



**Nottinghamshire
County Council**

**Nottinghamshire
Pension Fund
Annual Report 2011-2012**

Contents

Chairman's Statement	03
Management and Financial Performance	04
Investment Performance	07
Administration Arrangements	10
Active Fund Employers	12
Statement by the Actuary	13
The Pension Fund Accounts	14
Governance Compliance Statement	31
Funding Strategy Statement	36
Statement of Investment Principles	43
Communications Policy Statement	56

Cllr Mike Cox
Chairman of the Pensions Committee

Chairman's Foreword

It has been another challenging year for the Pension Fund, dealing with external factors such as volatile financial markets, changes to pension regulations and new employers in the fund (mainly schools converting to Academy status), as well as internal factors including implementing new finance and administration systems.

The Pension Fund has seen an overall increase in members of 2% (to over 100,000) but, within this, active membership has decreased by 4% while deferred members and pensioners have increased by 6%. This reflects the continuing measures being taken by local employers in response to the current economic situation.

The Pension Fund has seen an increase in the value of its net assets to remain above £3 billion. Financial markets remain volatile with investor sentiment responding to conflicting news on global economic recovery: good news means investors prefer growth assets like equities while bad news leads investors to sell equities and buy "safe haven" assets like government bonds. The Pension Fund continues to take a long term view and remains committed to equities and other growth assets as part of a long term strategy to meet its liabilities.

The Pension Fund's bi-annual newsletter, Nest Egg, has kept members informed of changes to pension regulations and the proposed new Local Government Pension Scheme. This presents challenges in the year ahead for the Pensions Administration team as they respond to the added complexity of delivering their service. The financial markets are likely to remain volatile for a considerable period and this presents challenges to the Investment Team and asset managers to continue to deliver healthy returns. The work of both teams will be vital next year as we head towards the next triennial valuation of the fund as at 31 March 2013.



Cllr Mike Cox

Chairman of the Pensions
Committee

Management and Financial Performance

Governance

Nottinghamshire County Council is the administering authority for the Local Government Pension Scheme within Nottinghamshire for which it invests and administers funds with over 100 contributing employers and 40,000 contributing members. Prior to 1 April 2010 there were two funds:

a) The Main Fund

This included the major employers, such as the County Council, the City Council and all District Councils and organisations who used to be part of local government such as Nottingham Trent University, Colleges of Further Education and Police Civilian Staff.

b) The Admitted Bodies Fund

This included those organisations which satisfy the conditions of entry to participate in the Local Government Scheme and have been approved by the County Council. Generally speaking these organisations are non-profit making, or are undertaking a service which was, or could be, carried out by the Local Authority.

From 1 April 2010 these two funds have been merged. The operation of the Fund is governed by a number of published policy statements.

The Governance Compliance Statement (page 31) sets out the governance arrangements of the pension fund and covers:

- the delegation of authority to the Pensions Committee supported by two sub-committees
- the functions and responsibilities of these committees
- the representation of members, employers and trade unions
- stakeholder engagement
- compliance with best practice.

The Pensions Committee separately approves four further policy statements. The Funding Strategy Statement (page 36) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme.

Its purpose is:

- to establish a clear and transparent fund-specific strategy to 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 Statement of Investment Principles (page 43) sets out more detailed responsibilities relating to the overall investment strategy of the fund including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also states the fund's approach to responsible investment and corporate governance issues.

The Communications Strategy Statement (page 56) details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website. This is available at www.nottspf.org.uk and includes all of the policy statements as well as a great deal more information about the investments and benefits of the pension fund.

The Pension Fund's Risk Management Strategy (page 59) is to:-

- a) identify key risks to the achievement of the Fund's aims
- b) assess the risks for likelihood and impact
- c) identify mitigating controls
- d) allocate responsibility for the mitigating controls
- e) maintain a risk register detailing the risk features in a)-d) above
- f) review and update the risk register on an annual basis
- g) report the outcome of the review to the Pensions Committee annually.

The latest approved risk register is on page 61.

Management of the Fund

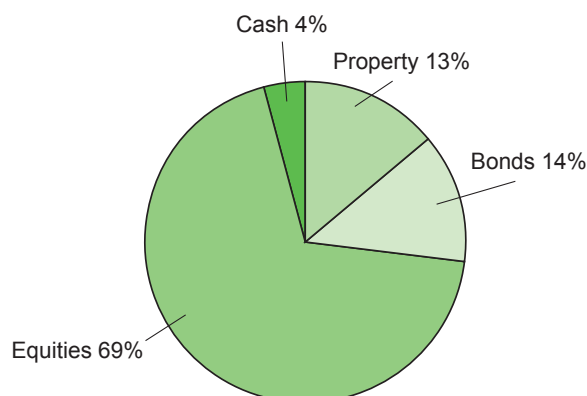
The aims of the fund are to:

- 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

The long term funding objective is for the fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities. The Pensions Committee is responsible for deciding the overall investment strategy and asset allocation of the fund in order to try to achieve this target. The agreed asset allocation ranges are below.

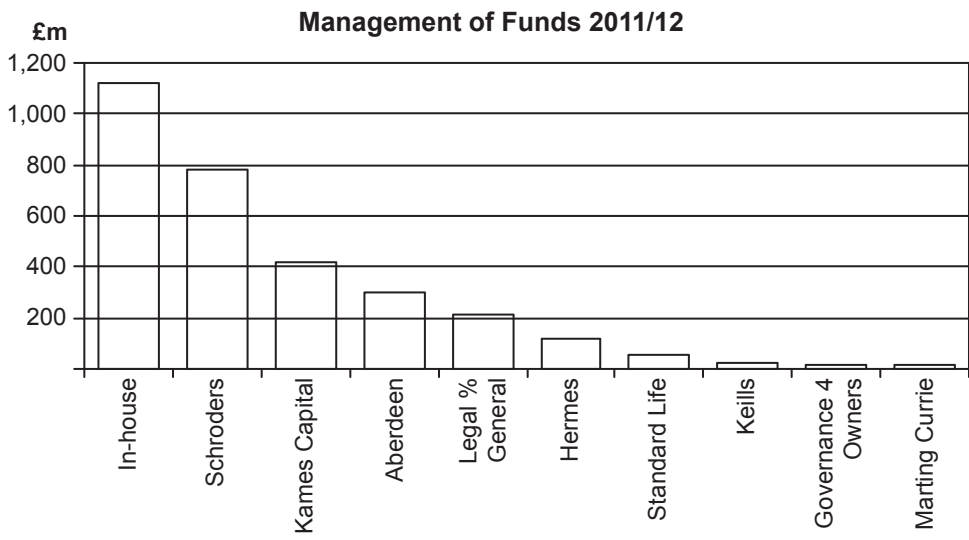
Equities	55% to 75%
Property	5% to 25%
Bonds	10% to 25%
Cash	0% to 10%

At the end of the financial year 2011/12 the actual asset allocation was:



The Committee also determines the investment management arrangements to implement the strategy as outlined in the Statement of Investment Principles. The value of funds managed under these arrangements at 31 March 2012 see below.

The in-house portfolios are managed by a small team of five, lead by the Team Manager (Investments). This team also records and accounts for all the pension fund investments, producing quarterly valuations for Pensions Investment Sub-committee as well as the annual report and accounts.

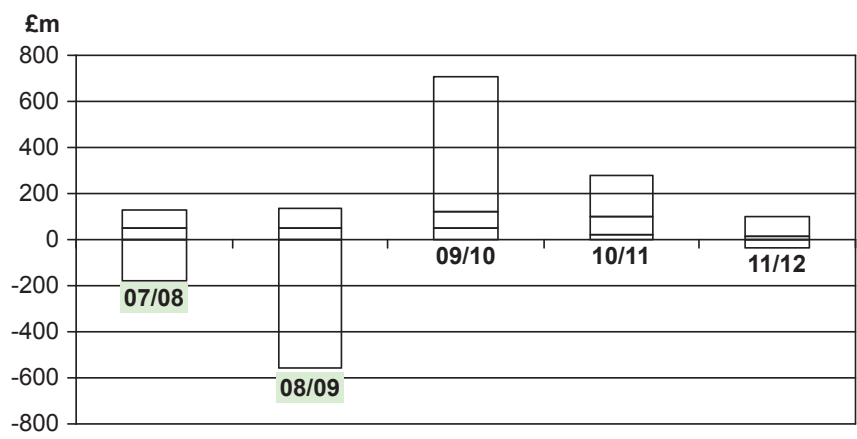


Financial Performance

The pension fund accounts are shown in detail on pages 14 to 30.

The Fund Account shows positive cash inflow of £17m from net dealings with members. This is down by £7m compared to last year due mainly as a result of lower transfers in from other pension funds. Investment income for the year was £85m, a slight increase from

the previous year, and this more than offset reductions in market values. The chart below shows how the 3 main components have contributed to the Fund's value over the last 5 years. Overall, the value of the fund has increased by £64m over the year to stand at £3,072m.



