NORTHAMPTONSHIRE LOCAL GOVERNMENT PENSION SCHEME

Addendum to
Annual Report 2013-2014

CONTENTS

FOREWORD

This Addendum to the Annual Report for 2013-2014 has been produced in response to a letter dated 18 August 2014 from the Department for Communities and Local Government. This letter advised that under Regulation 34(3) of the Local Government Pension Scheme (Administration) Regulations 2008 and Regulation 57(3) of the Local Government Pension Scheme Regulations 2013, an administering authority is to give regard to guidance given by the Secretary of State when preparing and publishing their Pension Fund annual report under these regulations.

Using the Secretary of State's powers of delegation under paragraph 13 of Schedule 3 to the Public Service Pensions Act 2013, guidance for the preparation of a pension fund annual report has been published by CIPFA for the purposes of Regulation 34(3) of the 2008 regulations and Regulation 57(3) of the 2013 Regulations.

In view of the fact that the Annual Report for 2013-2014 had already been prepared alongside the Statement of Accounts and reviewed by the external auditors, a review of the Annual Report has been undertaken to ensure compliance with the guidance provided by CIPFA.

Where the original Annual Report complies with the guidance, reference is made in this Addendum to the relevant page number in the Annual Report. For a requirement which was not disclosed in the original Annual Report the page reference is shown as "n/a" and the additional information is included in this Addendum.

However, there are certain requirements for which the information is not available. Where this is the case, efforts are being made to ensure that the required information is now being collated for publication in future Annual Reports.

A: MANAGEMENT AND FINANCIAL PERFORMANCE

Scheme Management and Advisers

Details are shown on pages 7 & 8 of the Annual Report. Revised information to include addresses of key advisers and service providers:

Investment Advisers	John Harrison Mercer Investment Consulting Tower Place West London EC3R 5BU	Baillie Gifford & Co Investment Calton Square, 1 Greenside Row Edinburgh EH1 3AN Fauchier – now Permal Inv. Management 12 St James's Street London SW1Y 4LB
Investment Managers	Aberdeen Asset Management Bow Bells House 1 Bread Street London EC4M 9HH Majedie Asset Management 10 Old Bailey London EC4M 7NG CBRE Global Investment Ptnrs. Third Floor, One New Change London EC4M 9AF Wellington Management International Cardinal Place, 80 Victoria Street London SW1E 5JL	Catapult 11 Burrough Court Burrough on the Hill Melton Mowbray Leicestershire LE14 2QS Newton Investment Management Ltd Mellon Financial Centre 160 Queen Victoria Street London EC4V 4LA Skagen Funds Albemarle House 1 Albemarle Street London W1S 4HA

	UBS Global Asset Management 4th Floor 21 Lombard Street London EC3V 9AH	Fund Actuary	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB
Custodian	Northern Trust 50 Bank Street, Canary Wharf, London E14 5NT	Auditors	KPMG LLP 1 Snowhill, Queensway Birmingham B4 6GH
AVC Providers	Prudential Assurance Co. Ltd Laurence Pountney Hill London EC4R 0HH	Legal	LGSS Legal Services Shire Hall Castle Hill Cambridge CB3 0AP
	Standard Life 1 Baileyfield Crescent Edinburgh EH15 1ET	Performance	The World Markets Company 525 Ferry Road Edinburgh EH5 2AW
		Bankers	Barclays Bank Plc 1 Churchill Place Canary Wharf London E14 5HP

Risk management

A summary of the key aspects of risk management within the scheme is reported on pages 9 and 10 of the Annual Report.

The requirements of the revised guidance are addressed as follows:

Summary requirement	**Annual Report Reference Page No.**	**Additional disclosure**
How risk management is integrated within the governance structure.	7	See Annual Report pages 7, Risk Management.
How risks are identified, managed and reviewed.	7	See Annual Report pages 7, Risk Management, in addition to paragraphs C.5, C.9 and Appendix C of the Statement of Investment Principles.
A summary of key risks and what actions are being taken to mitigate those risks.	7	Key risks are summarised on page 7 of the Annual Report and shown in more detail in the Statement of Investment Principles, Appendix C. The nature and extent of risks arising from financial instruments are analysed in Note 17 to the Statement of Accounts.
The approach taken to manage third party risk such as late payment of contributions and how assurance is sought over third party operations - AAF 01/06 and SSAE16 (formerly SAS70) reports.	n/a 24	If an employer pays contributions consistently late each month the employer is contacted and advised that contributions should be received by the 19th day of the month following the month in which deduction was made, as per the Pensions Act 1995. A chart showing employer compliance against late payment of contributions is shown on page 24.

