

# WEST NORTHAMPTONSHIRE COUNCIL

2 December 2021

**Councillor Malcolm Longley, Cabinet Member for Finance**

---

**Report Title** Pension Committee Annual Report 2020-21

**Report Author** Mark Whitby, Head of Pensions  
Mark.Whitby@westnorthants.gov.uk

## Contributors/Checkers/Approvers

<b>West MO</b>	Catherine Whitehead	4 November 2021
<b>West S151</b>	Martin Henry	4 November 2021
<b>Communications Lead/Head of Communications</b>	Claire Hughes	11 November 2021

## List of Appendices

None

### **1. Purpose of Report**

---

1.1 To report on the work of the Pension Fund Committee over the previous year.

### **2. Executive Summary**

---

- 2.1 The report sets out the Governance, Oversight and Investment activities undertaken by the Committee during 2020-21, including the approval of various policies and strategies.
- 2.2 This report also covers the Northamptonshire Pension Fund approach to the pandemic.
- 2.3 As the Administering Authority to the Fund changed from Northamptonshire County Council to West Northamptonshire Council on 1 April 2021, this report therefore recaps the activities of the former Administering Authority.

### **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 2020-21 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; and
- 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 5 of this report demonstrates the key decisions and approvals that have been made by the Pension Committee during 2020/21, supported by the Investment Sub-Committee.

### **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 both the Fund and its employers 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 (formerly Northamptonshire County 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 business plan also details performance indicators for both the Fund and its employers and an estimate of the Fund account.
- 6.1.4 The Pension Committee receives regular updates on how the Fund is meeting its objectives via Business Plan Update reports presented at every meeting.
- 6.1.5 The Pension Committee approved the Annual Business Plan and Medium Term Strategy in June 2020.

## **6.2 Approval of the Northamptonshire Pension Fund Communication Strategy and 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 At the October 2020 meeting of the Pension Committee the updates to the Communications Strategy was approved following some minor changes and inclusion of the Digital Communications Strategy that was previously approved by the Pension Committee in December 2019
- 6.2.3 Included as an appendix to the report was the Communication Plan for 2020/21 which outlined the core communication activities for the year and also provided some scheduled communication on the coronavirus pandemic.

## **6.3 Approval of the Northamptonshire Pension Fund Data Improvement Policy**

- 6.3.1 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. The Data Policy and Plan were first put into place in October 2018 and due to a number of process improvements it was necessary to update the policy.
- 6.3.2 Revisions to the policy were made in the following areas:
  - Data Audit
  - LGPS National Insurance Database
  - Member tracing and mortality screening
  - Overseas proof of continued existence checks
- 6.3.3 The Pension Committee approved the amendments to the policy in December 2020.

## **6.4 Update to the Funding Strategy Statement**

- 6.4.1 The Funding Strategy Statement was previously approved by the Pension Committee as part of the 2019 valuation process. Following publication, there were amendments to the Local Government Pension Scheme Regulations 2013 affecting cessations from the Fund, requiring further revision to the strategy statement.
- 6.4.2 The amendments gave administering authorities some discretion when determining whether or not an exit credit is payable and, if so, the value of that exit credit. These amendments required changes to both the Funding Strategy Statement and Administering Authority Discretions Policy. The amendments to the Funding Strategy Statement and Administering Authority Discretions Policy were approved by the Pension Committee in October 2020.

## **6.5 Review of the Administration Strategy**

- 6.5.1 The Local Government Pension Scheme Regulations 2013 provide that administering authorities may prepare, maintain and publish a written Statement setting out their policy concerning administration matters, and that the administering authority and its employing

authorities must then have regard to that strategy when carrying out their functions.

6.5.2 The Strategy was updated to reflect administration changes and in addition was made a standalone document as this was previously a joint Strategy with the Cambridgeshire Pension Fund.

6.5.3 The Pension Committee approved the amendments to the Strategy in December 2020 in preparation for consultation with relevant stakeholders.

5.5.4 Following the consultation, the Strategy was adopted and published.

## **6.6 Multiple Investment Strategies**

6.6.1 The Pension Committee had previously approved activity within the Fund's business plan to investigate and consider a framework for the implementation of multiple employer investment strategies.

