d) Asset Allocation

The asset allocation of the Fund as at the Net Assets Statement date is shown below:

	31 March 2012		31 March 2013	
	£000	%	£000	%
UK Fixed Interest	233,950	7.6%	237,785	6.8%
Overseas Fixed Interest	54,061	1.7%	85,770	2.5%
Index Linked Securities	75,344	2.5%	80,738	2.3%
UK Equities	1,048,940	34.3%	1,211,834	34.8%
Overseas Equities:				
US	358,487	11.7%	423,694	12.2%
Europe	272,702	8.9%	337,287	9.7%
Japan	97,805	3.2%	102,688	3.0%
Pacific Basin	125,443	4.1%	151,890	4.4%
Emerging Markets	130,544	4.2%	198,907	5.7%
Global	14,513	0.5%	17,450	0.5%
UK Property	299,023	9.8%	322,672	9.3%
Overseas Property	88,974	2.9%	87,358	2.5%
Private Equity	66,979	2.2%	75,209	2.2%
Multi-Asset	57,554	1.9%	62,740	1.8%
Forward Foreign Exchange	-	-	250	-
Cash	137,382	4.5%	81,269	2.3%
Total	**3,061,701**	**100.0%**	**3,477,541**	**100.0%**

e) Property

Direct property is shown at open market value (as defined by the International Valuation Standards Committee) as determined by Savills Commercial Limited. The analysis of property is:

	31 March 2012 £000	31 March 2013 £000
Freehold	259,653	268,375
Leasehold more than 50 years	6,950	19,700
	266,603	**288,075**
Original Value	279,458	313,798

f) Analysis of Pooled Investment Vehicles

The underlying economic exposure of pooled investment vehicles is shown below:

	31 March 2012 £000	31 March 2013 £000
UK Equities	110,453	134,421
Overseas Equities:		
US	138,762	158,177
Japan	62,074	62,525
Europe	53,127	71,198
Pacific Basin	125,443	151,890
Emerging Markets	106,336	172,554
Global	14,513	17,450
UK Property	32,420	34,597
Overseas Property	88,974	87,358
Private Equity	64,834	75,209
Multi-Asset	57,553	62,740
Total	**854,489**	**1,028,119**

g) Private Equity Funds

The Fund has made commitments to a number of private equity funds. The original commitment amounts are shown below in the fund currencies.

Funds	Currency	Commitment millions
Wilton Private Equity Fund LLC	USD	14
Pantheon Europe Fund III	EUR	10
East Midlands Regional Venture Capital Fund	GBP	5
Coller International Partners IV	USD	10
Schroders Private Equity Fund of Funds III	EUR	22
DCM Private Equity Fund II	USD	18
Pantheon Europe Fund V	EUR	15
Coller International Partners V	USD	18
Catapult Growth Fund LP	GBP	4
Altius Associates Private Equity Fund	USD	10
Partners Group Secondary 2008	EUR	13
DCM Private Equity Fund III	USD	16
Coller International Partners VI	USD	16
Altius Associates Private Equity Fund II	USD	15
Partners Group Global Infrastructure	EUR	12

These commitments are drawn by the funds over time as investments are made in underlying companies. The undrawn commitment as at 31 March 2013 was £53.1 million (£21.2 million at 31 March 2012). From the funds above, the following were new commitments made during 2012/13:

Funds	Currency	Commitment millions
DCM Private Equity Fund III	USD	16
Coller International Partners VI	USD	16
Altius Associates Private Equity Fund II	USD	15
Partners Group Global Infrastructure	EUR	12

h) **Analysis of derivatives**

Open Forward Foreign Exchange contracts.

Settlement	Currency Bought	Local Value £000	Currency Sold	Local Value £000	Asset Value £000	Liability Value £000
Up to one month	GBP	10,500	USD	(15,946)	-	(2)
Up to one month	GBP	13,436	USD	(20,000)	263	-
Up to one month	GBP	9,661	EUR	(11,000)	358	-
Up to one month	USD	31,325	GBP	(21,000)	-	(368)
					621	**(371)**
Net forward foreign exchange contracts at 31 March 2013						**250**

There were no open forward foreign exchange contracts at 31 March 2012.

