## Northamptonshire Pension Fund

# Annual Report and Statement of Accounts 2016-17

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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 2016-17.

The accounts summarise the transactions of the Fund 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 Fund which takes into account these obligations is available on the Northamptonshire County Council website, <a href="http://northamptonshire.gov.uk">http://northamptonshire.gov.uk</a>.

Mr D Lawrenson

Director of Finance (Section 151 Officer)

Dated 13 September 2017

## 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 2017 and of its income and expenditure for the year 2016-17, and authorise the accounts for issue.

Mr D Lawrenson

Director of Finance (Section 151 Officer)

Dated 13 September 2017

## 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 2016-17.

2016-17 was another year of significant change and challenge for the Fund with the completion of the 2016 triennial valuation and continued development of asset pooling in particular.

During 2016-2017 there has been a steady growth in the number of members and employers in the Fund.

At 31 March 2016 the Fund was valued at £2.28bn, a significant increase from the £1.87bn of 31 March 2016, reflecting the Fund's asset return of 22.1% for the year, which outperformed the Fund's benchmark return of 21.2% and the average Local Government Pension Fund return of 21.4%<sup>1</sup>. The Northamptonshire Fund was ranked 29<sup>th</sup> percentile in the Local Authority Universe for investment performance over the last 12 months.

The Fund's investment strategy remains focused on growth assets which are expected to earn more attractive returns over the longer term than lower risk investments.

Over the year, the funding level for the Fund has increased from 78% to 79.6%. The results of the 2016 valuation published in April 2017 showed a funding level of 78% compared to 70.5% at the 2013 valuation. The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period, coupled with the positive impact on the liabilities of actual pay and benefit growth being lower than expected

Since 2010, Northamptonshire and Cambridgeshire County Councils have operated under a partnership, LGSS, to provide shared services including pensions administration. This arrangement provides efficient converged processes, sharing of resources and economics of scale to both Funds.

Following the Autumn Statement on 25 November 2015, the Department for Communities and Local Government (DCLG) published its criteria for Local Government Pension Scheme (LGPS) investment pooling, focusing on 4 elements: scale, strong governance, reduced costs and improved capacity to invest in infrastructure through pooling.

To deliver this agenda the Fund joined up with 10 other pension funds to form the ACCESS asset pool, forming a Shadow Joint Governance Committee (SJGC) in April 2016 to steer the development of the pool.

The initial work of the SJGC was to establish how ACCESS would meet the four pooling criteria. A detailed proposal was submitted to Government on the 15<sup>th</sup> July 2016.

Work then focussed on understanding the entity that will deliver the day to day operation of the pool, "The Operator". The options were to own or rent the operator and because the ACCESS pool believes in maintaining an external investment culture, the

renting solution was agreed unanimously, at the SJGC meeting of the 2<sup>nd</sup> September and subsequently ratified by all the constituent Councils by November 2017.

To create a formal Joint Governance Committee (JGC) the funds agreed to enter into an Inter Authority Agreement (IAA) in order to establish and delegate responsibilities to the JGC. The IAA's and subsequent constitutional changes for each local authority have since been agreed by the respective Full Council's, during February and March 2017.

The first formal pooled investment initiative is a passive procurement arrangement, expected to be available to the constituent funds by August 2017. This is a significant procurement, valued at approximately £11bn, with expectations to deliver in excess of £4m fee savings to the ACCESS funds.

I consider that it has been a successful year for the Fund due to the hard work invested by the members of the Pension Fund Committee and Investment Sub Committee, members of the Local Pension Board, the Chief Finance Officer, the Head of Pensions and all staff involved in the administration and investment management of the Fund.

I am confident that LGSS Pension Services will continue to provide high standards of service delivery and meet new and existing challenges into 2017-18 and beyond.

Councillor Graham Lawman

Chairman of Northamptonshire Pensions Committee

Dated 15 September 2017

<sup>1</sup> Source: PIRC Ltd Local Authority Universe

## 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 as at 31 March 2016. The results of the valuation were a funding level of 78% and an average primary employer contribution rate of 17.1%. The Primary rate above includes an allowance of 0.7% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay. At the previous formal valuation as at 31 March 2013 a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

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 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 <sup>th</sup>	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 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement	1/160 <sup>th</sup> 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

#### **Scheduled Bodies (73)**

Billing Brook School Academy Trust Billing Brook Academy Bishop Stopford School Borough Council of Wellingborough **Boughton Primary School Trust** Boughton Primary Academy Brambleside Academy Trust Brambleside Academy **Brooke Weston Trust** Beanfield Primary Academy Brooke Weston Academy Corby Business School Corby Technical School Gretton Primary Academy Kettering Science Academy Oakley Vale Academy Campion School & Language College Caroline Chrisholm School Chenderit School Academy Trust Chenderit School Collaborative Academies Trust Kingsthorpe College Academy Lumbertubs Primary Academy Spring Lane Primary Academy Corby Borough Council Creative Education Academies Trust Abbeyfield School Queen Eleanor Primary Academy Weavers Academy **Daventry District Council David Ross Education Trust** Abbey Church of England Academy Briar Hill Primary Academy Cedar Road Primary Academy Eastfield Academy Falconers Hill Academy Greenfields Primary Academy Kings Heath Primary Academy Lodge Park Academy Malcolm Arnold Academy Malcolm Arnold Prep School Newnham Primary Academy Rockingham Primary Academy The Arbours Primary Academy Welton C of E Primary Academy Diocese of Peterborough Education Trust Barby Academy Braunston Academy Cottingham C of E Primary Academy Diocese of Peterborough Multi Academy Trust East Garford C of E Voluntary Aided **Primary** Great Addington C of E Voluntary Aided Academy Loddington C of E Primary School Milton Parochial Primary School Peterborough Diocese Education Trust

Pvtchlev Endowed C of E Voluntary Aided Primary School Ringstead C of E Primary Academy St Andrews Primary Academy St Barnabas St James C of E Voluntary Aided Primary School Staverton C of E Primary Academy Towcester C of E Primary Academy Weldon Primary Academy **Duston Education Trust** The Duston School E-ACT Danetre & Southbrook Learning Village The Parker E-ACT Academy East Northants District Council **Education Fellowship Trust** Blackthorn Primary Academy Education Fellowship Education Fellowship HQ Olympic Primary School Academy Risedene Academy Rushden Community Academy Ruskin Junior Academy Thorpelands Pimary Academy Warwick Primary Academy Windmill Primary School Academy Wrenn School Academy **EMLC Academy Trust** Castle Primary Academy Hardingstone Academy Prince William Academy Stimpson Avenue Primary Academy First for Wellbeing (post 2016) Freemans Endowed C of E Junior School Friars Academy **Greenwood Academies Trust** Corby Old Village Primary School Danesholme Infants School Danesholme Junior School Green Oaks Academy Hazel Leys Primary & Nursery School Kingswood Primary Academy Kingswood Secondary Academy Rushden Primary Academy Sunnyside Primary Academy Weston Favell Academy Woodvale Primary Academy **GSSC Academy Trust** Greenfields Specialist School for Communication Guilsborough Multi Academy Trust Guilsborough School Academy Naseby Academy Hartwell Primary School **Huxlow Science Academy** IMAT (Innovative) Badby Primary Academy Kilsby Academy

Weedon Bec Academy Woodford Halse C of E Primary Academy Irthlingborough & Finedon Learning Trust (combined assessment) Finedon Infants School Finedon Mulso CEVA Junior School Irthlingborough Junior School Irthlingborough Nursery & Infants School Isebrook SEN Cognition & Learning College Isebrook College Academy Kettering Borough Council Kingsley Special Academy Trust Kingsley School Academy Magdalen College School Brackley Academy Trust Magdalen College School Manor Learning Trust Manor School St Peter's C of E Academy Stanwick Primary School Maplefields Academy Montsaye Community Learning Havelock Infants Havelock Juniors Loatlands Primary Academy Montsaye Academy Rothwell Junior School Rothwell Victoria Infants School Rushton Primary Academy Wilbarston Primary Academy Moulton College Northampton Borough Council Northampton College Northamptonshire County Council Northampton Free School Trust Wootton Park Academy Northampton Partnership Homes Northampton Primary Academy Trust Abington Vale Primary Ecton Brook Primary Academy Headlands Primary Academy Lings Primary Academy Simon De Senlis Primary Academy Weston Favell Primary Academy Northampton School for Boys Northampton School for Girls Northants Chief Constable Northants Police & Crime Commissioner Northgate School Arts College Preston Hedges Primary School Sir Christopher Hatton Academy Trust Ecton Village Academy Oakway Academy Sir Christopher Hatton Academy Victoria Primary School Academy

South Northamptonshire C of E Multi Academy Trust Boddington C of E Primary Academy Chacome C of E Voluntary Aided Primary Academy Chipping Warden Primary Academy Culworth C of E Primary Academy Kings Sutton Primary Academy Middleton Cheney Academy St Loy's C of E Primary Academy Southfields Primary School Southfield School South Northants Council St Luke's Academy Trust Our Lady of Walsingham St Brendan's Catholic Primary School United Learning St Edward's Catholic Primary School St Luke Academies Trust HQ Staff

St Mary's Catholic Primary School St Thomas More Catholic Primary St Mary's C of E Primary Academy St Mary's C of E VA Primary Academy The University of Northampton St Thomas of Canterbury Catholic Academies Trust St Gregory's Catholic Primary School Thomas Beckett Catholic Academy The Good Shepherd Catholic Primary School The Complementary Education Academy Ltd The Ferrers School The Hawksmoor Learning Trust Nicholas Hawksmoor Academy

Grange Community School Academy Kettering Buccleuch Academy

Northampton Academy The Silverstone Academy Trust Silverstone UTC The University Technical College for New Technologies at Daventry Daventry University Technical College Tove Learning Trust Elizabeth Woodville Academy Sponne School Tresham College of Further & Higher Education Waynflete Infants School Wood Newton Academy Trust Exeter – a learning community Woodnewton – a learning community Woodland View Primary School Wootton Primary School

#### **Designated Bodies (28)**

Barby Parish Council Billing Parish Council **Brackley Town Council** Brixworth Parish Council Desborough Town Council **Duston Parish Council** Earls Barton Parish Council East Hunsbury Parish Council Finedon Parish Council First for Wellbeing

Grange Park Parish Council Higham Ferrers Town Council Irthlingborough Town Council LGSS Law Ltd (NCC) Moulton Parish Council Olympus Care Services **Oundle Town Council** Overstone Parish Council Raunds Town Council Rushden Town Council

Stanwick Parish Council Thrapston Town Council Towcester Town Council Weedon Bec Parish Council Weldon Parish Council West Haddon Parish Council Wollaston Parish Council Wootton, Wootton Fields & Simpson Manor Parish Council

#### **Admitted Bodies (46)**

ABM Catering (Magdalen contract) ABM Catering (Wayneflete contract) Age Concern Northamptonshire Amey Ltd **Balfour Beatty Ltd** Brightr Ltd Churchill Contract Services (Campion contract) Clubs for Young People Consortium Audit (Warwickshire) **CRI** Probation Cucina Ltd Daventry & District Housing Dolce East Northants Cultural Trust Easy Clean Contractor Ltd (Prince William contract)

**Enterprise Managed Services Ltd** G4S KGB Cleaning Kier (May Gurney Fleet & Passenger) Kier (May Gurney Ltd) Kier (May Gurney Nordis) Kingswood Catering (Bridgstock Lathams) Kingswood Catering (Kingsley Special) Kingswood Catering (Little Harrowden Spire Homes (LG) Ltd Primary) Kingswood Catering (Wilby C of E Primary) Kingswood Catering (Yardley Gobion) Maxim Facilities Management Ltd North Northants Development

Corporation

emPSN Services Ltd (pre. EMBC)

Northampton High School Northampton Theatres Trust Northamptonshire Carers Northants Music & Performing Arts Trust **NSL Ltd** Places for People Leisure Ltd **Prospects Services** Rockingham Forest Trust Shaw Healthcare South Northants Homes University of Northampton Enterprises Unity Leisure Wellingborough Homes Ltd Wellingborough Norse Limited WSP Management Services Ltd

**EMLC** 

# Scheme Management and Advisers

(Correct as at date of publication)

Registered Pension Scheme Number: 00329946RE

#### **Administering Authority**

Northamptonshire County Council

One Angel Square Angel Street Northampton NN1 1ED

#### **Administrator**

Mr D Lawrenson 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 Julie Brookfield (appointed May 2017)
Cllr Michael Brown (retired May 2017)
Cllr Michael Clarke (retired June 2017)
Cllr Stephen Legg (appointed May 2017)
Cllr Chris Lofts (retired May 2017)
Cllr Russell Roberts (retired May 2017)
Cllr Adil Sadygov (appointed June 2017)

Cllr Bob Scott

Cllr Michael Tye (appointed May 2017)

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

Cllr Richard Lewis (East Northamptonshire Council)
Cllr Peter Rawlinson (South Northamptonshire Council)

#### Other Employers' Representatives

Robert Austin (appointed July 2017, former substitute) Alicia Bruce (retired July 2017)

Roger Morris (retired July 2017)

Damian Pickard (appointed July 2017)

#### **Member Representatives**

Peter Borley-Cox Josie Mason Andy Langford - Substitute

#### **Local Pension Board Members:**

#### Scheme member representatives:

Paul Evans (Chairman)

Ged Carlton (appointed October 2016)

Nina Thomas

#### **Employer representatives:**

Cllr Allan Matthews (Vice Chairman)

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

**Employer and Systems Team Manager** Cory Blose

Governance and Regulations Manager Joanne Walton

Fund Financial Managers Ben Barlow (Fund)

Tracy Pegram (Investment) Richard Perry (Investment)

Investment Advisers Mark Stevens

Independent Adviser

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

Investment Managers Adams Street

4<sup>th</sup> Floor, 75 Davies Street

London W1K 5JN

Baillie Gifford & Co.

Calton Square, 1 Greenside Row

Edinburgh EH1 3AN

Catapult

11 Burrough Court Burrough on the Hill Melton Mowbray

Leicestershire LE14 2QS

CBRE Global Investment Partners Third Floor, One New Change

London EC4M 9AF

HarbourVest Partners (UK) Ltd 3<sup>rd</sup> Floor, 33 Jermyn Street

London SW1Y 6DN

M&G Group Governor's House Laurence Pountney Hill London EC4R 0HH

Majedie Asset Management Ltd 10 Old Bailey

London EC4M 7NG

Newton Investment Management Ltd Mellon Financial Centre 160 Queen Victoria Street London EC4V 4LA Investment Managers, cont. Skagen Funds

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

Wellington Management International Ltd

Cardinal Place, 80 Victoria Street

London SW1E 5JL

UBS Global Asset Management (UK) Ltd

4<sup>th</sup> Floor, 21 Lombard Street

London EC3V 9AH

**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 Adviser LGSS Legal Services

Shire Hall, Castle Hill Cambridge CB3 0AP

Performance Reporting Mercer Investment Consulting

Belvedere, 12 Booth Street

Manchester M2 4AW

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 of the Fund. The arrangements in place which provide for the management of risk are described below.

A Risk Strategy was formally published in 2015-16 and subsequently the Risk Register was formally agreed in October 2016.

The Risk Strategy can be found at - <a href="http://pensions.northamptonshire.gov.uk/wp-content/uploads/2016/04/Risk-Strategy-6.pdf">http://pensions.northamptonshire.gov.uk/wp-content/uploads/2016/04/Risk-Strategy-6.pdf</a>

The Risk Register can be found at -

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

#### 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 duly minuted.

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

In April 2017, the Northamptonshire Full Council acknowledged the establishment of the ACCESS Joint Governance Committee (AJGC) delegating powers to this body in response to the Government's pooling agenda. The Chairman and Vice Chairman of the Pensions Committee will act as representatives of the Fund on the AJGC, supported by Fund officers working in the ACCESS Officers Working Group (AOWG).

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 risks

The Northamptonshire Pension Fund has over £2 billion 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 fourteen investment mandates with eleven 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.

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 and investment style.

Fund managers will bias their portfolios towards stocks which are expected to outperform in rising or falling markets and are required to operate in such a way that the possibility of underperformance against the target is kept within acceptable risk tolerances.

The Fund uses third party providers for investment management and custodian services. The risk of misstatement or error in the processes operated by third parties is mitigated by reviewing the ISAE3402 service auditors' assurance reports provided by the investment managers and the Custodian.

The Fund's investment performance is reviewed by the Investment Sub-Committee and should remedial action be required, the Sub-Committee will determine and undertake appropriate action.

Annually the Pensions Committee reviews the work of the Investment Sub-Committee in July, in addition to receiving the Fund's Annual Report and Statement of Accounts. The focus of this review meeting is the annual and longer term view of the Fund's investment strategy from the Fund's Investment Consultant, in addition to reports on the Local Authority Universe, and the performance of the Fund's third party providers.

#### **Managing funding risks**

The fundamental objective of the Fund is to ensure is that all future liabilities can be met from the Fund's assets. Asset Liability Studies are undertaken to help the Pension Fund Committee and Investment Sub-Committee determine appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across a range of 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 is formally reviewed following publication of each triennial valuation, and at other times as required.

To minimise risk a broadly based portfolio of stocks is held, spread across different countries and different industrial sectors.

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 such as 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 Fund does sell investments from time to time as part of normal investment management activities.

#### Managing Scheme employer related risks

At 31 March 2017 there were 213 scheme employers in the Northamptonshire Pension Fund, of which 147 were active, 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. 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 exiting the Fund, including those that prematurely 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 effect 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

	2016-17 Estimated Outturn	2016-17 Final Outturn	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate
	£000	£000	£000	£000	£000
Contributions.	(93,479)	(101,435)	(101,800)	(107,700)	(111,800)
Transfers in from other pension funds:	(3,400)	(4,716)	(3,600)	(3,600)	(3,600)
TOTAL INCOME	(96,879)	(106,151)	(105,400)	(111,300)	(115,400)
Benefits payable.	81,530	80,068	87,700	88,452	89,200
Payments to and on account of leavers.	3,400	10,472	3,600	3,600	3,600
TOTAL BENEFITS	84,930	90,540	91,300	92,052	92,800
Surplus of contributions over benefits	(11,949)	(15,611)	(14,100)	(19,248)	(22,600)
Management Expenses	8,628	8,222	8,985	8,964	9,124
TOTAL INCOME LESS EXPENSES	(3,321)	(7,389)	(5,115)	(10,284)	(13,476)
Investment Income Taxes on income Profit and losses on disposal of	(31,000)	(40,760) 53	(32,000)	(33,000)	(34,000)
investments and changes in the market value of investment	(53,000)	(363,507)	(55,000)	(57,000)	(59,000)
Net return on investments	(84,000)	(404,214)	(87,000)	(90,000)	(93,000)
Net (increase)/decrease in the net assets available for benefits during the year	(87,321)	(411,603)	(92,115)	(100,284)	(106,476)

#### Performance against budget – net operational expenses

The following table shows the Fund's forecast for total management expenses for 2016-17 compared with the outturn.