■ Net additions from members
 ■ Net investment income
 ■ Change in market values

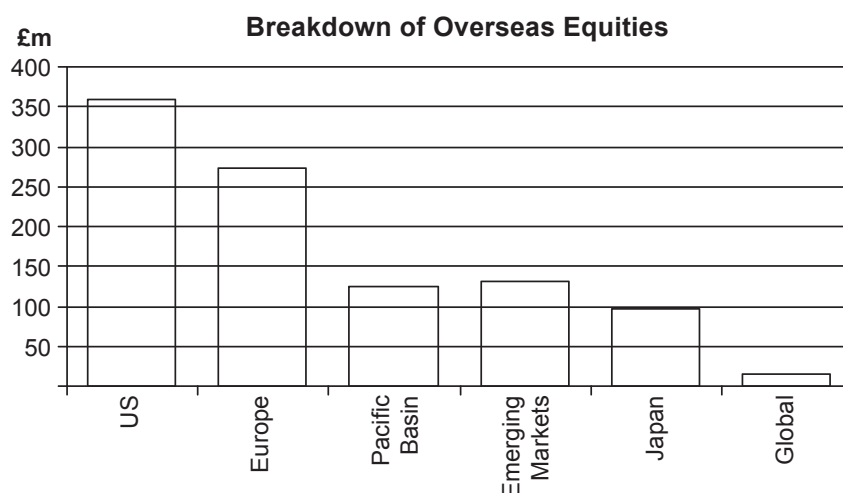
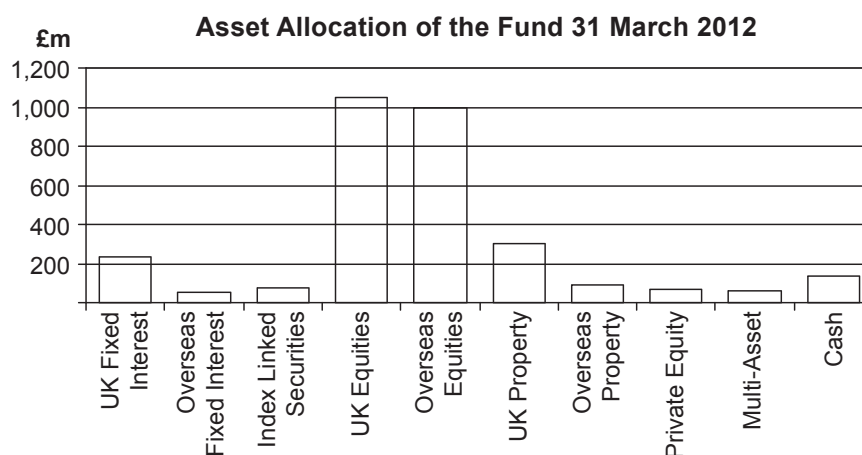
Investment Performance

Investment Policy

The Fund's investment policy is set out in its Statement of Investment Principles:

- The Fund will aim to be sufficient to meet all their obligations on a continuing basis.
- The Fund will be invested in a diversified range of assets.
- Independent advice on the suitability of types of investment will be obtained on a regular basis.
- The Trustees recognise their full responsibility for the oversight of the Fund, and operate to a Code of Conduct.

The Trustees are the members of the Pensions Committee, supported by two sub-committees, and they have responsibility for determining the investment strategy, asset allocation and management arrangements. The agreed asset allocation ranges are aimed at achieving best returns whilst minimising overall variability in the future employers contribution rates. The policy of the Fund is to treat the equity allocation as a block aimed at maximising the financial returns to the funds while remaining within an acceptable level of risk. Bonds, property and cash are treated as a separate block, aimed at lowering overall risk (at the cost of anticipated lower return).



Investment Performance

In 2011/12, the Fund achieved an overall return from its investments of 1.6% compared with a target of 3.2% benchmark return. Equities provided contrasting returns with UK, US and Japanese equities providing positive returns, offset by negative returns from Europe, the Pacific Basin and emerging markets. Bonds delivered strong returns over the year, particularly UK gilts. Property experienced a challenging year, returning a positive return but well

below its benchmark. Over 10 years the Fund has achieved a return of 0.2% above the benchmark.

The Fund's main investment managers (Schroders and Kames) performed within 1% of their benchmarks over the year. Over 5 and 10 years they have met or exceeded their benchmarks by up to 1%.

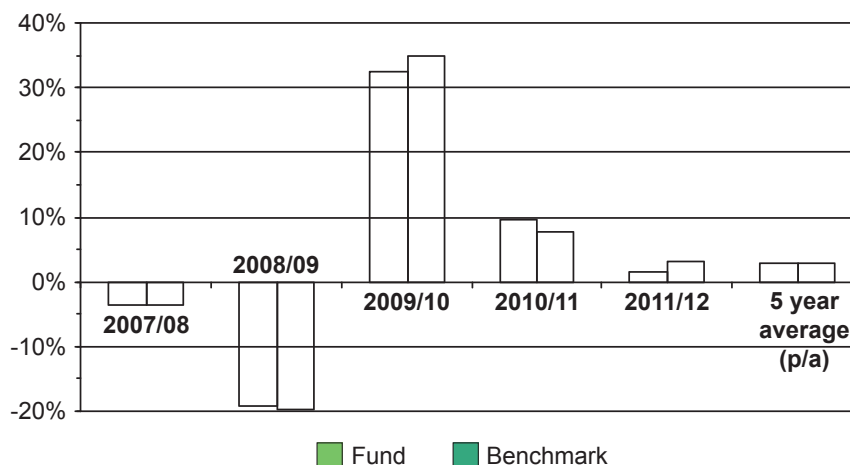
Detailed performance figures are shown below.

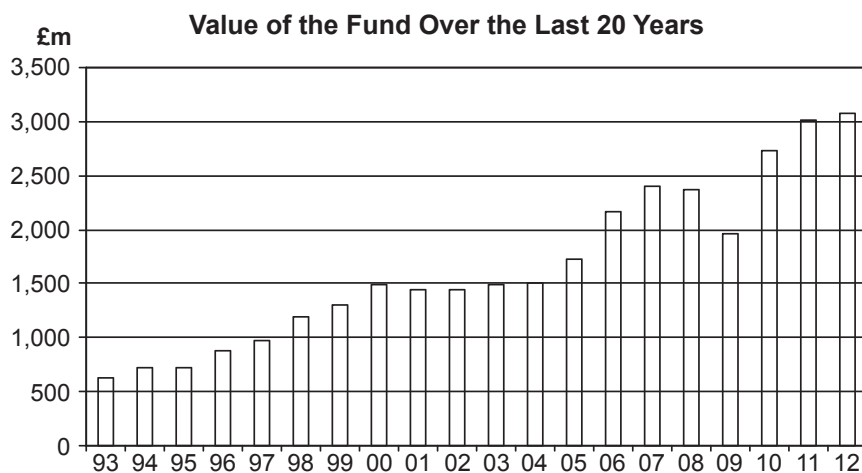
Fund returns over 1, 5 and 10 years by main asset class compared to benchmark

To 31 March	1 year		5 years		10 years	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
	%	%	%	%	%	%
UK Fixed Interest	11.9	12.3	7.4	6.8	6.6	6.2
Indexed Linked Securities	16.6	21.1	9.7	9.5	n/a	8.1
UK Equities	2.2	1.4	1.5	1.8	5.2	5.2
Overseas Equities	-2.3	-1.6	5.0	4.6	6.0	6.0
Europe	-9.6	-11.7	2.7	1.1	5.6	5.2
US	6.8	8.5	6.5	6.4	2.3	3.0
Japan	2.2	0.7	-1.3	-1.2	0.9	2.4
Pacific Basin (ex Japan)	-4.7	-5.2	10.2	8.5	12.1	11.6
Emerging Markets	-9.4	-8.5	10.1	9.7	12.6	13.0
Property	0.8	6.6	-3.7	-1.8	5.7	6.4
Total Fund	1.6	3.2	2.8	3.0	5.7	5.5

Information on returns is provided by BNY Mellon Asset Servicing

The Investment Performance of the Fund Over Last 5 Years





Top 20 Holdings at 31 March 2012

Holding	Market Value £m	Percentage of Fund
Schroder North American Equity Fund	119.6	3.9%
Legal & General Asia Pacific Ex Japan Equity Index	84.4	2.7%
Royal Dutch Shell EUR0.7 'B' (UK)	62.1	2.0%
Vodafone Group ORD US\$.11428571	57.6	1.9%
Kames Inflation Linked Fund Class B (ACC) OEIC	57.6	1.9%
Legal & General Japan Equity Index	56.4	1.8%
Glaxosmithkline PLC ORD 25P	50.8	1.7%
Legal & General Global Emerging Markets Index	50.6	1.6%
Hermes UK Specialist Focus Fund	49.7	1.6%
HSBC Holdings PLC ORD US\$0.50	47.4	1.5%
Schroder Institutional Developing Markets Fund A Units	47.2	1.5%
BP PLC ORD US\$0.25	44.4	1.4%
Schroder Institutional Pacific Fund (INC)	41.0	1.3%
Hermes European Focus Fund	40.8	1.3%
BG Group PLC ORD 10P	38.6	1.3%
Aberdeen European Fund of Funds II	36.1	1.2%
Rio Tinto PLC ORD 10P	35.5	1.2%
Astrazeneca Group US\$0.25	27.9	0.9%
Standard Life European Property Growth Fund - A Units	27.3	0.9%
Unilever ORD GBP0.0311	26.5	0.9%
Total	1,001.6	32.6%

- Index Tracker
- Equity
- Equity Fund
- Property Fund
- Mixed Fund

Administration Arrangements

The Pensions Office

The Pensions Office is the part of the Nottinghamshire Pension Fund responsible for the administration of the Nottinghamshire Local Government Pension Scheme (LGPS), including the Councillors' LGPS. The Pensions Office undertakes the 'nuts and bolts' of pensions work from setting up a new member to continuously updating their record to finally making payment of their benefits. In addition, the office also undertakes some of the employer related work of the LGPS for Nottinghamshire County Council.

The office is currently separated into the following areas of work:

- Pensions Administration
- Systems Administration
- Technical/Communications
- Client Liaison
- Technical/Performance (Support)

Pensions Administration System

The Pensions Office primarily administers the Nottinghamshire LGPS through the Pensions Administration System using up to date modules such as task management, document imaging and workflow procedures. All member documentation received in the office is scanned and indexed on to the system. The system allows an officer to be allocated to a group of work, for example processing of retirement benefits, and to view relevant scanned documents. It also enables the officer to place appropriate notes on the member record relating to the stage of the procedure reached, thereby allowing another pensions officer to be allocated this work in the future and complete it as required.

Benchmarking

The Pensions Office, as part of measuring its administration cost and performance against other Administering Authorities, belongs to the Pensions Administration Benchmarking Club. This Club is run by the Chartered Institute of Public Finance Limited

and we have been a member of it since 2000. Our performance in terms of cost per member has always been lower than the national average, and we continue to remain one of the cheaper cost-per-member authorities for administration in the country.

Communications

Benefit Statements

The Pensions Office has sent annual benefits statements to members of the Nottinghamshire LGPS (actives, deferred and councillors) since 2005. The statement informs the scheme member of not just their present or future values of benefits, but also, in brief, how they have been calculated.

Nest Egg

The bright and informative newsletter, Nest Egg, is now in its 25th edition. To keep production costs down, paper copies of the publication are only sent to pensioners (who have not elected for an electronic version) and to those active and deferred members of the fund who have specifically requested a paper copy. Otherwise, it is available for the member on the Fund's website or via an e-mail link. The publication informs the scheme member, in plain English, of issues related to the pension scheme, for instance complex regulation, fund performance, meeting dates/times etc. The publication continues to be issued twice yearly.

Website Development

Launched in July 2007, the website of the Nottinghamshire Pension Fund (www.nottspf.org.uk) covers all aspects of the LGPS and has information for all different types of stakeholders including active members, councillor members, deferred members, pensioners, their dependants and employers. There is also a section on fund information which gives details on the investment performance of the fund.

