School	60	235	295	
Blackthorn Primary Academy	19	79	98	
Boddington C of E Primary Academy	3	17	20	
Boothville Primary School	27	122	149	
Boughton Primary Academy	8	29	37	
Bracken Leas Primary School	15	61	76	
Brackley Town Council	9	35	44	
Brambleside Community School	1	6	7	
Brambleside Primary School	19	77	96	
Braunston Primary Academy	8	34	42	
Briar Hill Primary Academy	10	44	54	
Brixworth C of E Primary School	19	76	95	
Brixworth Parish Council	1	9	10	
Brooke Weston Academy	81	199	280	
Broughton Primary	12	46	58	
Bugbrook Community Primary School	14	56	70	
Campion School	49	208	257	
Caroline Chisholm School	76	252	328	
Catalyst Corby	-	1	1	
Ceder Road Primary Academy	10	41	51	
Chacombe CEVA Primary Academy	5	20	25	

Employers	Employee	Employer	Total
	£000	£000	£000
Chenderit Academy	33	134	167
Chipping Warden School Academy	4	19	23
Clipston EVC Primary	5	20	25
Clubs for Young People Northamptonshire	2	5	7
Community Spaces	1	4	5
Complementary Education (Academy)	43	166	209
Consortium Audit (Warwickshire)	2	4	6
Corby Borough Council	530	2774	3304
Corby Business Academy	72	233	305
Corby Old Village Primary School	10	40	50
Corby Primary Academy	6	19	25
Corby Studfall Junior	26	102	128
Corby Technical College	13	51	64
Cottingham C of E Primary School	5	20	25
CRI (NCC)	6	21	27
Croughton All Saints C of E Primary School	5	17	22
Croyland Children's Centre & Nursery	21	79	100
Cucina Restaurants Ltd	-	2	2
Culworth C of E Primary Academy	5	21	26
Danesholme Infants School	11	47	58
Danesholme Junior Academy	16	63	79
Danetre & Southbrook Learning Village	64	248	312
Daventry & District Housing	54	273	327
Daventry District Council	316	1707	2023
Daventry UTC	17	63	80
Deanshanger Parish Council	-	2	2
Denfield Park Primary	23	90	113
Desborough town council	1	6	7
Duston Eldean Primary School	15	60	75
Duston Parish Council	9	33	42
East Hunsbury Parish Council	2	7	9
East Hunsbury Primary	19	74	93
East Midlands Leadership Centre	19	39	58
East Northamptonshire Council	290	1497	1787
East Northants Cultural Trust	11	48	59
Eastfield Academy	11	36	47
Easton Garford CEVA Primary Academy	2	6	8
Easy Clean Contractors Ltd	1	4	5
Ecton Brook Primary School Academy	28	114	142
Elizabeth Woodville Academy	53	230	283
EMLC Academy Trust	17	42	59
Enterprise Managed Services	181	788	969
Exeter - A Learning Community Academy	42	123	165
Fairfields Special School	50	202	252
Falconers Hill Academy	11	46	57
Finedon Infants Academy	9	34	43

Employers	Employee	Employer	Total
F - 7	£000	£000	£000
Finedon Mulso CEVA Junior Sch	2	-	2
Finedon Mulsoe C of E Junior School	5	31	36
Freemans Endowed C of E Junior Academy	10	42	52
Friars Academy	29	116	145
G4S	21	82	103
Gateway School	18	66	84
Grange Park Parish Council	2	6	8
Grange Primary Academy	11	43	54
Great Addington CEVA Academy	4	18	22
Great Creaton Primary School	3	11	14
Green Oaks Primary Academy	19	69	88
Greenfields Primary Academy (MAT)	18	74	92
Greenfields School & Sports College	39	166	205
Gretton Primary	7	27	34
Guilsborough School (Academy)	49	180	229
Hall Meadow Primary	10	39	49
Hardingstone Primary Academy	5	25	30
Hartwell Primary School	8	31	39
Havelock Infant Academy	14	59	73
Havelock Junior Academy	16	69	85
Hazel Leys Primary & Nursery	10	41	51
Headlands Academy	27	112	139
Henry Chichele Primary School	7	30	37
Higham Ferrers Junior School	11	45	56
Higham Ferrers Nursery & Infant School	14	56	70
Higham Ferrers Town Council	3	9	12
Highfield Nursery & Childrens Centre	10	39	49
Hopping Hill Primary	19	79	98
Hunsbury Park Primary	15	62	77
Huxlow Science College	36	146	182
Irchester Community Primary School	15	56	71
Irthlingborough Inf. Academy	22	78	100
Irthlingborough Jnr. Academy	14	58	72
Irthlingborough Town Council	5	17	22
Isebrook College Academy	34	140	174
Kettering Borough Council	682	3148	3830
Kettering Buccleuch Academy	59	154	213
Kettering Park Infants	12	51	63
Kettering Science Academy	72	178	250
Kilsby Primary Academy	8	25	33
Kings Heath Academy	22	66	88
Kings Sutton Primary Academy	7	29	36
Kingsley Primary	15	62	77
Kingsley Special Academy	49	188	237
Kingsthorpe College Academy	57	222	279
Kingsthorpe Grove Primary School	28	112	140

Employers	Employee £000	Employer £000	Total
Kingswood Catoring (Briyworth)	1	6	£000 7
Kingswood Catering (Brixworth)	13	55	
Kingswood Primary Academy			68
Kingswood Secondary Academy	58	233	291
Latimer Arts College	43	162	205
LGSS Law Ltd (NCC)	63	210	273
Lings Academy	13	41	54
Loatlands Primary Academy	14	60	74
Loddington CEVA Academy	5	21	26
Lodge Park Academy	50	202	252
Lumbertubs Primary Academy	11	47	58
Magdalen College (Academy)	60	231	291
Malcolm Arnold Academy	52	192	244
Malcolm Arnold Prep School	5	11	16
Manor School Sports College	59	153	212
Maplefields Academy	38	151	189
Mawsley Primary School	13	49	62
May Gurney	48	162	210
May Gurney (NORDIS)	14	69	83
May Gurney Fleet & Passenger Services Limited	52	186	238
Middleton Cheney Community Primary Academy	12	53	65
Millbrook Infant School	19	75	94
Millbrook Junior School	26	102	128
Milton Parochial Primary Academy	4	16	20
Montsaye Academy	67	250	317
Moulton College	250	796	1046
Moulton Parish Council	4	14	18
Moulton Primary School	20	83	103
Moulton School and Science College	77	199	276
Naseby Academy	3	10	13
National Car Parks (NCP)	10	40	50
Northamptonshire Partnership Homes Ltd	378	2281	2659
Newnham Primary Academy	5	18	23
NHS Arden Commissioning Report	-	8	8
Nicholas Hawksmoor Academy	18	75	93
Northampton Academy	67	207	274
Northampton Borough Council	627	5587	6214
Northampton College	305	1026	1331
Northampton Connexions Partnership	93	686	779
Northampton County Council - Councillors	62	-	62
Northampton Enterprise Ltd	17	40	57
Northampton High School	33	164	197
Northampton School for Boys (NonLEA)	66	258	324
Northampton School for Girls (Academy)	61	252	313
Northampton Theatres Trust	23	148	171
Northamptonshire Carers	6	18	24
Northamptonshire County Council	5975	23117	29092

Employers	Employee	Employer	Total	
New description of the Ideal of the All IO Translation	£000	£000	£000	
Northamptonshire Healthcare NHS Foundation	26	100	126	
Northamptonshire Music and Performing Arts Trust	8	34	42	
Northants Chief Constable	1415	4068	5483	
Northgate Academy	71	225	296	
Oakley Vale Primary Academy	20	66	86	
Oakway Academy	21	88	109	
Olympic Primary Academy	13	55	68	
Olympus Care Services	518	1343	1861	
Oundle and Kings Cliffe Middle School	6	29	35	
Oundle Primary School	12	46	58	
Oundle Town Council	8	21	29	
Our Lady of Walsingham Catholic Prim. Academy	17	70	87	
Park Infant School (Raunds)	6	25	31	
Park Junior School (Kettering)	20	68	88	
Parklands Community Association (NCC)	-	1	1	
Parklands Primary School	14	55	69	
Paulerspury C of E Primary School	4	18	22	
Peterborough Diocese Education Trust	11	33	44	
Places for People Leisure	10	32	42	
Polebrook C of E Primary School	1	6	7	
Police & Crime Commissioner (NCC)	78	174	252	
Preston Hedge's Primary Academy	16	64	80	
Prince William School	21	82	103	
Prince William School (Academy)	27	143	170	
Pytchley Endowed CEVA Primary Academy	3	11	14	
Raunds Town Council	4	18	22	
Redwell Infants	18	73	91	
Ringstead C of E Primary Academy	4	18	22	
Ringstead CE Primary School	1	4	5	
Risdene Academy	16	67	83	
Rockingham Forest Trust	7	26	33	
Rockingham Primary Academy	15	65	80	
Rothwell Junior Academy	9	39	48	
Rothwell Victoria Infant Academy	18	78	96	
Rowan Gate	43	174	217	
Rushden Community Academy	37	148	185	
Rushden Primary Academy	2	12	14	
Rushden Town Council	12	32	44	
Rushton Primary Academy	5	21	26	
Ruskin Junior Academy	16	64	80	
Shaw Healthcare	18	91	109	
Silverstone UTC	25	78	103	
Simon de Senlis Primary Academy	19	79	98	
Sir Christopher Hatton Academy	51	196	247	
South End Infant School	14	59	73	
South End Junior School				
SOURT ETIO JUITIOF SCHOOL	12	49	61	