10 INVESTMENTS

The fund has 15 private equity funds which have undrawn commitments as at 31 March 2013 of £53.1m (£21.3m at 31 March 2012).

11 OTHER INVESTMENT BALANCES AND LIABILITIES

	31 March 2012 £000	31 March 2013 £000
Other investment balances		
Outstanding investment transactions	42	1,760
Investment income	14,274	14,600
	14,316	**16,360**
Investment Liabilities		
Outstanding investment transactions	(310)	(536)
Investment income	(2,922)	(2,621)
	(3,232)	**(3,157)**

12 CURRENT ASSETS AND LIABILITIES

	31 March 2012 £000	31 March 2013 £000
Current Assets		
Contributions due from employers	11,814	17,297
Other	3,180	1,184
	14,994	**18,481**
Current Liabilities		
Payments in advance	(4,651)	(3,261)
Sundry creditors	(926)	(1,455)
Other	(9,905)	(8,433)
	(15,482)	**(13,149)**

13 FINANCIAL INSTRUMENTS

a) The various financial instruments held by the Fund are valued at fair value. The following tables analyse the fair value of financial assets and liabilities by asset class.

31 March 2013

	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	Totals £000
Financial Assets				
Fixed Interest Securities	323,555	-	-	323,555
Index Linked Securities	80,739	-	-	80,739
Equities	1,675,534	-	-	1,675,534
Pooled Investment Vehicles	906,164	-	-	906,164
Property Pooled Vehicles	121,955	-	-	121,955
Forward Foreign Exchange	621	-	-	621
Cash deposits	-	81,269	-	81,269
Other investment balances	-	16,360	-	16,360
Current Assets	-	18,481	-	18,481
	3,108,568	**116,110**	**-**	**3,224,678**
Financial Liabilities				
Investment Liabilities	-	-	(3,157)	(3,157)
Current Liabilities	-	-	(13,149)	(13,149)
	-	**-**	**(16,306)**	**(16,306)**
	3,108,568	**116,110**	**(16,306)**	**3,208,372**

31 March 2012

	Designated at Fair Value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	Totals £000
Financial Assets				
Fixed Interest Securities	288,011	-	-	288,011
Index Linked Securities	75,344	-	-	75,344
Equities	1,439,872	-	-	1,439,872
Pooled Investment Vehicles	733,095	-	-	733,095
Property Pooled Vehicles	121,393	-	-	121,393
Cash deposits	-	137,382	-	137,382
Other investment balances	-	14,316	-	14,316
Current Assets	-	14,994	-	14,994
	2,657,715	**166,692**	**-**	**2,824,407**
Financial Liabilities				
Investment Liabilities	-	-	(3,232)	(3,232)
Current Liabilities	-	-	(15,482)	(15,482)
	-	**-**	**(18,714)**	**(18,714)**
	2,657,715	**166,692**	**(18,714)**	**2,805,693**

No financial assets were reclassified during the accounting period.

b) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values.

Level 1 Fair values derived from quoted market price.
- this includes all quoted equity, fixed interest and index linked instruments.

Level 2 Fair values derived from valuation techniques based significantly on observable inputs.
- this includes all pooled property investments.

Level 3 Fair values derived from valuation techniques where at least one significant input is not based on observable market data.
- this includes unlisted shares and investments in private equity funds.

As at 31 March 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	2,909,408	121,955	77,205	3,108,568
Loans and receivables	116,110			116,110
Total	**3,025,518**	**121,955**	**77,205**	**3,224,678**
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(16,306)	-	-	(16,306)
Total	**(16,306)**	**-**	**-**	**(16,306)**
Net	**3,009,212**	**121,955**	**77,205**	**3,208,372**

As at 31 March 2012	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	2,469,342	121,394	66,979	2,657,715
Loans and receivables	166,692	-	-	166,692
Total	**2,636,034**	**121,394**	**66,979**	**2,824,407**
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(18,714)	-	-	(18,714)
Total	**(18,714)**	**-**	**-**	**(18,714)**
Net	**2,617,320**	**121,394**	**66,979**	**2,805,693**

c) Nature and extent of risks arising from financial instruments

The aims of the Fund are to:

- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

The key risks to the achievement of these aims, as well as measures to mitigate those risks, are set out in the various Fund policies (available at www.nottspf.org.uk) including:

- Statement of Investment Principles
- Funding Strategy Statement
- Governance Compliance Statement
- Risk Management Strategy and Risk Register.