A separate micro-site was launched in June 2009 which provides guidance for employing organisations who participate in the Nottinghamshire Pension Fund. The aim of the site is to make the content relevant and accessible and to assist with the administration procedures and interpretation of the LGPS regulations.

Client Liaison

The Pensions Office's Client Liaison function liaises with scheme employers on a range of LGPS matters, including: the organisation of events for scheme members; the development of improved communication methods between the Pensions Office and its members/employers; the provision of support and training for employers; and the review and improvement of information and administrative systems. The Client Liaison Team has undertaken a number of events including:

- Roadshows and stands
- Employer meetings
- Induction and pre-retirement courses
- Presentations

An important factor in the design and delivery of pension roadshows/events at employer venues is that they are tailored to meet the needs of the individual employer and their employees. The team also works in partnership with the Fund's AVC providers, Prudential and Scottish Widows, who attend most organised pension events.

A range of communication methods have been used during the events. They include:

- a) PowerPoint presentations to members with Question & Answer sessions;
- b) DVD showing at roadshows/events of the LGPS to members;
- c) Meetings with employers to inform of the important aspects of the LGPS;
- d) Workshops with employers to train representatives on the administrative requirements of the LGPS. An employer guide and an end of year procedure guide have been developed to assist the employer in undertaking their responsibilities;
- e) Stands at staff conferences to discuss issues with members/prospective members of the LGPS;
- f) One-to-one sessions with members at roadshows, where they can discuss issues relating to their membership, but also view their records, and have a retirement estimate calculated and printed for their information;

- g) LGPS slot on induction courses across the county at employer venues to inform new employees of the LGPS;

A range of promotional material and literature has been produced for members, which are also used at the different pension events and roadshows, for example, specific guides and fact sheets on how the LGPS works. All the material contains clear information about the LGPS and advertises the Pensions Office telephone helpline number and website address, and is available online at www.nottspf.org.uk/welcome/members/membersguides/.

Employers

The Pensions Office arranges regular employer meetings. The opportunity is taken to discuss LGPS issues such as end of financial year procedures and responsibilities for new employers, with a view to driving the pensions agenda forward by giving clear guidance, direction and advice.

The Client Liaison team have continued to run a series of training events for employers, with the aim of improving the quality and timeliness of information received from them.

Membership

All new employees with a contract of at least 3 months are brought into the pension scheme automatically, unless a positive election not to participate is received from the employee. The membership of the fund over the past three years has been:

	31/03/10	31/03/11	31/03/12
Contributors	42,280	39,914	38,383
Deferred Benefits	29,925	32,100	33,838
Pensioners	25,853	26,722	28,475
Total	98,058	98,736	100,696

Active Fund Employers

Scheduled & Other Bodies

A1 Housing Bassetlaw Ltd
 Arnold Hill Foundation Trust
 Ashfield District Council
 Ashfield Homes Ltd
 Aslockton Parish Council
 Balderton Parish Council
 Barnby Road Trust
 Bassetlaw District Council
 Bilborough College
 Bingham Town Council
 Blessed Robert Widmerpool Academy
 Blidworth Parish Council
 Bramcote Crematorium Joint committee
 Broxtowe Borough Council
 Bulwell Academy
 Calverton Parish Council
 Carlton le Willows Academy
 Castle College Nottingham
 Cotgrave Town Council
 Cropwell Bishop Parish Council
 Diverse Academy Trust - Tuxford
 Djanogly City Academy Nottingham
 Edna G Olds Academy
 Edwinstowe Parish Council
 Farndon Parish Council
 Fernwood Parish Council
 Gedling Borough Council
 George Spencer Academy Trust
 Greasley Parish Council
 Greenwood Academy Trust
 - Nottingham Academy
 Greenwood Academy Trust
 - Nottingham Girls School
 Guideline Career Services Ltd
 Harworth & Bircotes Parish Council
 Huntingdon Academy
 Laneham Internal Drainage Board
 Langar cum Barnstone Parish Council
 Manor Academy Trust
 Mansfield & District Crematorium Joint Committee
 Mansfield District Council
 National CE Academy Trust
 National College for School Leadership
 New College Nottingham
 Newark & Sherwood District Council
 Newark & Sherwood Homes Ltd
 Newark Internal Drainage Board
 Newark Town Council
 Norbridge Academy

North Nottinghamshire College
 Nottingham City Council
 Nottingham City Homes
 Nottingham City Transport Ltd
 Nottingham University Samworth Academy
 Nottinghamshire County Council
 Nottinghamshire Combined Fire Authority
 Nottinghamshire Fire & Rescue (Trading) Ltd
 Nottinghamshire Police Authority
 Nottinghamshire Probation Trust
 Nuthall Parish Council
 Ollerton & Boughton Town Council
 Our Lady & St Edwards Voluntary Aided Academy
 Quarrydale Academy
 Radcliffe on Trent Parish Council
 Rainworth Parish Council
 Redhill Academy
 Redhill Trust - Carlton
 Ruddington Parish Council
 Rushcliffe Borough Council
 Samworth Church Academy
 Scape System Build Ltd
 School Partnership Trust - Serlby Park
 Selston Parish Council
 South Nottingham Catholic Academy Trust - Becket
 South Nottingham Catholic Academy Trust - St E Campion
 South Nottingham College Academy Trust
 South Nottingham College
 Southwark Primary
 Southwell Town Council
 St Ann's Well Academy
 Stapleford Town Council
 The Brunts Academy
 The Joseph Whitaker School
 The Nottingham Trent University
 The Trinity School
 The West Bridgford school
 Tollerton Parish Council
 Toot Hill School
 Trowell Parish Council
 Warsop Parish Council
 West Nottinghamshire College

Admitted Bodies

Ashfield Citizens Advice Bureau
 Barnsley Premier Leisure Ltd
 Bassetlaw Citizens Advice Bureau
 Bestwood Partnership Forum

Bestwood Partnership Forum
 Carers Federation Nottingham
 Carillion Services Limited
 Centre for Contemporary Arts
 Child Migrants Trust
 Citizens Advice Broxtowe
 Clifton Advice Centre
 Disabilities Living Centre
 East Midlands Further Education Council
 Eastwood Voluntary Bureau
 EM Media Company Ltd
 Enviroenergy Ltd
 Experience Nottinghamshire Limited
 Faith in Families
 Family Care
 Gedling Homes
 Greenfields Centre Limited
 Groundwork Greater Nottingham
 Institute of Cemetery & Crematorium Management
 Mansfield Citizens Advice Bureau
 Mansfield Road Baptist Housing
 Mellors Catering Service Ltd
 Metropolitan Housing Trust
 Newark Emmaus Trust Limited
 Nottingham Ice Centre Limited
 Nottingham & Nottinghamshire Futures Ltd
 Nottingham Citizens Advice Bureau
 Nottingham Development Enterprise
 Nottingham Regional Society for Autistic Children & Adults
 Nottingham Regeneration Ltd.
 Nottingham Trent Students Union
 Nottinghamshire Association of Local Councils
 Nottinghamshire County Scout Association
 Nottinghamshire Deaf Society
 Ollerton & District Citizens Advice Bureau
 Pearson Centre for Young People
 Ramesys (e-Business services) Ltd
 Renewal Trust
 Rural Community Action Nottinghamshire
 Southern Electric Contracting
 Southwell Leisure Centre
 Sports & Leisure Management
 Sprou & Associates Limited
 The Kirkby Trust
 The Partnership Council
 United Response
 UPP (Nottingham) Ltd

Statement by Actuary

Introduction

The last full triennial valuation of the Nottinghamshire County Council Pension Fund ("the Fund") was carried out by ourselves as at 31 March 2010. The results were published in our report dated March 2011.

2010 Valuation

The 2010 valuation certified a common contribution rate of 18.0% of pensionable pay to be paid by each employing body participating in the Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Employer Contribution Rates

Employers' contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The ongoing annual accrual of benefits for active members in respect of each employer that build up each year within the Fund, allowing for future pay increases and increases to pension in payment when these fall due
- Plus an amount to fund the difference between each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund.

Asset Value and Funding Level

The value of the Fund's assets as at 31 March 2010 for valuation purposes was £2,637m which represented 84% of the accrued liabilities at that date allowing for future increases in pay and pensions in payment.

The contribution rates were calculated using the Projected Unit Method.

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows:

- Rate of return on investments
6.8% per annum
- Rate of increases in pay
5.0% per annum
- Rate of Increases to pensions in payment
3.0% per annum

The funding plan underlying the certified levels of contribution assume that each employer's funding position will be restored to 100% over a period not exceeding 20 years depending on each employer's circumstances.

The next actuarial valuation is due as at 31 March 2013 and results will be reported during 2013/14. We will however monitor the financial position of the Fund until then.



Graeme D Muir FFA
Partner
28 September 2011

The Pension Fund Accounts

FUND ACCOUNT FOR YEAR ENDED 31 March 2012

	Notes	As restated 2010/11 £000	2011/12 £000
Contributions			
Employer contributions	4	(131,003)	(134,907)
Member contributions		(45,815)	(42,242)
		<u>176,818</u>	<u>(177,149)</u>
Transfers in from other pension funds			
		16,570	(10,197)
Benefits			
Pensions	5	103,597	117,060
Commutation of pensions and lump sum retirement benefits		36,601	37,467
Lump sum death benefits		3,328	3,588
		<u>143,526</u>	<u>158,115</u>
Payments to and on account of leavers			
		24,453	10,738
Administration Expenses			
	7	1,390	1,301
Net additions from dealings with members			
		<u>(24,019)</u>	<u>(17,192)</u>
Investment Income	8	(83,230)	(84,830)
Profits & losses on disposal of investment & changes in value		(173,887)	32,988
Taxes on income		690	674
Investment management expenses	9	4,465	3,871
Net Returns on Investment			
		<u>(251,962)</u>	<u>(47,297)</u>
Net (increase)/decrease in net assets available for benefits during the year			
		(275,981)	(64,489)
Opening net assets of the Fund		2,731,826	3,007,807
Net assets available to fund benefits			
		<u><u>3,007,807</u></u>	<u><u>3,072,296</u></u>

NET ASSETS STATEMENT FOR THE YEAR ENDED 31 March 2012

	Notes	As restated 31 March 2011 £000	31 March 2012 £000
Investment Assets	10 & 11		
Fixed Interest Securities		266,901	288,011
Index Linked Securities		62,471	75,344
Equities		1,470,613	1,439,871
Pooled Investment Vehicles		785,844	854,489
Property		272,017	266,603
Cash deposits		132,186	137,382
Other Investment Balances	12	12,334	14,316
Investment liabilities	12	(3,383)	(3,232)
		<u>2,998,983</u>	<u>3,072,784</u>
Current assets	13	13,449	14,994
Current liabilities	13	(4,625)	(15,482)
		<u>8,824</u>	<u>(488)</u>
Net assets of the fund available to pay benefits at the year end		<u>3,007,807</u>	<u>3,072,296</u>

The actuarial present value of promised retirement benefits, as required by IAS 26, is shown at note 2.