	2016-17 Forecast	2016-17 Outturn	Variance
	£'000	£'000	£'000
Administration Expenses	1,840	1,466	(374)
Investment Management Expenses	6,272	6,338	66
Oversight and Governance	516	418	(98)
Total Management Expenses	8,628	8,222	(406)

#### **Timeliness of contributions**

The following table shows the amount of regular employee and employer contributions paid during 2016-17 and the value and percentage of which were paid both on time and after the deadline of the 19<sup>th</sup> day of the month following deduction.

	Total paid in 2016-17	Total Paid on Time	% Paid on Time	Total Paid Late	% Paid Late
Employer	80,863,150	77,782,861	96.2%	3,080,289	3.8%
Contributions					
Employee	19,306,179	18,356,573	95.1%	949,606	4.9%
Contributions					
Total	100,169,329	96,139,434	96.0%	4,029,895	4.0%

#### 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 2016-17.

	2016-17 Estimated Outturn £'000	2016-17 Final Outturn £'000
Cash flows		
Fund (surplus) / deficit cash from dealings with members	(11,949)	(15,611)
Management expenses	8,628	8,222
Returns on investments	(84,000)	(404,214)
Net (increase) in the net assets available for benefits during the year	(87,321)	(411,603)
Assets held		
Equities – directly held	704,114	843,989
Pooled investments	1,010,452	1,182,505
Pooled property investments	180,993	169,741
Private equity/infrastructure	1,220	3,328
Cash deposits	30,138	58,072
Other	5,448	(756)
Net investment assets	1,932,365	2,256,879

Returns on investments during the year were significantly higher than estimated due to gains on overseas investments resulting from weakened Sterling. Management expenses were also lower than expected, significantly impacted by vacant staff positions during the year, and increased efficiencies within the service.

#### Recovery of overpayments of pension

The following tables show the analysis of pension overpayments that occurred during the last three years:

Financial Year	Overpayment	Recovered	Written Off
2014-15	£87,357	£17,705	£29,883
2015-16	£88,375	£7,640	£11,913
2016-17	£81,468	£29,552	£26,072

The Fund participates in the National Fraud Initiative which is a biennial process undertaken in conjunction with the Audit Commission. The necessary recoveries arising from identified overpayments are being pursued.

Annual Pensioner Payroll (excluding additional pension awarded by the	£63,156,723
employer)	
Total write off amount	£26,072
Write offs as a % of payroll	0.041%
Number of cases written off	151
Number of cases in the process of recovery	44
Number of cases recovered	37

The average write off amount per individual is £172.66. This excludes one exceptional high value case of £12,188.32, which when excluded results in an average amount of £92.56 (2015/16 £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	148	128	90%	86%
Provide employer with requested estimate of benefits	10	741	668	90%	90%
Provide a maximum of one estimate to employees per request per year	10	1,209	954	90%	79%
Provide a maximum of one cash equivalent transfer to employees per year on request	10	696	592	90%	85%
Notify employees retiring from active membership of benefit award	5	1,000	987	95%	99%
Acknowledge death of active/deferred/pensioner member	5	770	768	100%	99%
Change of address	2	3,512	3,321	100%	95%
Expression of Wish form received	2	2,086	2,078	100%	99%
Opt out form received	2	810	806	100%	99%
Personal change update	2	445	442	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.

#### Financial indicators of administrative efficiency

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

	Northamptonshire Pension	Benchmark
	Fund	
Unit cost per member	£19.85 (2015/16)	£18.55 (2015/16)
excluding investment	£18.75 (2014/15)	£19.17 (2014/15)
management expenses		·
Unit cost per member	£8,360k/60,388 members =	N/A
including investment	£138.44 (2015/16)	
manager expenses	(2014/15 £132.79)	

Results from the 2016-17 CIPFA Benchmarking exercise will be published on the LGSS Pensions website once released by CIPFA.

#### **Key staffing indicators**

In 2016-17, the average staff to member ratio was one full-time member of staff to 2,382 members (2015-16: 1:2,693) and the number of cases per full time member of staff was 907 (2015-16: 896).

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

	2013	2014	2015	2016	2017
Active Members	17,277	18,334	19,407	20,140	20,424
Deferred Beneficiaries	20,129	20,887	23,377	25,383	27,317
Pensions in Payment	13,692	14,155	14,421	14,865	15,449
Total	51,098	53,376	57,205	60,388	63,190

#### Age profile of Fund membership at 31 March 2017:

Age Band Years	Actives	Deferred	Pensioners
<20	186	39	110
20 – 24	914	608	37
25 – 29	1,303	1,775	3
30 – 34	1,667	2,402	4
35 – 39	2,328	2,895	10
40 – 44	2,920	3,574	27
45 – 49	3,532	5,052	65
50 – 54	3,321	5,175	120
55 – 59	2,527	3,950	459
60 – 64	1,416	1,593	2,609
65 – 69	255	179	4,240
70 – 74	53	64	3,227
75 – 79	2	9	1,919
80 – 84		1	1,330
85 – 89		1	782
90 – 94			357
95 – 99			114
100 – 104			34
105 – 109			2
Total	20,424	27,317	15,449

(\* Includes surviving dependants).

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 2016-17

The following table shows the contributions paid by the active employers in the fund during 2016-17.

Employers	Employee	Employer	Total
	£000	£000	£000
Abbey Junior Academy (Daventry)	9	34	43
Abbeyfield School (Academy)	46	179	225
Abington Vale Academy	18	81	99
ABM Catering (Wayneflete)	0	0	0
Action for Children (Daventry)	2	9	11
Action for Children (Kettering)	3	10	13
Action for Children (Northampton Central)	1	3	4
Action for Children (Northampton East)	15	52	67
Action for Children (South Northamptonshire)	1	2	3
Action for Children (Wellingborough)	2	7	9
Age Concern (Northampton And County)	4	44	48
All Saints C of E VA Primary School	16	69	85
Amey Plc	18	104	122
Badby Primary Academy	9	30	39
Balfour Beatty Workplace Ltd	8	28	36
Bar Hill Parish Council	1	3	4
Barby Parish Council	1	3	4
Barby Primary Academy	5	21	26
Barry Road Primary	22	85	107
Beanfield Primary	34	130	164
Billing Brook Academy	60	226	286
Billing Parish Council	2	6	8
Bishop Stopford School	61	249	310
Blackthorn Primary Academy	20	85	105
Boddington C of E Primary Academy	3	15	18
Boothville Primary School	30	127	157
Borough Council Of Wellingborough	198	1,717	1,915
Boughton Primary Academy	9	30	39
Bracken Leas Primary School	16	67	83
Brackley Town Council	12	46	58
Brambleside Academy	20	81	101
Braunston Primary Academy	7	32	39
Briar Hill Primary Academy	15	65	80
Bridgewater Primary School	22	92	114
	0	92	1 14
Brightr Ltd		•	-
Brington Primary School	5	21	26
Brixworth Parish Council	1	6	100
Brixworth Primary	21	87	108
Brooke Weston Academy	87	217	304
Broughton Primary	12	50	62
Bugbrooke Primary	13	56	69
Campion School	52	227	279
Caroline Chisholm School	72	235	307
Catalyst Corby	0	1	1
Ceder Road Primary Academy	10	46	56
Chacombe CEVA Primary Academy	5	20	25
Chenderit Academy	35	141	176
Chipping Warden School Academy	5	23	28
Churchill Services	4	19	23
Clipston Primary	5	23	28
Clubs for Young People Northamptonshire	2	7	9
Clubs for Young People Northamptonshire	2	7	9
Community Spaces	0	1	1
Compass Primary Academy	1	4	5
Complementary Education (Academy)	44	182	226

Employers	Employee	Employer	Total
	£000	£000	£000
Corby Borough Council	539	2,979	3,518
Corby Business Academy	75	243	318
Corby Old Village Primary School	11	48	59
Corby Primary Academy	11	29	40
Corby Studfall Junior	27	110	137
Corby Technical College	18	73	91
Cottingham C of E Primary Academy	6	25	31
CRI (NCC)	6	21	27
Croughton All Saints	5	20	25
Croyland Children's Centre & Nursery	31	121	152
Cucina Restaurants Ltd	0	2	2
Culworth C of E Primary Academy	5	22	27
CW Audit Services (South Warks NHS Foundation Trust)	3	10	13
Danesholme Infants Academy	14	57	71
Danesholme Junior Academy	12	51	63
Danetre & Southbrook Learning Village	52	206	258
Daventry & District Housing	43	257	300
Daventry District Council	305	1,874	2,179
Daventry Hill Academy (all through)	11	47	58
Daventry UTC	15	55	70
Deanshanger Parish Council	1	4	5
Denfield Park Primary	23	97	120
Desborough town council	2	7	9
Duston Academy	69	277	346
Duston Eldean Primary	17	73	90
Duston Town Council	11	41	52
Earls Barton Parish Council	1	3	4
East Hunsbury Parish Council	1	6	7
East Hunsbury Primary	20	85	105
East Midlands Leadership Centre	15	31	46
East Northamptonshire District Council	305	1598	1903
East Northants Cultural Trust	11	49	60
Eastfield Academy	13	44	57
Easton Garford CEVA Primary Academy	2	9	11
Easy Clean Contractors Ltd	1	4	5
Ecton Brook Primary School Academy	30	130	160
Ecton Primary Academy	4	17	21
Education Fellowship HQ	6	22	28
Elizabeth Woodville Academy	52	211	263
EMBC	14	39	53
Enterprise Managed Services	188	925	1113
Exeter - A Learning Community Academy	35	128	163
Fairfields Special School	61	260	321
Falconers Hill Academy	12	54	66
Finedon Infants Academy	9	39	48
Finedon Mulsoe CEVA Junior Academy	7	30	37
Finedon Parish Council	0	2	2
First for Wellbeing	339	1174	1513
Freemans Endowed C of E Junior Academy	11	45	56
Friars Academy	29	122	151
G4S	42	168	210
Gateway School	22	92	114
Grange Community Academy	13	54	67
Grange Park Parish Council	1	4	5
Great Addington CEVA Academy	5	20	25
Great Creaton Primary School	2	9	11
Green Oaks Primary Academy	17	63	80
Greenfields Primary Academy (MAT)	19	80	99
Greenfields School & Sports College	42	183	225
Gretton Primary	7	30	37
		00	0,

Employers	Employee	Employer	Total
	£000	£000	£000
Guilsborough School (Academy)	47	166	213
Hall Meadow Primary	9	43	52
Hardingstone Primary Academy	9	37	46
Harlestone Primary School	4	17	21
Hartwell Academy	8	32	40
Havelock Infant Academy	13	56	69
Havelock Junior Academy	18	81	99
Hazel Leys Primary & Nursery	16	70	86
Headlands Academy	30	126	156
Henry Chichele Primary	9	37	46
Higham Ferrers Junior School	13	55	68
Higham Ferrers Nursery & Infant School	14	57	71
Higham Ferrers Town Council	3	11	14
Highfield Nursery & Childrens Centre	13	52	65
Hopping Hill Primary	21	89	110
Hunsbury Park Primary	19	80	99
Huxlow Science College	38	158	196
Irchester Primary	15	64	79
Irthlingborough Inf. Academy	21	77	98
Irthlingborough Jnr. Academy	16	69	85
Irthlingborough Town Council	5	19	24
Isebrook College Academy	42	174	216
Kettering Borough Council	712	3640	4352
Kettering Buccleuch Academy	72	190	262
Kettering Millbrook Infant School	17	70	87
Kettering Millbrook Junior School	22	93	115
Kettering Park Infants	14	61	75
Kettering Science Academy	77	191	268
KGB Cleaning	2	5	7
Kilsby Primary Academy	6	27	33
Kings Heath Academy	21	68	89
Kings Sutton Primary Academy	7	30	37
Kingsley Academy	47	201	248
Kingsley Primary	17	70	87
Kingsthorpe College Academy	50	203	253
Kingsthorpe Grove Primary School	31	128	159
Kingswood Catering (Bridgstock Lathams)	0	2	2
Kingswood Catering (Brixworth)	0	0	0
Kingswood Catering (John Hellins)	0	2	2
Kingswood Catering (Kingsley)	0	1	1
Kingswood Catering (Kingsley)  Kingswood Catering (Little Harrowden)	0	2	2
Kingswood Primary Academy	14	59	73
Kingswood Frinkly Academy  Kingswood Secondary Academy	58	246	304
Latimer Arts	43	174	217
LGSS Law Ltd (NCC)	58	120	178
Lings Academy	14	49	63
Loatlands Primary Academy	15	64	79
	6	22	28
Lodge Park Academy		196	
Lumbortube Primary Academy	47 11	50	243 61
Lumbertubs Primary Academy			
Magdalen College (Academy)	55	226	281
Malcolm Arnold Academy	56	203	259
Malcolm Arnold Prep School	8	22	30
Manor School Sports College	49	183	232
Maplefields Academy	35	142	177
Mawsley Primary School	15	62	77
Maxim Facilities Management(Bishop Stopford)	1	6	7
May Gurney	48	151	199
May Gurney (NORDIS)	11	60	71
May Gurney Fleet & Passenger Services Ltd	63	230	293

Employers	Employee	Employer	Total
	£000	£000	£000
Middleton Cheney Community Primary Academy	14	60	74
Milton Parochial Primary Academy	5	21	26
Montsaye Academy	79	289	368
Moulton Academy	61	244	305
Moulton College	223	781	1004
Moulton Parish Council	6	19	25
Moulton Primary School	20	84	104
Naseby Academy	3	10	13
National Car Parks (NCP)	8	41	49
NBC Housing	501	2386	2887
Newnham Primary Academy	5	20	25
Nicholas Hawksmoor Academy	18	72	90
Northampton Academy	63	224	287
Northampton Borough Council	476	5505	5981
Northampton College	288	1094	1382
Northampton Connexions Partnership	1	172	173
Northampton Enterprise Ltd	10	75	85
Northampton High School	30	179	209
Northampton International	4	15	19
Northampton School for Boys (NonLEA)	71	284	355
Northampton School for Girls (Academy)	53	220	273
Northampton Theatres Trust	24	157	181
Northamptonshire Carers	5	20	25
Northamptonshire County Council	5499	22633	28132
Northamptonshire Music and Performing Arts Trust	9	34	43
Northants Chief Constable	1494	3952	5446
Northgate Academy	66	201	267
Oakley Vale Primary Academy	20	65	85
Oakway Academy	21	94	115
Olympic Primary Academy	13	57	70
Olympus Care Services	575	1658	2233
Oundle Primary School	13	54	67
Oundle Town Council	7	25	32
Our Lady of Walsingham Catholic Prim. Academy	18	78	96
Overstone Parish Council	0	0	0
Park Infant School (Raunds)	6	25	31
Park Junior School (Kettering)	17	69	86
Parklands Primary	14	58	72
	5	20	25
Paulerspury Primary School	16	52	
Peterborough Diocese Education Trust (HQ Staff)			68
Places for People (DC Leisure)	9 2	29	38
Polebrook CE Primary		9	11
Police & Crime Commissioner (NCC)	72	152	224
Preston Hedge's Primary Academy	16	66	82
Prince William School (Academy)	41	164	205
Prospects Services Ltd	11	40	51
Pytchley Endowed CEVA Primary Academy	5	22	27
Raunds Town Council	4	21	25
Redwell Infants	20	83	103
Ringstead C of E Primary Academy	5	23	28
Risdene Academy	18	79	97
Rockingham Forest Trust	7	28	35
Rockingham Primary Academy	17	73	90
Rothwell Junior Academy	12	53	65
Rothwell Victoria Infant Academy	18	78	96
Rowan Gate	57	238	295
Rushden Community Academy	37	150	187
Rushden Primary Academy	"	6	29
Rushden Town Council	10	38	48
Rushton Primary Academy	6	23	29

