

WEST NORTHAMPTONSHIRE COUNCIL

Council

29th September 2022

Councillor Malcolm Longley, Cabinet Member for Finance and Chair of the Pension Committee

Report Title Pension Committee Annual Report 2021-22

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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 2021-22, 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 2021-22 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 6 of this report demonstrates the key decisions and approvals that have been made by the Pension Committee during 2021/22, 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 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.
- 6.1.2 The Pension Committee receives regular updates on how the Fund is meeting its objectives via Business Plan Update reports.
- 6.1.4 The Pension Committee approved the Annual Business Plan and Medium-Term Strategy in June 2021.

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 Communications Plan is produced annually to support the Communication Strategy and outlines the Fund's planned communication activities on a monthly basis 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.
- 6.2.2 At the June 2021 meeting of the Pension Committee the Communication Plan for 2021/22, which outlined the core communication activities for the year, was approved.

6.3 Approval of the Governance Policy and Compliance Statement

- 6.3.1 The Governance Policy and Compliance Statement, as required under the Local Government Pension Scheme Regulations 2013, details the governance arrangements for the Northamptonshire Pension Fund as administered by West Northamptonshire Council.
- 6.3.2 The governance structure of the Northamptonshire Pension Fund was reviewed in November 2020 in preparation for the creation of the new administering authority, West Northamptonshire Council. The governance structure mirrors the arrangements previously in place for Northamptonshire County Council.
- 6.3.3 The governance structure was incorporated into the Constitution of West Northamptonshire Council and was approved at the first Council meeting in May 2021. It is reflected in the Governance Policy and Compliance Statement which was subsequently approved by the Pension Committee in July 2021.

6.4 Approval of the Admission Bodies, Scheme Employers and Bulk Transfer Policy

- 6.4.1 The Admission Bodies, Scheme Employers and Bulk Transfer Policy outlines the Fund's policies regarding the treatment of admitted bodies and scheme employers in a range of scenarios, particularly their entry and exit from the Fund, and the bulk transfer of pension rights into and out of the Fund.
- 6.4.2 In September 2020 the LGPS Regulations were amended to allow the Fund to recalculate employer contributions outside of the triennial formal valuation and to allow greater flexibility around managing the exit of an employer from the Fund.
- 6.4.3 A revised Admission Bodies, Scheme Employers and Bulk Transfer Policy, reflecting this regulation change, was approved by the Pension Committee in October 2021.

6.5 Approval of the Cyber Strategy

- 6.5.1 The increasing threat to Pension Funds of cyber-crime activities is a significant concern across the pensions industry. This has resulted in industry bodies such as the Pension Regulator and the Pensions Administration Standards Association (PASA) issuing guidance on how Funds should mitigate their risks of a cyber-event occurring.
- 6.5.2 The Pensions Regulator is clear in its expectations that LGPS Funds cannot simply rely upon their host authority to ensure all the necessary safeguards are in place to protect against a cyber-event occurring.
- 6.5.3 A Cyber Strategy was produced in conjunction with the Fund's governance advisors and their specialist cyber security team along with a detailed action plan to ensure the Fund is aware of the potential risks it faces and to mitigate them where possible. The strategy and action plan were approved by the Pension Committee in October 2021.

6.6 **Multiple Investment Strategies**

- 6.6.1 The Committee had previously approved an activity within the Fund's business plan to investigate the use of multiple employer investment strategies. Officers engaged the Fund actuary to carry out asset-liability modelling against different investment strategies to determine if better funding outcomes could be achieved for different groups of employers by having access to different investment strategies.
- 6.6.2 At the meeting in October 2021, the Pension Committee agreed not to implement Multiple Investment Strategies at this time.

6.7 **Approval of the Training Strategy**

- 6.7.1 A Training Strategy is required to assist the Pension Committee, Local Pension Board and senior officers of the Northamptonshire Pension Fund to ensure the Fund is managed and assisted by individuals who have the appropriate level of knowledge and skills as required by the Pensions Act 2004 and as enforced by the Pensions Regulator.
- 6.7.2 A revised Training Strategy was approved by the Pension Committee in December 2021.

6.8 **Approval of the Anti-Fraud and Corruption Policy**

- 6.8.1 The administering authority is responsible for ensuring appropriate policies are in place for the safeguarding of the Fund's assets through appropriate methods of risk management. It is therefore appropriate for the Fund to have in place an Anti-Fraud and Corruption Policy.
- 6.8.2 A revised Anti-Fraud and Corruption Policy was approved by the Pension Committee in March 2022.

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 increase for the year was £264.3m, with the Fund's net assets rising to £3,367.7m reflecting strong financial growth mainly due to the outperformance of pooled investments.
- 6.9.6 The Annual Report in respect of 2021-22 was approved by the Pension Committee in July 2022.