Explanation of Prior Period Adjustments

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). On issues where there is no clear guidance in the Code, reference has been made under the hierarchy of standards to Financial Reports of Pension Schemes: a Statement of Recommended Practice 2007 (the Pensions SORP).

The market value of fixed interest and index linked investments was previously based on the 'dirty price', i.e. included income accrued at 31 March but not yet due for payment. To more fully comply with the accounting requirements specified above these are now reported on the basis of the 'clean price', i.e. excluding accrued income. This is a change from previous years to more fully comply with the accounting requirements specified above.

Impact on the Fund Account

	Fund Account 2010/11 Statement of Accounts £000	Change £000	Fund Account 2010/11 Comparative £000
Investment Income	(79,051)	(4,179)	(83,230)
Profits & losses on disposal of investments & changes in value	(178,066)	4,179	(173,887)
	<u>(257,117)</u>	<u>-</u>	<u>(257,117)</u>

Impact on the Net Assets Statement

	Net Assets 2010/11 Statement of Accounts £000	Change £000	Net Assets 2010/11 Comparative £000
Investment Assets			
Fixed Interest Securities	270,799	(3,898)	266,901
Index Linked Securities	62,752	(281)	62,471
Other Investment Balances	8,155	4,179	12,334
	<u>341,706</u>	<u>-</u>	<u>341,706</u>

Notes to the Accounts

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). On issues where there is no clear guidance in the Code, reference has been made under the hierarchy of standards to Financial Reports of Pension Schemes: a Statement of Recommended Practice 2007 (the Pensions SORP). Disclosures in the Pension Fund accounts have been limited to those required by the Code.

DEBTORS AND CREDITORS

The accruals concept for debtors and creditors is applied to these accounts in compliance with the Code.

INVESTMENTS

Pension fund investments are carried at fair value in accordance with the Code. Fair value is defined as 'the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction'. Where an active market exists, the quoted market price is used. Where there is no active market, fair value is established by using valuation techniques. Specific details on the valuation methods for particular classes of assets are listed below.

- a) Equities traded through a stock exchange are valued at the latest quoted price. Where more than one price is quoted the 'bid' price is used.
- b) Unit Trusts and managed funds are valued at the closing single price or the bid price where applicable. These reflect the market value of the underlying investments.

- c) Unquoted securities and pooled private equity investments are valued at fair value by the fund managers at the year end in accordance with industry accepted guidelines.
- d) The market value of fixed interest investments is based on the 'clean price', i.e. excludes income accrued at 31 March but not yet due for payment. This is a change from previous years to more fully comply with the accounting requirements specified above. Comparative figures have been amended to reflect this change.
- e) Property investments are stated at open market value based on a quarterly independent valuation at the Net Assets Statement date.

Acquisition costs are included in the purchase cost of investments.

The change in fair value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

Forward foreign exchange contracts are over the counter contracts under which two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. These are used to manage the economic exposure to bond markets and hedge against foreign currency movements. These contracts are included at fair value by determining the gain or loss that would arise from closing out the contract at the Net Assets Statement date by entering into an equal and opposite contract at that date. The movements on these contracts during the year are shown in the reconciliation of opening and closing balances of investments at note 10.

INVESTMENT INCOME

Investment income is accounted for on an accruals basis. The following apply to particular income:

- a) interest on cash deposits and fixed interest securities are accrued on a daily basis;

- b) dividends from equities are accrued when the stock is quoted ex-dividend;
- c) rents from property are accrued in accordance with the terms of the lease.

TAXES ON INCOME

UK equity dividends are quoted and accounted for at the net rate. The tax credit, which the Fund is unable to recover, is not recognised (in accordance with the Pensions SORP). Overseas equity dividends are accounted for gross of withholding tax, where this is deducted at source. Partial reclaims of withholding tax, where allowed, are adjusted at the year end by outstanding claims.

FOREIGN CURRENCIES

Where forward exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at the rate ruling on the date of the transaction. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

CONTRIBUTIONS

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from the employer are accounted for on an accruals basis.

BENEFITS PAYABLE

Under the rules of the Scheme, members can receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised. Other benefits are accounted for on the date the member leaves the Scheme or on death.

TRANSFERS TO AND FROM OTHER SCHEMES

Transfer values represent the capital sums either receivable (in respect of members from other pension schemes of previous employers) or payable (to the pension schemes of new employers for members who have left the Scheme). They take account of transfers where the trustees (or administering authority) of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

OTHER EXPENSES

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Nottinghamshire County Council charges the Fund with the costs it incurs in administering the scheme and the Fund.

2. OPERATION OF THE FUND

(a) Contributions and Solvency

With effect from 1 April 2008 The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 were introduced in conjunction with the Local Government Pension Scheme Regulations 1997. The principal changes from the 1997 regulations were: the replacement, for future service, of the existing benefits structure (based on a pension of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump sum of three times this amount) by one based on 1/60th of pensionable pay for each year of pensionable service and no automatic lump sum. Additional scheme changes are currently being consulted on with the intention to implement from 1 April 2014.

Employees are required by the current combined Regulations to make percentage contributions by deduction from earnings at a rate between 5.5% and 7.5% depending on

salary. Employers are required to make such balancing contributions, determined by the Actuary, as will maintain the fund in a state of solvency, having regard to existing and prospective liabilities.

(b) Actuarial Valuations

As required by the Regulations an Actuarial Valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £2,732 million. The Actuary has estimated that the value of the Fund was sufficient to meet 84% of its expected future liabilities in respect of service completed to 31 March 2010. The certified contribution rates are expected to improve this to 100% within a period of 20 years.

The Actuarial Valuation was carried out using the projected unit method and the assumptions used within the valuation were as follows:

	March 2010 Real	
	% pa	% pa
Investment return:		
Equities/absolute return funds	7.5%	4.0%
Gilts	4.5%	1.0%
Bonds & Property	5.6%	2.1%
Discount Rate	6.9%	3.4%
Risk Adjusted Discount Rate	6.8%	3.3%
Pay Increases	5.0%	1.5%
Price Inflation	3.5%	-
Pension Increases	3.0%	-0.5%

The full actuarial valuation report is available on the Fund's website at: www.nottspf.org.uk.

The employers' contribution rates paid in 2010/11 were set by the valuation carried out as at 31 March 2007. The rates to be paid in years 2011/12 to 2013/14 were set by the latest valuation carried out as at 31 March 2010. At that valuation, the Actuaries certified a common rate of contribution of 18.0% of pensionable payroll with individual adjustments for certain employers. The following list shows the rates payable by the main employers:

	2010/11	2011/12 to 2013/14
Percentages of Pensionable Pay	%	%
Nottinghamshire County Council	17.4	18.3
Nottingham City Council	17.4	18.0
Ashfield District Council	22.4	22.4
Bassetlaw District Council	21.1	22.1
	Plus £670,000	
Broxtowe Borough Council	17.7	18.7
Gedling Borough Council	17.6	18.2
Mansfield District Council	20.3	20.5
Newark and Sherwood District Council	21.9	21.9
Rushcliffe Borough Council	19.2	19.5
	Plus £163,600	

The cash figures quoted for some employers are specific amounts for deficit recovery certified by the actuaries in addition to the normal contribution rate.

(c) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits has been calculated by the Fund's actuaries in accordance with IAS 19. To do this, the actuaries rolled forward the value of the Employers' liabilities calculated for the Triennial valuation as at 31 March 2010 allowing for the different financial assumptions required under IAS19. The assumptions used for the purposes of the IAS 19 calculations are as follows:

	31 March 2010		31 March 2011		31 March 2012	
	% pa	Real % pa	% pa	Real % pa	% pa	Real % pa
RPI Increases	3.9%	-	3.5%	-	3.3%	-
CPI increases	n/a		2.7%	-0.8%	2.5%	-0.8%
Salary Increases	5.4%	1.5%	5.0%	1.5%	4.7%	1.4%
Pension Increases	3.9%	-	2.7%	-0.8%	2.5%	-0.8%
Discount Rate	5.5%	1.5%	5.5%	1.9%	4.6%	1.3%

The net liability under IAS 19 is shown below.

	31/3/10 £000	31/3/11 £000	31/3/12 £000
Present value of funded obligation	4,615,283	4,057,629	4,966,881
Fair value of scheme assets	2,731,826	2,957,085	3,061,212
Net Liability	<u>1,883,457</u>	<u>1,100,544</u>	<u>1,905,669</u>

The present value of funded obligation consists of £3,968,456,000 in respect of Vested Obligation and £998,425,000 in respect of Non-Vested Obligation. These figures are presented only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

(d) Investment Strategy

The Pensions Committee, advised by the Pensions Investment Sub-Committee, is responsible for determining the investment strategy of the Fund and the type of investment management to be used.

The investment strategy of the Fund is designed to maximise growth within acceptable risk parameters to help meet the future liabilities. The powers of investment are governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Strategic decisions on investment policy are made by the Pensions Committee, advised by a Pensions Investment Sub-Committee. The policy is set out in the Fund's Statement of Investment Principles, a copy of which is available on the pension fund website (www.nottspf.org.uk).

The Sub-Committee consists of nine elected County Councillors, three representatives of Nottingham City Council, two representatives of the District Councils, two representatives of the trade unions and a representative elected by the other scheduled and admitted bodies. Meetings are also attended by an independent adviser and representatives of the Service Director (Finance & Procurement).

The investments are managed by officers of the County Council or by organisations specialising in the management of pension fund assets. The Sub-Committee meets on a quarterly basis to review the investments of the Fund.

(e) External Audit

A separate fee is payable to the Audit Commission for audit of the pension fund. All fees have been included in the accounts for the period to which they relate. The fee for 2011/12 is £44,460 (2010/11 £49,500).