The Risk Register identifies the highest risks as arising from:

- Significant variations from assumptions used in the actuarial valuation
- Fund assets assessed as insufficient to meet long term liabilities.

The Fund's primary risk is therefore that its assets fall short of its long term liabilities. The Funding Strategy Statement aims:

- 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
- to take a prudent longer-term view of funding those liabilities.

The most significant effect on the funding level arises from changes in the discount rate used by the actuaries. The sensitivity analysis below shows the impact of a movement of 0.1% in the discount rate.

Adjustment to discount rate	0.1%	0.0%	(0.1%)
Present Value of Total Obligation (£000)	5,351,569	5,476,127	5,604,384

The Fund deficit at the last triennial valuation was £520 million. With no other change in assumptions, an increase in the discount rate of just over 0.4% would reduce the deficit to nil.

As contribution income currently exceeds benefit payments and the Fund receives significant investment income, it is unlikely that assets will have to be realised in order to meet pension benefits. This allows the Fund to implement a long term investment strategy and minimise the impact of short term fluctuations in investment and currency markets. The strategy, and the assumptions that underpin it, are reviewed on a regular basis and cash flows are monitored closely to ensure there is sufficient liquidity to meet forecast cash flows.

The investment strategy is aimed at achieving best returns in line with the requirements of the triennial valuation whilst minimising risk and overall variability in future employers' contribution rates. A key part of managing the investment risk is by ensuring an adequate number of suitably qualified investment managers and by requiring managers to hold a diversified spread of assets. The level of risk in the equities block is managed by a balance between passive and active management.

Policies are reviewed regularly to reflect changes in activity and in market conditions. Responsibility for reviewing and revising the policies rests with the Nottinghamshire Pension Fund Committee.

14 MEMBERS ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Nottinghamshire Fund provides an additional voluntary contribution (AVC) scheme to enable members to purchase additional benefits. Contributions are paid over to, and invested separately by, the two scheme providers, Prudential and Scottish Widows. The contributions are not included in the Fund's accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The value of the separately invested AVCs is shown below:

	31 March 2012	31 March 2013
	£000	£000
Prudential	27,289	25,611
Scottish Widows	3,058	3,254
	30,347	**28,865**

15 RELATED PARTY TRANSACTIONS

Under IAS 24, a party is related to an entity if:

- the party is a member of the key management personnel;
- the party is a post-employment benefit plan for the benefit of employees of the entity.

The purpose of related party disclosures is to provide information on transactions and balances that could have an effect on the operations or financial position of an entity. For example, related parties may enter into transactions that unrelated parties would not and transactions between related parties may not be made at the same amounts as between unrelated parties.

Disclosures are required for:

- the nature of the related party relationship
- key management personnel compensation
- information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Nottinghamshire County Council is the administering authority for the Local Government Pension Scheme (LGPS) within Nottinghamshire and is one of the major employers within the scheme. Information regarding key management personnel is provided within the main accounts of Nottinghamshire County Council. Members and officers of the Council involved in managing the Fund are allowed to be members of the LGPS. All transactions between Nottinghamshire County Council and the Fund and all benefit payments from the Fund are in accordance with the regulations governing the LGPS. There are no transactions therefore that are made on a different basis from those with non-related parties.

Governance Compliance Statement

1. Introduction

1.1 This is the governance compliance statement of the Nottinghamshire pension fund which is part of the Local Government Pension Scheme and administered by Nottinghamshire County Council (the council). The statement has been prepared as required by the Local Government Pension Scheme (Administration) Regulations 2008.

