

WEST NORTHAMPTONSHIRE COUNCIL

21 MARCH 2024

CABINET MEMBER FOR FINANCE AND CHAIR OF THE PENSION COMMITTEE – COUNCILLOR MALCOLM LONGLEY

Report Title Pension Committee Annual Report 2022-23

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List of Appendices

None

1. Purpose of Report

1.1 To report on the work of the Pension Fund Committee for the 2022/23 year.

2. Executive Summary

2.1 The report sets out the Governance, Oversight and Investment activities undertaken by the Committee during 2022-23, including the approval of various policies and strategies.

3. Recommendations

3.1 Council is recommended to note the content of the report.

4. Reason for Recommendations

- 4.1 To update Council on the work of the Committee during 2022-23 promoting good governance and oversight.

5. Report Background

- 5.1 Part 3B of the Constitution states that the Northamptonshire Pension Committee has delegated responsibility, with regards to the Northamptonshire Local Government Pension Fund, for:
- Funding Strategy
 - Investment Strategy
 - Administration Strategy
 - Communication Strategy
 - Discretions
 - Governance
 - Risk Management
- 5.2 It is the responsibility of the Pension Committee to develop and maintain strategies, policies and procedures, thus ensuring effective governance, oversight and accountability is upheld on behalf of the Fund's stakeholders.
- 5.3 The information contained in section 6 of this report demonstrates the key decisions and approvals that have been made by the Pension Committee during 2022/23, supported by the Investment Sub-Committee and Pension Board.

6. Issues and Choices

Key Governance Activities of the Pension Committee

- 6.1 **Approval of the Pension Fund Annual Business Plan and Medium-Term Strategy**
- 6.1.1 Each year the Pension Committee agrees a Pension Fund Business Plan and Medium-Term Strategy that sets out how the Fund's objectives will be met and other key priorities for the year and following two years. The Strategy also details performance indicators for the Fund and an estimate of the Fund account.
- 6.1.2 The purpose of the business plan is to:
- Explain the background and objectives of West Northamptonshire Council in respect of the management of the Northamptonshire Pension Fund.
 - Document the priorities and improvements to be implemented by the Pensions Service during the next three years to help achieve those objectives.
 - Enable progress and performance to be monitored in relation to established priorities; and
 - Provide a clear vision for the next three years.
- 6.1.3 The Pension Committee receives regular updates on how the Fund is meeting its objectives via Business Plan Update reports presented at every meeting.
- 6.1.4 The Pension Committee approved the Annual Business Plan and Medium-Term Strategy in March 2022.

6.2 Approval of the Northamptonshire Pension Fund Communication Plan

- 6.2.1 The Local Government Pension Scheme Regulations 2013 require the Pension Fund to prepare, maintain and publish a written statement setting out its policy concerning communications with members and scheme employers.
- 6.2.2 The Communication Plan is produced annually to support the Communication Strategy and outlines the Fund's planned communication activities for each stakeholder group. As well as setting out planned newsletters, surveys, employer training and web updates the plan also highlights some of the Fund's key initiatives for the year.
- 6.2.3 At the March 2022 meeting of the Pension Committee the Communication Plan for 2022/23, which outlined the core communication activities for the year, was approved.

6.3 Approval of Administering Authority discretions

- 6.3.1 There are a number of areas within Local Government Pension Scheme (LGPS) legislation that provide either the administering authority (West Northamptonshire Council), or individual employers participating in the Fund with flexibility over how the particular provision is exercised. In some cases, there is a specific requirement for a policy decision in relation to such provisions to be published.
- 6.3.2 The Administering Authority Discretions Policy is in place for dealing with the discretions required to be exercised by West Northamptonshire Council in its role as an administering authority. The policy decisions apply to all employers and scheme members in the Northamptonshire Pension Fund.
- 6.3.3 The revised Administering Authority Discretions Policy was approved at the June 2022 meeting of the Pension Committee.