3. CONTRIBUTORS AND PENSIONERS

	Members at 31/3/12				
	County Council	City Council	District Councils	Other	Total
Contributors	16,587	8,681	3,569	9,546	38,383
Deferred Beneficiaries	15,863	7,719	3,307	6,949	33,838
Pensioners	13,720	5,601	4,307	4,847	28,475
					<u>100,696</u>

	Members at 31/3/11				
	County Council	City Council	District Councils	Other	Total
Contributors	18,099	8,981	3,795	9,039	39,914
Deferred Beneficiaries	14,899	7,622	3,161	6,418	32,100
Pensioners	12,879	5,265	4,160	4,418	26,722
					<u>98,736</u>

4. ANALYSIS OF CONTRIBUTIONS

	Employers		Members		Total	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
County Council	50,200	51,062	17,315	15,352	67,515	66,414
Scheduled Bodies	76,352	78,216	26,928	25,469	103,280	103,685
Admitted Bodies	4,451	5,629	1,572	1,421	6,023	7,050
	131,003	134,907	45,815	42,242	176,818	177,149

5. ANALYSIS OF BENEFITS

	2010/11 £000	2011/12 £000
Pensions	103,597	117,060
Commutation and lump sum	36,601	37,467
Lump sum death benefits	3,328	3,588
	143,526	158,115
Comprising of:		
County Council	62,501	64,797
Scheduled Bodies	77,386	88,686
Admitted Bodies	3,639	4,632
	143,526	158,115

6. RELATED PARTY TRANSACTIONS

During the financial year 2011/12 County Councillor Mr D Taylor was a member of the Nottinghamshire County Council Pensions Committee and in receipt of a pension from this fund. In addition, Mr J Pearson was a part-time employee of Nottinghamshire County Council dealing with Pension Fund investment matters and in receipt of a pension from this fund.

7. ADMINISTRATION EXPENSES

	2010/11 £000	2011/12 £000
Printing & stationery	40	41
Subscriptions and membership fees	3	3
Actuarial fees	37	9
Other external fees	66	112
Administering Authority Costs	1,244	1,136
	1,390	1,301

8. INVESTMENT INCOME

Analysis by type of investment

	2010/11 £000	2011/12 £000
Interest from fixed interest securities	(16,498)	(11,598)
Income from index-linked securities	(1,300)	(1,487)
Dividends from equities	(40,960)	(49,585)
Income from pooled investment vehicles	(4,492)	(6,118)
Income from property pooled vehicles	(3,326)	(445)
Net rents from property	(15,905)	(13,838)
Interest on cash deposits	(722)	(818)
Other	(27)	(941)
	<u>(83,230)</u>	<u>(84,830)</u>
Directly held property		
Rental income	(17,790)	(16,789)
Less operating expenses	1,885	2,951
Net rents from property	<u>(15,905)</u>	<u>(13,838)</u>

9. INVESTMENT MANAGEMENT EXPENSES

	2010/11 £000	2011/12 £000
Training & conferences	15	7
Printing & stationery	16	10
Subscriptions and membership fees	20	23
Actuarial fees	2	2
Audit fee	50	44
Custody fees	234	240
Investment management fees	2,820	3,001
Other external fees	1,042	238
Administering Authority Costs	266	306
	<u>4,465</u>	<u>3,871</u>

10. INVESTMENT INCOME

(a) Investment Analysis	31 March 2011 £000	31 March 2012 £000
Fixed Interest Securities		
UK Public Sector	115,215	123,086
UK Other	95,284	110,864
Overseas Public Sector	48,302	43,629
Overseas Other	8,100	10,432
Index Linked Securities		
Public Sector	37,906	48,164
Other	24,565	27,180
Equities		
UK	969,648	962,695
Overseas	499,190	475,032
Unlisted	1,775	2,145
Pooled Investment Vehicles		
Unit Trusts	225,942	338,670
Other Managed Funds	437,165	394,426
Pooled Vehicles Invested in Property		
Property Unit Trusts	29,321	31,365
Other Managed Funds	93,416	90,028
Property	272,017	266,603
Cash and Currency	132,186	137,382
Total Investments	<u>2,990,032</u>	<u>3,061,701</u>

The total investments analysed above are the net assets of the fund less other investment balances and liabilities and current assets and liabilities. These other balances are analysed in notes 12 and 13.

The original values of investments are based on purchase cost plus expenses. If any investments have been held since 1 April 1974 (when the County Council was given the responsibility for the Fund) these are included at the market value as at that date.

	31/03/2011 £000	31/03/2012 £000
Market Value	2,990,032	3,061,701
Original Value	2,451,032	2,575,895
Excess/(Deficit) of Market Value over Original Value	<u>539,000</u>	<u>485,806</u>

At 31 March 2012 the fund held no investment representing over 5% of the value of the fund (2010/11 also nil).

(a) Reconciliation of Opening and Closing Values of Investments 2011/12

	Value at 1st April 2011 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31st March 2012 £000
Fixed Interest Securities	266,901	227,091	(226,015)	20,034	288,011
Index Linked Securities	62,471	21,205	(15,861)	7,529	75,344
Equities	1,470,613	162,035	(135,803)	(56,973)	1,439,872
Pooled Investment Vehicles	663,107	84,521	(23,074)	8,542	733,096
Property Pooled Vehicles	122,737	8,801	(401)	(9,744)	121,393
Property	272,017	28,500	(32,003)	(1,911)	266,603
	<u>2,857,846</u>	<u>532,153</u>	<u>(433,157)</u>	<u>(32,523)</u>	<u>2,924,319</u>
Forward Foreign Exchange	-	27,113	(26,648)	(465)	-
	<u>2,857,846</u>	<u>559,266</u>	<u>(459,805)</u>	<u>(32,988)</u>	<u>2,924,319</u>
Cash deposits	132,186				137,382
	<u>2,990,032</u>				<u>3,061,701</u>

Reconciliation of Opening and Closing Values of Investments 2010/11

	Value at 1st April 2010 £000	Purchases at Cost £000	Proceeds of Sales £000	Change in Market Value £000	Value at 31st March 2011 £000
Fixed Interest Securities	249,165	197,523	(172,789)	(6,998)	266,901
Index Linked Securities	48,534	14,415	(3,269)	2,791	62,471
Equities	1,362,035	175,422	(159,016)	92,172	1,470,613
Pooled Investment Vehicles	587,286	52,267	(44,599)	68,153	663,107
Property Pooled Vehicles	134,716	-	(21,549)	9,570	122,737
Property	248,085	34,681	(19,539)	8,790	272,017
	<u>2,629,821</u>	<u>474,308</u>	<u>(420,761)</u>	<u>174,478</u>	<u>2,857,846</u>
Forward Foreign Exchange	-	65,888	(65,297)	(591)	-
	<u>2,629,821</u>	<u>540,196</u>	<u>(486,058)</u>	<u>173,887</u>	<u>2,857,846</u>
Cash deposits	89,360				132,186
	<u>2,719,181</u>				<u>2,990,032</u>

For Forward Foreign Exchange contracts, the purchase cost and sale proceeds represent the sterling value of the currency purchases and sales at the settlement dates specified in the contracts.

Transaction costs are included in the cost of purchases and sale proceeds. The costs charged directly to the fund, such as fees, commissions and stamp duty, amounted to £1,601,583 in 2011/12 (£2,683,254 in 2010/11). In addition, indirect costs are incurred through the bid-offer spread on investments. This amount is not separately provided.

(c) Management Arrangements

An analysis of the investment management arrangements as at the Net Assets Statement date is shown below:

	31/3/11		31/3/12	
	£000	%	£000	%
In-house	1,145,956	38.3	1,118,010	36.5
Schroder Investment Management	794,450	26.6	785,415	25.7
Kames Capital	329,372	11.0	420,908	13.7
Aberdeen Property Investors	308,185	10.3	302,748	9.9
Legal & General	189,926	6.4	213,230	7.0
Hermes Asset Management	109,983	3.7	116,522	3.8
Standard Life	57,248	1.9	52,828	1.7
Keills	25,319	0.8	25,222	0.8
Governance 4 Owners	14,652	0.5	12,305	0.4
Martin Currie	14,941	0.5	14,513	0.5
Total	<u>2,990,032</u>	100.0	<u>3,061,701</u>	100.0

(note Kames Capital was formerly Aegon Asset Management)

(d) Asset Allocation

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

	31/3/11		31/3/12	
	£000	%	£000	%
UK Fixed Interest	210,499	7.0	233,950	7.6
Overseas Fixed Interest	56,402	1.9	54,061	1.7
Index Linked Securities	62,471	2.1	75,344	2.5
UK Equities	1,045,567	35.0	1,048,940	34.3
Overseas Equities:				
US	350,198	11.7	358,487	11.7
Japan	88,939	3.0	97,805	3.2
Europe	319,506	10.7	272,702	8.9
Pacific Basin	133,554	4.5	125,443	4.1
Emerging Markets	117,525	3.9	130,544	4.2
Global	14,941	0.5	14,513	0.5
UK Property	302,627	10.1	299,023	9.8
Overseas Property	92,128	3.1	88,974	2.9
Private Equity	63,489	2.1	66,979	2.2
Multi-Asset	-	0.0	57,554	1.9
Cash	132,186	4.4	137,382	4.5
Total	<u>2,990,032</u>	100.0	<u>3,061,701</u>	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 2011 £000	31 March 2012 £000
Freehold	264,417	259,653
Leasehold more than 50 years	7,600	6,950
	<u>272,017</u>	<u>266,603</u>
Original Value	<u>280,467</u>	<u>279,458</u>

(f) Analysis of Pooled Investment Vehicles

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

	31 March 2011 £000	31 March 2012 £000
UK Equities	103,029	110,453
Overseas Equities:		
US	139,421	138,762
Japan	60,993	62,074
Europe	59,039	53,127
Pacific Basin	133,554	125,443
Emerging Markets	90,416	106,336
Global	14,941	14,513
UK Property	30,609	32,420
Overseas Property	92,128	88,974
Private Equity	61,714	64,834
Multi-Asset	-	57,553
Total	<u><u>785,844</u></u>	<u><u>854,489</u></u>

(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

These commitments are drawn by the funds over time as investments are made in underlying companies. The undrawn commitment as at 31 March 2012 was £21.3 million (£28.5 million at 31 March 2011).

11. FINANCIAL INSTRUMENTS

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.