Employers	Employee	Employer	Total
	£000	£000	£000
South Northamptonshire Council	398	1,728	2,126
South Northants Homes	129	382	511
Southfield Academy	36	139	175
Southfield Primary Academy	13	57	70
Spire Homes Limited	6	151	157
Sponne School	57	223	280
Spratton Parish Council	-	1	1
Spring Lane Primary Academy	15	62	77
Spurgeons (Corby)	2	7	9
Spurgeons (East Northamptonshire)	10	48	58
Spurgeons (Northampton North)	3	19	22
Spurgeons (Northampton West)	4	14	18
St Andrews CEVA Primary (Kettering)	12	46	58
St Barnabas Church of England School	10	40	50
St Brendans Catholic Primary Academy	7	27	34
St Edwards Catholic Primary Academy	7	29	36
St James C of E Primary School	20	83	103
St Loys C or E Primary Academy	4	15	19
St Lukes Academies Trust HQ	1	4	5
St Mary's C of E Primary Academy, Burton Latimer	10	42	52
St Mary's C of E Voluntary Aided Primary Academy, Kettering	12	51	63
St Mary's Catholic Primary Sch	9	36	45
St Patrick's Catholic Primary & Nursery School	13	53	66
St Peter's Church of England Academy	5	24	29
St Thomas More Catholic Primary Academy	9	35	44
Standens Barn Primary School	14	59	73
Stanwick Parish Council	1	4	5
Staverton C of E Primary Academy	4	19	23
Stimpson Avenue Academy	16	63	79
Sunnyside Primary (Academy)	10	33	43
The Arbours Primary (Academy)	16	55	71
The Avenue Infants School	11	41	52
The Castle (Wellingborough) Limited	2	30	32
The Castle Primary Academy	17	52	69
The Duston School	73	286	359
The Education Fellowship	17	48	65
The Ferrers School Academy	43	165	208
The Grange, Daventry	18	72	90
The King John School, Thrapston	6	38	44
The Parker E-ACT Academy	29	108	137
The Queen Eleanor Primary Academy	11	47	58
Thomas Beckett Catholic School	49	135	184
Thorplands Primary Academy	20	81	101
Thrapston Primary	19	78	97
Thrapston Town Council	3	7	10
Towcester CE Primary School	13	51	64

Employers	Employee	Employer	Total
Employers	£000	£000	£000
Towcester Town Council	2	9	11
Tresham College of Further & Higher Education	264	937	1201
Trinity Church of England Primary School	5	21	26
Unity Leisure	84	260	344
University Of Northampton	944	3,233	4,177
University of Northampton Enterprises Ltd	54	198	252
Vernon Terrace Primary School	13	52	65
Victoria Primary Academy	13	53	66
Warwick Primary Academy	18	76	94
Wayneflete Infants	8	31	39
Weavers Academy	54	223	277
Weedon Bec Academy	12	56	68
Weldon Primary School	8	32	40
Welford, Sibbertoft And Sulby Endowed School	2	11	13
Well Lady'S Catholic Junior School	19	75	94
Wellingborough Borough Council	196	1735	1931
Wellingborough Croyland Primary	30	122	152
Wellingborough Homes Ltd	29	105	134
Wellingborough Norse	82	213	295
Welton Primary Academy	5	17	22
Weston Favell Academy	51	202	253
Weston Favell Primary Academy	20	84	104
Wilbarston C or E Primary Academy	6	22	28
Windmill Primary Academy	6	26	32
Wollaston Community Primary School	9	37	46
Wollaston Parish Council	1	3	4
Wollaston School	43	171	214
Woodford Halse Academy	14	59	73
Woodland View Academy	17	73	90
Woodnewton Learning Academy	68	238	306
Woodvale Primary (Academy)	20	75	95
Wootton Primary Academy	17	73	90
Wootton, Wootton Fields & Simpson Manor Parish Council	-	2	2
Wren Spinney Community Special School	21	87	108
Wrenn School	68	264	332
WSP Management Services Ltd	118	344	462
	19,343	78,650	97,993

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 which seeks 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 allocated to growth assets offering strategic diversification, split equally between property and a Diversified Growth Fund. This leaves 20% to be 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 2015-16 financial year the Fund received training on strategies for enhancing inflation protection and passive equity investing but resolved to take no

immediate action and to revisit these areas when reviewing the outcome of the March 2016 actuarial valuation.

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

Other than the above transfer within the Fund's allocation to fixed income, the target asset allocation was unchanged at the end of the 2015-16 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 and a passive Fixed Income Index-linked 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.

Investment Manager Profiles and performance targets for 2015-16

The target asset and manager allocation, associated benchmarks and performance targets at 31 March 2016 is shown below.

Asset Class	Weightii	ng (%)	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	n/a
			AC can be used as a guide for	(assume
			performance monitoring purposes)	3% as a guide)
UBS	20.70		FTSE All World (inc EM)* Passive	n/a
Bonds		20.00		
UBS Index-Linked	10.00		FTSE Actuaries Government Securities Index-Linked over 5 year index	n/a
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		
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 target asset and manager allocation, associated benchmarks and performance targets at 31 March 2015 is shown below.

Asset Class	Weightii	ng (%)	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	n/a
			AC can be used as a guide for	(assume
			performance monitoring purposes)	3% as a
				guide)
UBS	20.70		FTSE All World (inc EM)* Passive	n/a
Bonds		20.00		
Wellington UK	6.67		Merrill Lynch Sterling Broad Market	+1
Fixed Income	3.33		Merrill Lynch Index-linked Gilts Index	
Wellington Global	5.00		Bank of America Merrill Lynch T-Bill	n/a
Total Return			Index +5%	
Wellington Global	5.00		No specific benchmark (but Barclays	n/a
Strategic Credit			Global Aggregate Credit 1-5yr GBP	
			Hedged Index can be used for	
			performance monitoring purposes)	
Diversified Growth		8.00		
Baillie Gifford	8.00		UK base rate +3.5%	n/a
Property		8.00		
CBRE	8.00		IPD UK All Balanced Property Fund	+1
			Index	
Total		100.00		+1.6**

The values of actual manager allocations, the percentage of the Fund and variance from the target asset allocation at 31 March 2015 and 31 March 2016 are shown below:

31	March 2	015			31	March 20	016
Market Value (£m)	(%)	Above/ (below) target (%)	Asset Class	Manager	Market Value (£m)	(%)	Above/ (below) target (%)
2317	12.5	1.0	UK Equity	Majedie	2161	11.6	0.1
2127	11.5	0.0	OK Equity	UBS	2003	10.8	-0.7
301.3	16.3	1.0	Global	Newton	309.9	16.7	1.4
88.8	4.8	(0.2)	Equity	Skagen	86.9	4.7	-0.3
390.7	21.1	0.4	Passive Global Equity	UBS	554.1	29.9	9.2
159.8	8.6	(1.4)	Fixed Income	Wellington (Core Plus)	-	-	-
79.4	4.3	(0.7)		Wellington (Global Total Return)	79.8	4.3	-0.7
92.0	5.0	0.0		Wellington (Global Strategic Credit)	91.3	4.9	-0.1
147.9	8.0	0.0	Property	CBRE	174.3	9.4	1.4
142.1	7.7	(0.3)	Diversified Growth	Baillie Gifford	139.5	7.5	-0.5
1.4	0.1	0.1	Private equity	Catapult	1.2	0.1	0.1
1.9	0.1	0.1	Cash	Cash	2.4	0.1	0.1
1,849.7	100.0		Total		1855.8	100.0	

Performance monitoring

Investment manager performance is reviewed quarterly by the Pensions 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.

Investment Performance 2015-2016

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 2016						
		The Fund	The	Consumer	UK Average	Local
			Benchmark	Price Index	Weekly	Authority
					Earnings	Average
					Index	
2015-2016	1 year	0.2	0.6	0.6	1.9	0.2
2013-2016	3 years	6.8	6.4	0.7	2.7	6.4
2011-2016	5 years	7.4	7.0	1.7	1.7	7.1
2006-2016	10 years	5.0	5.7	2.4	2.3	5.6

(Source: WM Universe).

Investment Manager Performance for periods ending 2015-16

	1	Year (%)	3 Y	ears (%	ра)	10 `	Years (%	pa)
Asset Class/ Manager	Return	Bench -mark	Var- iance	Return	Bench -mark	Var- iance	Return	Bench- mark	Var- iance
UK Equity									
Majedie	(5.7)	(3.9)	(1.8)	7.2	3.7	3.5	8.8	4.7	4.1
UBS ¹	(5.8)	(3.9)	(1.9)	4.2	3.5	0.7	4.6	4.5	0.1
Global Equity									
Newton	2.9	(1.2)	4.1	9.4	7.5	1.9	n/a	n/a	n/a
Skagen	(2.1)	(0.6)	(1.5)	6.9	8.0	(1.1)	n/a	n/a	n/a
UBS Passive	(0.5)	(0.5)	0.0	8.0	8.2	(0.2)	n/a	n/a	n/a
Fixed Income UBS Index-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
linked Wellington (Global Total Return)	0.5	5.2	(4.7)	1.6	5.3	(3.7)	n/a	n/a	n/a
Wellington (Global Strategic Credit)	(8.0)	1.7	(2.5)	2.1	2.3	(0.2)	n/a	n/a	n/a
Diversified Growth Fund									
Baillie Gifford	(1.5)	4.0	(5.5)	2.5	4.0	(1.5)	n/a	n/a	n/a
Property									
CBRE	12.0	10.6	1.4	13.0	13.0	0.0	3.4	3.3	0.1

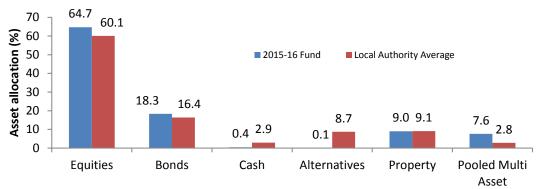
n/a = mandate has only been in force for part of this period therefore performance is not measurable.

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 participated 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.

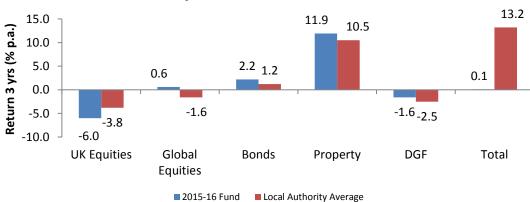




The graph shows that the Fund's asset mix is broadly comparable with the Local Authority Average, the main variances indicating the Fund's preference for equity and bonds, but disfavour of alternatives.