2. Governance Arrangements

2.1 Under the terms of the council's constitution, the functions of the council as administering authority of the pension fund are delegated to the Nottinghamshire Pension Fund Committee. This is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

2.2 The Nottinghamshire Pension Fund Committee meets four times a year and its members act in a quasi-trustee capacity. Under the constitution, it is responsible for Administering the Nottinghamshire Pension Fund, including investments by and management of pension funds.

2.3 The Pensions Investment Sub-Committee has responsibility for investment performance management of the Fund Managers and making appropriate recommendations to the Nottinghamshire Pension Fund Committee. Meetings are held four times a year. The sub-committee may appoint a working party to consider future policy & development.

2.4 The Pensions Sub-Committee has responsibility for making recommendations to the Nottinghamshire Pension Fund Committee on matters relating to the administration and investment of the Pension Fund. Meetings are held four times a year.

2.5 The number of voting members of the Nottinghamshire Pension Fund Committee is determined by the Council at its annual meeting. The number of voting members of the sub-committees is determined by the Nottinghamshire Pension Fund Committee on the basis of the council's constitution.

3. Functions and Responsibilities

3.1 The Nottinghamshire Pension Fund Committee separately approves the pension fund's Funding Strategy Statement, Statement of Investment Principles, Risk Management Strategy and Communications Strategy Statement.

3.2 The Funding Strategy Statement sets out the aims and purpose of the pension funds and the responsibilities of the administering authority as regards funding the scheme. Funding is the making of advance provision to meet the cost of accruing benefit promises and the long term objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee, advised by the two Sub-Committees.

3.3 The Statement of Investment Principles sets out more detailed responsibilities relating to the overall investment strategy of the funds including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also covers the funds' policy on trustee training and expenses and states the funds' approach to socially responsible investment and corporate governance issues. These responsibilities are delegated to the Nottinghamshire Pension Fund Committee, advised by the two Sub-Committees.

3.4 Financial Regulations specify that the Service Director (Finance) is responsible for arranging the investment of the Pension Fund. Operational matters falling under this responsibility are exercised by the Senior Accountant (Pensions & Treasury Management).

3.5 The Risk Management Strategy aims to reduce or eliminate risks which may jeopardise the achievement of the Fund's key objectives. It includes a risk register that identifies and prioritises the main risks to the operation of the fund. Responsibility for the Risk Management Strategy is delegated to the Nottinghamshire Pension Fund Committee, advised by the two Sub-Committees.

3.6 The Communications Strategy Statement details the overall strategy for involving stakeholders in the pension funds. The stakeholders identified are:

- trustees
- current and prospective scheme members
- scheme employers
- administration staff
- other bodies.

Responsibility for the communications strategy is delegated to the Nottinghamshire Pension Fund Committee, advised by the Pensions Sub-Committee.

4. Representation

4.1 The Nottinghamshire Pension Fund Committee has 9 members all of whom are current county councillors. The political make-up of the committee is in line with the current council and the chair is normally appointed by Council. All members have full voting rights.

4.2 The Pensions Investment Sub-Committee has 17 members consisting of the following representatives:

- County Councillors (9)
- Nottingham City Council (3)
- Nottinghamshire Local Authorities' Association (2)
- scheduled and admitted bodies (1)
- trade unions (2)

4.3 The Pensions Sub-Committee has 19 members consisting of the following representatives:

- County Councillors (9)
- Nottingham City Council (3)
- Nottinghamshire Local Authorities' Association (2)
- scheduled and admitted bodies (1)
- trade unions (2)
- pensioners (2)

4.4 All members on both sub-committees have voting rights where allowed by relevant regulation.

4.5 Meetings of the Sub-Committees are also attended by officers of the County Council and an independent adviser. This ensures the Sub-Committee has access to "proper advice" as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Proper advice is defined as the advice of a person who is reasonably believed to be qualified by their ability in and practical experience of financial matters. This includes any such person who is an officer of the administering authority.