2011/12

	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
	<u>2,657,715</u>	<u>166,692</u>	<u>-</u>	<u>2,824,407</u>
Financial Liabilities				
Investment Liabilities	-	-	(3,232)	(3,232)
Current Liabilities	-	-	(15,482)	(15,482)
	<u>-</u>	<u>-</u>	<u>(18,714)</u>	<u>(18,714)</u>
	<u>2,657,715</u>	<u>166,692</u>	<u>(18,714)</u>	<u>2,805,693</u>

2010/11

	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	266,901	-	-	266,901
Index Linked Securities	62,471	-	-	62,471
Equities	1,470,613	-	-	1,470,613
Pooled Investment Vehicles	663,107	-	-	663,107
Property Pooled Vehicles	122,737	-	-	122,737
Cash deposits	-	132,186	-	132,186
Other investment balances	-	12,334	-	12,334
Current Assets	-	13,449	-	13,449
	<u>2,585,829</u>	<u>157,969</u>	<u>-</u>	<u>2,743,798</u>
Financial Liabilities				
Investment Liabilities	-	-	(3,383)	(3,383)
Current Liabilities	-	-	(4,625)	(4,625)
	<u>-</u>	<u>-</u>	<u>(8,008)</u>	<u>(8,008)</u>
	<u>2,585,829</u>	<u>157,969</u>	<u>(8,008)</u>	<u>2,735,790</u>

No financial assets were reclassified during the accounting period.

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 2012	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	2,467,198	121,393	69,124	2,657,715
Loans and receivables	166,692	-	-	166,692
Total	2,633,890	121,393	69,124	2,824,407
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(18,714)	-	-	(18,714)
Total	(18,714)	-	-	(18,714)
Net	2,615,176	121,393	69,124	2,805,693

As at 31 March 2011	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit and loss	2,397,829	122,737	65,263	2,585,829
Loans and receivables	157,969	-	-	157,969
Total	2,555,798	122,737	65,263	2,743,798
Financial Liabilities				
Fair value through profit and loss	-	-	-	-
Financial liabilities	(8,008)	-	-	(8,008)
Total	(8,008)	-	-	(8,008)
Net	2,547,790	122,737	65,263	2,735,790

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:

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

12. OTHER INVESTMENT BALANCES AND LIABILITIES

	31 March 2011 £000	31 March 2012 £000
Other investment balances		
Outstanding investment transactions	349	42
Investment income	11,985	14,274
	<u>12,334</u>	<u>14,316</u>
Investment Liabilities		
Outstanding investment transactions	-	(310)
Investment income	(3,383)	(2,922)
	<u>(3,383)</u>	<u>(3,232)</u>

13. CURRENT ASSETS AND LIABILITIES

	31 March 2011 £000	31 March 2012 £000
Current assets		
Contributions due from employers	9,260	11,814
Other	4,189	3,180
	<u>13,449</u>	<u>14,994</u>
Current Liabilities		
Payments in advance	-	(4,651)
Sundry creditors	(4,625)	(926)
Other	-	(9,905)
	<u>(4,625)</u>	<u>(15,482)</u>

14. CONTINGENT LIABILITIES

The fund has 10 private equity funds which have undrawn commitments as at 31 March 2012 of £21.3m (£28.5m at 31 March 2011). These commitments may be drawn over a number of years but timing and amount are irregular and uncertain.

15. MEMBERS ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Nottinghamshire Funds provide 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 Funds' 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 2011 £000	31 March 2012 £000
Prudential	29,698	27,289
Scottish Widows	3,735	3,058
	<u>33,433</u>	<u>30,347</u>

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 Pensions Committee and are expressly excluded from the delegation of authority to the Cabinet. This is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).
- 2.2 The Pensions Committee meets four times a year and its members act in a quasi-trustee capacity. Under the constitution, it is responsible for administering, investing and managing the pension fund and it shall appoint two sub-committees, the Pensions Administration Sub-Committee and the Pensions Investment Sub-Committee.
- 2.3 The Administration Sub-Committee is an advisory committee making recommendations to the Pensions Committee on all matters relating to the regulation of and admission to the pension scheme including all matters relating to beneficiaries. Meetings are held four times a year.
- 2.4 The Investment Sub-Committee is an advisory committee making recommendations to the Pensions Committee on all matters relating to the investment of the pension fund. Meetings are held eight times a year. The sub-committee may appoint a working party to consider future policy & development.

2.5 The terms of reference of the Pensions Committee and the number of voting members are determined by the Council at its annual meeting. The terms of reference of the sub-committees and the number of voting members are determined by the Pensions Committee on the basis of the council's constitution.

3. Functions and Responsibilities

- 3.1 The Pensions 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 Pensions Committee, advised by the Investment Sub-Committee.
- 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 Pensions Committee, advised by the Investment Sub-Committee.
- 3.4 The business of investing the pension funds is specifically delegated to the Service Director (Finance) and Head of Service (Investments). This delegation includes powers to exercise all functions in relation to the management of the pension fund investments. These powers can be delegated by the post holders to the Investments Manager.

- 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 Pensions Committee, advised by the Investment Sub-Committee.
- 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 Pensions Committee, advised by the Administration Sub-Committee.
- 4.3 The Investment Sub-Committee also has 17 members consisting of the following representatives:
- county councillors (9)
 - trade unions (2)
 - Nottinghamshire Local Authorities' Association (2)
 - scheduled and admitted bodies (1)
 - Nottingham City Council (3)
- 4.4 All members on both sub-committees have voting rights where allowed by relevant regulation.
- 4.5 Meetings of the Investment Sub-Committee 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.

4. Representation

- 4.1 The Pensions 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 Administration Sub-Committee has 17 members consisting of the following representatives:
- county councillors (9)
 - trade unions (2)
 - pensioners (2)
 - Nottinghamshire Local Authorities' Association (1)
 - scheduled and admitted bodies (1)
 - Nottingham City Council (2)

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: <ul style="list-style-type: none"> 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).meetings. 	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 Pensions 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 Pensions 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 Administration 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 Pensions 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

Actuarial Valuation as at 31 March 2010

Appendix A

Method and assumptions used in calculating the funding target and recovery plan

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group

Financial assumptions

Investment return (discount rate)

The discount rate adopted at the 2010 valuation represented the expected investment return from the agreed investment strategy. In nominal terms this resulted in a discount rate of 6.9% per annum. Further details can be found in the 2010 valuation report.

Inflation (Retail Prices Index)

The inflation assumption will be taken to be the investment market's expectation for inflation, adjusted to reflect possible distortion in the UK government index-linked gilt market arising from supply/demand issues. This is derived by taking the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, and reducing it by 0.25% p.a. The assumption adopted was 3.5% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. An additional allowance has been made for promotional increases. However in anticipation of Government policy it has been assumed that there will be a short term "pay freeze" for 2 years for those earning over £21,000 per annum.

Pension increases

Previously, pension increases were assumed to be in line with retail price increases. The 2010 Emergency Budget announced that in future, the pension increase orders will be linked to the CPI rather than RPI. It was assumed that pension increases will be 0.5% less than the price inflation assumption. i.e. 3.0% per annum.

Mortality

The mortality assumptions will be based on the most up-to-date information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the Scheme. The mortality tables used are S1PA Heavy tables allowing for medium cohort projection, with a minimum 1% improvement and a multiplier of 105%.

Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 5 years older.

Commutation

It has been assumed that members on retirement will commute pension to provide a lump sum of 50% of the standard lump sum and the maximum allowed at a rate of £12 cash for each £1 p.a. of pension given up.

Summary of key whole Fund assumptions used for calculating funding target, recovery plan and cost of future accrual (the “normal cost”) for the 2007 actuarial valuation

Long-term gilt yields and price inflation	
Fixed interest	4.4% p.a.
Index linked	1.3% p.a.
Market implied RPI price inflation	3.1% p.a.
Assumed long-term price inflation	2.8% p.a.
Past service funding target and recovery plan financial assumptions	
Investment return pre-retirement	7.15% p.a.
Investment return post-retirement	5.40% p.a.
Salary increases	4.30% p.a.
Pension increases	2.80% p.a.
Future service accrual financial assumptions	
Investment return	6.50% p.a.
Salary increases	4.30% p.a.
Pension increases	2.80% p.a.
Demographic assumptions	
Non-retired members' mortality	<i>Nottinghamshire County Council Pension Fund:</i> PA92 MC YoB tables + 2 year (males) +1 year (females) <i>Nottinghamshire Admission Agreement Etc Pension Fund:</i> PA92 MC YoB tables + 1 year (males and females) (+ additional 5 years for retirements in ill health in each case)
Retired members' mortality	<i>Nottinghamshire County Council Pension Fund:</i> PA92 MC YoB tables + 2 year (males) +1 year (females)
	<i>Nottinghamshire Admission Agreement Etc Pension Fund:</i> PA92 MC YoB tables + 1 year (males and females) (+ additional 5 years for retirements in ill health in each case)
Commutation	One half of members take maximum lump sum, others take 3/80ths
Withdrawal	Increased allowance compared to 2004 valuation for younger members to leave service
Other demographics	As for 2004 Valuation

The combined investment management arrangements as at 31 March 2010 were as below.

Investment	Management	Style	Fee Structure	£ million
Equities				
Global equities	In-house	Consensus indexation		1,058
Global equities	Schroders	Active management	Fixed fee basis	715
Global equities	Martin Currie	Active management	Fixed fee basis	15
Global equities	Hermes Governance for Owners	Active with focus on company engagement	Fixed fee plus performance fee	102
Private equity	Various	Active management	Fixed fee plus performance fee	48
				1,938
Fixed Interest				71.3%
Global fixed interest	Aegon	Active management	Fixed fee plus performance fee	262
Index linked bonds	Aegon	Active management	Fixed fee plus performance fee	51
				313
Property				11.5%
Direct UK property	Aberdeen	Active management	Fixed fee basis	248
Property unit trusts	Various	Active management		38
Overseas property	Various	Active management	Fixed fee plus performance fee	92
				378
Cash	Nottinghamshire County Council			90
				2,719

2.5 Voting is in line with corporate governance best practice and the Fund subscribes to independent research services for voting advice. Voting activity is reported to the Investment Sub-Committee. In exceptional circumstances the Fund will combine with others on a specific issue but only after a specific report has been made or consultation carried out.

2.6 In order to ensure ownership rights can be exercised, the Fund holds and will continue to hold, investments in its own name where possible, rather than in the name of investment managers. It will continue to oppose those processes, such as stock lending, which also deprive the Fund of the ability to meet its corporate governance objectives.