Investment Return Compared to Local Authority Universe

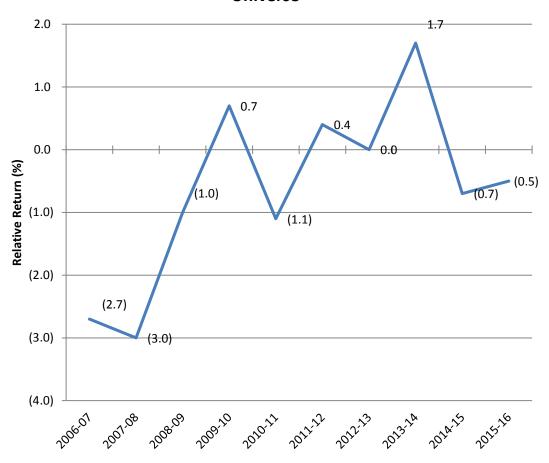
1 year return annualised



Year Annual	2006- 2007	2007- 2008	2008- 2009	2009- 2010	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016
Return (%)										
Total Fund	4.1	(5.7)	(20.7)	36.1	7.2	3.0	13.8	8.2	12.4	0.2
WM Benchmark	7.0	(2.8)	(19.9)	35.2	8.2	2.6	13.8	6.4	13.2	0.6

The table above compares the Fund's performance with the Local Authority Average for the ten years since 2006. The relative performance is shown graphically on the next page.

Fund Performance Relative To The Local Authority Universe



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 six occasions and matched the average once.

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 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, 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 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 as the successful bidder in a competitive procurement process.

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 for performance reporting.

Independent Investment Advisor's Annual Investment Review 2015/16

Economic background

The previous financial year had ended strongly with all major developed markets delivering positive returns. Investor attention focused on the European (ex UK) and Japanese equity markets that were particularly strong helped by continued central bank intervention, modest valuations and falling Oil prices, which were seen as a net benefit in both regions. The US equity market that had lead the way over the previous year slowed as concerns over a strong dollar, slowing economic growth and disappointing corporate earnings caused nervousness for investors. As the financial year drew to a close bond markets continued to deliver strong returns. In the UK the dramatic fall in the Oil price helped further reduce inflationary pressures, which in turn delayed the prospect of rate rises and strengthened Gilts. US treasuries also strengthened, as the timing of the much-flagged Federal Reserve move on raising rates once again seemed to move further into the future. European yields moved into unchartered territory with almost a quarter of European sovereign bonds now trading at negative yields. Despite this encouraging end to the previous financial year, investment markets did not enjoy an untroubled time as the year moved on.

By the end of the first quarter of the financial year global markets had undergone a set back after a promising start. The relief rally following the decisive outcome of the UK general election was short lived and UK Equities fell over the guarter. Sterling however had been strong against all major currencies and this had turned a flat performance for the world index into a 5% decline for the un-hedged UK investor. Sterling strength was in part a response to the election result but also to weakness in the Euro which was suffering as real concerns emerged (once again) about Greece and the apparent breakdown of trust between the Greek government and its creditors, ahead of a possible third bail-out deal. This uncertainty coupled with increased concerns about a hard landing for the Chinese economy, not helped by extreme volatility in its domestic stock market, all weighed on investors minds. The prospects of rate rises in the US combined with a fully valued equity market did leave investors struggling to spot the next market leader in terms of performance. The Japanese economy that had been showing signs of progress lost momentum with manufacturing weakening, despite overall profitability improving due to Yen weakness. Much of the rest of Asia continued to struggle, as manufacturing demand remained weak. Commodity dependent economies in Latin America and Australia faltered in the wake of falling demand from China, which itself continues to make the difficult adjustment from an infrastructure spending, to consumer driven economy. After a period of very strong returns, bond markets retreated from the highs seen early in the quarter. During April, Switzerland made history by becoming the first government in history to sell ten-year bonds at a negative interest rate. However by the guarter end most bond markets had responded to the fall in US treasuries, itself a response to better than expected economic news, and retreated from the historic low yields seen earlier in the year.

The summer months proved to be particularly challenging for global equities and despite a slight recovery towards the quarter end, delivered the worse quarterly returns since 2011. The trigger for steep falls in markets during August was the decision by the Chinese authorities to devalue the Renminbi. This heightened fears already present; that the Chinese economy was in difficulty and possibly heading for a

hard landing. Bonds were the main beneficiaries of market nervousness, offering a safe haven status. The weakening economic growth story, zero inflation and deferred monetary tightening in the US all contributed to positive returns to bonds globally, including in the UK which along with the Eurozone was experiencing negative headline inflation rates. Within European bond markets, spreads narrowed once again as the Greek debt situation appeared to have stabilised, at least in the short term. UK Property had a strong quarter and was the best performing asset class over twelve months, with moderate signs of rental growth underpinning the yield contraction which had driven the positive returns in the recent past.

After a difficult summer and early autumn, global markets enjoyed a strong final quarter of the calendar year. Recovering all the lost ground that had occurred during the August sell off from equity markets ending the quarter up 9% in Sterling terms. Despite the rally into the year end, the fears that were the catalyst of the August fall still remained in the background and had not been resolved. A Chinese economic hard landing was still a concern for investors and even after the December's 0.25% rise in US rates, the trajectory of future rate hikes remained a concern for investors at the turn of the year. Over the calendar year 2015, Japanese and European equity along with UK property were the strongest asset classes with emerging markets and developed Asian equity the worst. There was a high degree of dispersion between stock markets. For example despite the strength seen in some areas, the markets in the commodity dependent economies of Latin American dropped by more than a quarter over the year. High yields markets had a very difficult final quarter with defaults rising particularly in commodity related areas, which were increasingly struggling to cope with the deteriorating pricing environment.

As we entered 2016 and the final guarter of the financial year global markets suffered another severe set back with falls of 20% or more from peak levels occurring by mid February, a figure which is often seen as bear market territory. Once again anxiety over the Chinese economy weighed heavily, with growing concerns about the future management of the Renminbi added to the mix of slowing growth and the health of the banking system. January also witnessed another slump in Oil prices with dramatic falls early in the month. So called safe haven assets from bonds to the Japanese Yen and even Gold enjoyed strong returns as investors dumped riskier assets. However in a now all too familiar roller coaster pattern, following this traumatic start to the year, equity markets sharply reversed and by the quarter end had recovered all their losses. From a Sterling investors perspective all major markets delivered positive returns helped in part by a weakening currency. The only exception being Japan which despite a positive contribution from the yen still finished the guarter in negative territory. The catalyst for this recovery was yet more central bank intervention coming from Europe, an economic stimulus package aimed at domestic demand in China and a softening in rhetoric from the Federal Reserve, which seemed to reduce both the number of predicted rate rises and delay the timing of any further moves. The resultant easing of pressure on the US dollar helped Oil and other commodity prices, which in turn eased the pressure on emerging markets. As the financial year came to a close and despite the strong rally seen in equity markets, bonds and gold held onto their early quarter gains indicating that at least in some investor minds the ability of central banks to underpin assets prices might be coming towards an end.

Market Returns

Financial market returns for 2015/16 were significantly poorer than over the previous financial year. Most major equity markets delivered negative returns with Europe (ex UK) and Japan the poorest performers in local currency terms down 11.7% and 12.2% respectively. Emerging markets had a difficult and volatile year and ending the period down 7.8% in local currency terms. The only exception to this negative trend in equity was North America; in local currency terms the market was close to flat but after some weakness in sterling, North American equity delivered a positive return of 3.6%. Sterling weakened against most major currencies over the year and this partially offset the negative returns for an un-hedged Sterling based investor. The double-digit losses in both continental Europe and Japan equity were substantially reduced in Sterling terms as it lost 9.3% and 8.7% against the Euro and Yen respectively. Given the level of uncertainty on Chinese growth, US interest rates and the falling Oil price it will come as no surprise that Bond markets were often seen as safe havens for investors. While most equity markets fell over the financial year global bonds produced positive returns. The UK Government bond index also rose delivering 3.2% return. After a spectacularly strong 2014-15 where they returned 20%, UK index linked Gilts produced a positive but more modest return of 1.7%. Once again the UK property market produced strong returns with the IPD index up 12.6%.

Fund Performance

The Northamptonshire County Council Pension Fund marginally underperformed the benchmark during the financial year 2015/16. The fund's total return of 0.2% was marginally behind the bespoke benchmark of 0.6%. The main driver of this slight underperformance was a disappointing return from active UK equity and a negative return from the diversified growth fund, which has an absolute return benchmark.

Despite the slight relative underperformance over one year the longer term performance against the benchmark remains strong. Over three years the Fund has returned 6.8% per annum ahead of the benchmark, which returned 6.4%. A major driver to returns being strong performance from active UK equities. Over five years the return is 7.4% per annum against a benchmark of 7.0% per annum. At the March 2013 actuarial valuation, the target return was set at 4.6% p.a. The Fund has achieved a return of 6.8% p.a. over this period, which is 2.2% ahead of target.

Economic and Market Outlook

The level of volatility in markets that was witnessed in the final quarter of the financial year reinforced the view that investors remain nervous and are easily spooked by any bad news emanating from China, Europe or the commodity markets. The outlook for earnings remains challenging with, unsurprisingly, energy companies showing the largest declines but financials and industrials are also struggling. There also appears no respite for the beleaguered commodities sector despite a very strong rally in Iron Ore prices towards the end of the period. In the short term nervousness over a possible 'Brexit' will affect the UK markets and in particular Sterling. In the event of a decision by the UK to leave the EU, the ramifications would be felt well beyond the shores of the UK. Losing one of the wealthiest and largest EU members would weaken confidence in the entire European project and bring to the fore internal

stresses that could prove damaging to both those countries in the EU and those closest to it.

Away from Europe, China's process of rebalancing from a primarily industrial economy to a more mixed service lead economy will continue to be both complex to manage and widely watched by the rest of the developed world. Over capacity and stubbornly high levels of debt remain problematic to the Chinese authorities as they continue to transform the economy. Despite the slowing rate of growth in recent years the sheer scale of the Chinese economy demands attention from investors globally and every policy move and data point will continue to be closely watched and interpreted. Investors are having to cope with a world where negative yields on sovereign bonds are becoming more and more common place, February saw the Japanese government sell 10 year bonds at negative implied interest rates for the first time. In Europe significant amounts of sovereign debt is trading at negative yields and the ECB now charges banks to hold their money over night. We continue to live in a low growth, low inflation world and periods of high volatility in equity, bond and commodity markets seem likely to be with us for the foreseeable future.

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, carried out in 2013, indicated that the fund would be cash flow positive for many years to come. The 2016 review is now being carried out and cash flow projections will be updated following this review and any changes to assumptions will be factored into future investment policy. However the main investment priority is expected to remain focused on long-term return generation rather than short-term risk mitigation.