5. Stakeholder Engagement

5.1 An annual meeting of the pension funds is held in October to which all employer representatives and scheme members are welcome. The purpose of the meeting is to report on investment performance and current issues of concern to the pension funds.

5.2 A number of other initiatives to involve stakeholders are currently in place including:

- regular employers meetings
- meetings between employers and actuaries
- Nottinghamshire Finance Officers meetings
- the annual report for the pension funds
- Nest Egg magazine for all members

- Pensions road shows at various venues around the County
- dedicated pension fund web site.

6. Review and Compliance with Best Practice

6.1 This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the pension funds.

6.2 The regulations require a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. The guidance contains best practice principles and these are shown below with the assessment of compliance.

Ref.	Principles	Compliance and Comments
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.	**Fully compliant**
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.	**Fully compliant**
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**Fully compliant**
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.	**Fully compliant**
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, eg, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	**Fully compliant** The sub-committees include representatives from employing authorities, scheduled and admitted bodies and scheme members. An independent advisor attends the investment sub-committee
b.	That where lay members sit on a main or secondary committee, they are treated equally 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.	**Fully compliant**
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.	**Fully compliant** All members of the Nottinghamshire Pension Fund Committee and its sub-committees are aware of their responsibilities for the oversight of the funds.
D	**Voting**	
a.	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on LGPS main committees.	**Fully compliant**

E	**Training/facility time/expenses**	
a.	That in relation to the 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.	**Fully compliant** Members are encouraged to receive suitable training to help them discharge their responsibilities and have a defined budget to attend training courses, conferences and meetings. Travel and subsistence arrangements are those which prevail for the County Council.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Fully compliant**
F	**Meetings (frequency/quorum)**	
a.	That an administering authority's main committee or committees meet at least quarterly.	**Fully compliant** The Nottinghamshire Pension Fund Committee meets 4 times a year.
b.	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**Fully compliant** The Pensions Sub-committee meets 4 times a year. The Investment Sub-Committee meets 8 times a year.
c.	That 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 can be represented.	**Fully compliant**
G	**Access**	
a.	That subject to any rules in the councils constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**Fully compliant**
H	**Scope**	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Fully compliant** Scheme issues are decided by the Nottinghamshire Pension Fund Committee after consideration at the Administration Sub-committee.
I	**Publicity**	
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Fully compliant** The governance statement is published on the pension fund website and is included with the relevant committee report (available on the County Council website).

Funding Strategy Statement

This Statement has been prepared by Nottinghamshire County Council (the Administering Authority) to set out the funding strategy for the Nottinghamshire County Council Pension Fund (the Scheme), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

1.1 The Local Government Pension Scheme Regulations 2007, as amended ("the Regulations"), provide the statutory framework under which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- In preparing the FSS, the Administering Authority must:
  - have regard to the guidance issued by CIPFA for this purpose and the Statement of Investment Principles (SIP) for the Scheme published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
  - consult such persons as it considers appropriate.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

1.2 Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure. The Scheme is a defined benefit final salary scheme under which the benefits are specified in the Regulations. The required levels of employee contributions are also specified in the Regulations.

1.3 Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including provision of a rates and adjustments certificate. Contributions to each Scheme should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in Policy Terms

2.1 Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate of pace at which this advance provision is made. 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.

2.2 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

- to take a prudent longer-term view of funding those liabilities

The intention is for this strategy to be both cohesive and comprehensive for the Scheme 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.

3. Aims and Purpose of the Pension Funds

3.1 **The aims of the funds are to:**

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters.

3.2 **The purpose of the funds is to:**

- receive monies in respect of contributions, transfer values and investment income
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

4. Responsibilities of the Key Parties

4.1 **The Administering Authority should:**

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the actuary
- prepare and maintain an FSS and SIP, both after due consultation with interested parties
- monitor all aspects of the Scheme's performance and funding and amend FSS/SIP.

4.2 **The Individual Employer should:**

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- notify the Administering Authority promptly of all changes to membership, actual or proposed which may affect future funding.

4.3 **The Fund actuary should:**

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters
- advise on the preparation of the FSS.