6.6.2 Officers proposed to engage the Actuary to carry out asset-liability modelling against different investment strategies to determine if better outcomes can be achieved for different groups of employers.

6.6.3 Following a presentation from the Actuary, the Pension Committee approved to the asset-liability modelling in December 2020 and the conclusions are due to be presented to the Pension Committee in October 2021.

## **6.7 Approval of the Annual Report and Statement of Accounts**

6.7.1 The Pension Fund's Statement of Accounts form part of the (then) County Council's Statement of Accounts and is covered by the external auditor's opinion on those accounts.

6.7.2 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.

6.7.3 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.

6.7.4 They are based on actual transactions accounted for within the Fund's financial ledger, information received from 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.

6.7.5 At 31st March 2021, the Fund was valued at £3.10bn, an increase of £699.2m from 31st March 2020. This was primarily as a result of strong financial growth during the year mainly due to the outperformance of global equities.

6.7.6 The Annual Report in respect of 2020-21 was approved by the Pension Committee in July 2021.

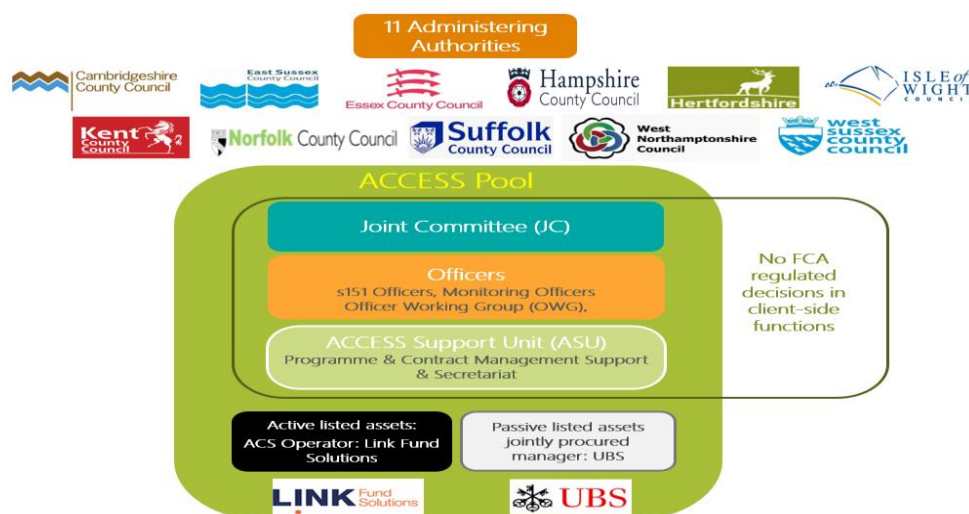
## **Key Investment Activities of the Pension Fund Committee**

### **6.8 Decisions surrounding Asset Pooling**

6.8.1 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, delivering scale, strong governance, reduced costs and improved capacity to invest in infrastructure.

6.8.2 The Chairman 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 Link Fund Solutions, a FCA

regulated “Operator”. The ACCESS investment platform and governance structure is illustrated below.



- 6.8.3 ACCESS has strong effective governance and operational structures as demonstrated in the chart above, with collective total assets of £56bn (as at 31 March 2021), of which over £31bn (57%) has been pooled or is under pool governance, serving 3,400 employers with 1.1 million members including 300,000 pensioners, delivering net savings since inception in excess of £25m.
- 6.8.4 In January 2021, the Joint Committee agreed the approach ACCESS will take to implement pooled arrangements for alternative / non-listed assets. This will cover the four areas set out below:
- Private Equity
  - Private Debt
  - Infrastructure
  - Property
- 6.8.5 In January 2021, Minerva was appointed to conduct a review of the pool’s Responsible Investment guidelines and advise on future reporting requirements.
- 6.8.6 A review of the size and scope of the ACCESS Support Unit was undertaken resulting in the establishment of two additional FTE positions to further support both the development and ongoing work of the Pool.
- 6.8.7 The Northamptonshire Pension Fund transferred its first active fund to the Pool in 2018-19. As at 31<sup>st</sup> March 2021 the Fund has pooled over 73% of the Fund’s assets, generating annualised fee savings for the 2020/21 financial year resulting from the asset pooling agenda in excess of £1.7m. The Fund’s pooled assets at 31 March 2021 are: -