Ruskin Junior Academy	Employers	Employee	Employer	Total
Shaw Healthcare		£000	£000	£000
Shaw Healthcare   14	Ruskin Junior Academy	16	66	82
Simon de Senils Primary, Academy         19         85         104           Sir Christopher Hatton Academy         51         193         244           South End Junior Rushden         15         64         79           South Northampton Borough Council         360         1778         2138           South Northants Homes         113         382         495           Southfield Academy         35         142         177           Southfield Academy         36         142         27           Southfield Academy (B)         14         62         76           Spre Homes Limited         9         213         222           Spone School (Academy)         60         233         293           Sporta & Leisure Management Ltd (SLM)         0         1         1           Spurgeons (East Northamptonshire)         13         40         53           Spurgeons (Keithampton West)         3         9         12           Spurgeons (Northampton West)         3         9         12           St Barnabas Church of England School         10         43         53           St Bernachas Catholic Primary Academy         12         51         63           St Gregorys RC Primary A		14	86	100
Sir Christopher Hatton Academy         51         193         244           South End Junior Rushden         15         64         79           South Northampton Borough Council         360         1779         2139           South Northampton Borough Council         360         1779         2139           South Northants Homes         113         382         495           Southfield Academy         35         142         177           Southfield Academy         36         142         177           Sprine Leisure Management Lid (SLM)         9         213         222           Sponne School (Academy)         60         233         293           Sports & Leisure Management Lid (SLM)         0         1         1           Spring Lane Primary Academy         14         60         74           Spurgeons (Korthampton North)         2         7         9           Spurgeons (Morthampton North)         2         7         9           Spurgeons (Morthampton North)         3         9         12         51           St Arace Schuck (Scharp Frimary Academy         1         4         51         65           St Barnabas Church of England School         10         43	Silverstone TUC Academy	26	85	111
Sir Christopher Hatton Academy         51         193         244           South End Junior Rushden         15         64         79           South Northampton Borough Council         360         1779         2139           South Northampton Borough Council         360         1779         2139           South Northants Homes         113         382         495           Southfield Academy         35         142         177           Southfield Academy         36         142         177           Sprine Leisure Management Lid (SLM)         9         213         222           Sponne School (Academy)         60         233         293           Sports & Leisure Management Lid (SLM)         0         1         1           Spring Lane Primary Academy         14         60         74           Spurgeons (Korthampton North)         2         7         9           Spurgeons (Morthampton North)         2         7         9           Spurgeons (Morthampton North)         3         9         12         51           St Arace Schuck (Scharp Frimary Academy         1         4         51         65           St Barnabas Church of England School         10         43	Simon de Senlis Primary. Academy	19	85	104
South End Infant Rushden         15         64         79           South Northampton Borough Council         360         1779         2139           South Northampton Borough Council         360         1779         2139           South Northamts Homes         113         362         495           Southfield Academy         35         142         177           Southfield Academy         35         142         177           Southfield Academy         60         233         293           Spread Elister Banagement Ltd (SLM)         0         1         1           Sporta & Leisure Management Ltd (SLM)         0         1         1           Spurgeons (East Northampton North)         2         7         9           Spurgeons (Rorthampton West)         3         9         12         7         9           Spurgeons (Northampton North)         2         7         9         9         9         12         6         6         8         13         9         12         1         6         5         8         17         9         9         9         12         6         6         1         3         9         12         6         1         6		51	193	244
South End Junior Rushden		15	64	
South Northampton Borough Council         360         1779         2139           South Northants Homes         113         382         496           Southfield Academy         35         142         1177           Southfield Primary Academy (B)         14         62         76           Spre Homes Limited         9         213         222           Sponts & Leisure Management Ltd (SLM)         0         14         60         74           Sports & Leisure Management Ltd (SLM)         0         14         60         74           Spring Lane Primary Academy         14         60         74           Spurgeons (Rorthampton North)         2         7         9           Spurgeons (Northampton West)         3         9         12           St Andrews CEVA Primary (Kettering)         14         51         66           St Brendans Cathoric Primary Academy         12         51         66           St Brendans Catholic Primary Academy         12         51         66           St Brendans Catholic Primary Academy         25         104         129           St Lames Co Fe Primary Academy         25         104         129           St Lagery RC Primary Academy         4         18<	South End Junior Rushden	15	61	
South Northants Homes				
Southfield Academy			382	
Southfield Primary Academy (B)         14         62         76           Spire Homes Limited         9         213         222           Sponne School (Academy)         60         233         293           Sports & Leisure Management Ltd (SLM)         0         1         1           Spring Lane Primary Academy         14         60         74           Spurgeons (East Northampton North)         2         2         7         9           Spurgeons (Northampton North)         2         2         7         9           Spurgeons (Northampton North)         2         2         7         9           Spurgeons (Northampton North)         3         9         12         5           St Andrews CEVA Primary (Kettering)         14         51         65         5         5         18         12         5         16         63         3         9         12         5         14         51         65         5         18         18         5         43         3         5         13         8         15         12         5         14         5         14         5         5         4         18         25         2         14         18	Southfield Academy	35	142	
Spire Homes Limited         9         213         222           Sponne School (Academy)         60         233         293           Sports & Leisure Management Ltd (SLM)         0         1         1           Spiring Lane Primary Academy         14         60         74           Spurgeons (Rest Northampton North)         2         7         9           Spurgeons (Northampton West)         3         9         12           St Andrews CEVA Primary Mettering)         14         51         65           St Barnabas Church of England School         10         43         53           St Berndans Catholic Primary Academy         12         51         63           St Edwards Catholic Primary Academy         12         51         63           St Gregorys RC Primary Academy         25         104         12         51           St Lows C or E Primary Academy         25         104         18         22           St Lukes Academies Trust HQ         4         18         22           St Lames C of E Primary Academy         4         18         22           St Lames C of E Primary Academy         4         18         22           St Lames C of E Primary Academy         4         18				
Sponne School (Academy)				
Sports & Leisure Management Ltd (SLM)	'	60		
Spring Lane Primary Academy				1
Spurgeons (East Northampton North)			60	74
Spurgeons (Northampton North)				
Spurgeons (Northampton West)   3   9   12   St Andrews CEVA Primary (Ketering)   14   51   65   St Barnabas Church of England School   10   43   53   St Bernadas Catholic Primary Academy   12   51   63   St Edwards Catholic Primary Academy   8   35   43   St Gregorys RC Primary Academy   25   104   129   St James C of E Primary Academy   25   104   129   St Laws C of E Primary Academy   4   18   22   St Luys C or E Primary Academy   4   18   22   St Lukes Academies Trust HQ   4   39   35   St Mary's C of E Primary Academy, Burton Latimer   12   55   67   St Mary's C of E V Primary Academy, Kettering   12   55   67   St Mary's C of E V Primary Academy, Kettering   12   52   64   St Marys RC Primary Academy   10   41   51   St Patrick's Primary School   14   56   70   St Peter's Church of England Academy   7   7   28   35   St Thomas More Catholic Primary Academy   9   37   46   Stanwick Parish Council   1   5   6   Stanwick Primary School Academy   5   22   27   Stawrick Primary School Academy   5   22   27   Stawrick Primary School Academy   5   22   27   Stawrick Primary School Academy   6   33   42   The Arbours Primary (Academy)   9   33   42   The Arbours Primary (Academy)   9   33   42   The Arbours Primary (Academy)   9   33   42   The Arbours Primary (Academy)   18   78   96   Sunnyside Primary Academy   19   62   81   The Castle (Wellingborough) Limited   -1   -26   -27   The Castle (Wellingborough) Limited   -1   -26   -27   The Castle Primary Academy   19   62   81   The Gampe, Daventry   18   77   95   The Good Shepherd RC Primary Academy   19   62   81   The Grange, Daventry   18   77   95   The Good Shepherd RC Primary Academy   11   51   62   Thomas Becket Academy   44   131   175   Thomas Becket Academy   44   131   175   Thomas Becket Carbonic School   -3   0   -3   The Good Shepherd RC Primary Academy   19   65   84   Towcester Town Council   3   13   16   Tresham Institute   284   852   1106   University Of Northampton   925   3199   4124   University Of Northampton   925   3199   4124   Uni				
St Andrews CEVA Primary (Kettering)         14         51         65           St Barnabas Church of England School         10         43         53           St Brendans Catholic Primary Academy         12         51         63           St Edwards Catholic Primary Academy         8         35         43           St Gregorys RC Primary Academy         25         104         129           St James C of E Primary Academy         4         18         22           St Lukes Academies Trust HQ         -4         39         35           St Lukes Academies Trust HQ         -4         39         35           St Mary's C of E Primary Academy, Burton Latimer         12         55         67           St Mary's C of E Primary Academy, Burton Latimer         12         55         67           St Mary's C of E VA Primary Academy, Burton Latimer         12         52         64           St Mary's C of E VA Primary Academy         10         41         51           St Mary's C of E VA Primary Academy         10         41         51           St Mary's C of E Primary Academy         10         41         56         70           St Patrick's Primary Academy         7         28         35           St Patrick's Pr				
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St Lukes Academies Trust HQ         4         39         35           St Mary's C of E Primary Academy, Burton Latimer         12         55         67           St Mary's C of E VA Primary Academy         10         41         51           St Marys RC Primary Academy         10         41         51           St Patrick's Primary School         14         56         70           St Peter's Church of England Academy         7         28         35           St Thomas More Catholic Primary Academy         9         37         46           Stanwick Parish Council         1         5         64         79           Stanwick Parish Council         1         5         6         6           Stamvick Primary School Academy         5         22         27           Staverton C of E Primary Academy         4         22         26           Stimpson Avenue Academy         18         78         96           Sunnyside Primary (Academy)         9         33         42           The Arbours Primary (Academy)         9         33         42           The Avenue Infants         12         50         62           The Castle (Wellingborough) Limited         -1         -26         -2				
St Mary's C of E Primary Academy, Burton Latimer         12         55         67           St Mary's C of E VA Primary Academy         10         41         51           St Marys RC Primary Academy         10         41         51           St Patrick's Primary School         14         56         70           St Peter's Church of England Academy         7         28         35           St Thomas More Catholic Primary Academy         9         37         46           Standens Barn Primary         15         64         79           Standers Barn Primary         15         64         79           Stanwick Parish Council         1         5         6           Stanwick Primary School Academy         5         22         27           Staverton C of E Primary Academy         4         22         26           Stimpson Avenue Academy         18         78         96           Sunnyside Primary (Academy)         9         33         42           The Arbours Primary (Academy)         21         81         102           The Arbours Primary Academy         19         62         81           The Castle Primary Academy         19         62         81           The Gr				
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St Thomas More Catholic Primary Academy         9         37         46           Standens Barn Primary         15         64         79           Stanwick Parish Council         1         5         6           Stanwick Primary School Academy         5         22         27           Staverton C of E Primary Academy         4         22         26           Stimpson Avenue Academy         18         78         96           Sunnyside Primary (Academy)         9         33         42           The Arbours Primary (Academy)         21         81         102           The Arbours Primary (Academy)         21         81         102           The Avenue Infants         12         50         62           The Castle (Wellingborough) Limited         -1         -26         -27           The Castle (Wellingborough) Limited         -1         -1         -26         -2				
Standens Barn Primary         15         64         79           Stanwick Parish Council         1         5         6           Stanwick Primary School Academy         5         22         27           Staverton C of E Primary Academy         4         22         26           Stimpson Avenue Academy         18         78         96           Sunnyside Primary (Academy)         9         33         42           The Arbours Primary (Academy)         21         81         102           The Avenue Infants         12         50         62           The Castle (Wellingborough) Limited         -1         -26         -27           The Castle Primary Academy         19         62         81           The Ferrers School Academy         41         168         209           The Good Shepherd RC Primary Academy         18         77         95           The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Becket Catholic School         -10         0         -10           Thorplands Primary Academy				
Stanwick Parish Council         1         5         6           Stanwick Primary School Academy         5         22         27           Staverton C of E Primary Academy         4         22         26           Stimpson Avenue Academy         18         78         96           Sunnyside Primary (Academy)         9         33         42           The Arbours Primary (Academy)         21         81         102           The Avenue Infants         12         50         62           The Castle (Wellingborough) Limited         -1         -26         -27           The Castle Primary Academy         19         62         81           The Ferrers School Academy         41         168         209           The Good Shepherd RC Primary Academy         18         77         95           The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Becket Catholic School         -10         0         -10           Thrapston Primary Academy         21         89         110           Thrapston Town Council				
Stanwick Primary School Academy         5         22         27           Staverton C of E Primary Academy         4         22         26           Stimpson Avenue Academy         18         78         96           Sunnyside Primary (Academy)         9         33         42           The Arbours Primary (Academy)         21         81         102           The Arbours Primary (Academy)         21         81         102           The Avenue Infants         12         50         62           The Castle (Wellingborough) Limited         -1         -26         -27           The Castle Primary Academy         19         62         81           The Ferrers School Academy         41         168         209           The Good Shepherd RC Primary Academy         18         77         95           The Grange, Daventry         18         77         95           The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Becket Catholic School         -10         0         -10           Thorplands Primary Academy <td></td> <td></td> <td></td> <td></td>				
Staverton C of E Primary Academy         4         22         26           Stimpson Avenue Academy         18         78         96           Sunnyside Primary (Academy)         9         33         42           The Arbours Primary (Academy)         21         81         102           The Avenue Infants         12         50         62           The Castle ( Wellingborough) Limited         -1         -26         -27           The Castle Primary Academy         19         62         81           The Ferrers School Academy         41         168         209           The Good Shepherd RC Primary Academy         18         77         95           The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Beckett Catholic School         -10         0         -10           Thorplands Primary Academy         21         89         110           Thrapston Primary         21         89         110           Thrapston Town Council         2         9         11           Towcester Primary Academy				
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Sunnyside Primary (Academy)         9         33         42           The Arbours Primary (Academy)         21         81         102           The Avenue Infants         12         50         62           The Castle (Wellingborough) Limited         -1         -26         -27           The Castle Primary Academy         19         62         81           The Ferrers School Academy         41         168         209           The Good Shepherd RC Primary Academy         18         77         95           The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Beckett Catholic School         -10         0         -10           Thorplands Primary Academy         22         92         114           Thrapston Primary         21         89         110           Thrapston Frimary School         -3         0         -3           Towcester CE Primary School         -3         0         -3           Towcester Town Council         3         13         16           Tresham Institute         254				
The Arbours Primary (Academy)         21         81         102           The Avenue Infants         12         50         62           The Castle (Wellingborough) Limited         -1         -26         -27           The Castle Primary Academy         19         62         81           The Ferrers School Academy         41         168         209           The Good Shepherd RC Primary Academy         18         77         95           The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Beckett Catholic School         -10         0         -10           Thorplands Primary Academy         22         92         114           Thrapston Primary         21         89         110           Thrapston Town Council         2         9         11           Towcester CE Primary School         -3         0         -3           Towcester Town Council         3         13         16           Tresham Institute         254         852         1106           Trinity Lower School         5 <td< td=""><td></td><td></td><td></td><td></td></td<>				
The Avenue Infants       12       50       62         The Castle (Wellingborough) Limited       -1       -26       -27         The Castle Primary Academy       19       62       81         The Ferrers School Academy       41       168       209         The Good Shepherd RC Primary Academy       18       77       95         The Grange, Daventry       18       77       95         The Queen Eleanor Primary Academy       11       51       62         Thomas Becket Academy       44       131       175         Thomas Beckett Catholic School       -10       0       -10         Thorplands Primary Academy       22       92       114         Thrapston Primary       21       89       110         Thrapston Town Council       2       9       11         Towcester CE Primary School       -3       0       -3         Towcester Primary Academy       19       65       84         Towcester Town Council       3       13       16         Tresham Institute       254       852       1106         Trinity Lower School       5       22       27         Unity Leisure       73       288       361 <td></td> <td></td> <td></td> <td></td>				
The Castle (Wellingborough) Limited         -1         -26         -27           The Castle Primary Academy         19         62         81           The Ferrers School Academy         41         168         209           The Good Shepherd RC Primary Academy         18         77         95           The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Beckett Catholic School         -10         0         -10           Thorplands Primary Academy         22         92         114           Thrapston Primary         21         89         110           Thrapston Town Council         2         9         11           Towcester CE Primary School         -3         0         -3           Towcester Primary Academy         19         65         84           Towcester Town Council         3         13         16           Tresham Institute         254         852         1106           Trinity Lower School         5         22         27           Unity Leisure         73         288				
The Castle Primary Academy         19         62         81           The Ferrers School Academy         41         168         209           The Good Shepherd RC Primary Academy         18         77         95           The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Beckett Catholic School         -10         0         -10           Thorplands Primary Academy         22         92         114           Thrapston Primary         21         89         110           Thrapston Town Council         2         9         11           Towcester CE Primary School         -3         0         -3           Towcester Primary Academy         19         65         84           Towcester Town Council         3         13         16           Tresham Institute         254         852         1106           Trinity Lower School         5         22         27           Unity Leisure         73         288         361           University Of Northampton         925         3199				
The Ferrers School Academy         41         168         209           The Good Shepherd RC Primary Academy         18         77         95           The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Beckett Catholic School         -10         0         -10           Thorplands Primary Academy         22         92         114           Thrapston Primary         21         89         110           Thrapston Town Council         2         9         11           Towcester CE Primary School         -3         0         -3           Towcester Primary Academy         19         65         84           Towcester Town Council         3         13         16           Tresham Institute         254         852         1106           Trinity Lower School         5         22         27           Unity Leisure         73         288         361           University Of Northampton         925         3199         4124           University of Northampton Enterprises Ltd         54 <td< td=""><td></td><td></td><td></td><td></td></td<>				
The Good Shepherd RC Primary Academy       18       77       95         The Grange, Daventry       18       77       95         The Queen Eleanor Primary Academy       11       51       62         Thomas Becket Academy       44       131       175         Thomas Beckett Catholic School       -10       0       -10         Thorplands Primary Academy       22       92       114         Thrapston Primary       21       89       110         Thrapston Town Council       2       9       11         Towcester CE Primary School       -3       0       -3         Towcester Primary Academy       19       65       84         Towcester Town Council       3       13       16         Tresham Institute       254       852       1106         Trinity Lower School       5       22       27         Unity Leisure       73       288       361         University Of Northampton       925       3199       4124         University of Northampton Enterprises Ltd       54       198       252				
The Grange, Daventry         18         77         95           The Queen Eleanor Primary Academy         11         51         62           Thomas Becket Academy         44         131         175           Thomas Beckett Catholic School         -10         0         -10           Thorplands Primary Academy         22         92         114           Thrapston Primary Academy         21         89         110           Towcester CE Primary School         -3         0         -3           Towcester Primary Academy         19         65         84           Towcester Town Council         3         13         16           Tresham Institute         254         852         1106           Trinity Lower School         5         22         27           Unity Leisure         73         288         361           University Of Northampton         925         3199         4124           University of Northampton Enterprises Ltd         54         198         252				
The Queen Eleanor Primary Academy       11       51       62         Thomas Becket Academy       44       131       175         Thomas Beckett Catholic School       -10       0       -10         Thorplands Primary Academy       22       92       114         Thrapston Primary       21       89       110         Thrapston Town Council       2       9       11         Towcester CE Primary School       -3       0       -3         Towcester Primary Academy       19       65       84         Towcester Town Council       3       13       16         Tresham Institute       254       852       1106         Trinity Lower School       5       22       27         Unity Leisure       73       288       361         University Of Northampton       925       3199       4124         University of Northampton Enterprises Ltd       54       198       252				
Thomas Becket Academy       44       131       175         Thomas Beckett Catholic School       -10       0       -10         Thorplands Primary Academy       22       92       114         Thrapston Primary       21       89       110         Thrapston Town Council       2       9       11         Towcester CE Primary School       -3       0       -3         Towcester Primary Academy       19       65       84         Towcester Town Council       3       13       16         Tresham Institute       254       852       1106         Trinity Lower School       5       22       27         Unity Leisure       73       288       361         University Of Northampton       925       3199       4124         University of Northampton Enterprises Ltd       54       198       252				
Thomas Beckett Catholic School         -10         0         -10           Thorplands Primary Academy         22         92         114           Thrapston Primary         21         89         110           Thrapston Town Council         2         9         11           Towcester CE Primary School         -3         0         -3           Towcester Primary Academy         19         65         84           Towcester Town Council         3         13         16           Tresham Institute         254         852         1106           Trinity Lower School         5         22         27           Unity Leisure         73         288         361           University Of Northampton         925         3199         4124           University of Northampton Enterprises Ltd         54         198         252				
Thorplands Primary Academy       22       92       114         Thrapston Primary       21       89       110         Thrapston Town Council       2       9       11         Towcester CE Primary School       -3       0       -3         Towcester Primary Academy       19       65       84         Towcester Town Council       3       13       16         Tresham Institute       254       852       1106         Trinity Lower School       5       22       27         Unity Leisure       73       288       361         University Of Northampton       925       3199       4124         University of Northampton Enterprises Ltd       54       198       252				
Thrapston Primary       21       89       110         Thrapston Town Council       2       9       11         Towcester CE Primary School       -3       0       -3         Towcester Primary Academy       19       65       84         Towcester Town Council       3       13       16         Tresham Institute       254       852       1106         Trinity Lower School       5       22       27         Unity Leisure       73       288       361         University Of Northampton       925       3199       4124         University of Northampton Enterprises Ltd       54       198       252				
Thrapston Town Council       2       9       11         Towcester CE Primary School       -3       0       -3         Towcester Primary Academy       19       65       84         Towcester Town Council       3       13       16         Tresham Institute       254       852       1106         Trinity Lower School       5       22       27         Unity Leisure       73       288       361         University Of Northampton       925       3199       4124         University of Northampton Enterprises Ltd       54       198       252				
Towcester CE Primary School         -3         0         -3           Towcester Primary Academy         19         65         84           Towcester Town Council         3         13         16           Tresham Institute         254         852         1106           Trinity Lower School         5         22         27           Unity Leisure         73         288         361           University Of Northampton         925         3199         4124           University of Northampton Enterprises Ltd         54         198         252				
Towcester Primary Academy         19         65         84           Towcester Town Council         3         13         16           Tresham Institute         254         852         1106           Trinity Lower School         5         22         27           Unity Leisure         73         288         361           University Of Northampton         925         3199         4124           University of Northampton Enterprises Ltd         54         198         252				
Towcester Town Council       3       13       16         Tresham Institute       254       852       1106         Trinity Lower School       5       22       27         Unity Leisure       73       288       361         University Of Northampton       925       3199       4124         University of Northampton Enterprises Ltd       54       198       252				
Tresham Institute         254         852         1106           Trinity Lower School         5         22         27           Unity Leisure         73         288         361           University Of Northampton         925         3199         4124           University of Northampton Enterprises Ltd         54         198         252				
Trinity Lower School         5         22         27           Unity Leisure         73         288         361           University Of Northampton         925         3199         4124           University of Northampton Enterprises Ltd         54         198         252				
Unity Leisure         73         288         361           University Of Northampton         925         3199         4124           University of Northampton Enterprises Ltd         54         198         252	Tresham Institute	254		1106
Unity Leisure         73         288         361           University Of Northampton         925         3199         4124           University of Northampton Enterprises Ltd         54         198         252	Trinity Lower School	5	22	27
University of Northampton Enterprises Ltd 54 198 252		73	288	361
University of Northampton Enterprises Ltd 54 198 252	University Of Northampton	925	3199	4124
		54	198	252
1	Vernon Terrace Primary	14	56	70