5. Solvency Issues and Target Funding Levels

5.1 To meet the requirements of the Regulations, the Administering Authority's long term funding objective is for the Funds to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing basis including allowance for projected final pay.

5.2 The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix A. Underlying these assumptions are the following two tenets:

- that the Scheme and the major employers are expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

5.3 As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in each of the Scheme.

5.4 In attributing the overall investment performances obtained on the assets of the Scheme to each employer, a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole. However, under exceptional circumstances the Administering Authority may agree an alternative approach with a particular employer.

5.5 The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

a. Employer groupings will be adopted for certain employers with small numbers of members in the Fund, specifically Small Scheduled Bodies and the Grouped Admission Bodies.

b. A maximum deficit recovery period of 20 years will apply Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

c. Any significant increases in employer contributions following an actuarial valuation may be phased in over an agreed period depending upon each employer's circumstances.

d. The Administering Authority may agree an alternative pattern of contribution rates in a particular case, where appropriate to the employer in question.

e. Nottinghamshire County Council is responsible for surpluses and deficits arising in respect of the former employees of certain bodies in the Admission Agreement Etc Fund. The treatment of such surpluses and deficits is agreed between the Administering Authority and the Fund actuary at each triennial valuation.

f. On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. In assessing the deficit on termination, the actuary may adopt a discount rate based on gilt yields and adopt different assumptions from those used at the previous valuation to protect the other employers in the Fund from having to fund any future deficits from the liabilities that will remain in the Fund.

5.6 In determining the above objectives the Administering Authority has had regard to:

- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose
- the Government's aims as regards increases in local authority pension costs
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

5.7 If the assets within the appropriate scheme relating to a particular employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall. Additional contributions will be expressed as a level percentage of pensionable payroll, unless arrangements are made otherwise in relation to any particular employer(s).

5.8 In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall
- the business plans of the employer
- the assessment of the financial covenant of the Employer
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

5.9 In addition to any contributions required to rectify a shortfall of assets below the funding target contributions will be required to meet the cost of future accrual of benefits for members after the valuation date. The method and assumptions for assessing these contributions are also set out in Appendix A.

5.10 All costs in relation to non-ill health early retirement costs will be funded as they occur. Employers may however meet the cost of the early payment strain element in three payments over a two year period from the date of retirement. These costs will be assessed on the basis of the actuary's advice.

6. Link to Investment Policy

6.1 6.1 The investment policy of the funds is set out in the Statement of Investment Principles (SIP). In assessing the value of the Scheme's liabilities in the valuation, the funding basis sets the discount rate to value the liabilities as the expected investment return from the agreed investment strategy taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

6.2 The results of the 2010 valuation in respect of the Nottinghamshire County Council Pension Fund show the liabilities to be 84% covered by the current assets, with the funding deficit of 16% being covered by future deficit contributions.

The current benchmark investment strategy, as set out in the SIP, is:

Equities	55% - 75%
Property	5% - 25%
Bonds	10% - 20%
Cash	0% - 10%

6.3 The Fund will be invested on a core/satellite approach, with approximately 40% of the fund managed in-house on an enhanced index-tracking basis, and the balance with specialist managers who are given targets for out-performance against benchmarks.

7. Identification of Risks and Counter-measures

7.1 The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

7.2 Financial Risks

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets in the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

7.3 Demographic Risks

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements

7.4 Regulatory Risk

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to the Scheme, e.g. part-time employees
- Changes to national pension requirements and/or Inland Revenue rules

7.5 Governance Risks

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Meetings by the Administering Authority taking place infrequently
- Insufficient training being provided to members
- Inadequate procedures for taking and recording decisions
- Lack of continuity of membership of the Pensions Committee and its Sub-Committees

8. Monitoring and Review

8.1 The Administering Authority has taken advice from the actuary in preparing this Statement.

8.2 A full review of this Statement will occur no less frequently than every three years, to coincide with the full actuarial valuation. Any review will take account of the then current economic conditions and will also reflect any legislative changes.

8.3 The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Scheme's membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Scheme.