Summary requirement	Annual Report Reference Page No.	Additional disclosure
	n/a	The scheme uses third party providers for investment management and custodian services. The risk of misstatement or error in the processes operated by the third parties is mitigated by reviewing the ISAE3402 service auditors' assurance reports provided by the investment managers and the custodian. An annual performance report is prepared by a third party monitoring service to review and demonstrate compliance with the Fund's policies by investment managers and the custodian. This report is considered by the Pension Fund Board at the Annual General Meeting.
How investment risk is managed – appropriate advice sought.	10	See Annual Report page 10, Investment Asset Allocation and the role of Fund Managers. See also Statement of Investment Principles.
Action taken to review performance against the investment strategy on a regular basis	11	See Annual Report page 11, See also Statement of Investment Principles,(Section C.9)

Financial performance

Summary requirement	Annual Report Reference Page No.	Additional disclosure
In line with the triennial valuation cycle, a three year forecast of income and expenditure into and out of the Fund (including administrative costs) in addition to an annual budget forecast.	n/a	See Note 1, below.
Forecasts of less controllable or predictable items such as transfer values and investment income.	n/a	The Fund sees no benefit in preparing detailed forecasts of less controllable or predictable items such as transfer values and investment income. In the forecasts below, a constant indicative value has been used for all future years' forecasts.
Valuation Year – brief commentary on movement in assets and liabilities (or cross reference to actuary's report).	49-51	See Annual Report pages 46-48, Actuarial Reports.
An analysis of the timeliness of the receipt of contributions (value and percentage, received on or before the due date: ageing of overdue contributions, etc).	24	£94.9m (98.03%) of contributions by employers were received on time.
Whether the option to levy interest on overdue contributions has been exercised and if so, on whom and how much.	n/a	No interest has been levied to date. The option to levy interest will be reviewed during 2014-15 following the introduction of an improved contribution monitoring system.
Budget v. outturn report on the administrative costs of the Fund during the year, including investment management expenses.	n/a	See Note 2, below

Summary requirement	**Annual Report Reference Page No.**	**Additional disclosure**
Forecast v outturn report on the Fund cash flows and asset values.	n/a	See Note 3,below
5 year analysis of pension overpayments, recoveries and any amounts written off.	n/a	The 5 year analysis of overpayments, recoveries and amounts written off is not currently available.
Results of participation in National Fraud Initiative exercises.	n/a	The Fund participated in the 2012-13 National Fraud initiative. Work on investigating data matches identified by this exercise continued during 2013-14. No significant issues were identified.

Notes

1 Three year forecast of income and expenditure into and out of the Fund.

	2013-14 Estimated Outturn £000	2013-14 Final Outturn £000	2014-15 Estimate £000	2015-16 Estimate £000	2016-17 Estimate £000
Contributions (see * below)	(88,070)	(96,757)	(95,000)	(95,000)	(97,800)
Transfers in from other Pension Funds	(3,300)	(3,180)	(3,300)	(3,300)	(3,300)
TOTAL INCOME	**(91,370)**	**(99,937)**	**(98,300)**	**(98,300)**	**(101,100)**
Benefits payable (see ** below)	74,500	79,218	78,500	80,600	83,800
Payments to and on account of leavers	3,300	3,540	3,300	3,300	3,300
Administration Expenses (see Note 2 below)	2,300	2,171	2,550	2,500	2,500
TOTAL EXPENDITURE	**80,100**	**84,929**	**84,350**	**86,400**	**89,600**
Net additions from dealing with members	**(11,270)**	**(15,008)**	**(13,950)**	**(11,900)**	**(11,500)**
Returns on investments:					
Investment income	(27,926)	(29,017)	(25,000)	(25,000)	(25,000)
Taxes on income	1,001	198	1,000	1,000	1,000
Profit and losses on disposal of investments and changes in the market value of investments	(161,605)	(100,539)	(75,000)	(75,000)	(75,000)
Investment expenses	4,830	3,301	3,500	3,490	3,490
Net return on investments	**(183,700)**	**(126,057)**	**(95,500)**	**(95,510)**	**(95,510)**
Net increase in the net assets available for benefits during the year	**(194,970)**	**(141,065)**	**(109,450)**	**(107,410)**	**(107,010)**

* The actual increase in Contributions compared with estimate reflects the increase in Active Members and Employers during the year.

** The adverse variance in Benefit Payments in 2013-14 compared to estimate reflects a correction to ledger reporting subsequent to preparation of the estimate to remap an income account to contributions that was previously netted against benefits.

2 Budget versus outturn report on the administration costs and investment support costs of the Fund

Administration Expenses	**2013-14 Estimated Outturn £000**	**2013-14 Final Outturn £000**	**2013-14 Variance £000**
Pension Service costs	1,300	1,205	(95)
County Council recharges	600	600	--
Direct Fund recharges	400	366	(34)
Total	2,300	2,171	(129)

The variance in Pension Service costs in 2013-14 compared to estimate reflects the staffing reconfiguration in the year, where for a significant proportion of the year the service held vacancies.