Employers	Employee	Employer	Total
	£000	£000	£000
Victoria Primary Academy	16	61	77
Warwick Primary Academy	17	73	90
Wayneflete Infants	8	33	41
Weavers Academy	57	222	279
Weedon Bec Academy	14	62	76
Weedon Parish Council	0	2	2
Weldon Primary Academy	9	37	46
Weldon Primary School	0	0	0
Welford, Sibbertoft And Sulby Endowed School	3	14	17
Well Lady'S Catholic Junior School	20	83	103
Wellingboro Croyland Primary	37	155	192
Wellingborough Homes Ltd	24	87	111
Wellingborough Norse	75	197	272
Welton Primary Academy	4	18	22
Weston Favell Academy	48	199	247
Weston Favell Primary Academy	21	89	110
Whitehills Primary School	14	60	74
Wilbarston C or E Primary Academy	5	24	29
William Parker Academy	58	188	246
Windmill Primary Academy	8	34	42
Wollaston Community Prim Sch	9	37	46
Wollaston Parish Council	1	3	4
Wollaston Upper School	48	184	232
Woodford Halse Academy	14	58	72
Woodland View Academy	16	72	88
Woodnewton Learning Academy	73	262	335
Woodvale Primary (Academy)	18	69	87
Wootton Park Academy	6	25	31
Wootton Primary Academy	18	84	102
Wootton, Wootton Fields & Simpson Manor Parish Council	2	9	11
Wren Spinney Community School	25	102	127
Wrenn School Academy	73	292	365
WSP	79	370	449
Grand Total	19,306	82,129	101,435

## Investment Policy and Performance Report

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

- has formulated an appropriate Investment Strategy;
- in formulating its Investment Strategy has considered and documented its approach to:
  - risk assessment and risk management,
  - pooling investments,
  - how environmental, social and governance issues are taken into account in investment selection,
  - having suitably diversified investments;
- has taken appropriate advice;
- has an appropriate number of investment managers who invest fund monies on its behalf;
- has relevant investment limits which are not exceeded;
- regularly monitors and reviews investments and investment arrangements;
- understands the restrictions on 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 supported by officers and professional investment advisers on the categories of investment in which the Fund should invest.

The Fund monitors 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 assessed whether making changes to the asset allocation could drive improvements in the funding level or provide more downside protection.

The reviewed investment strategy sought long-term return generation rather than short-term risk mitigation by having a core allocation to equities within a strategically diversified overall portfolio. The target allocation to equities of 64% was broadly similar to the average Local Authority Pension Fund. A further 16% was allocated to growth assets offering strategic diversification, split equally between property and a Diversified Growth Fund. The remaining 20% was 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.

Following the issue of the 2016 Regulations the investment strategy was reviewed and documented in the Investment Strategy Statement ("ISS") which was approved by the Pension Fund Committee in March 2017 and published on the Fund's website before the statutory deadline of 1 April 2017.

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 2016-167 financial year the Fund received training on investing in Alternative Asset classes and agreed to commit to a Real Estate allocation to the UK Residential Private Rental Sector and to establish a programme of investments in Private Equity. Assets allocated to these investments will be drawn from existing mandates as required and it is expected that the full allocation to other alternatives of 10% will take many years to achieve. The Investment Strategy Statement reflects the potential allocation to other alternatives, without committing the Fund to reduce other allocations at this stage.

The overall asset allocation strategy will be reviewed in during 2017 when reviewing the outcome of the March 2016 actuarial valuation.

#### **Role of Investment Managers**

The Investment Sub-Committee manages the appointment, retention and replacement of external investment fund managers. Managers are responsible for all "day to day" investment decisions, providing them with the flexibility to manage the Fund in such a way as to enhance returns and achieve the performance objectives for the funds. The Fund monitors manager performance and ensures manager compliance with the constraints of their Investment Management Agreement (IMA).

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 a manager;
- the relevant performance target above benchmark to reflect the intensity of their specific specialist investment brief; and
- any geographic constraints.

In November 2016, the Fund committed to new investments in Private Equity with Adams Street and Harbourvest. By 31 March 2017 there had been one capital call from Harbourvest with the remainder of the commitment due to be called over the next three to four years. In February 2017, the Fund committed to another new investment with M & G Real Estate in their UK Residential Property Fund. No cash had been called by 31 March 2017.

There were no manager terminations during the year.

#### **Pooling of investments**

Investment pooling is intended to provide the scale that will enable LGPS funds to access lower investment manager fees and to deliver cost savings. In the pooled investment structure individual funds will remain responsible for their own investment strategy and asset allocation decisions. The pool will be responsible for selecting suitable investment managers in order to meet the requirements of all of the funds' investment strategies, although the ISC will retain some responsibilities as the asset pool evolves.

Northamptonshire is a member of the ACCESS pool along with the following ten other pension funds: Cambridgeshire, East Sussex, Essex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Suffolk and West Sussex.

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter Authority Agreement to underpin their partnership. ACCESS is working to a project plan in order to create the appropriate means to pool investments. The first investments to be pooled in 2017-18 will be passively managed investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS's website <a href="http://www.accesspool.org/">http://www.accesspool.org/</a>

All eleven ACCESS funds are working in the expectation that, over time, all investments will be pooled apart from a minority of investments where there is a no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Northamptonshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

The Fund recognises that the more liquid, publically-traded asset classes, primarily equities, will be the first to be managed by the asset pool in 2017-18 and 2018-19. Manager appointments for these assets will become the responsibility of the ACCESS pool.

#### **Investment Manager Profiles and performance targets for 2016-17**

The target asset and manager allocation, associated benchmarks and performance targets at 31 March 2017 as updated for the Investment Strategy Statement.

Asset Class	Weighting (%)	Market Benchmark Adopted	Target above bench- mark (%)
UK Equity	23.00		
Majedie	11.50	FTSE All-Share index	+2
UBS	11.50	FTSE All-Share index	+2
Global Equity	41.00		
Newton	15.30	MSCI World AC	+2
Skagen	5.00	Benchmark agnostic (but MSCI World AC can be used as a guide for performance monitoring purposes)	n/a (assume 3% as a guide)
UBS	20.70	FTSE All World (inc EM)* Passive	n/a
Fixed Income	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
Alternatives			
<b>Diversified Growth</b>	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
Other Alternatives	10.00*		
Adams Street	1.30*	MSCI World ACWI	n/a
Harbourvest	2.50*	MSCI World ACWI	n/a
M&G Residential Debt	2.00*	IPD Residential Index	n/a
Total	100.00		+1.6**

<sup>\*</sup> Allocation to be funded from other asset classes as commitments made. This allocation is not included in the overall total as allocations to other asset classes will decrease as allocations to Other Alternatives increase.

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

Asset Class	Weighting (%)		Market Benchmark Adopted	Target above bench- mark (%)
UK Equity		23.00		
Majedie	11.50		FTSE All-Share index	+2
UBS	11.50		FTSE All-Share index	+2
Global Equity		41.00		
Newton	15.30		MSCI World AC	+2
Skagen	5.00		Benchmark agnostic (but MSCI World	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	n/a
			Index-Linked over 5 year 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	
Discountification of the state		0.00	performance monitoring purposes)	
Diversified Growth	0.00	8.00	LUC book rate 12 F0/	10/0
Baillie Gifford	8.00	8.00	UK base rate +3.5%	n/a
Property CBRE	9.00	8.00	IDD LIK All Dalanced Dranarty Freed	. 1
COKE	8.00		IPD UK All Balanced Property Fund Index	+1
Total		100.00		+1.6**

<sup>\*</sup> In practice may include separate regional equity and bonds for rebalancing purposes.

<sup>\*\*</sup> Overall Fund Target – the overall performance target is calculated taking into account the weightings for each manager.

The values of actual manager allocations, the percentage of the Fund and variance from the target asset allocation at 31 March 2016 and 31 March 2017 are shown below:

31	March 2	016			31	March 20	017
Market Value (£m)	(%)	Above/ (below) target (%)	Asset Class	Manager	Market Value (£m)	(%)	Above/ (below) target (%)
216.1	11.6	0.1	UK Equity	Majedie	271.5	12.0	0.5
200.3	10.8	-0.7	OK Equity	UBS	264.4	11.7	0.2
309.9	16.7	1.4	Global Equity	Newton	379.7	16.8	1.5
86.9	4.7	-0.3	Clobal Equity	Skagen	111.4	4.9	-0.1
554.1	29.9	9.2	Passive Global Equity	UBS	718.3	31.8	1.1
1,367.3	73.7	9.7	Total Equities		1,745.3	77.2	3.2
79.8	4.3	-0.7		Wellington (Global Total Return)	78.6	3.5	-1.5
91.3	4.9	-0.1	Fixed Income	Wellington (Global Strategic Credit)	95.6	4.2	-0.8
171.1	9.2	-0.8	Total Bonds		174.2	7.7	-2.3
174.3	9.4	1.4	Property	CBRE	177.3	7.9	-0.1
139.5	7.5	-0.5	Diversified Growth	Baillie Gifford	154.3	6.8	-1.2
-	-	-	Private equity	Harbourvest	2.5	0.2	-2.3
1.2	0.1	0.1	Trivate Equity	Catapult	0.9	0.1	0.1
315.0	17.0	1.0	Total Alternatives		335.0	15.0	-3.5
2.4	0.1	0.1	Cash	Cash	2.3	0.1	0.1
1,855.8	100.0		Total		2,256.8	100.0	

#### **Performance monitoring**

Investment manager performance is reviewed quarterly by the Investment Sub-Committee. 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.

From 1 April 2016, performance reporting has been provided by Mercer following the withdrawal of this service by The WM Company at the end of 2015-16.

#### **Investment Manager Performance for periods ending 2016-17**

	1	Year (%	)	3 Y	3 Years (% pa)			10 Years (% pa)		
Asset Class/ Manager	Return	Bench -mark	Var- iance	Return	Bench -mark	Var- iance	Return	Bench- mark	Var- iance	
UK Equity										
Majedie	25.3	22.0	3.3	7.5	7.7	-0.2	10.2	5.7	4.5	
UBS <sup>1</sup>	31.6	22.0	9.6	8.4	7.7	0.7	7.1	5.9	1.2	
Global Equity										
Newton	23.5	32.2	-8.7	15.2	15.6	04	n/a	n/a	n/a	
Skagen	28.3	33.0	-4.7	10.2	16.3	-6.1	n/a	n/a	n/a	
UBS Passive	32.9	33.0	-0.1	16.4	16.3	0.1	n/a	n/a	n/a	
Fixed Income										
Wellington (Global Total Return)	-1.8	4.7	6.5	0.5	5.1	-4.6	n/a	n/a	n/a	
Wellington (Global Strategic Credit)	4.7	1.6	3.1	2.4	2.1	0.3	n/a	n/a	n/a	
Property										
CBRE	3.8	3.7	0.1	10.9	10.2	0.7	2.4	2.1	0.3	
Diversified Growth Fund										
Baillie Gifford	10.5	3.8	6.7	5.5	4.0	1.5	n/a	n/a	n/a	

#### 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 until 2016 when PIRC took over the role. This provides useful information on how well the Fund has performed in comparison with other Local Authorities.

% Returns per annum for the financial year ended 31 March 2017									
		The Fund	The	Consumer	UK Average	Local			
			Benchmark	Price Index	Weekly	Authority			
					Earnings	Average			
					Index				
2016-2017	1 year	22.1	21.2	2.3	2.4	21.4			
2014-2017 3 years		11.2	11.2	0.9	2.9	11.2			
2012-2017	5 years	11.1	10.4	1.4	1.9	10.7			
2007-2017	10 years	6.6	7.1	2.3	2.0	7.0			

(Sources: WM, Mercer, PIRC and Thomson Reuters).

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

# Asset Mix Compared to the Local Authority Universe



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

# Investment Return Compared to Local Authority Universe 1 year return annualised



Year Annual	2007- 2008	2008- 2009	2009- 2010	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017
Return (%)										
Total Fund	(5.7)	(20.7)	36.1	7.2	3.0	13.8	8.2	12.4	0.2	22.1
Local Authority	(2.8)	(19.9)	35.2	8.2	2.6	13.8	6.4	13.2	0.6	21.4
Benchmark										

The table above compares the Fund's performance with the Local Authority Average for the ten years since 2007. The relative performance is shown graphically below.

# 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.

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 policies and procedures in place 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; and
- providing the administering authority with monthly valuations of the scheme's assets and details of all transactions during the quarter.

# Independent Investment Adviser's Annual Investment Review 2016/17

# **Economic background**

The previous financial year ended with turbulent and volatile asset markets. Global equities had fallen over 10% from the beginning of the year up until mid-February. Once again fears over the Chinese economy, the path of monetary tightening in the US and renewed weakness in oil prices were the proximate drivers of increased risk aversion and nervousness amongst investors. Terrorist attacks on mainland Europe and a deteriorating situation in Syria added geo-political concerns to the economic ones. Oil prices had fallen sharply and, although stabilized, had not shown any significant recovery. The uncertainly over the upcoming UK 'Brexit' referendum was beginning to be felt across investment markets as we entered the new financial year.

By April 2016, both UK Bond and Equity markets were being affected by the up coming referendum on the UK's membership of the European Union; Sterling and UK Equities were particularly volatile. Elsewhere markets remained nervous. Japan had moved towards negative interest rates in an attempt to weaken the Yen and boost exports, however this policy had failed to deliver the desired result, putting in jeopardy the planned sales tax rise and other economic reforms. In Europe concerns over Greece re-emerged and political developments in Austria and Spain caused increased nervousness. Markets needed further ECB quantitative easing before staging a muted recovery, which was helped by the US Federal reserve postponing the much anticipated rate rise.

Most global markets were positioned for a 'remain' result in the UK referendum. Given the 'leave' result, equity markets particularly in Europe and the UK fell sharply in the immediate aftermath. However these falls proved short lived and most markets were recovering within a week of the result. The most significant effect for Sterling investors was the sharp fall in the currency, which had started prior to the vote and accelerated subsequently. This weakness was compounded in August by a further 0.25% cut in interest rates by the Bank of England and the announcement of an additional £70bn of quantitative easing including the purchase of £10bn of UK corporate bonds. Sterling weakness had the beneficial effect for un-hedged Sterling investors of turning lack lustre global returns in local currency into strong Sterling returns. Even Japanese equities which had a torrid time over the quarter as the economy remained sluggish and consumption fell, delivered a Sterling return of 8.0% on the back of the Yens near 30% rise against Sterling over the quarter.