The current investment strategy, which is broadly 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 index linked bonds managed passively and half in mandates that are less exposed to rising interest rates, such as Total Return and Multi-Strategy Credit.

The referendum on the 23rd of June resulted in a decision to begin the process of leaving the EU. The results came as a surprise to most investment markets, which were positioned for a narrow but clear victory for the 'Remain' camp. The UK equity market had enjoyed a modest rally ahead of the vote responding to polls showing 'Remain' consistently ahead. As the first results began to indicate a possible 'Brexit 'Sterling began to fall sharply on the foreign exchange markets. The Friday after the result global markets lost \$2 trillion and Sterling fell to a 30 year low against the US dollar. European equity markets suffered amongst the largest falls as investors began to worry about potential 'Brexit' contagion threatening the entire European project. Increases to risk aversion drove safe haven assets higher with bond markets in the US, European and Asia trading higher. Even UK Gilts rallied despite warnings that the UK would lose is AAA status if it left the EU. Adding to this volatile and fast moving situation came the news that UK Prime Minister David Cameron would step down as a result of losing the referendum.

Despite the initial shock, the post 'Brexit' investment environment delivered something of positive surprise. Volatility has fallen back to levels prevalent before the vote. The UK has a new Prime Minister and Chancellor in place and the actual process and timing of leaving the EU remains to be decided. The FTSE 100 index that derives over 70% of its revenues in non-Sterling currencies has enjoyed a strong recovery, ending the June quarter up 5% and continuing to rally into July. Even the more domestically oriented FTSE250 has recovered all of its post referendum losses and is trading on twelve-month highs. The fall in sterling has boosted returns from overseas assets for un-hedged Sterling based investors, with double digit returns now seen year to date. In August The Bank of England lowered its UK GDP growth expectation and announced a 0.25% cut in interest rates, combined with a further £170bn stimulus package of more quantitative easing and measures aimed at stimulating bank lending.

From a pension fund standpoint most assets have enjoyed a strong rally since Brexit with UK commercial property being the only outlier on the negative side. Un-hedged overseas asset prices have received a boost from the fall in Sterling, as have many companies in the FTSE 100. Bonds have not given up their gains even as volatility had subsided. However this strength in Bond markets combined with interest rate cuts and further quantitative easing has further compressed yields and therefore increased the liabilities for pension funds, offsetting the gains made from the assets.

Mark Stevens

May 2016

Scheme Administration Report

Northamptonshire County Council is responsible for administering the Northamptonshire Pension Fund. LGSS, which is a partnership between Northamptonshire County Council and Cambridgeshire County Council, provides shared services to the two Councils including pensions administration for each Council's respective Pension Fund. The primary objective of LGSS Pensions is to provide an efficient and effective pensions administration service to the stakeholders of both Funds, utilising converged processes, shared resources and economies of scale. LGSS delivers pensions services to 46,884 Active members, 56,272 deferred members and 31,034 pensioner members.

Pension Fund Website

The LGSS Pensions dedicated website contains detailed information for all the Fund's stakeholders and has dedicated pages for members and employers, including a range of LGSS contact details. The information is regularly updated to ensure accuracy and there is a comprehensive suite of forms and factsheets for members, prospective members and employers.

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 and has been embedded in to all training presentations, detailing the benefits associated with the system. ESS has been offered to all employers across the Northamptonshire Pension Fund since January 2015.

ESS was instrumental to our preparations for the 2016 Year End and Valuation processes as a tool allowing employers to perform data reconciliation ahead of the Year End returns being issued. This ensured that the data held by our employers was correct and up to date, reducing the number of errors and queries during year end.

ESS has also been promoted as the primary method for employers to obtain benefit estimates for their members. This is to assist the pensions section by reducing enquiries and to enable employers to run their own estimates and obtain estimates immediately, when they need them.

We have delivered a number of ESS training sessions to employers and to payroll providers such as EPM and Serco who provide services to a large number of employers.

Member Self Service

Member Self Service (MSS), allows members to securely access their own records held on the pensions database to view, amend their personal information, and obtain certain benefit estimates.

MSS has been used to generate further efficiencies and has been offered to all active members across the Northamptonshire Pension Fund. Annual Benefit statements for active members will be issued through MSS for the first time in 2016 statements, with only 200 members opting out of receiving them via this method.

We have actively promoted the use of MSS to our active members through direct mailings out, newsletters and promotion on our website. The direct mailing, distributed on the 2 April, increased the average emails received per week day, regarding MSS, by more than double from 23.5 emails per week day in March to 58.7 per week day in April.

MSS is also available to deferred members of the LGPS and we will continue to promote its uses for these members through the deferred members Annual Benefit statements distributed in 2015/2016.

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.

During 2015/2016 Olympus Care Services and ten Academies began to use i-Connect.

LGSS Pensions has also agreed to use a new commercial model of i-Connect which will be rolled out to all major payroll providers over the following year, which will cover a large proportion of our employers and will have a significant impact in improving efficiency.

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).

The following formal disputes have arisen and been resolved during 2015/16:

- One Stage 1 IDRP case relating to an administering authority decision arose and was dealt with in 2015/16. The appeal was not upheld; it related to actual benefits being lower than estimated values provided.
- Two Stage 2 IDRP cases relating to employing authority decisions arose in 2015/16, both relating to Scheme Employer's decisions not to grant early payment of deferred benefits on ill health grounds. One appeal was not upheld, the other was upheld, in so far as the case was to be referred to a different Independent Registered Medical Practitioner before the employer reviewed their decision.

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-forthe-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 a 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

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 worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

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

Dough Cr

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

12 May 2016

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	31 March 2013
Past Service Position	(£m)	(£m)
Past Service Liabilities	1,651	2,191
Market Value of Assets	1,206	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	31 March 2013
Contribution Rates	(% of pay)	(%of pay)
Employer future service	16.2%	19.8%
rate (incl. expenses)		
Past Service Adjustment	8.4%	12.3%
(20 year spread)		
Total employer	24.6%	32.1%
contribution rate (incl.		
expenses)		
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.

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 was reviewed in June 2015 and has been published on the Funds website.

The activities of the Fund are controlled by the County Council's Pension Fund Committee. The Local Pension Board has the responsibility ensure the effective and efficient governance and administration of the LGPS.

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	l	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 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 2015-16.

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

^{*2} attendances were in a substitute capacity.

The Local Pension Board consists of the following representatives:

Representing	No.
Scheme Employers	3
Scheme Members	3
Total	6

The Local Pension Board meets at least twice per year and reports its activities at the end of each financial year to full Council. It has no decision making ability and there are no substitute members

The following table shows the attendance of Local Pension Board members during 2015-16.

		Attendance at
		Local Pension
		Board Meetings
Scheme	Cllr A Matthews	4/4
Employers	Cllr M Scrimshaw	1/4
	Audra Statham	3/4
Scheme	Paul Evans	4/4
Representatives	Penny Smith	3/4
	Nina Thomas	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. This is due to be reviewed again during the 2016/17 financial year. 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	30 working days
for the scheme employer	
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 2015-16 the Fund 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 2015-16, 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 which was reviewed and updated in October 2015 - http://pensions.northamptonshire.gov.uk/wp-

content/uploads/2012/11/Northamptonshire-Admitted-body-Scheme-employer-and-bulk-TV-policy-Final-2015.pdf

During 2015-16 one new bond provision was put in place and five new guarantor agreements 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 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 July 2015. The SIP that was in force in 2015-16 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
 - o representatives of Scheme members
 - o 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 Strategy was approved by the Pensions Committee in October 2014. This is due to be reviewed again during the 2016/17 financial year.

The policy is published on the LGSS Pensions website and 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.

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 2016.

	Active	Ceased	Total
Scheduled body	175	0	175
Admitted body	63	3	66
Designated body	25	3	28
Total	263	6	269

An analysis of fund assets as at 31 March 2016.

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	200.3	86.9	1,219.6	1,506.8
Bonds	-	-	171.1	171.1
Property - direct holdings	-	-	-	-
Alternatives	174.3	-	-	174.3
Cash and cash equivalents	2.4	-	-	2.4
Other	-	-	-	-
Total	377.0	86.9	1,390.7	1,854.6

An analysis of investment income accrued as at 31 March 2016

	UK	Non-UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	8,431	-	14,409	22,840
Bonds	-	-	3,323	3,323
Property - direct holdings	-	-	-	-
Alternatives	5,260	-	-	5,260
Cash and cash equivalents	268	-	-	268
Other	-	-	-	-
Total	13,959	-	17,732	31,691



Independent auditor's report to the Members of the Northamptonshire County Council Pension Fund (the "Authority") 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 2016 on pages 61 to 91.

Respective responsibilities of the Financial Officer and the auditor

As explained more fully in the Statement of the *Financial Officer's* Responsibilities *the Financial Officer* 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 2015/16.

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 2015/16.

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 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We have not considered the effects of any events between the date we signed our report on the full annual published statement of accounts 29 September 2016 and the date of this report.

Matters on which we are required to report by exception

The Code of Audit Practice 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 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Andrew Cardoza

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

8th Floor, One Snowhill Snow Hill Queensway Birmingham B4 6GH

28 November 2016

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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 2015 to 31 March 2016.

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2015-16 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 2016

2014-15 £000		Notes	2015-16 £000
	Dealings with members, employers and others directly involved in the Fund	,,,,,,	
(91,846)	Contributions	7	(97,993)
(3,634) (95,480)	Transfers in from other Pension Funds	8	(2,042) (100,035)
76,785 38,684 115,469	Benefits Payments to and on account of leavers	9 10	82,713 4,447 87,160
19,989			(12,875)
7,596	Management expenses	11	7,750
(30,502) 56	Returns on investments Investment income Taxes on income	12 13	(32,241) 50
(178,163)	(Profit) and losses on disposal of investments and changes in the market value of investments	15a	30,924
(208,609)	Net return on investments		(1,267)
(181,024)	Net (increase)/decrease in the net assets available for benefits during the year		(6,392)

Notes on pages 64 to 92 form part of the financial statements.

Net Assets Statement as at 31 March 2016

2014-15			2015-16
£000		Notes	£000
1,832,628	Investment assets	15	1,829,065
19,409	Cash deposits	15	28,978
1,852,037			1,858,043
(2,297)	Investment liabilities	15	(2,234)
1,849,740			1,855,809
16,551	Current assets	20	18,622
(1,657)	Current liabilities	21	(3,405)
14,894	Net Current Assets		15,217
1,864,634	Net assets of the Fund available to Fund benefits at the period end		1,871,026
1,683,610	Opening net assets as at 1 April		1,864,634
181,024	Net increase/(decrease) in the net assets available for benefits during the year		6,392
1,864,634	Closing net assets as at 31 March		1,871,026

Notes on pages 64 to 92 form part of the financial statements.