Investment support costs (included in Investment Expenses)	**2013-14 Estimated Outturn £000**	**2013-14 Final Outturn £000**	**2013-14 Variance £000**
Investment support costs	588	243	(345)

The decrease in investment support costs in 2013-14 compared to the estimate is due to a reduction in custody fees.

3 Fund cash flow and asset movements

	2013-14 Estimated Outturn	2013-14 Final Outturn	Comments
	£'000	**£'000**	
Cash flows			
Fund surplus cash from dealings with members	10,750	15,008	See comments under Note 1, above.
Returns on investments	174,000	126,057	The last two years have seen the Fund benefit from a strong recovery in global markets.
Net increase in the net assets available for benefits during the year	**184,750**	**141,065**	
Assets held			
Equities – directly held	595,072	646,422	All asset classes have seen an increase in market values in 2013-14.
Pooled investments	680,386	729,963	
Pooled property investments	78,475	113,050	
Private equity/infrastructure	1,798	1,523	
Fixed interest securities	88,220	91,398	
Index linked securities	42,950	45,679	
Cash deposits	31,035	31,471	
Other	3,434	341	
Net investment assets	**1,521,370**	**1,659,847**	

Administrative Management Performance

Summary requirement	Annual Report Reference Page No.	Additional disclosure
KPIs – number and trend of the top 10 cases.	n/a	The Fund has been developing a series of administrative KPIs which will be implemented from 1 April 2014.
Percentage completed on time against targets.	n/a	
Trends and performance against targets for satisfaction levels of employers and members.	n/a	
Number of complaints and the % against total workload.	n/a	
Unit costs per member (including and excluding investment manager expenses).	n/a	Administrative unit cost per member excluding investment management expenses was £22.13 compared to a benchmark cost for other LGPS funds of £20.75 (source: CIPFA Benchmarking Club 2014 Final Report). See further analysis in Note 4, below.
Benchmarking of unit costs against appropriate comparators (via either a formal benchmarking process or informal peer comparison).	n/a	
Staff numbers and trends, staff to Fund member ratios, average cases per member of staff.	22	In 2013-14 the average staff to member ratio was one full-time member of staff to 4,682 Fund members.
Membership numbers and trends, including numbers and trends of contributors, deferred members, pensioner members and dependants.	25-28	See Annual Report pages 25-28, Management Performance.

Summary requirement	Annual Report Reference Page No.	Additional disclosure
A 5 year analysis of the Fund's membership data (active, deferred, pensioner and undecided leavers (i.e. those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due).	25-28	See Annual Report pages 25-28, Management Performance. The Fund has not historically collated statistics for leavers who have left relevant employment, but have not confirmed how their contributions should be treated. This data will be collated for reporting in future years.
A list of contributing employers and the amount of contributions received from each during the year (split by employee and employer).	n/a	See Note 5, below. The names of some employers in the listing differ from the names shown on pages 29 and 30 of the Annual Report. This is due to the misalignment of naming conventions used in internal systems arising from a legacy of employers requesting to be addressed differently to their official registered name.

Notes

4 Administrative unit cost per member

	Fund	Benchmarking Group average	
	£ per member	**£ per member**	**Items included in cost categories**
Direct Costs	17.78	14.29	Staff, Payroll, External Audit, Communications, Actuaries
Indirect Costs	6.65	5.90	IT, Accommodation, Other Central Charges
Outsourcing contract costs	n/a	13.53	
Income (Total)	(2.30)	(0.27)	
Total Cost per Member	**22.13**	**20.75**	

5 Contributing employers and contributions received

Employer	Employers' Contributions £	Employees' Contributions £	Total £
Abbey Junior Academy (Daventry)	9,285	2,349	11,634
Abbeyfield School (Academy)	171,131	42,242	213,373
Abington Vale Academy	31,329	8,134	39,463
Age Concern (Northampton And County)	23,127	3,550	26,677
AHA Ex Midwives	-	10,882	10,882
AHA Others	-	6,299	6,299
Amey Plc	67,702	18,193	85,895
Balfour Beatty Workplace Ltd	33,728	10,437	44,165
Barby Parish Council	2,312	674	2,986
Barry Road Primary School	62,379	16,709	79,087
Beanfield Primary School	83,731	19,729	103,460
Billing Brook Academy	57,572	14,735	72,307
Billing Parish Council	5,154	1,502	6,656
Billingbrook	101,965	25,879	127,845
Bishop Stopford School	158,439	46,492	204,931
Blackthorn Primary Academy	43,830	9,863	53,693
Boddington C of E Primary Academy	4,544	1,125	5,669
Boothville Primary School	47,911	12,210	60,121
Borough Council Of Wellingborough	1,845,023	279,008	2,124,031
Boughton Primary Academy	20,522	5,641	26,163
Brackley Town Council	17,989	5,199	23,189
Briar Hill Primary Academy	60,285	8,950	69,234
Brixworth Parish Council	1,650	481	2,131
Brixworth Primary School	61,136	15,660	76,796
Brooke Weston Academy	171,930	69,635	241,565
Broughton Primary School	37,165	9,510	46,675
Bugbrooke Primary School	35,032	8,769	43,801
Campion School	171,740	48,338	220,078
Caroline Chisholm School	179,023	71,398	250,421
Catalyst Corby	17,544	4,286	21,830
Caterlink Denfield Park Primary School	654	161	815
Ceder Road Primary Academy	34,326	9,615	43,940
Chacombe CEVA Primary Academy	6,389	1,606	7,995
Chacombe CEVA Primary School	4,120	1,040	5,160
Chenderit Academy	100,325	34,361	134,686
Chipping Warden School Academy	2,520	642	3,162
Churchill Services	5,069	1,423	6,492
Clipston Primary School	20,586	5,390	25,976
Community Spaces	3,958	961	4,919
Complementary Education (Academy)	110,120	29,639	139,759
Corby Borough Council	2,397,826	611,292	3,009,118
Corby Business Academy	141,636	52,161	193,796
Corby Danesholme Junior School	41,502	10,712	52,214
Corby Primary Academy	3,843	959	4,802
Corby Studfall Junior School	85,424	22,268	107,691
Corby Technical College	8,885	3,357	12,242