During the third quarter markets continued to perform remarkably strongly, seemingly brushing aside concerns over sluggish global growth and the now mainstream acceptance that the ultra loose monetary policies of central banks are no longer an affective shot in the arm for asset markets. Despite these headwinds and the on going uncertainties over 'Brexit', continuing geopolitical instability emanating from Syria outwards and even the up coming US Presidential election, UK investors had enjoyed returns of over 30% from global equity over the past year. Once again weak Sterling was a principle driver, delivering two thirds of these returns. The affects of Sterling weakness were also seen in the Index linked gilts market where fears of future imported inflation drove the market up by almost a quarter. Even without the benefit of currency affects the performance of global equity was been remarkable over the past twelve months, despite on going concerns over the pace of economic growth.

As the new calendar year began and the financial year drew to a close, markets were adjusting to the surprise victory of Donald Trump in the US presidential election. Despite the unexpected result markets barely paused for breath before once again

moving higher. US equities in particular rallied strongly on promises of infrastructure spending and corporate tax cuts. Other markets including emerging markets responded in kind on the hope of strong commodity prices with many cyclical stocks performing strongly on expectations of faster growth and more fiscally driven government policy. Even the less economically helpful aspects of Trump's election rhetoric, including the spectre of increased protectionism were side lined as the markets new found confidence. Overall the financial year 2016/17 delivered strong returns for investors in equities and index linked gilts. Government bonds and property returns were more muted although still positive. UK property in particular, after a number of very strong years struggled in the immediate aftermath of 'Brexit' with uncertainty hitting the central London office market particularly hard.

# **Market Returns**

Financial market returns for the financial year 2016/17 were significantly stronger than in the previous financial year. Overseas asset returns were particularly strong for Sterling based investors due to the weakness in Sterling over the period. Global equity returns defied the many headwinds on both the economic and geopolitical fronts. US equity continued the gains of recent years despite the US Federal Reserve's long anticipated raising of interest rates. In local currency the market gained 18% although given the underlying dollar strength this translated into 35% in Sterling terms. The Japanese economy struggled during the period and attempts to strengthen the economy and weaken the Yen failed to deliver the desired return. Local currency returns were the weakest of the major equity markets, although still a healthy 14%, however the Yen had benefitted from being seen as a safe haven currency and this strength translated into a return of 33% from Japanese equity for Sterling based investors. The UK markets experienced a volatile 'Brexit' affected year. The FTSE100, containing many companies with substantial overseas earnings, gained 24% over the period as these earnings grew in Sterling terms. The FTSE250 index, which is more domestically focused, gained a more modest 12%. UK Property gained 3.7% over the year affected by falls in the value of central London office prices that responded negatively post the referendum.

# **Fund Performance**

The Northamptonshire County Council Pension Fund outperformed the benchmark during the financial year 2016/17. The fund's total return of 21.7% was ahead of the bespoke benchmark, which returned 21.2%. The main driver of this outperformance was strong returns from both active UK equity managers, who delivered significant performance above their benchmark for the period. This strong relative return in the UK more than offset underperformance in global equity where both managers delivered good absolute returns but were below their benchmark targets. The diversified growth fund, which has an absolute return benchmark, performed strongly. The fund's bond returns were mixed with credit performing well offset by a disappointing year in absolute return global bonds. The property portfolio performed in line with the benchmark.

The outperformance over one year enhances the longer-term performance against the benchmark. Over three years the fund has returned 10.2% per annum, only marginally below the benchmark of 11.2%. Over five years the fund return is 10.8% per annum beating the benchmark of 10.4%. At the March 2013 actuarial valuation the target return was set at 4.6% p.a. The Fund has achieved a significantly greater return than targeted over this period.

# **Strategic Asset Allocation**

The Fund's Investment Strategy Statement makes clear that strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments. It also recognises, that the Fund is an open scheme with long-term liabilities, which consist of an obligation to pay benefits linked to inflation. In setting the strategic allocation the Committee also takes into account the covenant associated with the Fund's employers in deciding how much risk is appropriate.

The liabilities of the Northamptonshire Pension Fund are long term in nature. As a consequence the Fund adopts a long-term investment approach. Actuarial reviews of the fund take place on a three yearly cycle with the latest occurring in 2016. The final results are have recently been published they show a healthy improvement in the funding level of the scheme over the three year period from 71% to 78%. The 2016 results confirm the results of the 2013 review and indicate that the scheme will remain cash flow positive for many years to come. The results of the 2016 review will inform the cash flow projections as they are updated and factored into the future investment policy. It is expected that the main investment priority will remain focused on long term return generation rather than short-term risk mitigation but with an increasing focus on income generating assets.

The current investment strategy has been evolving over recent years but has maintained its main themes of investing in a broad spread of diversified return and income generating assets, complimented by a smaller weighting to risk mitigation assets including index linked bonds. The Fund is currently undergoing an investment strategy review, which is linked to the results of the 2016 actuarial review. An agreement in principle has been made to increase the allocation to illiquid alternative assets that have strong income generating potential and are lowly correlated to equity markets. The review has not yet been completed but will be initiated during the current financial year.

The current investment strategy emphasis long-term return generation over 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. It is anticipated that this allocation will increase with the introduction of additional diversifying income generating alternative assets. The remaining target allocation of 20% is currently 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

# **Economic Outlook**

The financial year 2016/17 proved one of the most eventful since the great financial crisis of 2008. The result of the 'Brexit' referendum and the resulting changes to both UK Prime Minister and Chancellor meant that politics was never far from investors' minds when assessing the prospects for the UK economy. The unexpected result in the US presidential election in November further added to the new political landscape in which investment decisions needed to be made. Despite many predictions of a sharp slowdown for the UK economy, most economic data up to the end of the financial year has surprised to the upside, with consumers in particular showing no obvious signs of a 'Brexit' slowdown. However the most recent data is indicating that

the squeeze in real wage growth, partly as a result of rising inflation, is beginning to weigh down on the consumer. Over the period the sharp fall in the value of Sterling has benefitted Sterling based investors holding overseas assets. The FTSE100 index has also enjoyed a strong run with many of the companies gaining translation benefits from significant overseas earnings. The strength of overseas markets in particular has benefited the performance of the fund. With many markets sitting near to or at all time highs the current year could prove more challenging for investment returns. The direction of Sterling which proved so influential in the 2016-17 financial year seems likely to again be an important influence looking forward as the real 'Brexit' negotiations begin in earnest.

The uncertain investment environment is expected to continue into the new financial year. The committee will focus on continuing to diversify the portfolio and it is anticipated that investments offering long term stable returns, which are both income generating and where possible offer some inflation linkage will be favoured. The recent politically influenced investment environment is expected to continue into the coming financial year. The unexpected decision to call a general election in the UK caught markets by surprise. Sterling rose more than 2% on the day and UK equities fell by an equivalent amount. After a strong post election bounce US equities have stalled awaiting signs that the Trump administration will actually be able to deliver the corporate tax cuts and infrastructure spending promises of the campaign rhetoric. The upcoming French presidential elections will also be closely monitored by investors with Emmanuel Macron a relatively unknown candidate without a party infrastructure facing Marine Le Pen who although widely seen as the underdog poses an existential threat to the EU as a whole and therefore cannot be ignored by investors given the recent series of unexpected political outcomes.

The Investment committee will continue to operate with a high level of governance and will continue to position the portfolio so that the expected level of return will ensure the fund can meet its future benefit obligations as they fall due and with due regard to the level of investment risk that is appropriate in order to deliver this return. The Committee utilises a wide range of professional support including an investment consultant, an independent adviser and the Fund's Actuary. Committee members receive regular training in the various assets classes utilised by the fund and in addition stay well informed of additional investment strategies not currently employed.

A major focus of the financial year will be the continued response to the Government's decision to work with LGPS administering authorities to ensure the future pooling of assets. The Government's stated aim is one of reducing costs while maintaining overall investment performance. 'Investment Reform Criteria and Guidance' — 'Investment pooling' was issued in November 2015 detailing the Government's criteria for pooling. The committee has closely monitored the work of officers and advisers as the work towards forming a substantial investment pool has progressed. The ACCESS group has been formed and consists of ten other like minded mainly Shire county LGPS schemes. The committee will continue to monitor and help shape the final structure of the ACCESS pool in order for it to deliver the promised cost saving while continuing to provide flexible and high quality investment solutions in order for the committee to exercise the strategic asset allocation decisions which remain at a local level to the same high standards that are currently in operation.

Mark Stevens

May 2017

# 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 47,209 Active members, 60,552 deferred members and 32,752 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 has also been promoted as the primary method for employers to obtain benefit estimates for their members. This provides efficiencies for both LGSS Pensions and our employers by reducing the number of enquiries received by LGSS Pensions by enabling employers to run their own estimates, with the benefit of allowing them to obtain results immediately, when they need them

We have delivered a number of training sessions to employers, showing them the benefits of ESS and how to use the systems. This has also included large payroll providers who are amongst our biggest data providers.

# **Member Self Service**

Member Self Service (MSS), allows members to securely access their own records held on the pensions database to view and/or amend their personal information and perform benefit projections. It is also used to provide active and deferred members with their annual benefits statement.

We have actively promoted the use of MSS to our active members through individual letters, member newsletters, posters and promotion on our website. We have also encouraged employers to promote MSS to their members.

# 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, and other data providers, to implement i-Connect. This will achieve significant efficiencies for both the Fund and scheme employers.

From 1<sup>st</sup> April 2017, one of the largest payroll providers for schools and academies in Northamptonshire, will commence to use I-connect for the future. This will significantly improve efficiency in the Local Authority maintained schools sector in regards to their pension administration. It is currently planned to implement i-connect with our other large, education sector, data provider in 2018.

# **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).

No formal disputes have arisen during 2016/2017, and as none remained outstanding at the end of 2015/2016, none were resolved in 2016/2017 either.

# Actuarial Report on Funds

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

# **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- 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 (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.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% likelihood that the Fund will return to full funding over 20 years

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,871m, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £517million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation report.

#### 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 2016
	% p.a. Nominal
Discount rate	4.0%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

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 2013 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	22.1 years	24.2 years
Future pensioners*	23.9 years	26.1 years

<sup>\*</sup>Aged 45 at the 2016 valuation.

Copies of the 2016 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 2016**

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA

For and on behalf of Hymans Robertson LLP

28 April 2017

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 2016. 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 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

	31 March 2013	31 March 2016
Past Service Position	(£m)	(£m)
Past Service Liabilities	2,191	2,388
Market Value of Assets	1,545	1,871
Surplus/(Deficit)	(646)	(517)
Funding Level	70.5%	78%

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period, coupled with the positive impact on the liabilities of actual pay and benefit growth being lower than expected.

# **Contribution rates**

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (% of pay)	Secondary Rate (£)		
1 Apr 17 – 31 Mar 17	2017/18	2018/19	2019/20
17.1%	£24,731,000	£22,348,000	£23,214,000

The Primary rate also includes an allowance of 0.7% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided. Broadly, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have increased as future expected investment returns have fallen. Changes to employer contributions targeted to fund the deficit have been variable across employers.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 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 current Governance Policy and Compliance Statement was reviewed in June 2015 and has been published on the Funds website <a href="http://pensions.northamptonshire.gov.uk">http://pensions.northamptonshire.gov.uk</a> and is in appendix A of this report. The statement will be updated during 2017/18 to reflect changes in the Council's Constitution as a result of national asset pooling.

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	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 2016-17.

		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	3/4
	Cllr M Brown	3/5	2/4
	Cllr M Clarke	5/5	-
	Cllr R Roberts	1/5	2/4
	Cllr B Scott	5/5	3/4
	Cllr C Lofts	2/5	-
District/Borough/Po lice and Fire	Cllr P Rawlinson	1/5	-
Representatives	Cllr R Lewis	3/5	-
All Other	Roger Morris	5/5	2/4
Employers' Representatives	Alicia Bruce	4/5	-
Member	Peter Borley-Cox	5/5	3/4
Representatives	Josie Mason	1/5	

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 2016-17.

		Attendance at Local Pension Board Meetings
Scheme Employers	Cllr A Matthews	3/3
	Cllr M Scrimshaw	1/3
	Audra Statham	3/3
Scheme	Paul Evans	3/3
Representatives	Ged Carlton (from Oct 16)	2/2
	Nina Thomas	2/3

# Pensions Administration Strategy Report

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

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

In addition, regulation 70 of the Local Government Pension Scheme Regulations 2013 allows an administering authority to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

The current Pensions Administration Strategy was approved by the Pension Fund Committee in October 2014, followed by a 30 day consultation period with the scheme's employers. The Strategy has been reviewed and presented to the Local Pension Board for comment in March 2017. The Strategy is expected to be approved by the Pension Fund Committee in June 2017. The current strategy is published on the LGSS Pensions website and can be found in Appendix B of this report, this will be replaced by the approved Administration Strategy at the appropriate time during 2017/18.

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

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

# 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 ensuring 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 has been reviewed as part of the 2016 valuation exercise to ensure that the strategy is appropriate and relevant.

In 2016-17, contribution increases were implemented in accordance with the Statement to the Rates and Adjustments Certificate attached to the 2013 valuation of the Fund. Changes to contribution rates as a result of the 2016 valuation will take effect from 1 April 2017.

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

The Funding Strategy Statement was updated in March 2017 and can be found on the Northamptonshire Pension Fund website, <a href="http://pensions.northamptonshire.gov.uk">http://pensions.northamptonshire.gov.uk</a> and in Appendix C of this report.

# Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the 2016 Regulations"), which came into force on 1 November 2016, require an administering authority, after taking proper advice and consulting with such persons as it considers appropriate, to formulate and publish its investment strategy. The administering authority must have formulated and published its first Investment Strategy Statement ("ISS") no later than 1 April 2017.

The Fund's investment strategy was reviewed and the ISS approved by the Pension Fund Committee in March 2017 and published on the Fund's website at:

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

A copy is attached in Appendix C to this report.

The investment strategy must be reviewed and if necessary revised by the administering authority from time to time, and at least every three years, and publish a statement of any revisions.

The purpose of this document is to satisfy the requirements of the 2016 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 Investment Strategy Statement. This document contains reference to the FSS for information.

Prior to the approval of the ISS, the Fund's written statement of principles governing its decisions about the investment of pension scheme monies was documented in the Statement of Investment Principles ("SIP") as required by the now superseded legislation The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The SIP that was in force in 2016-17 was reviewed and approved by the Pension Fund Committee in July 2015 and can be found on at:

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

# Communication Strategy Statement

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

The current Communications Strategy was approved by the Pensions Committee in March 2017. This is due to be reviewed again during the 2017/18 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 Strategy the Fund's website has dedicated sections that provide up to date and detailed information for members, prospective members, employers, and other stakeholders.

Communications with the scheme's employers take place on a regular basis through the use of newsletters and bulletins which cover subjects ranging from changes to reporting procedures, changes to scheme rules and other pension matters relevant to employers and/or their members.

The Fund delivers training, webinars and workshops for scheme employers on topics such as employers' responsibilities in the Fund, calculating pensionable pay, dealing with ill health retirements, pension considerations when outsourcing and other pension matters. Employer forums were conducted in November 2016 to inform Employers of the impact of the triennial valuation on their organisation. Employers were notified in November 2016 of their draft Valuation results and following a consultation period, then notified of their final triennial contribution rates. The Fund also provides bespoke and targeted training to help improve employer performance.

Member presentations are also delivered 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 2017.

Employer Type	Active	Ceased	Total
Scheduled body	73	14	87
Admitted body	46	44	90
Designated body	28	8	36
Total	147	66	213

An analysis of fund investment assets and liabilities as at 31 March 2017:

	UK	Global	Total
	£m	£m	£m
Equities	510.3	1,140.9	1,651.2
Bonds	200.9	174.2	375.1
Property - pooled holdings	169.7	-	169.7
Alternatives	0.9	2.4	3.3
Cash and cash equivalents	58.3	-	58.3
Other	(0.7)	-	(0.7)
Total	939.4	1,317.5	2,256.9

An analysis of investment income accrued as at 31 March 2017:

	UK	Global	Total
	£'000	£'000	£'000
Equities	2,361.6	-	2,361.6
Bonds	-	-	-
Property - direct holdings	17.0	-	17.0
Alternatives	-	-	-
Cash and cash equivalents	3.9	-	3.9
Other	565.9	-	565.9
Total	2,948.4	-	2,948.4



# Independent auditor's report to the members of Northamptonshire County Council on the pension fund financial statements published with the Northamptonshire Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2017 on pages 56 to 90.

#### Respective responsibilities of the Director of Finance and the auditor

As explained more fully in the Statement of the Director of Finance Responsibilities the Director of Finance is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Northampton 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 2016/17.

In addition, we read the information given in the Northampton 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 2017 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

#### 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 Northamptonshire 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** 

19 September 2017

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill Snowhill Queensway Birmingham B4 6GH

# **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 2016 to 31 March 2017.

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2016-17 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 2017

2015-16 £000	Dealings with members, employers and others directly involved in the Fund	Notes	2016-17 £000
(97,993) (2,042) (100,035)	Contributions Transfers in from other Pension Funds	7 8	(101,435) (4,716) (106,151)
82,713 4,447 87,160	Benefits Payments to and on account of leavers	9 10	80,068 10,472 90,540
(12,875)	Net (additions)/withdrawals		(15,611)
8,360	Management expenses	11	8,222
(32,241) 50	Returns on investments Investment income Taxes on income (Profit) and losses on disposal of investments and changes	12 13	(40,760) 53
30,314 (1,877)	in the market value of investments  Net return on investments	14a	(363,507) (404,214)
(1,077)			(404,214)
(6,392)	Net (increase)/decrease in the net assets available for benefits during the year		(411,603)
1,864,634	Opening net assets of the scheme		1,871,026
1,871,026	Closing net assets of the scheme		2,282,629

Notes on pages 59 to 90 form part of the financial statements.

# **Net Assets Statement as at 31 March 2017**

31 Mar 2016			31 Mar 2017
£000		Notes	£000
1,858,043 (2,234)	Investment assets Investment liabilities	14 14	2,260,799 (3,920)
1,855,809	Total net investments		2,256,879
18,622 (3,405)	Current assets Current liabilities	20 21	31,722 (5,972)
15,217	Net Current Assets		25,750
1,871,026	Net assets of the Fund available to Fund benefits at the period end		2,282,629

Notes on pages 59 to 90 form part of the financial statements.

Note: The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

# **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 2016-17 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 2016.

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 2017 there are 147 (2016: 164) employer organisations within Northamptonshire Pension Fund including the County Council itself. Employer organisations include all organisations within a trust as one employer. The total number of organisations as at 31 March 2017 was 287 (2015 263), an increase of 24 organisations.