6.4 Approval of the Data Improvement Strategy and Plan

- 6.4.1 The Northamptonshire Pension Fund collects and processes large amounts of personal data and is heavily reliant on the timely receipt of accurate data from data providers such as scheme employers and payroll providers.
- 6.4.2 The primary purpose of the Northamptonshire Pension Fund is to pay the correct pension benefits to its members when they become due. It is therefore essential that the Fund achieves and maintains the highest possible data quality standards.
- 6.4.3 In order to demonstrate to the Pensions Regulator that the Fund has high standards and accurate data the Fund has reviewed the Strategy and updated the plan to ensure they remain fit for purpose.
- 6.4.4 The revised strategy and plan were approved by the Committee in June 2022.

6.5 Approval of the Reporting breaches of the law to the Pensions Regulator Policy

- 6.5.1 In line with the Pensions Regulator's Code of Practice number 14 (Governance and administration of public service pension schemes); the Fund has a policy in place that sets out the mechanism for reporting breaches of the law.
- 6.5.2 The policy ensures that those with a responsibility to report breaches of the law are able to meet their legal obligations, by analysing situations effectively in order to make an informed decision on whether a breach has been made.
- 6.5.3 The Pension Regulator's new code of practice was due to come into force in November 2021 but was postponed with no confirmed date of release and as a result the review of the policy had been postponed. However, it was felt prudent to conduct the review in line with current arrangements in 2022 to ensure it remained fit for purpose. The intention is for a further review to be carried out within 6 months of the new code coming into effect.
- 6.5.4 The revised Reporting Breaches of the Law to the Pensions Regulator Policy was approved by the Committee in October 2022.

6.6 Approval of the Conflicts of Interest Policy

- 6.6.1 The Conflicts of Interest Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Northamptonshire Pension Fund whether directly or in an advisory capacity.
- 6.6.2 The policy is in place to ensure that those individuals covered do not act inappropriately or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.
- 6.6.3 The recommendation to manage conflicts at Fund level is being considered by the Department for Levelling Up, Housing and Communities (DLUHC). However, West Northamptonshire Council as Administering Authority of the Fund considers it good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed in relation to Fund matters.
- 6.6.4 Training on the principles of the policy was delivered in November 2022 to both Committee and Board members with the policy coming into force on 13 December 2022 following Committee approval.

6.7 Approval of the Overpayment of Pension Entitlement Policy

- 6.7.1 It is important for the Fund to have a policy on how overpayments of pension and lump sums are managed once identified. Such a policy provides assurance to the Fund's stakeholders that all overpayments are treated in a fair and equitable manner and that the Fund seeks to recover overpayments and has in place steps to prevent and also investigate potentially fraudulent activity.

6.7.2 An Overpayment of Pension Entitlement Policy also strengthens the Fund's position should a complaint be made using the Internal Dispute Resolution Procedure (IDRP) which if exhausted without resolution, can be referred by the scheme member or their representative to the Pensions Ombudsman.

6.7.3 The revised Overpayment of Pension Entitlement Policy was approved in March 2023.

6.8 **Approval of the Communication Strategy**

6.8.1 Regulation 61 of the Local Government Pension Scheme Regulations 2013 states that an administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with members and scheme employers.

6.8.2 The communications strategy was updated to reflect current membership and employer numbers, to include a new section on lifestyle communications, and to reflect technological updates on methods of communication.

6.8.3 The revised Communication Strategy was approved in March 2023.

6.9 **Approval of the Annual Report and Statement of Accounts**

6.9.1 The Pension Fund's Statement of Accounts form part of the West Northamptonshire Council's Statement of Accounts and is covered by the external auditor's opinion.

6.9.2 The Annual Report and Statement of Accounts have been subject to audit fieldwork by the County Council's external auditor. Whilst the external auditor performs a full audit of the Statement of Accounts, their work on the Annual Report is limited to a review to ensure compliance with guidance and consistency with the Statement of Accounts.

6.9.3 The Statement of Accounts is the financial representation of every activity that the Fund has been directly or indirectly involved with over the course of the financial year.