Employer	Employers' Contributions £	Employees' Contributions £	Total £
Creaton Parish Council	1,082	313	1,395
CRI (NCC)	30,491	8,772	39,262
CRI (Probation)	-3,331	-796	-4,127
Croyland Children's Centre & Nursery	58,402	15,566	73,967
Culworth C of E Primary Academy	5,653	1,839	7,492
Danetre & Southbrook Learning Village	230,424	60,420	290,844
Daventry & District Housing	212,577	72,119	284,696
Daventry District Council	1,498,501	439,995	1,938,496
Daventry UTC	9,375	2,661	12,037
Deanshanger Parish Council	2,682	782	3,464
Denfield Park Primary School	82,784	21,208	103,992
Diamond Learning Community	80,047	19,627	99,674
Duston Academy	174,434	61,253	235,687
Duston Eldean Primary School	40,774	10,333	51,107
Duston Town Council	17,676	5,119	22,795
East Hunsbury Primary School	58,375	15,364	73,739
East Midlands Leadership Centre	34,046	12,620	46,666
East Northamptonshire District Council	1,306,185	326,895	1,633,080
East Northants Cultural Trust	24,188	9,623	33,811
Eastfield Academy	23,000	6,094	29,094
Easy Clean Contractors Ltd	4,808	1,181	5,989
Ecton Brook Primary School Academy	109,136	28,246	137,383
Education Fellowship HQ	18,473	5,608	24,081
Elizabeth Woodville Academy	216,297	57,292	273,589
EMBC	34,261	15,223	49,485
Enterprise Managed Services	610,253	199,699	809,952
Exeter A Learning Community Academy	141,309	34,759	176,069
Explore Northamptonshire	1,500	520	2,020
Fairfields Special School	116,739	29,634	146,373
Finedon Infant School	17,255	4,403	21,658
Finedon Mulso CEVA Junior School	19,314	4,857	24,171
Freemans Endowed C of E Junior Academy	38,609	9,836	48,445
Friars Academy	42,343	11,098	53,440
Friars Special School	46,461	12,143	58,604
Gateway School	66,859	17,872	84,730
Grange Community Academy	28,973	-	28,973
Grange Community School	30,549	5,647	36,196
Grange Park Parish Council	5,361	1,635	6,996
Great Addington Primary	10,963	2,775	13,738
Green Oaks Primary Academy	18,959	5,033	23,992
Greenfields Primary Academy (MAT)	20,522	5,323	25,845
Greenfields School & Arts College	125,030	31,963	156,994
Gretton Primary School	16,063	3,980	20,043
Guilsborough School (Academy)	106,597	36,826	143,422
Hardingstone Primary Academy	6,763	1,717	8,480
Hartwell Academy	21,961	6,918	28,879
Havelock Infant Academy	20,646	5,103	25,750
Havelock Junior Academy	28,147	7,278	35,425