	31 March 2016	31 March 2017
Number of organisations with active members	263	287
Number of amplexace in achome		
Number of employees in scheme County Council	7,708	7,269
Other Employers	12,432	13,155
Total	20,140	20,424
	•	·
Number of Pensioners		
County Council	7,919	7,823
Other Employers	6,946	7,626
Total	14,865	15,449
Deferred Pensioners		
County Council	15.451	15,137
Other Employers	9.932	12,180
Total	25,383	27,317
Total Membership	60,388	63,190

# 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) and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2017. Employers' contributions are set as part of the triennial actuarial funding valuation. The last such valuation was at 31 March 2016. 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 1/49<sup>th</sup>. 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 atone Angel Square, Northampton or online at www.pensions.northamptonshire.gov.uk

# 2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2016-17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 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 (where material) 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 are recognised as income or expenses and comprise all realised and unrealised profits/losses during the year.

# d) Stock lending

Stock lending income is recognised in the Fund Account as it accrues. Stock lending income represents the transfer of securities by the Pension Fund to an approved counterparty ("Borrower"), against a receipt of collateral (non-cash), for a fee, subject to the obligation by that same counterparty to redeliver the same or similar securities back to the Lender at a future date. Securities on loan remain assets of the Fund and are recorded in the net assets statement at fair value.

# Fund account – expense items

### e) 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.

#### f) 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.

# g) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses* (2016).

#### h) Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as an expense to the Fund.

### i) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

# j) 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 11a.

Where an investment manager's fee note has not been received by the year end 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. In 2016-17, £0.9m of fees are based upon such estimates (2015-16: £ 0.08m).

In 2016/17 there has been a change in presentation of investment manager expenses as follows:-

- (i) management fees deducted from the net asset value of pooled funds are now reported as investment management fees and the return on investments increased accordingly;
- (ii) Transaction costs including brokerage fees and UK stamp duty incurred by segregated managers that had previously been reported as the cost of purchases or proceeds of sale of an investment are now reported within investment expenses and the cost of investment purchases or proceeds of sales adjusted accordingly.

Prior year comparative figures have been restated accordingly. The impact has been to increase Investment Expenses by £0.8m (2015-16: £0.8m) and increase Profit and losses on disposal of investments and changes in the market value of investments by £0.8m (2015-16: £0.8m).

The cost of obtaining investment advice from external consultants is charged direct to the Fund and A proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

### **Net Assets Statement**

#### k) 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 at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

#### 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.

### m) 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 (see Note 15).

### n) 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.

# o) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date, except for loans and receivables. 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.

#### p) Actuarial present value of promised retirement benefits

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

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

### q) Additional voluntary contributions

The Northamptonshire Pension Fund provides an additional voluntary contributions (AVC) scheme 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(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

# r) Contingent assets and liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises there an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of a narrative in the notes.

# 4 Critical Judgement In Applying Accounting Policies

# **Pension Fund liability**

The net Pension Fund liability is recalculated 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. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term investment yield/return.

# 5 Assumptions Made About The Future and Other Major Sources Of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement as at 31 March 2017 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 £340 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £30million, and a one year increase in assumed life expectancy would increase the liability by approximately £120million.
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 £.3.3 million. There is a risk that this investment may be under or overstated in the accounts.

# 6 Events After the Balance Sheet Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of event may be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

If new information was received relating to, for example, an estimated year end valuation of an investment, and this information showed the year end estimate to be materially under or over valued, this would be an adjusting item and the financial statements would be amended.

If, for example, the stock market declined during the period between the year end date and the issue of the authorised financial statements, this would be a non-adjusting event and the valuation of equities would remain at the value on 31 March 2017.

There have been no events since 31 March 2017, and up to the date when these accounts were authorised that require any adjustments to these accounts.

# 7 Contributions Receivable

# By category

2015-16 £000		2016-17 £000
19,343	Employees' contributions	19,306
	Employers' contributions:	
53,616	Normal contributions	54,630
25,034	Deficit recovery contributions	27,499
78,650	Total Employers' contributions	82,129
97,993	Total	101,435

# By authority

2015-16		2016-17
£000		£000
29,092	Administering Authority	28,135
62,452	Scheduled Bodies	67,338
6,449	Admitted Bodies	5,962
97,993	Total	101,435

# 8 Transfers In From Other Pension Funds

2015-16		2016-17
£000		£000
2,042	Individual transfers	4,716
2,042	Total	4,716

# 9 Benefits Payable

# By category

2015-16		2016-17
£000		£000
66,217	Pensions	63,869
15,109	Commutation and lump sum retirement benefits	14,866
1,387	Lump sum death benefits	1,333
82,713	Total	80,068

# By authority

2015-16		2016-17
£000		£000
29,176	Administering Authority	38,104
47,407	Scheduled Bodies	38,120
6,130	Admitted Bodies	3,844
82,713	_ Total	80,068

# 10 Payments To and On Account of Leavers

2015-16		2016-17
£000		£000
219	Refunds to members leaving service	255
38	Payments for members joining state scheme	58
2,502	Group transfers	3,308
1,688	Individual transfers	6,851
4,447	Total	10,472

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.

Refunds to members leaving service are extremely sensitive to fluctuations as a result of the small relative value.

# 11 Management Expenses

2015-16		2016-17
£000		£000
1,571	Administrative costs	1,466
6,441	Investment expenses (See 11a)	6,338
348	Oversight and governance costs	418
8,360	Total	8,222

Administrative costs for 2015/16 have been reanalysed following a review of the classification of costs. Of the £1,851k disclosed as Administrative cost in 2015/16, £81k has been apportioned to Investment Management Expenses, and £119k to Oversight and governance costs. This reflects consistent treatment of costs in 2016/17 and mainly comprises of a reallocation of staff costs.

# 11a Investment Management Expenses

2015-16		2016-17
£000		£000
3,063	Management fees	3,745
610	Transaction costs	1,451
2,602	Performance related fees	614
166	Other expenses	528
6,441	Total	6,338

Investment Management Expenses have been restated for 2015/16 to include £610k of transaction costs previously included within the change in market value of investments. This allows for greater transparency of cost reporting and is consistent with the approach taken in 2016/17.

# 12 Investment Income

2015-16		2016-17
£000		£000
90	Income from bonds	+
22,219	Income from equities	23,637
5,795	Pooled investments	13,657
3,596	Pooled property investments	3,005
91	Interest on cash deposits	192
450	Other	269
32,241	Total	40,760

# 13 Taxes on Income

2015-16		2016-17
£000		£000
50	Withholding tax – equities	53
50	Total	53

# 14 Investments

Market value 31 March 2016 £000		Market value 31 March 2017
2000	Investment assets	£000
-	Bonds	- 042.000
677,033	Equities	843,989
971,588	Pooled investments	1,182,505
174,032	Pooled property investments	169,741
1,173	Private equity/infrastructure Derivative contracts:	3,328
-	<ul> <li>Forward currency contracts</li> </ul>	53
28,979	Cash deposits	58,072
4,238	Investment income due	2,949
1,000	Amounts receivable for sales	162
1,858,043	Total investment assets	2,260,799
	Investment liabilities Derivative contracts:	
(121)	<ul> <li>Forward currency contracts</li> </ul>	
(2,113)	Amounts payable for purchases	(3,918)
_	Amounts payable for pending spot FX	(2)
(2,234)	Total investment liabilities	(3,920)
	_	
1,855,809	Net investment assets	2,256,879

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£000	£000	£000	£000	£000
Bonds	-	-	-	-	_
Equities	677,033	195,339	(194,808)	166,425	843,989
Pooled investments	971,588	7,132	(3,673)	207,458	1,182,505
Pooled property					
investments	174,032	16,251	(9,879)	(10,663)	169,741
Private equity/ infrastructure	1,173	2,501	(929)	583	3,328
iiii dolladaid	1,823,826	221,223	(209,289)	363,803	2,199,563
	-,,	,	(,,	,•••	_,, <del></del>
Derivative contracts:					
Forward currency					
contracts	(121)	1,612	(879)	(559)	53
Spot currency					
contracts	-		(0.4.0.4.0.0)	202 244	0.400.040
	1,823,705	222,835	(210,168)	363,244	2,199,616
Other investment balances:					
<ul> <li>Cash deposits</li> </ul>	28,979	-	-	361	58,072
<ul> <li>Amounts         receivable for         sales of</li> </ul>					
investments  Investment income	1,000			-	162
due	4,238			_	2,949
Spot FX contracts	, - -			(112)	(2)
Amounts payable				` ,	,
for purchases of	(2.112)			1.1	(2.010)
investments	(2,113)			14	(3,918)
Net investment assets	1,855,809			363,507	2,256,879
		-			

14a: Reconciliation of movements in investments and derivatives (continued)

	Market value 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
	£000	£000	£000	£000	£000
Bonds Equities Pooled investments Pooled property	54,147 704,743 916,894	307 154,749 300,157	(52,497) (142,792) (243,750)	(1,957) (39,667) (1,713)	677,033 971,588
investments Private equity/	150,173	18,800	(8,641)	13,700	174,032
infrastructure _	1,432	243	(537)	35	1,173
	1,827,389	474,256	(448,217)	(29,602)	1,823,826
Derivative contracts:  • Forward currency	20	1.150	(600)	(602)	(424)
contracts • Spot currency	28	1,152	(699)	(602)	(121)
contracts	(2)	235	(222)	(11)	-
	1,827,415	476,253	(449,138)	(30,215)	1,823,705
Other investment balances:  Cash deposits  Amounts receivable for	19,409			(104)	28,979
sales of investments	1,475			-	1,000
Investment income due	3,515			-	4,238
Amounts payable for purchases of investments	(2,074)			5	(2,113)
Net investment assets	1,849,740			(30,314)	1,855,809

Purchases and sales of derivatives are recognised in Note 14(a) above as follows:

- Futures on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses and recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Forward currency contracts forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

Note 14a has been restated for 2015/16 to reflect the disclosure of £610k of transaction costs, which have reduced purchases and the change in market value of equities and pooled investments. This is to ensure consistent treatment of transaction costs with 2016/17.

14b: Analysis of investments

31 March 2016 £000		31 March 2017 £000
	Bonds	
	UK	
-	Public sector quoted	-
-		-
	Equities	
	UK	
383,043	Quoted	486,322
	Overseas	
293,990	Quoted	357,667
677,033		843,989
	Pooled funds – additional analysis	
164,764	UK Fixed income unit trust	200,918
19,932	Equity	24,016
184,696	Lequity	224,934
104,090		224,534
	Overseas	
171,092	Fixed income unit trust	174,221
615,746	Equity	783,165
786,838		957,386
	Other pooled funds	
174,032	Pooled Property Investments	169,741
1,173	Venture Capital	3,328
54	Cash funds	185
175,259		173,254
-	Derivatives	70
28,979	Cash deposits	58,072
4,238 1,000	Investment income due Amounts receivable from sales	2,949 162
1,858,043	Total Investment Assets	2,260,816
1,000,010		_,,
	Investment Liabilities	
(121)	Derivatives	(17)
(2,113)	Amounts payable for purchases	(3,918)
/2.224\	Amounts payable for pending spot FX	(2)
(2,234)	Total Investment Liabilities	(3,937)
1,855,809	Net Investment Assets	2,256,879

14c. Investments analysed by fund manager

Market value 31	March 20	16	/larket value 31 M	arch 2017
£000	%		£000	%
754,425	40.7	UBS	982,623	43.6
309,867	16.7	Newton	379,701	16.8
216,106	11.6	Majedie	271,535	12.0
174,348	9.4	CBRE	177,280	7.9
171,092	9.2	Wellington	174,221	7.7
139,449	7.5	Baillie Gifford	154,357	6.8
86,907	4.7	Skagen	111,471	4.9
-	-	Harbourvest	2,463	0.1
1,173	0.1	Catapult	865	0.1
2,442	0.1	Cash	2,363	0.1
1,855,809	100.0		2,256,879	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 Fund.

Security	Market value 31 March 2016 £000	% of total Fund	Market value 31 March 2017 £000	% of total Fund
UBS Life World Equity Tracker	355,956	19.0	470,839	20.9
UBS Over 5 Year Index Linked Gilt	164,764	8.8	200,918	8.9
Baillie Gifford Diversified Growth Fund	139,449	7.5	154,357	6.8
Wellington Sterling Core Bond Plus Portfolio GBP	-	-	-	-

# 14d: 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 £125.3m (31 March 2016: £40.7). 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 2017, the Custodian held collateral at fair value of £135.5m (31 March 2016: £44.2m). 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.

# 15 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 may be 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 agreed 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 significant proportion of the Fund's 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	269,938	GBP	(1,940)	-	(16)
Up to one month	JPY	3,428	EUR	(3,955)	44	-
Up to one month	USD	107	GBP	(86)	-	(1)
One to six months	GBP	1,663	EUR	(1,910)	26	-
Total					70	(17)
Net forward current	y contracts a	t 31 March 2017	7			53
Prior Year Compa	ative					
Open forward currency contracts at 31 March 2016					(121)	
Net forward currence	y contracts a	t 31 March 2016	6			<u>(121)</u>

# 16 Fair Value

# Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### Level 1

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

#### Level 2

Assets and liabilities 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 valuation techniques are used to determine fair value.

#### Level 3

Assets and liabilities 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.

The following table provides an analysis of the financial assets and liabilities of the 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	
	Level 1	Level 2	Level 3	Total
Values at 31 March 2017	£'000	£'000	£'000	£'000
Financial assets at fair value through profit and loss	2,050,377	33,119	118,447	2,201,943
Loans & Receivables	66,229	-	-	66,229
Financial liabilities at fair value through profit and loss	(11,293)	-	-	(11,293)
Net investment assets	2,105,313	33,119	118,447	2,256,879

	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
Values at 31 March 2016	£'000	£'000	£'000	£'000
Financial assets at fair value through profit and loss	1,670,079	28,446	128,313	1,826,838
Loans & Receivables	35,954	-		35,954
Financial liabilities at fair value through profit and loss	(6,983)			(6,983)
Net investment assets	1,699,050	28,446	128,313	1,855,809

In 2016-17 the Fund has adopted the classification guidelines recommended in the Practical Guidelines on Investment Disclosures (PRAG/Investment Association, 2016). This revised interpretation has resulted in a change of classification the Fund's investments within the fair value hierarchy compared to 2015-16. The 2015-16 comparative disclosures have been represented for consistency. There has been no change in the valuation techniques used during the year.

All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date. The fair valuation of each class of investment asset is set out below.

# **Basis of valuation**

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Descriptions	\	Dania of calcation		17
Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed Interest securities are valued at a market value based on current yields	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing singe price where single price is published	NAV-based pricing set on a forward pricing basis	Not required
Private equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

# Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

	Assessed valuation range	Value at 31 March 2017 £'000	Value on increase £'000	Value on decrease £'000
UK equities	15.8%	17	20	14
Overseas equities	18.4%	3,686	4,364	3,008
UK property funds	14.2%	107,610	122,891	92,329
Overseas property funds	14.2%	3,787	4,325	3,249
Private equity	28.5%	3,347	4,301	2,393
Total		118,447	135,901	100,993

# **Reconciliation of Fair Value Measurements within Level 3**

	Market value at 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/ (losses)	Realised gains/ (losses)	Market value at 31 March 2017
UK equities	£000 17	£000	£000	£000	£000	£000 17
Overseas equities	1,614	1,980		92		3,686
UK property funds	122,264	3,302	(6,203)	(12,572)	819	107,610
Overseas property funds	3,245			542		3,787
Private equity	1,173	2,425		(251)		3,347
Total	128,313	7,707	(6,203)	(12,189)	819	118,447

# 17 Financial Instruments

Market v	value 31 Mai	rch 2016		Mark	et value 31	March 2017
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
677,033	-	-	Bonds Equities Pooled	843,989	- -	- -
971,588	-	-	investments	1,182,505	-	-
174,032	-	-	Pooled property investments	169,741	-	-
1,173	-	-	Private Equity/ infrastructure Derivative	3,328	-	-
-	- 28,979	-	contracts Cash	53 -	- 58,072	- -
1,823,826	5,238 - <b>34,217</b>	- -	Other investment balances Debtors	2,199,616	3,111 <b>61,183</b>	- -
	,		Financial Liabilities Derivative		,	
(121)	-	<u>-</u>	contracts	(2)	-	-
(121)	-	(2,113) ( <b>2,113</b> )	Creditors	(2)	-	(3,918) ( <b>3,918</b> )
***************************************		***************************************				7
1,823,705	34,217 1,855,80	(2,113)		2,199,614	61,183 2,256,8	(3,918)
	1,000,00				2,230,0	

# 17b: Net gains and losses on financial instruments

Market value 31 March 2016 £000		Market value 31 March 2017 £000
	Financial Assets	
(30,212)	Fair value through profit and loss	363,132
(115)	Loans and receivables	361
	Financial liabilities	
(602)	Fair value through profit and loss	
	Loans and receivables	
5	Financial liabilities measured at amortised cost	14
(30,924)	Total	363,507

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

# 18 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.

# b) 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.

# c) 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 would have reasonably been possible for the 2016/17 reporting period.

The potential price changes disclosed below 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.