Appendix C

Summary of Compliance with the Revised Myners Principles

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
<p>1. Effective Decision Making</p> <p>a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation.</p> <p>b) Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</p>	<ul style="list-style-type: none"> ● Separate Committee responsible for the Pension Fund. ● Governance Compliance Statement published. ● Roles of Members, officers, external advisors and managers defined. ● Committee has specified appropriate skills. ● Skills and knowledge audit of Committee's membership occur. ● Committee has sub committees or a panel to progress significant areas between meetings of the Committee. ● Committee obtains proper advice from officers and external investment managers. ● Training plan for Members in place. ● Papers and reports should be clear and comprehensive and circulated in advance of meetings. ● A medium term business plan for the Pension Fund should be in place. 	Generally compliant	<ol style="list-style-type: none"> 1. A training plan, referring to the recently published CIPFA Skills Framework for Members and officers working in public sector pensions is produced for consideration by a future meeting of the Pensions Investment Sub Committee. 2. A medium term business plan for the Pensions Fund is presented to the Investment Sub Committee for approval by the Pensions Committee.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
<p>2. Clear Objectives</p> <p>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</p>	<ul style="list-style-type: none"> ● In setting objectives, the Committee has considered: <ul style="list-style-type: none"> • the fund's liabilities • the adequacy of assets • the maturity of the Fund's liabilities • its cashflow and has sought proper advice. ● Risk is considered as part of the asset allocation strategy. ● Funding levels and employer contribution rates are considered and the advice of the Actuaries sought. ● The Committee considers whether to request an Asset Liability Study. ● The Committee states the range of investments it is prepared to include in its asset allocation and say why some asset classes may have been excluded. ● The Committee takes proper advice, including from specialist independent advisors where appropriate. ● Advisors are appointed in open competition and are set performance objectives. ● The Committee understands transaction related costs incurred, including commission, and has a strategy for ensuring these costs are properly controlled. 	<p>Generally compliant</p>	<ol style="list-style-type: none"> 3. Following the Actuarial Valuation 2010, consideration is given to requesting an Asset Liability Study. 4. A report is provided to a future Pensions Investment Sub Committee on transaction related costs.

Appendix C

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
<p>3. Risk and Liabilities</p> <p>a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>b) These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<ul style="list-style-type: none"> ● The Committee sets an overall investment objective for the fund that represents its best judgement of what is necessary to meet the fund's liabilities and takes account of the Committee's attitude to risk. ● Appropriate performance benchmarks have been set. ● The Statement of Investment Principles includes a description of the risk assessment framework used for potential and existing investments. ● The triennial valuation includes a risk assessment in relation to the valuation of its liabilities/assets and factors affecting long term performance. ● The Committee uses internal and external audit reports to satisfy itself on the fund's internal controls. ● The Investment Strategy is suitable for the fund's objectives and takes account of the ability to pay of the employers in the fund. ● The Annual Report includes an overall risk assessment in relation to each of the fund's activities. 	Generally compliant	<ol style="list-style-type: none"> 5. The triennial valuation report is presented to the Pensions Investment Sub Committee highlighting key factors such as the need for risk assessments in relation to the Fund's liabilities and assets. 6. Relevant Audit reports be presented to future appropriate Sub Committees. 7. The Annual Report to include updated detail on the fund's risk management strategy and risk register.

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
<p>4. Performance Assessment</p> <p>a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.</p>	<ul style="list-style-type: none"> ● The Committee should consider whether existing index benchmarks are appropriate and consider whether active or passive management are appropriate for managing the Fund's assets. ● Performance targets in relation to a benchmark should specify clear time periods and risk limits, and monitoring arrangements should include reports on tracking errors. ● In addition to overall Fund returns, the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed. ● Although returns will be measured quarterly, a longer timeframe (typically 3–7 years) should be used to assess the effectiveness of Fund management arrangements. ● Returns should be obtained from specialist performance measurement agencies independent of the fund managers. ● Actuarial services should be market tested periodically. ● When assessing managers and advisors, the extent to which decisions have been delegated should be considered. ● The Committee should set out its expectations of its own performance in its business plan which should be assessed and reported in the fund's Annual Report. 	<p>Partially compliant</p>	<ol style="list-style-type: none"> 8. A review of existing benchmarks is presented to the Investment Sub Committee. 9. A report on Fund performance from the Fund's performance measurement agency is presented to the Investment Sub Committee. 10. The Investment Sub Committee to consider setting a performance framework to help assess its own performance.

Appendix C

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
<p>5. Responsible Ownership Administering Authorities should:-</p> <ol style="list-style-type: none"> a) adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents b) include a statement of their policy on responsible ownership in the Statement of Investment Principles c) report periodically on the discharge of such responsibilities. 	<ul style="list-style-type: none"> ● Policies regarding responsible ownership must be disclosed in the statement of Investment Principles. ● The Committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the Committee's policy. ● Funds should be aware of the ISC Code on the Responsibilities of Institutional Investors and the United Nations Environment Programme Finance Initiative. ● Authorities may wish to consider seeking alliances with other pension funds to enhance its influence on environmental, social and governance issues e.g. LAPFF. 	Generally compliant	

Principle	CIPFA Guidance Key Issues	Compliance	Proposed Actions
<p>6. Transparency and Reporting Administering Authorities should:-</p> <p>a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.</p> <p>b) provide regular communication to scheme members in the form they consider most appropriate.</p>	<ul style="list-style-type: none"> ● The Governance Compliance Statement should be maintained regularly. ● The Communication Statement should contain sufficient information. ● The Annual Report should be compared to the regulations setting out the required content. ● The content of the Statement of Investment Principles, the Funding Strategy Statement and the Governance Compliance Statement should comply with the relevant guidance and requirements. 	<p>Compliant</p>	<p>11. The core source documents namely the Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement and the Communication Statement continue to be updated as necessary to reflect guidance available and presented to the Investment Sub Committee as appropriate.</p>

Summary and Prioritisation of Pension Fund Risks

Risk	Risk Rating	Category
Custody arrangements may not be sufficient to safeguard Pension Funds assets	10	High
Inappropriate investment strategy is adopted	10	High
Fund assets are not sufficient to meet its obligations and liabilities	9	High
Standing data and permanent records are not accurate	9	High
Pension Fund accounts are not accurately maintained	9	High
Failure to adhere to relevant statutory regulations	8	High
Those charged with governance are unable to fulfil their responsibilities effectively	8	High
Pension Fund systems and data may not be secure and appropriately maintained	8	High
Investment Manager may not have appropriate control framework in place	8	High
Contributions to the Fund are not received, processed and recorded completely and accurately	8	Medium
Pension Fund governance arrangements are unclear or inappropriate	6	Medium
Appropriate advice is not available to facilitate effective decision making	6	Medium
Life events relating to Scheme members are not processed and recorded completely	6	Medium
Investment decisions and portfolio management may not maximise client returns or be performed in accordance with instructions given by the client	6	Medium
Failure to communicate adequately with all relevant stakeholders	6	Medium
Pension Fund investments may not be accurately valued	6	Medium
An effective performance management framework is not in place	6	Medium
Information may not be provided to stakeholders as required	3	Medium
Pension Fund objectives are not defined and agreed	3	Low

Summary of Compliance with the Revised Myners Principles

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Pension Fund governance arrangements are unclear or inappropriate.	<ul style="list-style-type: none"> The Council's constitution clearly delegates the functions of administering authority of the pension fund to the Pensions Committee, supported by two Sub-Committees. The terms of reference of each Sub-Committee are agreed. The Fund publishes a Governance Compliance Statement which details the governance arrangements of the Fund and assesses compliance with best practice. This is kept regularly under review. 	2	3	6 Medium	Ensure developments in best practice are considered for inclusion in the Fund's governance arrangements.	Head of Service (Investments)	Ongoing
Failure to adhere to relevant statutory regulations including updates from LGPS.	<ul style="list-style-type: none"> An established process exists to inform members and officers of statutory requirements and any changes to these. Sufficient resources are in place to implement LGPS changes while continuing to administer the scheme. Membership of relevant Pensions professional groups ensures changes in statutory requirements are registered before the implementation dates. 	2	4	8 High	<p>Continue to monitor statutory requirements via the DCLG website and Pension Groups meetings.</p> <p>Continue to review resource requirements and report to Pensions Committee if necessary.</p>	Head of Service (Investments) Investments Manager Pensions Manager	Ongoing

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Those charged with governance of the Fund are unable to fulfil their responsibilities effectively.	<ul style="list-style-type: none"> The Pensions Committee is very experienced and knowledgeable and monitors the performance of the Fund and Scheme in a robust manner. A training policy is in place which requires Members to receive continuing training and all new Members to attend the Local Government Employers training course. The Fund subscribes to relevant professional bodies e.g. LAPFF, NAPF and sends representatives to major conferences. 	2	4	8 High	<p>Training received to be reviewed annually as part of the approval process of the Fund's business plan.</p> <p>Consider whether CIPFA's Knowledge and Skills Framework should be adopted.</p>	Head of Service (Investments)	31.03.11
Appropriate advice is not available to facilitate effective decision making.	<ul style="list-style-type: none"> Officers of the Council attend meetings of the Pensions Committee and Sub-Committees. The Fund has tendered for and appointed an independent adviser to give advice on investment matters. 	2	3	6 Medium	Existing arrangements are sufficient and will continue.	<p>Pensions Committee</p> <p>Head of Service (Investments)</p>	Ongoing

Pension Fund Liabilities and Funding

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Pension Fund objectives are not defined and agreed.	<ul style="list-style-type: none"> Objectives defined in the Funding Strategy Statement and approved by the Pensions Committee. 	1	3	3 Medium	Ensure objectives and funding strategy are regularly reviewed.	Pensions Committee, Head of Service (Investments)	Ongoing
An effective performance management framework is not in place.	<ul style="list-style-type: none"> A performance management framework involving quarterly performance reports to the Pensions Investment Sub Committee is in place. Poor performance is highlighted and addressed directly by the Pensions Investment Sub Committee and ultimately the Pensions Committee. 	2	3	6 Medium	Existing arrangements are sufficient and will continue.	Pensions Investment Sub Committee Head of Service (Investments)	Ongoing
Fund assets are not sufficient to meet its obligations and liabilities.	<ul style="list-style-type: none"> Fund cash flow is monitored daily and reported to Investment Sub-Committee annually Fund assets are kept under review as part of the Fund's performance management framework. Regular assessment of Fund assets and liabilities is carried out through Actuarial valuations. The Fund's Investment Strategy is regularly reviewed to determine whether any changes are needed to asset allocation. 	3	3	9 High	Consider the need for an Investment Strategy Review following the latest actuarial valuation.	Pensions Investment Sub Committee Pensions Committee Head of Service (Investments)	31.03.11