6.9.4 They are based on actual transactions accounted for within the Fund's financial ledger, information received from Investment Fund Managers and the Fund's Custodian, and assumptions and estimations utilising the professional judgement of officers in order to give a true and fair statement of the Fund's financial position.

6.9.5 On 31 March 2022, the net decrease for the year was £125.4m, with the Fund's net assets falling to £3,242.4m reflecting negative performance in the first two quarters of the year.

6.9.6 The Annual Report in respect of 2022-23 was approved by the Pension Committee in July 2023.

6.10 **Key Investment Activities of the Pension Fund Committee Decisions surrounding Asset Pooling**

- 6.10.1 The Northamptonshire Pension Fund has continued to work with 10 other Local Government Pension Funds in the ACCESS Pool to meet the Government's asset pooling agenda; to deliver scale, strong governance, reduced costs and improved capacity to invest in infrastructure.
- 6.10.2 A Pension Committee representative of each ACCESS Fund sits on a Joint Committee, which meets quarterly and has oversight of the work of the Pool and delegated authority with regards to specific asset pooling functions. Listed assets held within the ACCESS Pool are run by Waystone (formerly Link Fund Solutions), a Financial Conduct Authority regulated "Operator".
- 6.10.3 ACCESS funds have total assets of £59bn (as of 31 March 2023), of which over £34.5bn (59%) has been pooled or is under pool governance, serving 3,500 employers with 1.2 million members including 340,000 pensioners, delivering net savings since inception in excess of £27m.
- 6.10.4 The Northamptonshire Pension Fund transferred its first active fund to the Pool in 2018-19. As of 31st March 2023, the Fund has pooled 74% of the Fund's assets, generating annualised fee savings for the 2022/23 financial year resulting from the asset pooling agenda in excess of £2m.

Waystone/LINK Fund Solutions

- 6.10.5 In September 2022, the Financial Conduct Authority (FCA) issued draft notices to LFS relating to its role as Authorised Corporate Director (ACD) in the handling of Woodford Equity Income Funds (the "Woodford matter"). These notices indicated that restitution of £306m and a fine of up to £50m may be payable by Link Fund Solutions (LFS).
- 6.10.6 Link Group announced in October 2022 the intention to commence a process to explore divestment options for the LFS business and that Macquarie Capital and UBS Securities Australia Ltd had been appointed as advisers.
- 6.10.7 Link Group announced on 20 February 2023 that it was in exclusive negotiation with the Waystone Group in respect of the sale of the whole of its Fund Solution Business. This followed a period of confidential exclusive negotiation and due diligence by Waystone. Link Group was granted a further period of exclusivity to Waystone to enable the parties to conclude the necessary legal agreements before the end of March 2023.
- 6.10.8 In October 2023 Waystone completed acquisition of the LFS Business. All ACCESS authorities have signed a Deed of Novation.
- 6.10.9 The Deed of Novation (DoN) is a legally required document when an incoming party will assume the rights, as well as the obligations and liabilities, of an outgoing party. This was sealed by all Authorities and Link submitted the proposal to the FCA on 17 July, which has been subsequently approved by the FCA on 25 July.

MJ Hudson

- 6.10.10 In December 2022 MJ Hudson, non-listed assets advisor to ACCESS, announced it had suspended its Chief Financial Officer (CFO) and trading of the company's shares, which were

listed on the Alternative Investment Market (AIM) stock market, as it would not meet the Stock Exchange deadline of publishing audited accounts by 31 December 2022. Irregularities had been identified in the audit of its accounts to June 2022 in relation to the reporting of income. This announcement was followed by resignations of EY (Ernst & Young) as the auditor and the CEO of MJ Hudson Group PLC (the parent of the company providing services to ACCESS).

6.10.11 In March 2023, given the developments at MJ Hudson, the ACCESS JC (Joint Committee) agreed to pause all MJ Hudson activity for three months to continue monitoring the situation and prepare for a potential re-procurement if required.