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 2015-16 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 (as amended).

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 2016 there are 263 (2015: 217) employer organisations within Northamptonshire Pension Fund including the County Council itself, an increase of 46, as detailed over the page:

	31 March 2015	31 March 2016
Number of employers with active members	217	263
Number of employees in scheme		
County Council	8,123	7,708
Other Employers	11,284	12,432
Total	19,407	20,140
1 0 3 3 3 1		
Number of Pensioners		
County Council	7,790	7,919
Other Employers	6,631	6,946
Total	14,421	14,865
Deferred Pensioners		
County Council	15,103	15,451
Other Employers	8,274	9,932
Total	23,377	25,383
Total Membership	57,205	60,388

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 2016. 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

Prior to 1 April 2014, 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 2008 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 pension. 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 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

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

2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2015-16 financial year and its position at year end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015-16* 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.

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 the due date on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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 effective interest 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.

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 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 and charged as expenses to the Fund in accordance with Council policy.

All oversight and governance expenses 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 in the Fund Account.

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 International Private Equity and Venture Capital Valuation Guidelines 2012. Limited partnerships

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 and includes amounts held by the Fund's external managers.

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.

I) 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 the Code, 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 2016 was £1.2m (31 March 2015: £1.4m).

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 2016 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 £1.2 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 and 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 2016, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7 Contributions Receivable

By category

2014-15	2015-16
£000	000£
73,100 Employers	78,650
18,746 Members	19,343
91,846 Total	97,993

By authority

2014-15	2015-16
£000£	£000
31,702 Northamptonshire County Council	29,176
52,259 Scheduled Bodies	60,325
7,885 Admitted Bodies	8,492
91,846 Total	97,993

8 Transfers In From Other Pension Funds

2014-15	2015-16
000£	£000
3,634 Individual transfers	2,042
3,634 Total	2,042

9 Benefits Payable

By category

2014-15	2015-16
£000	£000
62,538 Pensions	66,217
11,746 Commutation and lump sum retirement benefits	15,109
2,501 Lump sum death benefits	1,387
76,785 Total	82,713

By authority

2014-15		2015-16
000£		£000
34,746 Nortl	hamptonshire County Council	29,176
37,407 Sche	eduled Bodies	47,407
4,632 Adm	itted Bodies	6,130
76,785 Tota	ıl	82,713

10 Payments To and On Account of Leavers

2014-15		2015-16
£000		£000
80	Refunds to members leaving service	219
42	Payments for members joining state scheme	38
30,450	Group transfers	2,502
8,112	Individual transfers	1,688
38,684	Total	4,447

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

2014-15	2015-16
£000	£000
1,934 Administrative costs	1,851
5,331 Investment expenses (Note 14)	5,750
331 Oversight and governance costs	149
7,596 Total	7,750

12 Investment Income

2014-15	2015-16
£000	£000
491 Fixed interest securities	90
20,774 Equities	22,219
3,535 Pooled investments	5,795
5,408 Pooled property investments	3,596
117 Interest on cash deposits	91
Other (includes stock lending and commission	
177 recapture)	450
30,502 Total	32,241

13 Taxes on Income

2014-15	2015-16
£000	£000
56 Withholding tax – equities	50
56 Total	50

14 Investment Expenses

2014-15	2015-16
£000	000£
5,212 Management fees	5,665
119 Investment support costs	85
5,331 Total	5,750

Management fees include performance related fees of £2.6m in 2015-16 (2014-15: £2.2m).

15 Investments

Market value		Market value
31 March 2015		31 March 2016
£000	Investment coasts	£000
54447	Investment assets	
	Index-linked securities	-
•	Equities	677,033
•	Pooled investments	971,588
•	Pooled property investments	174,032
1,432	Private equity/infrastructure	1,173
	Derivative contracts:	
249	 Forward currency contracts 	-
19,409	Cash deposits	28,979
3,515	Investment income due	4,238
1,475	Amounts receivable for sales	1,000
1,852,037	Total investment assets	1,858,043
	Investment liabilities	
	Derivative contracts:	
(221)		(121)
` '	Amounts payable for purchases	(2,113)
(2)	Amounts payable for pending spot FX	(2,110)
(2,297)	Total investment liabilities	(2,234)
(2,291)	ו טומו ווויפטנוופווג וומטווונופט	(2,234)
1,849,740	Net investment assets	1,855,809

15a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2015 £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 2016 £000
Index-linked securities Equities Pooled investments Pooled property investments Private equity/	54,147 704,743 916,894 150,173	307 155,000 300,516 18,800	(52,497) (142,792) (243,750) (8,641)	(1,957) (39,918) (2,072) 13,700	677,033 971,588 174,032
infrastructure	1,432 1,827,389	243 474,866	(537) (448,217)	35 (30,212)	1,173 1,823,826
Derivative contracts: • Forward currency contracts • Spot currency contracts	28 (2) 1,827,415	1,152 235 476,253	(699) (222) (449,138)	(602) (11) (30,825)	(121) - 1,823,705
Other investment balances: Cash deposits Amounts receivable for sales of investments	19,409 1,475			(104)	28,979
 Investment income due Amounts payable for purchases of 	3,515			5	4,238
investments	(2,074)				(2,113)
Net investment assets	1,849,740		-	(30,924)	1,855,809

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 £690k (2014-15: £896k). In addition to these costs, indirect costs are incurred through the bid offer spread on investments within pooled investments.

15a: Reconciliation of movements in investments and derivatives (continued)

45,678 46,422 21,361 13,051 1,523 28,035	2,978 215,304 37,631 32,228 121 288,262	receipts £000 (2,544) (215,014) (35,552) (12,839) (63) (266,012) (129) (1,514)	year £000 8,035 58,031 93,454 17,733 (149) 177,104	£000 54,147 704,743 916,894 150,173 1,432 1,827,389
46,422 21,361 13,051 1,523 28,035	215,304 37,631 32,228 121 288,262	(215,014) (35,552) (12,839) (63) (266,012)	58,031 93,454 17,733 (149) 177,104	704,743 916,894 150,173 1,432 1,827,389
1,523 28,035	121 288,262 - 312	(63) (266,012) (129)	(149) 177,104	1,432 1,827,389
28,035 20	288,262 - 312	(266,012) (129)	177,104 109	1,827,389
20	312	(129)	109	-
		, ,		- 28
51		(1,514)	1,179	28
	35	-	(37)	(2)
28,106	288,609	(267,655)	178,355	1,827,415
31,471			(190)	19,409
1,397			5	1,475
2,787			_	3,515
ŕ			(7)	(2,074)
-0.04=		-	178,163	1,849,740
	•	2,787	2,787	2,787 - (3,914) (7)

15b: Analysis of investments (excluding derivative contracts)

31 March 2015 £000		31 March 2016 £000
2000	Index-linked securities	2000
	UK	
54,147	Public sector quoted	-
54,147	-	-
	Fauitia	
	Equities UK	
395,956	Quoted	383,043
	4000	333,313
	Overseas	
308,787	Quoted	293,990
704,743	_	677,033
	Pooled funds – additional analysis UK	
_	Fixed income unit trust	164,764
160,832	Equity	19,932
160,832	_ = 4*}	184,696
	Overseas	
276,515	Fixed income unit trust	171,092
479,497	_ Equity	615,746
756,012	-	786,838
150 172	Other pooled funds	174 022
150,173 1,432	Pooled Property Investments Venture Capital	174,032 1,173
50	Cash funds	54
151,655	_ Gaon rando	175,259
,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	Investment Assets	,
249	Derivatives	-
19,409	Cash deposits	28,979
3,515	Investment income due	4,238
1,475	Amounts receivable from sales	1,000
1,852,037	Total Investment Assets	1,858,043
	Investment Liabilities	
(221)	Derivatives	(121)
(2,074)	Amounts payable for purchases	(2,113)
(2)	Amounts payable for pending spot FX	-
(2,297)	Total Investment Liabilities	(2,234)
1,849,740	Net Investment Assets	1,855,809

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	2,697	EUR	(3,525)	-	(99)
One to six months	GBP	1,551	EUR	(1,979)	-	(22)
Total	-	(121)				
Net forward currency contracts at 31 March 2016						<u>(121)</u>
Prior Year Comparative						
Open forward currency contracts at 31 March 2015						(221)
Net forward current	y contracts a	t 31 March 2015	5			<u>28</u>

Investments analysis by Fund manager

Market value 3	Market value 31 March 2015		arket value 31 N	larch 2016
£000	%		£000	%
603,451	32.6	UBS	754,425	40.7
301,308	16.3	Newton	309,867	16.7
231,685	12.5	Majedie	216,106	11.6
147,852	8.0	CBRE	174,348	9.4
331,208	17.9	Wellington	171,092	9.2
142,161	7.7	Baillie Gifford	139,449	7.5
88,780	4.8	Skagen	86,907	4.7
1,432	0.1	Catapult	1,173	0.1
1,863	0.1	Cash	2,442	0.1
1,849,740	100.0		1,855,809	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 2015 £000	% of total Fund	Market value 31 March 2016 £000	% of total Fund
UBS Life World Equity Tracker	355,364	19.1	355,956	19.0
UBS Over 5 Year Index Linked Gilt	-	-	164,764	8.8
Baillie Gifford Diversified Growth Fund	142,160	7.6	139,449	7.5
Wellington Sterling Core Bond Plus Portfolio GBP	105,101	5.6	•	-

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 £40.7m (31 March 2015: £67.7m). These equities continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's Custodian. At 31 March 2016, the Custodian held collateral at fair value of £44.2m (31 March 2015: £74.6m). 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 Ma	arch 2015		Mark	et value 31	March 2016
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets Index-linked			
54,147	_	-	securities	-	-	-
704,743	-	-	Equities	677,033	-	-
916,894	-	-	Pooled investments	971,588	-	-
150,173	-	-	Pooled property investments	174,032	-	-
1,432	-	-	Private Equity/ infrastructure	1,173	-	-
249	- 19,409		Derivative contracts Cash	-	- 28,979	-
1,475	3,515	-	Other investment balances Debtors	- -	5,238	<u>-</u> -
1,829,113	22,924	-		1,823,826	34,217	-
			Financial Liabilities			
(223)	-	-	Derivative contracts	(121)	_	_
	_	(2,074)		-	-	(2,113)
(223)	-	(2,074)	•	(121)	-	(2,113)
1,828,890	22,924	(2,074)		1,823,705	34,217	(2,113)