Key Investment Activities of the Pension Fund Committee

6.10 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 Link Fund Solutions, a Financial Conduct Authority regulated "Operator".
- 6.10.3 ACCESS funds have total assets of £60bn (as of 31 March 2022), of which over £35bn (58.5%) has been pooled or is under pool governance, serving 3,500 employers with 1.2 million members including 310,000 pensioners, delivering net savings since inception in excess of £27m.
- 6.10.4 In December 2021, MJ Hudson were appointed as implementation advisor for the ACCESS Pool alternative / non-listed assets. This covers the four areas set out below:
- Private Equity
 - Private Debt
 - Infrastructure
 - Property
- Real Estate (property) was approved as the first asset class to be progressed and the ACCESS Joint Committee (AJC) approved that OJEU procurements are undertaken for UK Core and Global Real Estate and investment manager searches for UK Alternatives. Hampshire County Council were appointed as the procurement lead authority.
- 6.10.5 The Northamptonshire Pension Fund transferred its first active fund to the Pool in 2018-19. As of 31st March 2022, the Fund has pooled over 75% of the Fund's assets, generating annualised fee savings for the 2021/22 financial year resulting from the asset pooling agenda in excess of

£2.1m.

6.11 Russia, Ukraine Belarus Exposure

- 6.11.1 As at March 2022, direct exposure to Russian, Ukrainian and Belarusian investments was estimated at £0.8m across the Northamptonshire Fund's pooled and non-pooled investments. This represents 0.02% of the Fund's assets. The Fund will continue to review and monitor its investments including approaches to exiting Russian-based investments when it is practicable.
- 6.11.2 As of 1 March 2022, the extent of direct Russian-based investment accounted for 0.05% of ACCESS Authorities' pooled assets.

6.12 Scheme member representation in Asset Pools

- 6.12.1 The ACCESS Joint Committee agreed proposals enabling each ACCESS Authority's Local Pension Board (LPB) to send two observers, on a rotational basis, to AJC meetings. It was agreed that observers from three ACCESS Authority LPBs at a time can attend AJC meetings in person, allowing each LPB to be represented at least once a year.

6.13 Strategic Changes to the Funds Asset Allocation and portfolios.

- 6.13.1 There were no changes to the Fund's strategic asset allocation in the year, which remained:
- | | |
|---------------|-----|
| Equities | 55% |
| Fixed Income | 20% |
| Alternatives. | 25% |
- 6.13.2 A review of the Fund Strategic Asset Allocation is scheduled following the triennial Fund Valuation Review in 2022/23. This could result in changes to the strategic asset allocation above.

6.14 Review of Investment Strategy Statement

- 6.14.1 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 RI and Environmental, Social and Governance (ESG) issues.
- 6.14.2 An enhanced RI policy, which forms part of our overall investment strategy has been developed. The new RI policy sets out the Funds approach to sustainable responsible investment and will help manage the carbon and climate risks impacting investments. The RI policy was agreed following a consultation that was open to scheme members and scheme employers and was approved as part of the Investment Strategy Statement by the Pension Committee in December 2021.
- 6.14.3 In February 2022, the Investment Sub Committee approved decarbonisation targets to reduce the carbon emissions of listed equities by 25% by 2024 and by 59% by 2030 together with a climate action plan for 2022, 2023 and beyond.

Key Service Activities of the Pension Committee

6.15 Valuation of the Fund

6.15.1 Work has been undertaken with the Fund's actuarial advisors to prepare for the triennial valuation of the Pension Fund. The valuation date is 31 March 2022 with results to be published by 31 March 2023 and new employer contribution rates effective from 1 April 2023. The Pension Committee have received information via the Business Plan update reports and dedicated papers where additional information was required.

6.16 Age Discrimination Remedy

6.16.1 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.

6.16.2 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.

6.16.3 There has been a delay on the implementation of the remedy, which was due to come into force on 1 April 2022, subsequently deferred until 1 October 2023. In preparation for the pending implementation date the Fund has continued to collect data from employers, verify data quality and rectify members records where required. The Pension Committee have received updates via the Governance and Compliance Report where appropriate.

6.17 Reports noted by the Pension Committee

6.17.1 During the year the Pension Committee have 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.

6.17.2 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.

6.17.3 All Pension Committee reports highlight risks associated with proposals and appropriate mitigations. Risks are monitored throughout the year 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 Consultation

7.4.1 Not applicable.

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.

7.8 Communications

7.8.1 Not applicable.

8 Background Papers

- 8.1 Business Plan and Medium-Term Strategy 2021/22
 - Communication Plan
 - Data Improvement Policy
 - Annual Report and Statement of Accounts
 - Investment Strategy Statement
 - Governance Policy and Compliance Statement
 - Admission Bodies, Scheme Employers and Bulk Transfer Policy
 - Cyber Strategy (not published)
 - Training Strategy
 - Anti-Fraud and Corruption Policy