UK Core and Global Real Estate mandates

6.10.12 Hampshire County Council acted as the Lead Procurement Authority, and the evaluation and scoring were carried out by MJ Hudson with reviews by Hampshire and the Non-Listed Sub-Group (NLSG). CBRE emerged as the successful bidder for both mandates. As a result, the JC recommended that the ACCESS Councils consider contracting with CBRE for UK core property and Global property after the respective procurement exercises are concluded.

Independent Third Party Review

6.10.13 In December 2022, JC agreed a proposal for the appointment of an independent Consultant to conduct a review encompassing the effectiveness against pool objectives/audit of governance and the ASU (ACCESS Support Unit).

6.10.14 Following a procurement exercise in January 2023, with Essex County Council as Procurement Lead Authority, Barnett Waddingham were identified as the preferred supplier to undertake this review.

6.11 Strategic Changes to the Funds Asset Allocation and portfolios.

6.11.1 There were no changes to the Fund's strategic asset allocation in the year, which remained:

Equities	55%
Fixed Income	20%
Alternatives	25%

6.11.2 The Pension Fund Committee performed a review of the Strategic Asset Allocation at the March 2023 meeting in conjunction with the Fund's Investment Consultants, Mercer Ltd and the independent Investment Advisor.

6.11.3 The following changes to the strategy were approved by Pension Fund Committee in March 2023:

- Reduce the equity allocation by 12.5%, removing the standalone UK equity allocation and retaining the passive equity allocation at 20%;
- Increase fixed income (+10%) and alternatives (+2.5%) allocations to provide greater exposure to inflation linked, cashflow generative assets while protecting the strong funding position;

- Remove the Diversified Growth Fund (-5%) within the alternatives allocation to facilitate direct investment across private market alternative assets;
- Consider sustainable and impact opportunities across an expanded private markets portfolio –aligned with “levelling up” guidance.

6.12 Climate Action Plan

- 6.12.1 In February 2022 the ISC (Investment Sub Committee) approved the Fund’s Climate Action Plan which set out key milestones, actions, and dates to decarbonise the Fund’s portfolio. The Fund’s passive portfolio, managed by UBS, was considered a priority area to investigate opportunities for carbon reduction.
- 6.12.2 Following a deep dive review of climate aware passive equity options in June 2022, in November 2022 the ISC agreed to a 70% allocation to the UBS Climate Aware Fund and 30% allocation to the Osmosis Research Efficient Core Equity Fund.

Key Service Activities of the Pension Committee

6.13 Valuation of the Fund

- 6.13.1 The Committee was regularly updated with developments related to the 31 March 2022 triennial valuation at meetings during 2022/23. The results were published by 31 March 2023 and new employer contribution rates effective from 1 April 2023.
- 6.13.2 The Committee work plan comprised of the following areas for consideration:
- approval of the valuation process, including the approach to setting contribution rates for the large scheduled bodies in the Fund.
 - approval of the draft and final funding strategy statement versions.
 - noting the whole Fund valuation results.
 - noting trends from employer contribution rate assessments.
 - approval of the final valuation report and rate and adjustments certificate.
- 6.13.3 In March 2023, the Committee were provided with assurance on the completion of the valuation exercise, confirming that:
- the consultation period had concluded with employers.
 - all employers that required a valuation had received their result schedule and contribution rate for the period 1 April 2023 to 31 March 2026.
 - employers that did not require a formal valuation but needed new contribution rates confirmed, received these ahead of the 31 March 2023 deadline.
 - the final valuation report was due to be published to the website ahead of the 31 March 2023 deadline.
- 6.13.4 To support the associated decision making, Hymans Robertson, the Fund’s actuarial advisors

delivered training to the Committee where appropriate.