<b>UK Equities:</b>	<b>£m</b>	<b>% of Fund</b>
Majedie – UK Equity	£278.0	(9.1%)
<b>Global Equities:</b>		
Newton – Global Equity	£283.1	(9.2%)
Baillie Gifford – Global Equity	£259.2	(8.5%)
Longview – Global Equity	£250.1	(8.2%)
UBS – Passive Global Equity	£658.1	(21.5%)
<b>Fixed Income:</b>		
UBS Gilts – Passive Fixed Income	£312.0	(10.2%)
<b>Alternatives:</b>		

Baillie Gifford – DGF*	£214.3	(7.0%)
<b>Total pooled assets</b>	<b>£2,254.8</b>	<b>(73.7%)</b>

\*Diversified Growth Fund

## 6.9 Strategic Changes to the Funds Asset Allocation and portfolios.

- 6.9.1 There were no changes to the Fund’s strategic asset allocation in the year, which remained: -
- |               |     |
|---------------|-----|
| Equities      | 55% |
| Fixed Income  | 20% |
| Alternatives. | 25% |
- 6.9.2 The 2020/21 financial year continued the Fund’s review of the fixed income allocation which resulted in the appointment of two new multi asset credit mandates with an allocation of 5% each, selected to provide more growth potential. The total allocation to fixed income of 20% was unchanged.
- 6.9.3 There have been no structural changes to the Fund’s actively managed equity mandates. The Fund’s existing managers reflect different investment approaches as below:-
- |        |                                    |
|--------|------------------------------------|
| UK     | Majedie – No persistent style bias |
| Global | Baillie Gifford – Growth style     |
|        | Longview – Style neutral           |
|        | Newton – Thematic/Defensive        |
- 6.9.4 All the above actively managed listed equity mandates are managed within the ACCESS asset pool.
- 6.9.5 The Funds passive allocation is split between traditional market capitalisations and “Factor” Funds. The former allocates to geographic indices such as North America, Europe, UK Japan, Asia Pacific and emerging markets and accounts for just over one half of the passive allocation (11% of the Fund as at 31<sup>st</sup> March 2021) with the remainder focussing on passive style biases such as low volatility, value and quality stocks (10.5%).
- 6.9.6 The Fund’s Alternative allocation is 25% spread across a wide range of asset types. This segment of the mandate covers less liquid investments with long-term commitments in return for expected enhanced returns over more liquid asset classes, commonly referred to as an illiquidity premium. For example, Private Equity is expected to yield 6% above listed equities over time. The allocation within alternatives is further divided as shown: -
- |                         |     |
|-------------------------|-----|
| ▪ Property              | 10% |
| ▪ Baillie Gifford - DGF | 5%  |
| ▪ Private Equity        | 5%  |
| ▪ Infrastructure        | 5%  |
- 6.9.7 The main developments in 2020/21 within the alternatives allocation included maintaining commitments to private equity and a new commitment to a residential property shared ownership fund. The most significant cash flow in the year was the drawdown of £45m for the JP Morgan infrastructure fund to which the fund made a commitment in the prior financial year.

## 6.10 Review of Investment Strategy Statement

- 6.10.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) set out the requirement for the preparation and publication of the Fund’s Investment Strategy Statement (ISS). The ISS sets out the Fund’s investment beliefs, strategic asset allocation, key investment risks and its approach to Responsible Investment (RI) and Environmental, Social and Governance (ESG) issues.

- 6.10.2 During 2020, the Investment Sub Committee reviewed the Fund's approach to RI, which encompasses both financial and non-financial factors, bringing together ESG factors and broader systemic issues, e.g. climate change and sustainable development, along with active ownership (stewardship) as these can have a material impact on financial performance.
- 6.10.3 The draft ISS was published on the Fund's website for consultation and feedback from interested parties with the final draft to be presented to the Pension Committee in December 2021.