Employer	Employers' Contributions £	Employees' Contributions £	Total £
Headlands Academy	119,040	31,687	150,727
Henry Chichele Primary School	20,648	5,308	25,955
Higham Ferrers Nursery & Infant School	42,262	11,172	53,434
Higham Ferrers Town Council	7,951	2,325	10,277
Hopping Hill Primary School	66,899	16,990	83,889
Hunsbury Park Primary School	37,463	9,422	46,885
Huxlow Science College	106,059	25,534	131,594
Irchester Primary School	43,342	10,995	54,337
Irthlingborough Junior School	48,427	12,297	60,724
Irthlingborough Town Council	10,469	2,969	13,438
Isebrook School	98,548	25,730	124,279
Kettering Borough Council	2,651,845	749,475	3,401,321
Kettering Buccleuch Academy	134,707	51,531	186,238
Kettering Millbrook Infant School	50,591	13,442	64,033
Kettering Millbrook Junior School	61,978	16,248	78,227
Kettering Science Academy	149,550	54,594	204,144
Kings Heath Academy	10,542	2,650	13,192
King's Sutton Primary Academy	13,501	3,815	17,316
Kingsheath Primary School	44,673	11,472	56,145
Kingsley Academy	111,963	32,494	144,456
Kingsley Primary School	39,074	9,902	48,976
Kingsthorpe College Academy	198,157	59,076	257,233
Kingswood Primary Academy	47,056	12,883	59,940
Kingswood Secondary Academy	132,359	27,206	159,565
Latimer Arts	145,776	38,869	184,645
Lings Academy	40,195	10,456	50,651
Loatlands Primary Academy	25,999	6,435	32,433
Lodge Park Academy	187,184	49,661	236,845
Lumbertubs Primary Academy	27,771	7,046	34,817
Magdalen College (Academy)	238,501	85,233	323,734
Malcolm Arnold Academy	125,586	47,655	173,241
Manor School Sports College	162,477	46,443	208,919
Maplefields Academy	114,546	30,536	145,082
Mawsley Primary School	40,937	10,463	51,400
May Gurney	143,516	99,070	242,586
May Gurney (NORDIS)	42,957	13,691	56,648
May Gurney Fleet & Passenger Services Limited	191,467	53,811	245,277
Middleton Cheney Community Primary Academy	19,910	5,089	24,999
Montsaye Academy	177,079	54,984	232,063
Moulton Academy	194,269	53,099	247,368
Moulton College	718,086	267,730	985,816
Moulton Parish Council	10,505	3,097	13,602
Moulton Primary School	72,411	18,489	90,901
National Car Parks (NCP)	29,479	9,581	39,060
Newnham Primary Academy	8,553	2,207	10,759
NHS Arden Commissioning Report	11,623	729	12,352

Employer	Employers' Contributions £	Employees' Contributions £	Total £
Nicholas Hawksmoor Academy	49,410	17,537	66,947
Northampton Academy	241,523	82,267	323,791
Northampton Borough Council	7,127,126	1,775,591	8,902,717
Northampton Borough Council ExTransport	-	4,207	4,207
Northampton College	932,408	415,027	1,347,435
Northampton Connexions Partnership	551,483	132,801	684,284
Northampton County Council Councillors	0	55,539	55,539
Northampton Enterprise Ltd	41,632	18,088	59,720
Northampton High School	93,821	31,718	125,539
Northampton School for Boys (NonLEA)	184,955	63,225	248,180
Northampton School For Girls	158,395	42,810	201,205
Northampton School for Girls (Academy)	60,850	16,267	77,117
Northampton Theatres Trust	111,027	23,515	134,542
Northampton Transport Ltd	0	1,970	1,970
Northamptonshire Carers	17,032	4,588	21,620
Northamptonshire County Council	25,425,268	6,131,532	31,556,800
Northamptonshire Healthcare NHS Foundation	31,605	8,241	39,846
Northamptonshire Music and Performing Arts Trust	31,548	8,114	39,662
Northgate Academy	115,761	37,669	153,429
Oakley Vale	27,009	6,883	33,891
Oakley Vale Primary Academy	46,495	11,918	58,413
Olympic Primary Academy	43,507	10,939	54,446
Olympus Care Services	1,476,947	691,351	2,168,299
Oundle and Kings Cliffe Middle School	102,616	19,145	121,762
Oundle Primary School	28,441	7,649	36,091
Oundle Town Council	14,275	6,894	21,169
Park Infant School (Raunds)	21,336	5,399	26,735
Park Junior School (Kettering)	57,703	18,622	76,325
Parklands Primary School	35,860	9,187	45,048
Places for People (DC Leisure)	33,742	13,591	47,333
Police Support	5,001,598	1,424,799	6,426,397
Preston Hedge's Primary Academy	65,971	16,076	82,047
Prince William School	141,829	38,406	180,235
Probation Service	1,153,092	324,140	1,477,231
Raunds Town Council	9,706	2,747	12,453
Redwell Infants School	22,621	5,698	28,319
Ringstead CE Primary School	12,581	3,222	15,803
Risdene Academy	49,658	12,689	62,348
Rockingham Forest Trust	18,005	6,241	24,246
Rockingham Primary Academy	33,834	10,128	43,962
Rothwell Junior School	12,347	3,261	15,608
Rothwell Junior Academy	7,837	15,502	23,339
Rothwell Victoria Infant Academy	26,156	6,583	32,739
Rowan Gate	101,532	26,125	127,657
Rushden Community Academy	145,334	39,813	185,147
Rushden Town Council	23,758	6,796	30,554