Asset Type	Percentage Change %
UK Equities	15.8
Global Equities	18.4
Bonds & Index-linked	9.0
Diversified Growth	12.5
Alternatives	28.5
Property	14.2
Net derivative assets	10.0
Investment income due	0.0
Cash	0.0
Amounts receivable for sales of investments	0.0
Amounts payable for	
purchases of	0.0
investments	

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 2017 £000	Potential Market Movement	Value on Increase £000	Value on Decrease £000
UK Equities	355,981	56,245	412,226	299,736
Global Equities	1,140,832	209,913	1,350,745	930,919
Bonds & Index-linked	375,139	33,763	408,902	341,376
Diversified Growth	154,357	19,295	173,652	135,062
Alternatives	3,328	948	4276	2,380
Property	169,741	24,103	193,844	145,638
Net derivative assets	53	5	58	48
Investment income due	2,949	-	2,949	3,949
Cash	58,257	-	58,257	58,257
Amounts receivable for sales of investments	162	-	162	162
Amounts payable for purchases of investments	(3,920)	-	(3,920)	(3,920)
Total Assets	2,256,879	344,272	2,601,151	1,912,607

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	1,261	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

# 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 2017 and 31 March 2016 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 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 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 basis points change in interest rates:

Asset type	Value as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash and cash equivalents	58,072	581	58,653	57,491
Cash balances	6,893	69	6,962	6,824
Total change in assets available	64,965	650	65,615	64,315

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

Income exposed to interest rate risk	Amount receivable as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits, cash	400		40.4	400
and cash equivalents	192	2	194	190
Fixed interest securities		-	-	-
Total	192	2	194	190

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

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 any 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 rate risk is routinely monitored by the Council and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

# a) Currency risk - sensitivity analysis

Following analysis of historical data with the Fund's investment advisers, the Council considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

A 10% (2015/16 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 10% (2015/16 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 2017	Potential Market Movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas Quoted Securities	1,140,832	114,083	1,254,915	1,026,749
Overseas Fixed Income	174,221	17,422	191,643	156,799
Total overseas assets	1,315,053	131,505	1,446,558	1,183,548

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

#### b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2017 was £65.2m (31 March 2016: £37.3m). This was held with the following institution:-

	Rating	Balances at 31 March 2017	Balances at 31 March 2016
Money market funds		£000	£000
Northern Trust Global Investors Global Cash Fund Bank deposit account	Aaa-mf	58,072	28,979
Barclays Bank Plc Bank current accounts	Α	6,893	8,252
Northern Trust Custody Account	P-1	185	54
Total		65,150	37,285

# c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it 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 cash holdings, with the exception of holdings that are for a fixed term when the deposit is placed.

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 in to cash. As at 31 March 2017 the value of illiquid assets was £173.2m, which represented 7.6% of the total Fund assets (31 March 2016: £175.2m, which represented 9.4% 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 investment strategy.

All financial liabilities at 31 March 2017 are due within one year.

# d) 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.

# 19 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 2016. The next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so; 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.

The aim is to achieve 100% solvency over a maximum period of 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. Where an employer's funding level is less than 100%, a deficit recovery plan is put in place requiring additional contributions from the employer to meet the shortfall.

At the 2016 actuarial valuation, the Fund was assessed as 78.4% funded (70.5% at the March 2013 valuation). This corresponded to a deficit of £517m (2013 valuation: £646m) at that time.

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates.

For each employer in the Fund, to meet the Contribution Objective, a primary contribution rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within the employer's set time horizon.

The table below summarises the whole fund Primary and Secondary Contribution rates at the 2016 triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate %	Secondary Rate %				
1 April 2017 to 31 March 2020	2017/2018 2018/2019 2019/2020				
17.1%	£24,731,000	£22,348,000	£23,214,000		

The Primary rate above includes an allowance of 0.7% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay.

Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the Fund's website.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

# **Basis of valuation**

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**

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

		31 March 2016		31 Marc	h 2017
Assumption	Description	Nominal	Real	Nominal	Real
Price inflation (RPI)	Retail Price Index	3.3%	_	3.3%	-
Price Inflation (CPI)/ Pension increases	Consumer Price Index	2.1%	-	2.5%	-
Pay increases - 2016	RPI minus 0.7% p.a.*	2.4%	(0.7)%	n/a	n/a
Pay increases - 2013	RPI plus 1% p.a.*	n/a	n/a	4.3%	1.0%
Funding basis discount rate	"Gilt-based" discount rate plus an Asset Outperformance Assumption of 1.8% p.a. (2013: 1.6% p.a).	4.0%	n/a	4.6%	n/a

<sup>\*</sup>Plus an allowance for promotional pay increases.

# **Mortality assumptions**

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

Assumed life expectancy at age 65	Active and Deferred Members		Current F	Pensioners
	Male	Female	Male	Female
2013 valuation	24.0	26.6	22.3	24.3
2016 valuation	23.9	26.1	22.1	24,2

Note that the figures for active and deferred members assume that they are aged 45 at the valuation date.

Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants.

# Other demographic valuation assumptions:

# a) Retirements in ill health

Allowance has been made for ill-health retirements before Normal Pension Age.

# b) Withdrawals

Allowance has been made for withdrawals from service.

# c) Family details

A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.

# d) Commutation

Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 25% of HMRC limits for service to 31 March 2008 and 63% of HMRC limits for service from 1 April 2008.

# e) 50:50 option

5.0% of members (uniformly distributed across the age, service and salary range) are assumed to choose the 50:50 option.

# 20 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.

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 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

31 March 2016 £m		31 March 2017 £m
(2,891)	Present value of promised retirement benefits	(3,394)
1,871	Fair value of scheme assets (bid value)	2,281
(1,020)	Net liability	(1,113)

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

# **Assumptions used**

Inflation/pension increase rate assumption	2.4%
Salary increase rate	2.7%
Discount rate	2.6%

# 21 Current Assets

31 March 2016		31 March 2017
£000		£000
5,628	Contributions due – employers	5,455
1,567	Contributions due – employees	1,317
618	Other debtors	6,009
6,235	Funds due from the County Council	12,048
4,574	Cash balances	6,893
18,622	Total	31,722

# **Analysis of debtors**

31 March 2016		31 March 2017
£000		£000
7,014	Other local authorities	15,214
38	Public corporations and trading funds	-
6,996	Other entities and individuals	9,615
14.048	Total	24.829

# 22 Current Liabilities

31 March 2016		31 March 2017
£000		£000
258	Benefits payable	2,889
2,388	Other creditors	1,892
759	Funds due to the County Council	1,191
3,405	_ Total	5.972

# **Analysis of creditors**

31 March 2016		31 March 2017
£000		£000
	Central government bodies	
1,823	Other local authorities	1,191
	NHS bodies	
742	Public corporations and trading funds	1
840	Other entities and individuals	4,780
3,405	Total	5,972

# 23 Additional Voluntary Contributions

Market value at		Market value at
31 March 2016		31 March 2017
£000		£000
3,537	Prudential	4,255
630	Standard Life	670
4,167	- Total	4,925

Total contributions of £892k were paid directly to Prudential during the year (2015-16: £821k). Total contributions of £15k were paid directly to Standard Life during the year (2015-16: £14k).

# 24 Agency Services

31 March 2016		31 March 2017
£000		£000
2,055	Unfunded	2,071

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. Agency services for 2016 have been restated from £509k as this represented amounts paid less income generated by recharging services to employers. The restatement to £2,055k ensures that the total cost is reflected, in line with 2017.

# 25 Related Party Transactions

# **Northamptonshire County Council**

The Northamptonshire Pension Fund is administered by Northamptonshire County Council.

The Council incurred costs of £2.0m (2015-16: £1.8m) 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 £28.1m to the Fund in 2016-17 (2015-16: £23.1m). At 31 March 2016 £10.8m was owed to the Fund by the Council (2014-15: £5.6m).

#### 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 Michael Clarke

Cllr Malcolm Longley

Cllr Chris Lofts

Cllr Russell Roberts

Cllr Bob Scott

# **District/Borough Councils' Representatives**

Cllr Richard Lewis (East Northamptonshire Council)

Cllr Peter Rawlinson (South Northamptonshire Council)

#### **Universities and Colleges Representative**

Roger Morris

# Other Employers' Representatives

Alicia Bruce

Roger Morris

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.

# **Key management personnel**

Paragraph 3.9.4.3 of the Code exempts Local Authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Northamptonshire County Council Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Northamptonshire County Council.

# 26 Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2017 totalled £81.5m (31 March 2016: £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 three and fifteen years from the date of each original commitment.

# **27 Contingent Assets**

Four admitted body employers in the Northamptonshire 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 – Funding Strategy Statement

Appendix C – Investment Strategy Statement

Appendix D – Joint Administration Strategy & Joint Communication Strategy

# 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 Pension Committee

(Local) Pension Board

Director of Finance (S151 Officer)

Head of Pensions

Investment Sub-Committee

f 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	Not	Partially Compliant	Fully
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 effective communication across both levels.			>
(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.			>
B. Representation			
(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include;			>
(i) employing authorities (including non-scheme employers (e.g. admitted bodies)			^
(ii) scheme members (including deferred and pensioner scheme members)			^
(iii) independent professional observers			<i>^</i>
(iv) expert advisers			<u> </u>
(b) that where lay members sit on a main or secondary committee, they are treated equally			<b>&gt;</b>
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 they are required to perform on either a main or secondary committee			<b>&gt;</b>
(b) that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.			>

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(a) the policy of individual administering authorities on voting rights is clear and transparent, induding 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.  (a) that where such a policy exists, it applies equally to all members of committees, subsconding the 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, advisory panels or any other form or secondary forum.  F. Meetings (frequency/quorum)  (a) that the Administering Authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee site.  (b) that an Administering Authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders be represented.  C. 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.  H. Scope  (a) that administering authorities have taken steps to bring the wider scheme is a may that subject the angent of those arrangements.  (b) that administering authorities have taken steps to bring the way in which the scheme is a positive and any that stakeholders with an interest in way that stakeholders with an interest in way that stakeholders with an interest in the very in which the scheme is a overned, can express an interest in warning to be part of those arrangements.	D. Voting		
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# Northamptonshire Pension Fund

# Funding Strategy Statement 2016



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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 29 March 2017.

# 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; and
- 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 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 / Investment Strategy Statement (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 <u>Section 4</u> we show how the funding strategy is linked with the Fund's investment strategy.

In the <u>Appendices</u> 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 the Employer Services and Systems Team Manager in the first instance at e-mail address penemployers@northamptonshire.gov.uk or on telephone number 01604 364621.

### 2 Basic Funding issues

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

### 2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See <u>Appendix E</u> for more details of what assumptions we make to determine that funding target;
- 2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- 3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See <u>2.3</u> below, and the table in <u>3.3 Note (e)</u> for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in <u>Appendix D</u>. Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate paid will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 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, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, 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. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

# 2.4 How does the measured contribution rate vary for different employers? All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

- 1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
- 2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they

have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

### 2.5 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 (see <u>Appendix D</u>, section <u>D5</u>, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contributionsetting is a longer term issue.

## 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; and

 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 at a reasonable cost.

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 Fund 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. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- 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 <u>3.1</u>). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority 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.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options

such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will perhaps 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, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see <a href="Appendix A">Appendix A</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, the Fund's three-step process identifies the key issues:

- 1. What is a suitably (but not overly) prudent funding target?
- 2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
- 3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

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 lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

• their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;

- 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 may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, 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

,	appleaning a		nt employers	2			
Type of employer	S	Scheduled Bodies		Communit	Community Admission Bodies and Designating Employers	lies and rs	Transferee Admission Bodies
Sub-type	Local Authorities, Police and Fire	Colleges	Academies	Individual, open to new entrants	Individual, closed to new entrants	Pooled	(all)
Funding Target Basis used	Ongoing, assumes	Ongoing, assumes long-term Fund participation (see Appendix E)	ticipation (see	Ongoing, but n	Ongoing, but may move to "gilts basis" – see Note (a)	basis" – see	Ongoing, assumes fixed contract term in the Fund (see <u>Appendix E</u> )
Primary rate approach				es)	(see Appendix D – D.2)		
Stabilised contribution rate?	Yes – see Note (b)	No	Yes - see Note (b)	No	No	No	No
Maximum time horizon – <u>Note (c)</u>	20 years	20 years	20 years	Average expected future working lifetime	Average expected future working lifetime	15 years	Outstanding contract term (or average expected future working lifetime if less)
Secondary rate – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	% of payroll	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over 20 years	Covered by stabilisation arrangement	Preferred ap Primary rate. permitte	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority	ons kept at ons may be ithority	Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	%99	75%	%99	%08	%08	75%	%02
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years (or outstanding contract term if less)
Review of rates – Note (f)	Administering A	Administering Authority reserves the right to security provided, at re	right to review o	ty reserves the right to review contribution rates and amo security provided, at regular intervals between valuations	review contribution rates and amounts, and the level of gular intervals between valuations	the level of	Reviewed annually by request in last 3 years of contract
New employer	n/a	n/a	Note (g)		Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assuas Scheduled participate in the cessation occur changes for exam applied v	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).	ally possible, obliged to e event of sovernment ebt principles e (i).	Can be ceasec agreement. Ces a basis approcess	Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j)	of admission calculated on nstances of ①	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.

As indicated in section 3.1, the Administering Authority may, if it considers the circumstances appropriate, direct the actuary to take alternative approaches for assessing contributions for specific employers.

### 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 set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

### Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see 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), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council, Police	Academy
Base cont rate	Actual 2016-17 rate	24.6%
2017-18 rate	Same as 2016-17*	Reduction of 1% of pay (if calculated rate below base)***
2018-19 & 2019-20	Increases each year of between nil and 1.0% of pay**	Further reductions each year of 1% of pay (if calculated rate below base)***
Thereafter:		
Max cont increase	1% of pay	1% of pay
Max cont decrease	1% of pay	1% of pay

<sup>\*</sup>The split in total contribution rate between Primary and Secondary elements may change from 1 April 2017, compared to the split between percentage and monetary amounts in 2016-17, in accordance with new LGPS Regulatory requirements. On the basis of the pensionable payroll in 2015/16, the total contribution would be unaffected.

\*\*\*In line with the stabilisation previously enjoyed by academies (where contribution rate increases were limited to 1% of pay each year), any reduction in contribution from 2017 is similarly limited to 1% of pay each year. Any reduction in contribution is limited such that the contribution paid is no lower than the calculated rate. However, if the academy's calculated rate exceeds the base contribution rate of 24.6%, the academy will pay 24.6%, 25.6% and 26.6% of pay in each of the years 207/18, 2018/19 and 2019/20 respectively, subject to a maximum of the calculated rate being paid in each of these years.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

The Administering Authority has a policy of aiming to secure the stabilised rates 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. This is subject to market conditions not making it unsafe to do so.

### Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect

<sup>\*\*</sup>The modelling carried out in 2016 has determined whether each given employer requires nil, 0.5% or 1.0% increases, and this has been discussed with the employers.

the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

### Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often 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:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

### Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in <u>Appendix D</u>.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

### 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.

### **Note (g) (New Academy conversions)**

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

- i. 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;
- ii. 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;
- iii. 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;
- iv. 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;
- v. As an alternative to (iv), the academy will have the option to elect to pay the base contribution rate outlined in <a href="Note">Note</a> (b) above. This has been calculated to be broadly in line with the ceding Local Authority. However, this election will not alter the academy's asset or liability allocation as per (ii) and (iii) 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 (iv) and (v) 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; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, 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. See also <u>Note (i)</u> below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (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, or a Central Government department, guaranteeing their liabilities and also providing a form of security as above.

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.

Ordinarily, 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 <a href="Note">Note</a> (i).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. 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 a 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 does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission 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; and
- redundancy and early retirement decisions.

### **Note (j) (Admission Bodies 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 (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- 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.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, 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 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.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in <u>Appendix E</u>;
- (c) Again, depending on the nature of the guarantee, 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.

Under (a) and (b), 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 spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- Town and Parish Councils (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).
- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

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.

### 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.

Such flexibility includes a reduced rate of contribution, an extended time horizon, 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; and
- 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.

Payment of non-ill health strain costs will be payable immediately; however, in exceptional circumstances, with the agreement of the Administering Authority the payment may 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

Transferee Admission Bodies -payable immediately.

### 3.7 III health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by a single lump sum, equal to the strain, paid by an external insurance policy (see 3.8 below).

### 3.8 External III health insurance

The Administering Authority has arranged a current external 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.

### 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 prorata by the Fund's actuary to the other Fund employers.
- 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

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. 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; and
- 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 strategy

### 4.1 What is the Fund's investment strategy?

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 the investment strategy.

Investment strategy is 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 (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

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 strategy). 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 strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix  $\underline{E3}$ ) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix  $\underline{A1}$ ).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in <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; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help 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 strategy, 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 2020, it should be noted that this will need to be reviewed following the 2019 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 Committee meetings, and also to employers through Employers Forums.

### 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### **5.3 Long Term Cost Efficiency**

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual.
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

### Absolute considerations include:

- 1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
- 2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
- 3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
- 4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised marketrelated basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

### **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 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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 published on the website at http://pensions.northamptonshire.gov.uk in December 2016 for comment and employers were notified of its publication;
- b) Comments were requested within 30 days;
- c) There was an Employers Forum on 29 November 2016 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 March 2017

### A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at <a href="http://pensions.northamptonshire.gov.uk">http://pensions.northamptonshire.gov.uk</a>

A copy sent to member representatives;

A full copy linked from the annual report and accounts of the Fund;

Copies sent to 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 2019.

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 Committee and would be included in the relevant Committee 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/Investment Strategy Statement, 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:-

- 1. operate the Fund as per the LGPS Regulations;
- 2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- 3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
- 4. ensure that cash is available to meet benefit payments as and when they fall due;
- 5. pay from the Fund the relevant benefits and entitlements that are due;
- 6. 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/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- 7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
- 8. take appropriate measures to safeguard the Fund against the consequences of employer default;
- 9. manage the valuation process in consultation with the Fund's actuary;
- 10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see <u>Section 5</u>);
- 11. prepare and maintain a FSS and a SIP/ISS, after consultation;
- 12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- 13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

### B2 The Individual Employer should:-

- 1. deduct contributions from employees' pay correctly;
- 2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
- 3. have a policy and exercise discretions within the regulatory framework;
- 4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- 5. 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;
- 2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see <u>Section 5</u>);
- 3. 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);
- 4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- 5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- 6. advise on the termination of employers' participation in the Fund; and
- 7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

### B4 Other parties:-

- 1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- 2. 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/ISS;
- 3. 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:
- 4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- 5. 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;
- 6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

### 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

C2 Financial risks	<u>,                                      </u>
Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.
over the long-term.	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.
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 underperformance 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.

Risk	Summary of Control Mechanisms
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 an option.
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 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 were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.

Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.

The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.

Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

### 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	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.
new entrants.	The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions 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	The Administering Authority maintains close contact with its specialist advisers.
be insufficient in 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	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.
departing Admission Body.	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:

Risk	Summary of Control Mechanisms
	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.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

- 1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
- 2. The time horizon required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform:
- 3. The required probability of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in <u>Appendix E</u>.

# 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 ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### D2 How is the Primary contribution rate calculated?