Pension Fund Administration

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Contributions to the Fund are not received, processed and recorded completely and accurately in accordance with the Scheme rules.	<ul style="list-style-type: none"> Sufficient resources are in place, structured appropriately, to carry out the necessary transaction processing. A revised procedure to identify any non payment of contributions has been recently approved by the Pensions Committee. A revised procedure for invoicing employers for augmentation payments has recently been implemented. Internal Audit reviews take place on a regular basis and External Audit review the Accounts annually. 	4	2	8 Medium	Continue to monitor and take action as appropriate following audit reports.	Head of Employee Services Centre Pensions Manager	Ongoing
Life events relating to Scheme members e.g. joining the Scheme, transfers in and out and retirements are not processed and recorded completely in accordance with the Scheme rules.	<ul style="list-style-type: none"> Procedure notes describing all key processes are in place. Induction and training procedures are in place. Adequate resources are in place. An overview of pensions administration is maintained by the Pensions Administration Sub Committee. 	3	2	6 Medium	Continue to monitor effectiveness of existing processes.	Pensions Manager	Ongoing

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Standing data and permanent records are not accurate or do not reflect changes of circumstances.	<ul style="list-style-type: none"> Business processes are in place to identify changes to standing data. Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input. Documentation is maintained in line with agreed policy. Data matching exercises (National Fraud Initiative) identifies discrepancies. 	3	3	9 High	Existing arrangements are sufficient and will continue	Head of ESC Pensions Manager	Ongoing
Information may not be provided to stakeholders as required.	<ul style="list-style-type: none"> Process is in place for producing and distributing information to Scheme members. Any complaints are dealt with promptly. 	3	1	3 Low	Continue to monitor effectiveness of existing processes.	Continue to monitor effectiveness of existing processes.	Ongoing
Failure to communicate adequately with all relevant stakeholders.	<ul style="list-style-type: none"> A communications strategy is in place. Website has been updated. Nest Egg publication is published twice a year. Performance of the Fund is regularly reported to the Pensions Investment Sub Committee. The Pensions Investment Sub Committee has representatives of the County Council, City Council, Nottinghamshire Local Authorities, Trade Unions and Scheduled Bodies. Regular Pension Roadshows and communication takes place. 	2	3	6 Medium	Existing arrangements are sufficient and will continue.	Pensions Manager	Ongoing

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
<ul style="list-style-type: none"> Meetings are held regularly with Employers within the Fund. Benefit Illustrations are sent annually to contributing and deferred Fund members. 							
Pension Fund systems and data may not be secure and appropriately maintained.	<ul style="list-style-type: none"> Access rights are restricted and authentication controls including regular password changes are in place. Data is backed up on an incremental basis daily and fully backed up weekly. Audit trails and reconciliations are in place. There is no home working on the Pensions system (Axis) by Pensions Section staff. Pension system is protected against viruses and other system threats. Software is regularly updated to ensure LGPS requirements are met. 	2	4	8 High	Continue to monitor effectiveness of existing processes.	Head of ESC Pensions Manager	Ongoing

Pension Fund Administration

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Inappropriate investment strategy is adopted.	<ul style="list-style-type: none"> The Investment Strategy is in accordance with LGPS investment regulations. The Investment Strategy is documented, reviewed and approved by the Pensions Committee. The Strategy takes into account the Fund's liabilities. A regular review takes place of the Fund's asset allocation strategy by the Pension Fund Working Party. An external advisor provides specialist guidance to the Pensions Investment Sub Committee on the investment strategy. 	2	5	10 High	Consider the need for an explicit assessment of the strategic risk inherent in the Fund's Investment Strategy. This could form part of an Investment Strategy Review following the triennial valuation.	Head of Service (Investments)	31.03.11
Pension Fund investments may not be accurately valued	<ul style="list-style-type: none"> Investments are valued using current prices obtained from independent pricing sources. Quarterly valuations have been introduced to value property assets. Portfolio valuations are completed and reported to the Pensions Investment Sub Committee. 	3	2	6 Medium	Existing arrangements are sufficient and will continue.	Pensions Investment Sub Committee, Investments Manager	Ongoing

Pension Fund Administration

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Contributions to the Fund are not received, processed and recorded completely and accurately in accordance with the Scheme rules.	<ul style="list-style-type: none"> • Sufficient resources are in place, structured appropriately, to carry out the necessary transaction processing. • A revised procedure to identify any non payment of contributions has been recently approved by the Pensions Committee. • A revised procedure for invoicing employers for augmentation payments has recently been implemented. • Internal Audit reviews take place on a regular basis and External Audit review the Accounts annually. 	4	2	8 Medium	Continue to monitor and take action as appropriate following audit reports.	Head of Employee Services Centre Pensions Manager	Ongoing
Life events relating to Scheme members e.g. joining the Scheme, transfers in and out and retirements are not processed and recorded completely in accordance with the Scheme rules.	<ul style="list-style-type: none"> • Procedure notes describing all key processes are in place. • Induction and training procedures are in place. • Adequate resources are in place. • An overview of pensions administration is maintained by the Pensions Administration Sub Committee. 	3	2	6 Medium	Continue to monitor effectiveness of existing processes.	Pensions Manager	Ongoing

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Standing data and permanent records are not accurate or do not reflect changes of circumstances.	<ul style="list-style-type: none"> Business processes are in place to identify changes to standing data. Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input. Documentation is maintained in line with agreed policy. Data matching exercises (National Fraud Initiative) identifies discrepancies. 	3	3	9 High	Existing arrangements are sufficient and will continue	Head of ESC Pensions Manager	Ongoing
Information may not be provided to stakeholders as required.	<ul style="list-style-type: none"> Process is in place for producing and distributing information to Scheme members. Any complaints are dealt with promptly. 	3	1	3 Low	Continue to monitor effectiveness of existing processes.	Continue to monitor effectiveness of existing processes.	Ongoing
Failure to communicate adequately with all relevant stakeholders.	<ul style="list-style-type: none"> A communications strategy is in place. Website has been updated. Nest Egg publication is published twice a year. Performance of the Fund is regularly reported to the Pensions Investment Sub Committee. The Pensions Investment Sub Committee has representatives of the County Council, City Council, Nottinghamshire Local Authorities, Trade Unions and Scheduled Bodies. Regular Pension Roadshows and communication takes place. 	2	3	6 Medium	Existing arrangements are sufficient and will continue.	Pensions Manager	Ongoing

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
<ul style="list-style-type: none"> Meetings are held regularly with Employers within the Fund. Benefit Illustrations are sent annually to contributing and deferred Fund members. 							
Pension Fund systems and data may not be secure and appropriately maintained.	<ul style="list-style-type: none"> Access rights are restricted and authentication controls including regular password changes are in place. Data is backed up on an incremental basis daily and fully backed up weekly. Audit trails and reconciliations are in place. There is no home working on the Pensions system (Axis) by Pensions Section staff. Pension system is protected against viruses and other system threats. Software is regularly updated to ensure LGPS requirements are met. 	2	4	8 High	Continue to monitor effectiveness of existing processes.	Head of ESC Pensions Manager	Ongoing

Pension Fund Administration

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Inappropriate investment strategy is adopted.	<ul style="list-style-type: none"> The Investment Strategy is in accordance with LGPS investment regulations. The Investment Strategy is documented, reviewed and approved by the Pensions Committee. The Strategy takes into account the Fund's liabilities. A regular review takes place of the Fund's asset allocation strategy by the Pension Fund Working Party. An external advisor provides specialist guidance to the Pensions Investment Sub Committee on the investment strategy. 	2	5	10 High	Consider the need for an explicit assessment of the strategic risk inherent in the Fund's Investment Strategy. This could form part of an Investment Strategy Review following the triennial valuation.	Head of Service (Investments)	31.03.11
Pension Fund investments may not be accurately valued	<ul style="list-style-type: none"> Investments are valued using current prices obtained from independent pricing sources. Quarterly valuations have been introduced to value property assets. Portfolio valuations are completed and reported to the Pensions Investment Sub Committee. 	3	2	6 Medium	Existing arrangements are sufficient and will continue.	Pensions Investment Sub Committee, Investments Manager	Ongoing

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
Custody arrangements may not be sufficient to safeguard Pension Funds assets	<ul style="list-style-type: none"> Complete and authorised agreements are in place with external custodian. AAF 01/06 report on internal controls of service organisations reviewed for external custodian. Regular reconciliations carried out to check external custodian records. In-house custody arrangements require physical stock certificates to be held in secure cabinet to which access is limited. 	2	5	10 High	Existing arrangements are sufficient and will continue.	Head of Service (Investments)	Ongoing
Pension Fund Accounts are not accurately maintained.	<ul style="list-style-type: none"> Pension Fund management and administration processes are maintained in accordance with the SORP and the County's Financial Regulations. Regular reconciliations are carried out between in-house records and those maintained by external custodian and investment managers. Internal Audits are carried out on an annual basis. External Audit review the Pension Fund's accounts annually. 	3	3	9 High	Continue to respond promptly to Audit recommendations.	Investments Manager	Ongoing
Investment Manager may not have appropriate control framework in place to protect Pension Fund assets.	<ul style="list-style-type: none"> Complete and authorised client agreements are in place. Client portfolios are managed in accordance with investment objectives. AAF 01/06 reports on internal controls of service organisations reviewed for external managers. 	2	3	6 Medium	Continue to monitor via existing processes.	Head of Service (Investments) Investments Manager	Ongoing

Risk	Current Controls	Likelihood	Impact	Risk Rating	Additional Control/ Actions Required	Responsibility	Timescales
	<ul style="list-style-type: none"> In House Fund has a robust framework in place which is regularly tested by internal audit Fund Managers maintain an appropriate risk management framework to minimise the level of risk to Pension Fund assets. 						
Investment decisions and portfolio management may not maximise client returns or be performed in accordance with instructions given by the client.	<ul style="list-style-type: none"> Daily cash settlements are made with external custodian to maximise returns on cash. Investment transactions are properly authorised, executed and monitored. Investment Management fees are monitored and reported. Regular reports are made to the Pensions Investment Sub Committee. 	2	3	6 Medium	Continue to monitor via existing processes.	Investments Manager	Ongoing



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