16b: Net gains and losses on financial instruments

Market value 31 March 2015 £000		Market value 31 March 2016 £000
	Financial Assets	
177,104	Fair value through profit and loss	(30,212)
5	Loans and receivables	(115)
	Financial liabilities	
1,288	Fair value through profit and loss	(602)
(234)	Loans and receivables	
-	Financial liabilities measured at amortised cost	5
178,163	Total	(30,924)

16c: 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 2016	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	1,793,675	28,978	1,173	1,823,826
Loans and receivables	28,467	-	5,750	34,217
Total financial assets	1,822,142	28,978	6,923	1,858,043
Financial Liabilities Financial liabilities at fair value through profit and loss	_	_	(121)	(121)
Financial liabilities at amortised cost		_	(2,113)	(2,113)
Total financial liabilities	_	_	(2,234)	(2,113)
Net financial assets	1,822,142	28,978	4,689	1,855,809

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £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	(222)			(222)
profit and loss Financial liabilities at amortised cost	(223) (2,074)	-	-	(223) (2,074)
Total financial liabilities	(2,297)	-	-	(2,297)
Net financial assets	847,673	847,353	154,714	1,849,740

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 Pensions 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 advisers 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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisers, the Council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

Asset Type	Percentage Change %
UK Equities	10.82
Global Equities	9.87
Bonds & Index-linked	4.21
Diversified Growth	4.51
Alternatives	7.54
Property	2.45
Net derivative assets	0.00
Investment income due	0.00
Cash	0.01
Amounts receivable for sales of investments	0.00
Amounts payable for	
purchases of	0.00
investments	
Total Assets	6.89

The potential price changes disclosed above are broadly consistent with one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment adviser's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below).

Asset Type	Value at 31 March 2016 £000	Potential Market Movement	Value on Increase £000	Value on Decrease £000
UK Equities	263,526	28,514	292,040	235,012
Global Equities	909,736	89,791	999,527	819,945
Bonds & Index-linked	335,856	14,140	349,996	321,716
Diversified Growth	139,449	6,289	145,738	133,160
Alternatives	1,173	88	1, <i>2</i> 61	1,085
Property	174,032	4,264	178,296	169,768
Net derivative assets	(121)	-	(121)	(121)
Investment income due	4,238	-	4,238	4,238
Cash	29,033	3	29,036	29,030
Amounts receivable for sales of investments	1,000	-	1,000	1,000
Amounts payable for purchases of investments	(2,113)	-	(2,113)	(2,113)
Total Assets	1,855,809	143,089	1,998,898	1,712,720

Asset Type	Value at 31 March 2015 £000	Potential Market Movement	Value on Increase £000	Value on Decrease £000
UK Equities	414,627	44,033	458,660	370,594
Global Equities	788,284	72,443	860,727	715,841
Bonds & Index-linked	330,662	12,268	342,930	318,394
Diversified Growth	142,161	5,686	147,847	136,475
Alternatives	1,432	114	1,546	1,318
Property	150,173	5,031	155,204	145,142
Net derivative assets	26	-	2	26
Investment income due	3,515	-	3,515	3,515
Cash	19,459	-	19,459	19,459
Amounts receivable for sales of investments Amounts payable for purchases of	1,475	-	1 <i>,47</i> 5	1,475
investments	(2,074)	-	(2,074)	(2,074)
Total Assets	1,849,740	139,575	1,989,315	1,710,165

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 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect 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 adviser has advised that long-term average rates are expected to move less than 80 BPS 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	Value as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	28,979	-	28,979	28,979
Cash balances	11,771	-	11,771	11,771
Total change in assets available	40,750	-	40,750	40,750

Asset type	Value as at 31 March 2015 £000	Potential movement on 1% change in interest rates £000	Value on increase	Value on decrease
Cash and cash equivalents	19,409	-	19,409	19,409
Cash balances	8,252	-	8,252	8,252
Fixed interest securities	54,147	541	53,606	54,688
Total change in assets available	81,808	541	81,267	82,349

Income exposed to interest rate risk	Amount receivable as at 31 March 2016 £000	Potential movement on 1% change in interest rates £000	Value on increase	Value on decrease
Cash deposits, cash				
and cash equivalents	91	1	92	90
Fixed interest securities	90	-	90	90
Total	181	1	182	180

Income exposed to interest rate risk	Amount receivable as at 31 March 2015	Potential movement on 1% change in interest rates £000	Value on increase	Value on decrease
Cash deposits, cash				
and cash equivalents	117	1	118	116
Fixed interest securities	491	-	491	491
Total	608	1	609	607

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of the assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in currency other than the functional currency of the Fund (GBP). The fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range or exposure to currency fluctuations.

Currency risk – sensitive analysis

Following analysis of historical data with the Fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 7% (as measured by one standard deviation).

A 7% fluctuation in the currency is considered reasonable based on the Fund adviser's analysis of long-term historical movements in the month-end exchange rates over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows.

Assets exposed to currency risk	Value as at 31 March 2016	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas Quoted Securities	909,736	63,682	973,418	846,054
Overseas Fixed Income	171,092	11,976	183,068	159,116
Total overseas assets	1,080,828	75,658	1,156,486	1,005,170

Assets exposed to currency risk	Value as at 31 Potential Marl March 2015 Movement		Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas Quoted Securities	791,380	55,397	846,777	735,983
Overseas Fixed Income Overseas Equity	276,515	19,356	295,871	257,159
Total overseas assets	1,067,895	74,753	1,142,648	993,142

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 Fund 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 2016 the value of illiquid assets was £175.2m, which represented 9.4% of the total Fund assets (31 March 2015: £151.6m, which represented 8.1% 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 2016 are due within one year.

c) Refinancing risk

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

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 unnecessarily restrain the investment strategy of the Fund so that the administrating 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 Fund's employers as far as is reasonable over the long-term.

The aim is to achieve 100% solvency over a period of 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, 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 24.6%).

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 Fund's 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)	2.1%	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

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 a 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

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, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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.

31 March 2015 £m (3,088)	Present value of promised retirement benefits	31 March 2016 £m (2,891)
1,865	Fair value of scheme assets (bid value)	1,871
(1,223)	Net liability	(1,020)

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	
Salary increase rate	4.2%
Discount rate	3.5%

20 Current Assets

31 March 2015		31 March 2016
£000		£000
5,626	Contributions due – employers	5,628
522	Contributions due – employees	1,567
824	Other debtors	618
1,327	Funds due from the County Council	6,235
8,252	Cash balances	4,574
16,551	Total	18,622

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

21 Current Liabilities

31 March 2015 £000		31 March 2016 £000
242	Benefits payable	258
1,415	Sundry creditors	2,388
-	Funds due to the County Council	759
1,657	Total	3,405

22 Additional Voluntary Contributions

Market value at		Market value at
31 March 2015		31 March 2016
£000		£000
3,113	Prudential	3,537
713	Standard Life	630
3,826	Total	4,167

Total contributions of £821k were paid directly to Prudential during the year (2014-15: £751k).

Total contributions of £14k were paid directly to Standard Life during the year (2014-15: £14k).

23 Agency Services

31 March 2015		31 March 2016
£000		£000
365	Unfunded	509

Agency Services represent activities administered by the Fund on behalf of scheme employers which are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies.

24 Related Party Transactions

Northamptonshire County Council

The Northamptonshire Pension Fund is administered by Northamptonshire County Council.

The Council incurred costs of £1.8m (2014-15: £1.9m) in relation to the administration of the Fund and was 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 £23.1m to the Fund in 2015-16 (2014-15: £24.6m). 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 Brendon Glynane (appointed June 2015)

Cllr Malcolm Longley

Cllr Dennis Meredith (resigned June 2015)

Cllr Russell Roberts

Cllr Bob Scott

Cllr Winston Strachan (Substitute Member Appointed May 2015)

Cllr Mick Scrimshaw (Substitute Member Resigned May 2015)

District/Borough Councils' Representatives

Cllr Richard Lewis (East Northants District Council) (appointed November 2015)

Cllr Chris Long (Daventry District Council) (appointed November 2015, resigned May 2015)

Cllr Malcolm Ward (Wellingborough Borough Council) (resigned June 2015)

Cllr Martin Wilson (South Northants District Council) (resigned May 2015)

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 the Register of Members' Interests. Other members of the Pensions Committee are required to declare their interests at each meeting.

25 Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2016 totalled £0.3m (31 March 2015: £0.3m).

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.

26 Contingent Assets

Four admitted body employers in the Northamptonshire Pension Fund hold insurance bonds to guard against 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

Governance Policy and Compliance Statement (June 2015)

Northamptonshire Pension Fund



Northamptonshire Local Government Pension Scheme (LGPS)

Governance Policy and Compliance Statement

Introduction

This Policy and Compliance Statement details the governance arrangements for the Northamptonshire Pension Fund, which is maintained by Northamptonshire County Council, as required by Regulation 55 of the Local Government Pension Scheme Regulations 2013.

Under Regulation 55 of that provision all LGPS Funds are required to produce a Governance Compliance Statement which must be published and revised upon any material change in delegation arrangements.

The statement must set out -

- (a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority:
- (b) if the authority 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 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 that it does not so comply, the reasons for not complying; and
- (d) details of the terms, structure and operational procedures relating to the local pension board established under Regulation 53(4)

Each administering authority must –

- (a) keep the statement under review and make such revisions as are appropriate, following a material change,
- (b) in preparing and reviewing the statement, consult such persons as it considers appropriate,
- (c) publish its statement and any revised statement.

Governance Structure

The Northamptonshire Pension Fund governance structure is shown below.

Northamptonshire County Council

(Local) Pension Board

Pension Committee

Investment Sub-Committee

Director of Finance (S151 Officer)

Head of Pensions

Scheme of Delegations for the Northamptonshire Pension Fund

Northamptonshire County Council has delegated its functions in relation to the maintenance of the Northamptonshire Pension Fund to its Committees and Local Pension Board as follows:

Pension Committee

Authority to set the Pension Fund's objectives and determine and maintain appropriate strategies, polices and procedures with ongoing monitoring in 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.