## **Service Activities of the Pension Committee**

### **6.11 Cyber Resilience**

- 6.11.1 Cyber-crime is posing increasingly sophisticated threats to the administration of the Fund. Officers carried out a cyber-security self-assessment using the Aon (the Fund's governance consultants) cyber-security score card. The results were submitted to Aon who have analysed the results and produced a report setting out the recommendations to improve the Fund's cyber resilience.
- 6.11.2 During 2021/22 work has started to map out the Fund's assets and data flows to identify areas of risk and to develop a cyber-strategy/action plan to implement changes that will increase the Fund's resilience to cyber-crime.

### **6.12 Age Discrimination Remedy**

- 6.12.1 In October 2020, the Pension 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.
- 6.12.2 The initial transitional protections compared the benefits payable under the current rules compared 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 were more beneficial to older members of the scheme and this was ultimately viewed as age discriminatory.
- 6.12.3 The remedy to address this discrimination as proposed by the then Ministry of Housing Local Government and Communities (now the Department for Levelling Up, Housing and Communities) is due to be implemented with effect from 1 April 2022 once final amendment regulations have been produced. The remedy is intended to ensure the benefits of unprotected members would be raised rather than the benefits of protected members being reduced.
- 6.12.4 The report also contained details of the impact of the remedy on scheme administration and activities that needed to be undertaken, such as collecting all changes of contractual hours for the period 1 April 2014 to 31 March 2022 from scheme employers to ensure that the proposed remedy is accurately calculated. An implementation plan continues to be worked through to carry out the remedial work required in time for 1 April 2022.

### **6.13 Reports noted by the Pension Committee**

- 6.13.1 During the year the Pension Committee have been presented with various reports. The reports consist 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 and Risk Monitoring, refer back to the Business Plan whereby progress is reported against a

designated activity. 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 under discussion. The Employers Admissions and Cessations Report is a report which informs the Committee on employers who enter and exit the Fund and the rationale behind specific types of entry.

- 6.13.2 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 further and make recommendations where appropriate.
- 6.13.3 All Pension Committee reports highlight risks associated with the proposal and appropriate mitigations. Risks are monitored throughout the year to ensure they remain fit for purpose.

#### **6.14 Northamptonshire Pension Fund's continued approach to the pandemic**

- 6.14.1 During the latter part of the 2019/20 financial year, officers identified the risks facing the Fund as a result of the pandemic and produced a specific log to manage these risks.
- 6.14.2 During 2020/21, officers have continued to monitor and assess the risks with the Pension Committee and Pension Board receiving regular updates.
- 6.14.3 In addition, in July 2020, the Fund's Actuary, Hymans Robertson delivered a verbal briefing to members during the meeting. The briefing focused particularly on the impact of:
- recent market movements on the funding level since the 2019 valuation
  - economic lockdown on employer covenant
  - the impact of potentially higher death rates
- 6.14.4 The briefing aimed to highlight potential short, medium and long term impacts and also suggested actions the Fund could take to mitigate the impacts.
- 6.14.5 Due to officers working from home the biggest impact of the pandemic was to customer service as there was no telephony system in place to make and receive calls for a considerable time. An answer phone system was used to mitigate some of the impact whereby Officers could call members back from work mobiles. This issue has now been resolved with sufficient staff presence within Angel Square to take phone calls. Officers adapted to different working arrangements well with no significant performance issues. Financial impacts on the Fund reversed early on into the pandemic which alleviated initial concerns.

## **7 Implications (including financial implications)**

---

### **7.5 Resources and Financial**

- 7.5.1 There are no resources or financial implications arising from the proposals.

### **7.6 Legal**

- 7.6.1 There are no legal implications arising from the proposals.

### **7.7 Risk**



7.7.1 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

## 7.8 Consultation

7.8.1 Not applicable.

## 7.9 Consideration by Overview and Scrutiny

7.9.1 Not applicable.

## 7.10 Climate Impact

7.10.1 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.

## 7.11 Community Impact

7.11.1 Not applicable.

## 7.12 Communications

7.12.1 Not applicable

## 8 Background Papers

---

8.1 Business Plan and Medium Term Strategy 2020/21  
Communication Strategy and Plan  
Data Improvement Policy  
Funding Strategy Statement  
Administration Strategy  
Annual Report and Statement of Accounts  
Investment Strategy Statement