Employer	Employers' Contributions £	Employees' Contributions £	Total £
Rushton Primary Academy	9,462	2,522	11,984
Ruskin Junior Academy	48,724	11,497	60,221
Service 6	816	252	1,068
Shaw Healthcare	90,030	39,956	129,986
Silverstone TUC Academy	39,742	12,153	51,895
Simon de Senlis Primary School	53,077	13,269	66,346
Sir Christopher Hatton Academy	151,717	40,634	192,350
South End Infant Rushden	44,746	11,480	56,226
South End Junior Rushden	38,536	9,824	48,360
South Northampton Borough Council	1,480,769	502,814	1,983,583
South Northants Homes	350,531	140,649	491,180
Southfield Academy	137,835	35,800	173,634
Southfield Primary Academy (B)	47,107	11,950	59,057
Spire Homes Limited	103,050	9,613	112,663
Sponne School (Academy)	159,315	49,000	208,315
Sports & Leisure Management Ltd (SLM)	1,066	350	1,416
Spratton Parish Council	2,269	623	2,892
Spring Lane Primary Academy	66,024	16,616	82,640
St Loys C or E Primary Academy	5,119	1,283	6,402
St Mary's C of E Primary Academy, Burton Latimer	18,150	7,458	25,608
St Mary's C of E Voluntary Aided Primary Academy, Kettering	37,844	9,827	47,670
St Mary's Catholic Primary School	31,532	8,102	39,634
St Mary's Primary School	0	0	0
St Patrick's Primary School	35,610	9,252	44,862
St Peter's Church of England Academy	7,392	1,894	9,285
St Peter's Junior School	12,402	3,278	15,680
Standens Barn Primary School	42,130	10,568	52,698
Stanwick Parish Council	2,789	813	3,602
Stimpson Avenue Primary School	61,064	15,265	76,329
Sunnyside Primary (Academy)	27,422	8,543	35,965
The Arbours Primary (Academy)	38,645	9,539	48,184
The Avenue Infants School	33,478	8,636	42,114
The Castle (Wellingborough) Limited	28,945	3,363	32,308
The Castle Primary Academy	16,867	4,277	21,144
The Ferrers College	49,894	13,203	63,097
The Ferrers School Academy	104,253	27,602	131,855
The Grange, Daventry	69,624	17,606	87,229
The King John School, Thrapston	56,759	14,820	71,579
The Kingswood School, Corby	77,733	20,675	98,408
The Queen Eleanor Primary Academy	22,722	5,711	28,433
Thomas Beckett Catholic School	114,692	30,564	145,256
Thorplands Primary Academy	106,853	28,946	135,799
Thrapston Primary School	48,217	12,303	60,521
Towcester CE Primary School	37,686	9,571	47,257
Towcester Town Council	14,210	4,255	18,464
Tresham Institute	781,625	250,584	1,032,209

Employer	Employers' Contributions £	Employees' Contributions £	Total £
Trinity Lower School	11,853	2,945	14,798
Unity Leisure	239,421	87,359	326,780
University Of Northampton	2,519,284	831,528	3,350,812
University of Northampton Enterprises Ltd	233,478	55,740	289,218
Vernon Terrace Primary School	76,143	20,124	96,266
Victoria Primary School	53,595	13,484	67,079
Warwick Primary Academy	46,517	18,341	64,858
Wayneflete Infants School	26,315	6,938	33,252
Weavers Academy	110,269	29,586	139,855
Weldon Primary School	26,184	6,775	32,959
Welford, Sibbertoft And Sulby Endowed School	9,834	2,524	12,358
Well Lady's Catholic Junior School	32,584	8,502	41,086
Wellingborough Croyland Primary School	83,068	21,888	104,956
Wellingborough Homes Ltd	123,258	45,031	168,289
Wellingborough Norse	198,137	88,404	286,541
Wellingborough Weavers School	79,836	21,407	101,244
Wellingborough Wrenn School	97,533	26,155	123,688
Welton Primary Academy	15,280	3,870	19,150
West Northants Development Corporation	3,288,737	64,591	3,353,328
Weston Favell Academy	135,617	44,508	180,125
Weston Favell Primary Academy	58,037	14,824	72,860
Wilbarston C of E Primary Academy	12,026	3,114	15,140
William Parker Academy	126,407	33,584	159,990
Windmill Primary Academy	19,405	4,800	24,205
Wollaston Community Primary School	29,923	7,700	37,623
Wollaston Parish Council	2,478	722	3,201
Wollaston Upper School	143,829	38,632	182,461
Woodland View Academy	52,104	13,093	65,197
Woodnewton Learning Academy	207,997	31,888	239,885
Woodvale Primary (Academy)	48,914	13,169	62,083
Wooton Parish Council	22,488	6,459	28,948
Wootton Primary Academy	59,989	15,212	75,202
Wrenn School Academy	128,938	55,683	184,621
WSP	412,446	127,330	539,776
Other	-	10,728	10,728
Total	**76,605,836**	**20,151,513**	**96,757,349**