Authority 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.

Authority to agree the terms and payment of bulk transfers into and out of the Fund in consultation with the Section 151 Officer.

Authority 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.

Authority to develop and maintain a training policy for all Pension Committee, Investment Sub-Committee and Pension Fund Board 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.

Authority to select, appoint, monitor and where necessary terminate advisers to the Fund not sole relating to investment matters.

Authority to agree the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.

Authority to consider and determine where necessary, alternative investment strategies for participating employers.

Authority to oversee the work of the Investment Sub-Committee and consider any matters put to them by the Investment Sub-Committee.

Authority to set up sub-committees and task and finish groups including jointly with other LGPS Administering Authorities.

Authority to review and amend the Statement of Investment Principles on an annual basis, in consultation with the Section 151 Officer.

Authority to manage any other strategic or key matters pertaining to the Fund not specifically listed above.

Investment Sub-Committee

Authority to implement the Fund's investment strategy.

Authority to review and maintain the detailed asset allocation of the Fund within parameters agreed with the Pension Committee.

Authority 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.

Authority 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.

Authority to set benchmarks and targets for the Fund's investment managers.

Authority to monitor the risks inherent in the Fund's investment strategy in relation to the Fund's funding level.

Authority to determine operational matters such as rebalancing and the most appropriate

methodology for asset transitions within parameters agreed by the Pension Committee. Authority 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; and
- with the UK Stewardship Code.

Authority to receive reports on Interim Manager meetings and other operational meetings.

Authority to undertake any task as delegated by the Pension Committee.

Authority to refer any matter to the Pension Committee as they consider appropriate.

Authority to provide minutes and such other information to the Pension Committee as they may request from time to time.

Local Pension Board

Responsibility for assisting the Administering Authority to secure compliance with:

- the Regulations;
- other legislation relating to the governance and administration of the LGPS; and
- the requirements imposed by the Pensions Regulator in relation to the LGPS

To ensure the effective and efficient governance and administration of the LGPS (including funding and investments).

Director of Finance

Responsibility for maintaining the Local Government Pension Scheme Regulations and any subsequent amending regulations, including the exercise of the Administering Authority's discretions and to make arrangements for the monitoring of the Pension Fund investments.

The Pension Committee

The Pension Committee is composed as follows:

Representing	No.	Term of Office	Method of appointment
Northamptonshire County Council	7	4 years from County Council elections	Determined by Northamptonshire County Council Full Council.
All other Local Authorities and Police	2	4 years	Nominations determined by a leaders/chief executives group. Selection will be linked to the election cycle. Details of the process to be agreed by the Chairman/woman.
All other employers	2	4 years	Nominations to be determined by eligible employers. Details of the process to be agreed by the Chairman/woman.
Active Scheme Members	1	4 years	Determined by Unison. Where Unison fails to nominate a representative for any period of 6 months or more, nominations will be requested from all eligible active members and a representative will be picked following interviews. Details of process to be agreed by the Chairman/woman.
Deferred and Pensioner Scheme Members	1	4 years	Determined by Unison. Where Unison fails to nominate a representative for any period of 6 months or more, nominations will be requested from all eligible deferred and pensioner members and a representative will be picked following interviews. Details of process to be agreed by the Chairman/woman.
Total	13		

The Chairman/woman of the Pension Fund Committee is elected by Full Council. The Vice Chairman/woman shall be elected by the Pension Committee.

Full Council may appoint substitute members to the Pension Committee in accordance with the scheme of substitution. Similarly, substitutes for the representatives of all other employers and of Scheme members may be appointed by eligible employers and Unison respectively.

All members and representatives have equal voting rights.

The Pension Committee is supported in the execution of its responsibilities by staff from LGSS Pensions (a shared service formed from the joint partnership of Cambridgeshire County Council and Northamptonshire County Council). The Committee is also supported by professional advisers such e.g. the Fund Actuary.

The Board meets four times a year with an additional Annual General Meeting in July. Additional Task and Finish Groups can meet as necessary to consider and report on matters that require further consideration.

The Investment Sub-Committee

The Investment Sub-Committee is composed as follows:

Representing	No.	Term of Office	Method of appointment
Northamptonshire County Council	4	4 years from County Council elections	Determined by Northamptonshire County Council Full Council. Details of process to be agreed by the Chairman/woman.
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 on the Committee. Details of process to be agreed by the Chairman/woman.
Scheme members	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 the Committee. Details of the process to be agreed by the Chairman/woman.
Total	7		

All Investment Sub-Committee members shall be drawn from the Pension Committee membership. The Chairman/woman and Vice Chairman/woman of the Investment Sub-Committee shall be the Chairman/woman and Vice Chairman/woman of the Pension Fund Committee respectively.

All members and representatives have equal voting rights.

The Pension Committee may appoint substitute members to the Investment Sub-Committee in accordance with the scheme of substitution. Similarly, substitutes for the representatives of all other employers and of Scheme members may be appointed by eligible employers and Unison respectively.

The Investment Sub-Committee is supported in the execution of its responsibilities by an institutional investment adviser and an independent investment adviser.

The Investment Sub-Committee meets four times a year.

In addition special meetings of the Investment Sub-Committee are held when required for the discharge of its functions in regard to such matters as the selection and appointment of investment managers.

The Local Pension Board

The Local Pension Board is composed as follows:

Representing	No.	Term of Office	Method of Appointment
Scheme Employers	3	4 years or until qualification for membership ceases	Two Councillor representatives determined by Northamptonshire County Council. One representative of a Scheme employer such as an admitted body or non-tax raising body that participates in the Northamptonshire Pension Fund appointed via an open selection process.
Scheme Members	3	4 years or until qualification for membership ceases	To be appointed via an open and transparent selection process.
Total	6		

The Local Pension Board has no decision making ability.

There are no substitute members.

The Local Pension Board meets at least twice per year.

The Local Pension Board reports its activities at the end of each financial year to full Council.

Governance Compliance Statement

This section sets out the extent to which Northamptonshire Pension Fund governance arrangements are compliant with the latest guidance issued by the Secretary of State for Communities and Local Government;

Principle		Partially	Fully
	Compliant	Compliant	Compliant
A. Structure		_	-
(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			\checkmark
effective communication across both levels.			
(d) that where a secondary committee or panel has been established, at least one seat on			\checkmark
the main committee is allocated for a member from the secondary committee or panel.			
B. Representation			
(a) that all key stakeholders are afforded the opportunity to be represented within the main			\checkmark
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) independent professional observers			✓
(iv) expert advisers			✓
(b) that where lay members sit on a main or secondary committee, they are treated equally			\checkmark
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.			
C. Selection and role of lay members			
(a) that committee or panel members are made fully aware of the status, role and function			\checkmark
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			\checkmark
or pecuniary interest related to specific matters on the agenda.			

D. Voting	
(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.	
E. Training/Facility time/Expenses	
(a) that in relation to they 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 or secondary forum.	
F. Meetings (frequency/quorum)	
(a) that the Administering Authority's main committee or committees meet at least	✓
quarterly.	
(b) that an Administering Authority's secondary committee of 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	N/A
governance arrangements, provide a forum outside of those arrangements by which the	
interests of key stakeholders be represented.	
G. Access	
(a) that subject to any rules in the councils constitution, all members of main and secondary	✓
committees or panels have equal access to committee papers, documents and advice that	
falls to be considered at meetings of the main committee.	
H. Scope	
(a) that administering authorities have taken steps to bring the wider scheme issues within	✓
the scope of their governance arrangements.	
I. Publicity	
(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.	

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;
 - o the making of agreements about levels of performance and associated matters;
 - o 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
- o 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;
 - o 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 und 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 in prescribed format	Accurate year end information to be provided for all Scheme members by 30 April following	100%

Function/Task	Indicator	Target
	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.

The following are the headilite pend		Cierio Cervice Will be
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		4000/	
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%
Payment of ongoing pension (not including the first pension payment)	Eligible payments made on the publicised payment date.	100%

Function / Task	Indicator	Target
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 reemployment	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)
 - o representatives of scheme members
 - o prospective scheme members
 - scheme employers
- Set out their policy on:
 - the provision of information and publicity about the Scheme
 - o 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.

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	information and changes to the	Surveys and polls (on websites and by post). Focus groups.
bonomo	Communication is delivered via the most appropriate media to the audience	Surveys and polls on websites. Focus groups. Monitor hits on website.
	Effective promotion of new media or change of processes to all stakeholders	Use appropriate media to convey relevant messages.
	Feedback from all stakeholders that they have understood the communication enough to make an informed decision	Surveys and polls on websites. Focus groups. Monitor incoming telephone call and email volumes.
Deliver a clear and consistent message, that is engaging, factual and presented in plain language	An effective implementation of the Communications Timetable to all audiences that is understood and timely.	Monitor enquiries from Stakeholders as to when events will take place. (Reduced enquiries mean effective delivery).
	Feedback from all audiences on the quality and language used in the communication sent.	Surveys and polls on websites. Focus groups.