The Primary 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 Primary 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 Primary rate is calculated such that it is projected to:

- 1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
- 2. within the determined time horizon (see note 3.3 Note (c) for further details),
- 3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).
- \* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

### D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see <u>Appendix E</u>. 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 <u>Section 3</u>).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see <u>D5</u> below)
- 2. within the determined time horizon (see 3.3 Note (c) for further details)
- 3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

### D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- 1. past contributions relative to the cost of accruals of benefits;
- 2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- 3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
- 4. any different time horizons;
- 5. the difference between actual and assumed rises in pensionable pay;
- 6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
- 7. the difference between actual and assumed retirements on grounds of ill-health from active status:
- 8. the difference between actual and assumed amounts of pension ceasing on death;
- 9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
- 10. differences in the required probability of achieving the funding target.

### 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".

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.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- 1. the actual timing of employer contributions within any financial year;
- 2. 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 funding target. 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 funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

#### E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see **Note** (a) to 3.3.

#### E3 What assumptions are made in the ongoing basis?

#### a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than the 1.6% used at the 2013 valuation, i.e. produces a lower funding target all other things being equal). 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 2020. 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, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

- 1. 1% p.a. until 31 March 2020, followed by
- 2. Increases in line with the retail prices index (RPI) each year thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

#### 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. 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 have used a difference between RPI and CPI of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

#### 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 the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

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 most employers, in deriving the funding target underpinning the Primary and Secondary rates: 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 **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.

Administering Authority

The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".

Admission Bodies

Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

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.

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 **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.

**Employer** 

An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.

**Funding target** 

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**.

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.

#### **LGPS**

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

#### **Maturity**

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

#### Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

# Primary contribution rate

The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

#### **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).

# Secondary contribution rate

The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.

#### **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.

#### 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 2016), 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.



### Investment Strategy Statement (Published 1 April 2017)

#### Introduction and background

This is the Investment Strategy Statement ("ISS") of the Northamptonshire County Council Pension Fund ("the Fund"), which is administered by Northamptonshire County Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations") and supersedes all previously published Statement of Investment Principles.

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having consulted on the contents of the Fund's investment strategy with such persons it considers appropriate. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Pension Committee on 24 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement which can be found at <a href="http://pensions.northamptonshire.gov.uk">http://pensions.northamptonshire.gov.uk</a>.

#### **Objectives of the Fund**

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. Pensions and benefits will be met by contributions, asset returns and income.

The Pension Committee works to endeavour that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. 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.





#### **Investment Beliefs**

The strategy adopted by the Fund is based upon the following investment beliefs:

- The strategic asset allocation is the key factor in determining the risk and return profile of
  the Fund's investments and recognises that the Fund is a long-term, open scheme that has
  an obligation to pay benefits that are linked to inflation. The Committee also takes into
  account the covenant associated with the Fund's employers in deciding how much risk is
  appropriate.
- 2. Asset allocation and specifically the headline amounts invested in equities, fixed income and alternatives, will drive risk and return levels.
- 3. Investing over the long-term provides opportunities to improve returns.
  - a. Asset classes that return over a reasonably long duration are suitable for this Fund.
  - b. The Fund has a policy of holding managers over the longer-term to reduce the impact of transitions and believes in the benefits of compounded returns.
- 4. Equities are expected to generate returns above the growth of liabilities over the long-term and have an indirect link to inflation.
  - a. The Fund predominately holds equities due to the belief that they will provide returns above liabilities over the long-term and this helps to ensure that contributions remain affordable.
- 5. Inflation linked UK Government bonds provide a high degree of liability matching and a direct link to inflation.
  - a. Investments in government bonds are not held for return purposes but are held in order to mitigate the risk that contribution rates need to increase significantly should vields fall.
- 6. Non-Government bonds are expected to provide a return above governments bonds and can provide some interest rate protection relative to the liabilities.
- 7. Alternative assets are expected to generate returns above liabilities over the long-term, can have an inflation link, as well as providing diversification benefits.
- 8. Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- 9. The Committee favours active management, where there are opportunities for active managers to add value, increasing overall expected return net of fees.
- 10. Passive strategies provide low cost access to market returns
- 11. Responsible Investment including Environmental, Social and Governance are important factors for the sustainability of longer term investment returns.





12. Value for money is defined as recognising net return over absolute cost.

#### Selecting a suitable strategy

The Pensions Committee is responsible for the Fund's asset allocation which is determined via a triennial strategy review as part of the valuation process, but is kept under regular review; noting that strategic changes are an evolutionary process.

The triennial review looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit
- An analysis of the magnitude of the various risks facing the Fund is established in order that a priority for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security

The Committee utilises a wide range of professional support such as an investment consultant, an independent advisor and the Fund's Actuary.

As noted above, the Fund's objective is to pay benefits as they fall due and this requires the buildup of sufficient reserves in advance. The Fund is currently assessed to have a deficit in terms of the reserves needed and so the asset strategy is focused on achieving returns in excess of inflation, without taking undue risk. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Fund's current investment strategy is set out below. It should be noted that the Fund is currently undergoing an investment strategy review and although an agreement in principle has been made to increase the allocation to illiquid alternatives, the review has not yet been completed. Set out below therefore is the current position that will likely evolve as part of the forthcoming review.

Asset class	Target allocation %	Tolerances%
UK equities	23.0%	
Overseas equities	41.0%	
Equities	64.0%	59.0% -69.0%
Government Bonds	10.0%	
Non-Government Bonds	10.0%	
Fixed Income	20.0%	15.0%-25.0%
Property	8.0%	
Diversified Growth Fund	8.0%	
Other Alternative	10.0%*	
Alternatives	16.0%	11.0% - 21.0%



## Northamptonshire Pension Fund

Total target Allocation	100%	
* Allocation to be funded from o	ther asset classes as commitmen	ts made.

The tolerance ranges allow for the long-term natural deviation from the strategic percentage allocation due to differential relative performance of each investment type. Exceeded tolerances will be reported in the quarterly performance report to the Investment Sub Committee.

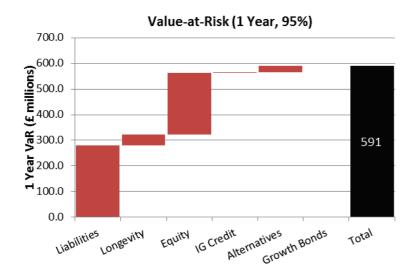
At 31 March 2016, the expected return of this portfolio was 4%per annum. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

#### **Risks**

The Committee assesses risks both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly.

#### **Investment Risks**

The Committee uses Risk Attribution Analysis to determine the order of magnitude of the main investment risks the Fund is facing. The chart below shows the VaR (Value at Risk, essentially the losses that would occur in a 1-in-20 event) facing the Fund, split into major risk categories.



As an additional illustration of risk, the table below shows how a range of events could impact the Fund:

Event	Event movement	Impact on Deficit
Fall in equity markets	20% fall in equities	£296m
Active Manager underperformance	3% underperformance from all active managers	£45m

As shown in both the Value-at-Risk attribution chart and the table above, the most significant risk that the Fund is running is in relation to interest rates and inflation. It is important to stress that whilst not immaterial, the risks being run by the use of active management is far smaller.



## Northamptonshire Pension Fund

**Liabilities (interest rate and inflation)** – The largest risk that the Fund faces is in relation to interest rates and inflation. The investment strategy recognises this and looks to increase the allocation to assets that provide protection against falling rates and rising inflation expectations when affordable to do so, which is considered appropriate in the context of the Fund's position as a long-term investor.

**Equities** – Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in bonds and alternatives.

Alternatives – The Fund has a significant amount of assets allocated to a range of alternatives, with allocations to property and private equity, amongst others. The risks that these investments bring at an individual level is not insignificant however the Committee believe that over the long-term alternatives will provide returns that compensate for the risks being run. Additionally the level of diversification the assets provide helps to reduce the Funds reliance on returns from equities. Illiquid assets such as property and private equity are also a valuable source of income.

The Fund's portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund by investing in a range of different investments can minimise the level of risk run to a degree.

**Passive Manager Risk** – This is the simplest style of investment which places monies purely to track indices with the associated risks of following the full effects of both positive and negative market movements benefiting from the most economic of fee rates. This contrasts to active management which is applied to smooth volatility and improve market returns albeit at higher fee rates, the assumption being that the net return after fees is greater than pure passive management.

**Active Manager Risk** – Active Investment Managers are appointed to manage the Fund's investments on its behalf in the expectation that they will outperform the market but also recognising that their mandates may underperform passive managers. This risk is small relative to other risks; however the Fund still addresses this risk. Extensive due diligence takes place before managers are appointed. The investment managers are also monitored regularly by the Investment Sub Committee, Officers and by the Fund's Advisors. There is a risk is that net performance underperforms a passive arrangement over the long-term.

**Liquidity risk** – It is recognised that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long-term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential for accessing higher returns. The majority of the Fund's assets are realisable at short notice.

**Exchange rate risk** – This risk arises from unhedged investment overseas. The Committee believes that a long-term investor can tolerate short term fluctuations in currency movements but this policy will be reviewed at the next investment strategy review; particularly with reference to the Fund's equity portfolio.





#### **Demographic Risks**

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that investments would need to be realised in order to pay benefits. The Fund is not in that situation at present as cash inflows from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

#### **Cashflow Management Risks**

The Fund is gradually becoming more mature and although it is cashflow positive after taking investment income, managing cashflow will become an increasingly important consideration in setting the investment strategy.

#### **Governance Risks**

The Fund believes that there is a benefit to the Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit.

Details of the Fund's governance structure can be found in the Governance Compliance Statement.

#### **ESG Risks**

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 Committee believes that engagement is key in relation to strong corporate governance, which in turn will enhance returns. Details of the Fund's policies can be found later in this statement.

#### Investment of money in a wide variety of investments

The Fund will invest in a range of investments, diversified by type, class, geographical location and market exposure.

#### **Asset classes**

The Fund may invest in quoted and unquoted securities of UK and overseas markets including:

- Equities,
- Fixed interest and index linked bonds,
- Cash,



## Northamptonshire Pension Fund

- Property and commodities, either directly or through pooled funds,
- Private Equity
- Infrastructure,
- Debt.
- Insurance Instruments,
- Contracts for differences and other derivatives either directly or in pooled funds.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

Factor	Allocation	Inflation linkage	Interest rate sensitivity	Growth	Diversifier (from equities)	Liquidity	Liability Matching
Role	%	liability management	Liability management	Deficit reduction & affordability	Risk mitigation	Cash flow management	Liability management
UK equities	23.0	Indirect link to inflation over the long-term	N	Y	N	Y	N
Global Equities	41.0	Indirect link to inflation over the long-term	N	Y	N	Y	N
Index Linked Gov't bonds	10.0	Y	Y	N	Y	Y	Y
Non-Gov't Bonds	10.0	N	Y	N	Y	Y	Y
Diversified Growth	8.0	Indirect link to inflation over the long-term	N	Y	Y	N	N
Property		Y	N	Υ	Υ	N	N
Private Equity		N	Υ	N	Υ	Υ	N
TOTAL	100.0						
Illiquidity Budget							
Inflation Sensitivity							





#### **Asset Pooling**

Northamptonshire is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire

East Sussex

Essex

Hampshire

Hertfordshire

Isle of Wight

Kent

Norfolk

Suffolk

West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed a Memorandum of Understanding to underpin their partnership (will be updated for IAA). ACCESS is working to a project plan in order to create the appropriate means to pool investments. The first investments to be pooled in 2017 will be passively managed investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS's website http://www.accesspool.org/

All 11 ACCESS funds are working in the expectation that, over time, all investments will be pooled apart from a minority of investments where there is a no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Investment pooling is intended to provide the scale that will enable LGPS funds to access lower investment Manager fees and to deliver cost savings. In the pooled investment structure individual funds will remain responsible for their own investment strategy and asset allocation decisions. The pool will be responsible for selecting a suitable number of Investment Managers in order to meet the requirements of all of the funds' investment strategies.

Northamptonshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

#### **Environmental, Social and Governance policy**

The Committee considers the financial impact arising from Environmental, Social and Governance ("ESG") risks to be a fiduciary responsibility and an integral part of the risk assessment of any investment. The Committee recognises that effective management of ESG issues can enhance long-term financial performance of investments and seeks to promote this through two key areas:

• Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on the long-term prospects of investments.



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• **Stewardship and governance** – Good governance can enhance the long-term performance of companies, and this is encouraged by the Fund through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee has directed investment managers to consider the effects of social, environmental and ethical issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund.

The Fund recognizes the benefits of working in collaboration with other investors to achieve its aims. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) whis is an initiative that enables the Fund to work with other investors to understand the impacts of ESG considerations on financial performance.

The Fund does not exclude investments in order to pursue boycotts, divestment or sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

#### **Voting rights**

The Fund believes that good stewardship can enhance long-term portfolio performance, and is in the best interests of the Fund's beneficiaries and aligned with fiduciary duty. The Fund supports the principles of the UK Stewardship Code (the "Code").

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. Accordingly, the Fund's investment managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process.

For and on behalf of Northamptonshire County Council Pension Fund Committee



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 1<sup>st</sup> 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;
- o 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;
  - o 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 <sup>th</sup> 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%

# $\frac{\text{Appendix C} - \text{Scheme employer performance standards}}{\text{The following are the performance targets that the scheme employer will be expected to meet.}}$

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 <sup>th</sup> 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.

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		1000/
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 1st 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
  - 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
  - o 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)
  - o 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.	Communication includes information and changes to the scheme that supports all stakeholder understanding	Surveys and polls (on websites and by post). Focus groups.
	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.

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

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

# Methods of Communication and Key Messages/Objectives for Stakeholders

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

communication and engagement it allows - whilst in its infancy now this is an avenue we will be exploring more One of the many benefits of self service for both scheme employers and scheme members is the increased 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	Kev Messades:
members	Annual Benefit Statements	
	Calculations and costings	
	(e.g. estimates)	<ul> <li>You need to make sure you're saving enough for retirement</li> </ul>
	'Short guide to LGPS'	Objectives:
	'Full guide to LGPS'	<ul> <li>To improve understanding of how the LGPS works</li> </ul>
	Website (in particular 'Latest News' page)	<ul> <li>To inform scheme members of their rights and benefits</li> </ul>
	Member Self Service	<ul> <li>For queries and complaints to be reduced</li> </ul>
	External training sessions as requested by employer	<ul> <li>To make pensions information more readily available</li> </ul>
	LGSS Welcome Events	
	LGSS training events	
	Roadshows	
Scheme	Pension Bulletins	Key Messages:
employers	Ad hoc email alerts	<ul> <li>You need to be aware of your responsibilities regarding the LGPS</li> </ul>
	Biannual forums	<ul> <li>The Fund is a valuable benefit for scheme members and is a good tool</li> </ul>
	Website (in particular 'Latest	for retention of staff
	News' page)	Objectives:
	Seminars/workshops	
	Bespoke ad hoc training	<ul> <li>To increase understanding of how the Fund works and the effects on</li> </ul>

	sessions	scheme members of any legislation changes
	Welcome/Joiner information	<ul> <li>To improve relationships</li> </ul>
		<ul> <li>Continue to improve the accuracy of data being provided to us</li> </ul>
		<ul> <li>To make pensions information more readily available</li> </ul>
Prospective	Information on website	Key Messages:
Scheme members	Scheme Information Leaflets	<ul> <li>The pension benefits are a valuable part of your reward package</li> </ul>
And Opt-Outs	LGSS Welcome Event	<ul> <li>The LGPS is still one of the best pension arrangements available</li> </ul>
	LGSS training events	Objectives:
		<ul> <li>To improve take up of the LGPS</li> </ul>
		<ul> <li>To decrease opt out rate and increase understanding of contribution flexibility i.e. 50/50 option</li> </ul>
		<ul> <li>To increase understanding of how the Scheme works and what benefits are provided</li> </ul>
		<ul> <li>To make pensions information more readily available</li> </ul>
Deferred Scheme	Annual Benefit Statements	Key Messages:
members	Calculations and costings (e.g. estimates)	<ul> <li>It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes</li> </ul>

	Scheme Information Leaflets	<ul> <li>The LGPS is still a valuable part of your retirement package</li> </ul>
	Retirement Packs	Objective:
	Website	<ul> <li>To improve understanding of how the LGPS works</li> </ul>
		<ul> <li>To make pensions information more readily available</li> </ul>
Retired/Dependant	Annual Newsletter	Key Messages:
Scheme members	Payslips (when criteria is met)	<ul> <li>It is important to keep in touch with the LGSS Pensions Service e.g.</li> <li>provide us with address changes</li> </ul>
	P60	<ul> <li>The LGPS is still a valuable part of your retirement package</li> </ul>
	Lifetime Allowance	Objectives:
	(e.g. estimates)	<ul> <li>To improve understanding of how the LGPS works</li> </ul>
		<ul> <li>To make pensions information more readily available</li> </ul>
Fund staff	Monthly service meetings	Objectives:
	Team meetings	<ul> <li>To ensure staff are kept up to date with important information</li> </ul>
	Ad hoc meetings	regarding the Service, the Employing Authority and the wider world of
	Consultations	טמוטוט מט מ עצוטומ
	1:1 / Appraisals	<ul> <li>For staff to feel a fully integrated member of the team</li> </ul>
	Training & Development	<ul> <li>For management to feedback to staff regarding their individual progress</li> </ul>

		To give staff a chance to feedback their views and suggestions
Pension Fund Boards and Investment Sub Committees	Committee Papers Presentations Consultations Agendas Minutes	Objectives:  To update on the implementation of a policy  To monitor success against the agreed measures
External authorities  Trade Unions Her Majesty's Revenue & Customs (HMRC) Department for Communities and Local Government (DCLG) Pensions Regulator	Response to enquiries and consultations. Response to changes in legislation.	Objectives:  • To response to enquiries/statutory requirements.
Commission		

## Communication Timetable

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

Service meeting	LTA% on payslip. Monthly team meeting	Service meeting	Monthly team meeting	Service meeting	Monthly team meeting	Service meeting	Monthly team meeting	Service meeting	Monthly team meeting	Service meeting	Monthly team meeting	)
	LTA% on LTA% payslip.											
		Statements - LGPS & Councillors										_
			Fire Annual Benefit	Statements	Police Annual	Statements*	Annual Benefit	Statements - LGPS and Councillors				_
	MAY		NOC		JUL		AUG		SEPT		ОСТ	

NON								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.

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