B: INVESTMENT POLICY AND PERFORMANCE REPORT

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Demonstrate how the investment strategy has been put into practice during the year and how it links to the Statement of Investment Principles.	10, 38-41	See Annual Report page 10, Management of Investments. In accordance with the principles set out in the Statement of Investment Principles, following the completion of the 2013 actuarial valuation, the Fund performed a detailed asset allocation review. See Annual Report pages 38-41,, Investment Strategy.
Planned asset allocation should be stated along with the actual asset allocation for the beginning and end of the financial year. Explain significant differences. Asset allocations should be split by major asset classes in line with the categories in the financial statements.	31-37	See Annual Report pages 31-37, Investment Policy and Performance Report. A review of this section will be undertaken for the 2014-15 Annual Report in line with recent guidance.
Investment performance should be disclosed for each investment class and fund manager against the benchmarks set for one, three and ten years.	43-45	Performance for one and three years is disclosed in the Annual Report. The only investment mandate in place for the complete ten year period is the UBS UK Equity mandate. The ten year return is 8.3% compared to a benchmark return of 7.7%.

Summary requirement	Annual Report Reference Page No.	Additional disclosure
The Fund's responsible investment policies and any ESG issues should be disclosed along with voting arrangements and other initiatives such as engagement with companies and any collaborative ventures with other funds.	n/a	See the Statement of Investment Principles: section C.10
Outline the Fund's approach to the UK Stewardship Code.	n/a	See the Statement of Investment Principles: Section C.10.4 and Appendix D
List any bodies that the Fund is a member, subscriber or signatory (NPAF, LAPFF, IKSIF, UNPRI).	n/a	See the Statement of Investment Principles: Section C.10.5
Record where and how voting rights have been exercised.	n/a	See the Statement of Investment Principles: Section C.10.6. The Fund's new Custodian will be collating this data going forward.
Where a commitment to responsible investment is stated, what actions have been taken to pursue these aims?	n/a	See the Statement of Investment Principles: Section C.10.3 – C10.8
What actions the Fund has taken to demonstrate compliance with the Myners principles.	n/a	See Note 6, below.
Detail investment administration and custody and who looks after which part of the portfolio.	5 & 11	Northern Trust is the appointed Global Custodian for the whole portfolio.

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Commentary on any matters relating to the implementation and application of the funding strategy statement, including: Implementation of any contribution increases Management of admitted bodies Any bonds or any other secured funding arrangements entered into.	n/a	Contribution increases for the year have been implemented in accordance with the Statement to the Rates and Adjustments Certificate attached to the 2010 Funding Valuation. New Admitted bodies have been treated as set out in the Funding Strategy Statement. During the year 2 new guarantees were provided as security for employers' contributions.

Notes

6 Myners' Principles

The Myners' Principles, introduced by Lord Myners, are a set of principles for good investment governance which were originally created in 2001 and subsequently updated in 2008. Local government pension funds are required to produce a statement in their annual report regarding compliance with these Principles on a 'comply or explain' basis. The Myners' Principles are:

Principle	Evidence of compliance
1 Effective Decision Making Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to	The Pension Fund Board meets on a quarterly basis and is the main committee for the Fund addressing strategic and policy matters. • The Pension Fund Board is supported by the Investment Sub

Principle	Evidence of compliance
make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest**.**	Committee - formed to specifically implement Investment and funding strategy. They consider the Fund's strategic asset allocation following the results of the triennial actuarial valuation. • The Investment Sub Committee has appointed suitably qualified investment managers to manage the investments of the Fund on their behalf. • The Fund takes advice from its appointed professional investment consultant and independent investment adviser who attend the quarterly Investment Sub Committee meetings. This is in addition to the advice received from the Fund's actuary. • A formal training programme, in accordance with the requirements of the CIPFA Knowledge and Skills Framework, has been implemented to support informed decision making. Compliance with the Fund's Skills and Knowledge Framework is reported in the Business Plan when appropriate.
2 Clear Objectives • An overall investment objective(s) should be set for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, 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.	The overall Fund objective is directly linked to the risks and returns outlined in the Actuary's report, with the expected return on investments contained within the Statement of Investment Principles. • The Fund's strategic asset allocation is specifically designed to achieve the Fund objective. Specific asset allocation weightings are detailed in the Statement of Investment Principles. • In determining the Fund's asset allocation, the Pension Fund Board and Investment Sub Committee consider all asset