6.14 Age Discrimination Remedy

- 6.14.1 In October 2020, the Pension Fund Committee were presented a report on the McCloud judgement following the ruling that the transitional protections offered within the 2013 LGPS regulations have been deemed as discriminatory to younger members of the scheme.
- 6.14.2 The initial transitional protections compared the benefits payable under the current rules with those payable from the scheme if the rules hadn't changed in 2014 through the use of an 'underpin'. However, the methodology used within the calculation was more beneficial to older members of the scheme and this was ultimately viewed as age discriminatory.
- 6.14.3 There was a delay on the implementation of the remedy, which was due to come into force on 1 April 2022 and was subsequently deferred until 1 October 2023. During 2022/23 the Fund continued to collect data from employers, verify data quality and rectify members records where required.
- 6.14.4 The Pension Committee have received updates via the Governance and Compliance Report where appropriate during the period.

6.15 Cyber Resilience

- 6.15.1 The increasing threat to Pension Funds of cyber-crime activities is a significant concern across the pensions industry and as a result industry bodies such as the Pension Regulator and the Pensions Administration Standards Association (PASA) issued guidance on how Funds should mitigate their risks of a cyber event occurring.
- 6.15.2 In order to demonstrate that the Fund was compliant with the guidance a cyber strategy was put into place and an ongoing action plan that comprised of the following activities:
- Cyber Strategy
 - Data and asset mapping
 - Cyber security surveys
 - Staff cyber security awareness training
 - Hygiene guidelines
 - Committee and Board training
 - Phishing simulation
 - Incident Response Plan
- 6.15.3 The Committee were updated on progress made against the plan for the duration of the 2022/23 period via regular updates.

6.16 Reports noted by the Pension Committee

- 6.16.1 During the year the Pension Fund Committee has been presented with various reports consisting of a range of information in relation to the administration to the Fund. The Administration Report in particular, provides the Committee with the performance of the

Fund and performance information regarding Scheme Employers. Reports such as Asset Pooling, Risk Monitoring and Business Plan updates are delivered to the Committee at least biannually where activity in these areas are reported and discussed. The Governance and Compliance Report is designed as a best practice report whereby compliance can be demonstrated, and information provided to the Committee on current issues affecting the operation and management of the Fund.

6.16.2 These reports demonstrate to the Committee that appropriate thought and consideration have been provided to the delegated areas under the Constitution and that the Committee can challenge information and make recommendations where appropriate.

6.16.3 All Pension Committee reports highlight risks associated with proposals and appropriate mitigations. Risks are monitored throughout the year in conjunction with the Pension Fund Board to ensure they remain fit for purpose.

7 Implications (including financial implications)

7.1 Resources and Financial

7.1.1 There are no resources or financial implications as this report is summarising the work already undertaken by the Pension Committee.

7.2 Legal

7.2.1 There are no legal implications arising from the report.

7.3 Risk

7.3.1 The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below -

Risk	Residual risk rating
Information may not be provided to stakeholders as required.	Green
Those charged with governance are unable to fulfil their responsibilities effectively.	Green

7.4 Communication and Consultation

7.4.1 There are no implications arising from the report.

7.5 Consideration by Overview and Scrutiny

7.5.1 The administration of the Local Government Pension Scheme in a non-executive matter and therefore consideration by Overview and Scrutiny is not required.

7.6 Climate Impact

7.6.1 This report is for information only and therefore has no climate impact. The Fund's Responsible Investment Policy is contained within its Investment Strategy Statement and sets out how all environmental, social and governance factors, including climate risk, are incorporated into investment decision making.

7.7 Community Impact

7.7.1 Not applicable.

8 Background Papers

8.1 Administering Authority discretions
Annual Report and Statement of Accounts
Business Plan and Medium-Term Strategy 2021/22
Communication Plan
Communication Strategy
Conflicts of Interest Policy
Data Improvement Strategy and Plan
Overpayment of Pension Entitlement Policy
Reporting Breaches of the Law to the Pension Regulator Policy

[Key documents \(NCC\) - Cambridgeshire and Northamptonshire LGPS \(westnorthants.gov.uk\)](https://www.westnorthants.gov.uk/key-documents-ncc-cambridgeshire-and-northamptonshire-lgps)