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

communication delivery are efficient	
More efficient communications through sharing of knowledge, resources and practice through regional communication working parties	Year or year comparisons of cost and quality

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:

Stakeholder	Communication	Key message/Objective
Active Scheme	Annual Newsletter	Key Messages:
members	Annual Benefit Statements	Your pension is a valuable benefit
	Calculations and costings (e.g. estimates)	You need to make sure you're saving enough for retirement
	'Short guide to LGPS'	Objectives:
	'Full guide to LGPS'	To improve understanding of how the LGPS works
	Website (in particular 'Latest News' page)	To inform scheme members of their rights and benefits
	Member Self Service	For queries and complaints to be reduced
	External training sessions as requested by employer	To make pensions information more readily available
	LGSS Welcome Events	
	LGSS training events	
	Roadshows	
Scheme	Pension Bulletins	Key Messages:
employers	Ad hoc email alerts	You need to be aware of your responsibilities regarding the LGPS
	Biannual forums	The Fund is a valuable benefit for scheme members and is a good tool
	Website (in particular 'Latest News' page)	for retention of staff
	Seminars/workshops	Objectives:
	Bespoke ad hoc training	To increase understanding of how the Fund works and the effects on

Prospective Scheme members And Opt-Outs	sessions Welcome/Joiner information Information on website Scheme Information Leaflets LGSS Welcome Event LGSS training events	scheme members of any legislation changes To improve relationships Continue to improve the accuracy of data being provided to us To make pensions information more readily available Key Messages: The pension benefits are a valuable part of your reward package The LGPS is still one of the best pension arrangements available Objectives: 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
Deferred Scheme members	Annual Benefit Statements Calculations and costings (e.g. estimates)	Key Messages: • It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes

Potirod/Donondant	Scheme Information Leaflets Retirement Packs Website Annual Newsletter	The LGPS is still a valuable part of your retirement package Objective: To improve understanding of how the LGPS works To make pensions information more readily available
Retired/Dependant Scheme members	Payslips (when criteria is met) P60 Lifetime Allowance Calculations and costings (e.g. estimates)	 Key Messages: 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 Objectives: To improve understanding of how the LGPS works To make pensions information more readily available
Fund staff	Monthly service meetings Team meetings Ad hoc meetings Consultations 1:1 / Appraisals Training & Development	Objectives: 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

			To give staff a chance to feedback their views and suggestions
Board	ion Fund ds and tment Sub nittees	Committee Papers Presentations Consultations Agendas Minutes	Objectives: To update on the implementation of a policy To monitor success against the agreed measures
Externautho		Response to enquiries and consultations. Response to changes in	Objectives: To response to enquiries/statutory requirements.
(Her Majesty's Revenue & Customs (HMRC)	legislation.	
f (Department for Communities and Local Government (DCLG)		
_	Pensions Regulator		
	Audit Commission		

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
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
ОСТ						Monthly team meeting 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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01604 366537

pensions@northamptonshire.gov.uk

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Northamptonshire Pension Fund

Funding Strategy Statement

March 2014

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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 <u>Section 2</u> 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 <u>Section 3</u> 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 exemployees (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 <u>Appendix E</u>. 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 <u>Section 3</u>. 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 <u>Section 3</u>. 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 exemployees) 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

	Toaches used i	or different emplo	<u> </u>			
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 <u>Appendix E</u>)	
Future service rate	Projected Unit Credit approach (see Append			lix D – D.2)	Attained Age approach (see <u>Appendix D – D.2</u>)	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	future service rate.	contributions kept at However, reductions 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 a level of security provided, at regular intervals between val				Reviewed annually by request in last 3 years of contract	
New employer	n/a	n/a	Note (g)	Not	<u>e (h)</u>	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) .		admission agree Cessation debt wil basis appropriate to	subject to terms of ement, or similar. I be calculated on a the circumstances of 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 predetermined 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 <u>Section 4</u>), 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 3rd 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 (i).

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 III 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 <u>E3</u>) 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 <u>A1</u>).

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 <u>Section 3</u> 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;
- 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.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.
	Inter-valuation monitoring, as above, gives early warning.
	Some investment in bonds also helps to mitigate this risk.
	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.
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	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.
	If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <u>3.9</u>).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy.
	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.
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	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is provided.
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
	is concern, as follows:
	Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). 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.

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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.
	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 optouts or adverse actions.
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.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
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	Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:
	Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).
	Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.
	Vetting prospective employers before admission.
	Where permitted under the regulations requiring a bond to protect the Fund from various risks.
	Requiring new Community Admission Bodies to have a guarantor.
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).
	Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In <u>Section 2</u> 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 <u>D5</u> 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 <u>Note (a)</u> to <u>3.3</u>.

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 "trustoes"

Admission Bodies

Employers which voluntarily participate in the Fund, so that their employees and exemployees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see <u>2.5</u>).

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 (exemployees who have not yet retired) and pensioners (exemployees who have now retired, and dependants of deceased exemployees).

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 <u>3.4</u>).

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

July 2015

Statement of Investment Principles

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A. Introduction

- A.1 The Pension Committee (PC) 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-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;
 - 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 PC 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	Compliance Status
	That the SIP covers statements on:	
D2	The types of investment to be held	Fully
D2	The types of investment to be note	Compliant
D3	The balance between different types of	Fully
D3	investments	Compliant
D4,	Risk, including the ways in which risks are to	Fully
Appendix C	be measured and managed	Compliant
D5	The realisation of investments	Fully
D3	The realisation of investments	Compliant
D6	The expected return on investments	Fully
D6	The expected return on investments	Compliant
D7	Stock Londing	Fully
ן טי	Stock Lending	Compliant
Section E,	The extent to which social, environmental or	
Appendices	ethical considerations are taken into account	Fully
D & E	in the selection, retention and realisation of	Compliant
DAL	investments	
Section E,	The exercise of the rights (including voting	Fully
Appendices	rights) attaching to investments, if the	Compliant
D&E	authority has any such policy	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/keydocuments-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 PC 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:

Allowable variation compared to the total

value of the Fund

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
- 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

investments as set out in the Investment Regulations 2009.

D.5 The realisation of investments

regular basis.

- 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 PC 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 PC 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 PC 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 PC is responsible for the development, implementation and monitoring of this policy. The PC is also responsible for reviewing and, if necessary, updating this policy on an annual basis.
- E.3.2 The PC 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 Committees: An effective Committee of directors is essential
 to the long-term success of a company. The Committee provides
 strategic guidance to as well as oversight of the executive directors on
 behalf of shareholders. The Committee 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 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
 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 Committee 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 Committee 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 Committee.
- **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 PC 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 PC 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 PC 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 A0 is used as a guide for performance monitoring purposes)
Fixed Income		20.0%	
UBS	10.0%		FTSE Actuaries Government Securities Index-Linked over 5 year 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
Majedie	UK Equities	2%
UBS	UK Equity	2%
UBS	Passive Global Equities	0%
Newton	Global Equities	2%
Skagen	Global Equities	n/a (assumed 3% as guide)
UBS	Passive Fixed Interest	n/a
Wellington	Global Strategic Credit	n/a
	Global Total Return	n/a
Baillie Gifford	Diversified Growth	0%
CBRE	CBRE Property	
Overall Fund Target calculated taking into manager	1.6%	

Appendix C - Key Risks and Controls

Risk	Summary of Controls	Risk Index 1: Low5:High
KEY	RISKS AND CONTROLS	
Inappropriate long-term investment strategy.	 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.	 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. Fall in risk-free returns on	 Only anticipate long-term return on a relatively prudent basis to reduce the risk of underperforming. Analyse progress at three yearly valuations for all employers. Inter-valuation monitoring of investment performance. Inter-valuation monitoring of 	3
government bonds, leading to a rise in the value placed on liabilities.	investment performance.Asset Allocation reviews	3
Active investment manager under performance relative to benchmark over the medium term.	 Quarterly monitoring of market performance and active managers' performance relative to their benchmark and longer term objectives. 	3

Pay and price inflation significantly more than anticipated.	 The focus of the actuarial valuation process is on the real return on assets, net of price and pay increases. Inter valuation monitoring 	3
	provides early warning.	
	Some investment in index-linked	
	bonds helps to mitigate this risk.	

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	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.
their stewardship responsibilities.	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.
Principle 2 – Institutional investors should have a robust policy on managing conflicts of	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.
interest in relation to stewardship and this policy should be publicly disclosed	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.
Principle 3 – Institutional investors should monitor their investee companies	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.
	The Fund undertakes regular monitoring of the activities of the investment managers.

Principle	Evidence of compliance		
Principle 4 – Institutional	Responsibility for stewardship activities is delegated to the Fund's investment managers.		
establish clear guidelines on when and how they	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.		
will escalate their Stewardship activities	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.		
Principle 5 – Institutional investors should be willing to act collectively	The Fund is willing to work collaboratively with other investors, where appropriate, to enhance the influence that it has on individual companies.		
with other investors where appropriate	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.		
Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting	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.		
activity	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)).		
	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.		
Principle 7 – Institutional investors should report	The Fund expects the investment managers to report regularly on their stewardship and voting activities.		
periodically on their stewardship and voting	In addition, the Fund encourages the investment managers to consider and report the impact of engagement activity.		
activities	The Fund reports annually on stewardship activity through a specific section on Responsible Investment in the Funds' annual report and accounts.		

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
Effective Decision Making	The Pension Committee meets on a quarterly basis and is the main committee for the Fund addressing strategic and policy matters.
 Administering authorities should ensure that: Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make 	 The Pension Committee 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.
them effectively and monitor their implementation; and Those persons or organisations have	 The Investment Sub Committee has appointed suitably qualified investment managers to manage the investments of the Fund on their behalf.
sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	 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.

Principle		Evi	dence of compliance
•	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.	•	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 Committee and Investment Sub Committee consider all asset classes in terms of their suitability and diversification benefits.
Ri:	In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.	•	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.
•	These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	•	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 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

Principle	Evidence of compliance		
	will be formally reviewed following the triennial valuation, and at other times as required.		
	 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. 		
Performance Assessment	The Fund monitors manager performance, through quarterly performance		
 Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. 	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		
Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision making	performance annually at the Pension Committee and Investment Sub Committee.		
body and report on this to scheme members.	There is a regular review (at least biennially) of the effective working of the Pension Committee and Investment Sub Committee, the results of which are reported back to the Pension Committee.		
Responsible Ownership	The Fund has a clear policy regarding Responsible Investment (section D of this document) and will exercise its ownership responsibilities by:		
Administering authorities should:	Ensuring that all investment management agreements clearly set out the		
 adopt, or ensure their investment managers adopt the Institutional Shareholders' 	Fund's expectations regarding the consideration of ESG issues.		
Committee Statement of Principles on the responsibilities of shareholders and agents	 Monitoring the Fund's investment managers annually to determine the extent to which our expectations are being met. 		
include a statement of their policy on responsible ownership in the Statement of	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		

Principle	Evidence of compliance
 Investment Principles report periodically to scheme members on the discharge of such responsibilities. 	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.
Transparency and Reporting Administering Authorities should:	The following documents are published on the Pension Fund's website: • Pension Fund Annual Report and Statement of Accounts.
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.	 Statement of Investment Principles Governance Policy & Compliance Statement Funding Strategy Statement Administration Strategy
Provide regular communication to scheme members in the form they consider most appropriate. •	 Communications Strategy Cash Management Strategy Administering Authority Discretions Actuary Valuation Report
	 Pension Committee and Investment Sub Committee Agendas and Minutes are available on the Northamptonshire County Council's website.