Principle	Evidence of compliance
	classes in terms of their suitability and diversification benefits.
3 Risk and Liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk**.**	The overall risk for any pension scheme is that its assets will be insufficient to meet its liabilities. The risk is negligible for Local Authority Funds as these are assessed on an actuarial basis every 3 years (Fund Valuation) and contribution rates are adjusted to ensure solvency. • The Funding Strategy Statement specifically addresses employer issues. See Appendix A, Funding Strategy Statement. • The Fund is subject to actuarial review every three years. The Fund's position is based on the market values of the assets at the time of the review. The Fund's actuary calculates the contributions required from employing authorities to ensure the solvency of the Fund. • The Fund is managed in a way that is designed to control and mitigate against specific investment risk. • Further Asset Liability Studies will be undertaken to help the Pension Fund Board and Investment Sub Committee determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets. As the Fund's liabilities are based in sterling, the majority of the Fund's assets are likely to be sterling denominated. The asset allocation will be formally reviewed following the triennial valuation, and at other times as required. • The Fund will normally hold a large proportion of its assets in

Principle	Evidence of compliance
	equities, which are considered to be the most appropriate match with the Fund's liabilities. Over the long term, they should provide a hedge against inflation and grow in line with the underlying economy. To minimise the risks associated with this policy, a broadly based portfolio of stocks is held, spread across different countries and different industrial sectors.
4 Performance Assessment • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. • 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**.**	• The Fund monitors manager performance, through quarterly performance monitoring from WM Company (the Fund's performance reporter) and meeting with managers at quarterly Investment Sub Committee and interim manager review meetings to discuss performance relative to their benchmark and longer term objectives. Additionally WM Company and the Fund's Investment Consultant, Mercer Limited, report on Fund performance annually at the Pension Fund Board and Investment Sub Committee. • There is a regular review (at least biennially) of the effective working of the Pension Fund Board and Investment Sub Committee, the results of which are reported back to the Pension Fund Board.
5 Responsible Ownership Administering authorities should: • adopt, or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and	The Fund has a clear policy regarding Responsible Investment (section C.10 of the Statement of Investment Principles) and will exercise its ownership responsibilities by: • Ensuring that all investment management agreements clearly set out the Fund's expectations regarding the consideration of ESG issues.

Principle	Evidence of compliance
agents • include a statement of their policy on responsible ownership in the Statement of Investment Principles • report periodically to scheme members on the discharge of such responsibilities.	• Monitoring the Fund's investment managers annually to determine the extent to which our expectations are being met. • The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed by the Investment Sub Committee as part of the Fund's manager monitoring processes.

Principle	Evidence of compliance
6 Transparency and Reporting Administering Authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Provide regular communication to scheme members in the form they consider most appropriate.	The following documents are published on the Pension Fund's website: • Pension Fund Annual Report and Statement of Accounts. • Statement of Investment Principles • Governance Policy & Compliance Statement • Funding Strategy Statement • Administration Strategy • Communications Strategy • Cash Management Strategy • Administering Authority Discretions • Actuary Valuation Report Pension Fund Board and Investment Sub Committee Agendas and Minutes are available on the Northamptonshire County Council's website.

C: SCHEME ADMINISTRATION REPORT

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Broad outline of the arrangements for scheme member administration, pensioner administration, arrangements for gathering assurance over the effective and efficient operation of these operations.	22-23	The LGSS Pension Service, a shared service arrangement of the Cambridgeshire County Council and Northamptonshire County Council, provides scheme member and pensioner administration services.
Outline the Fund's internal dispute resolution process including an analysis of new dispute cases raised during the reporting period and their resolutions.	n/a	Safeguards for scheme members are contained within the LGPS Regulations, which contain comprehensive complaints and disputes procedures. Members are able to seek redress through the Internal Disputes Resolution Procedure which allows access to a two stage procedure in an attempt to bring a solution to any dispute. If the member or former member is still unhappy with the decision reached at stage two there is the right for the complainant to then lodge their grievance with the Pensions Ombudsman. At any stage a Scheme member has the right to direct their complaint to The Pensions Advisory Service (TPAS). There was one non-ill health appeal in progress at the start of the year and three new cases during the year. One case was upheld and one case not upheld at the first stage and a further case not upheld at the second stage.

D: ACTUARIAL REPORT ON FUNDS

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Statement by the actuary of the level of funding of the Pension Fund as reported at the last valuation.	46-48	See Annual Report pages 46-48, Actuarial Reports.
Executive summary of the last triennial valuation report and where the full version of the actuarial report can be found.	n/a	The executive summary is shown in Note 7, below. The result of the latest triennial valuation can be found on our website. http://pensions.northamptonshire.gov.uk/wp-content/uploads/2014/03/140331-Northamptonshire-Pension-Fund-2013-Final-Valuation-Report.pdf
Results of any interim valuation.	n/a	The Fund does not undertake formal interim valuations. However, it receives quarterly funding updates based upon the latest triennial valuation funding data. This is reported to the Investment Sub Committee quarterly. As at 31 March 2014 the funding level has increased to 77.3%. This is largely as a result of an increase in bond yields, and subsequent higher discount rate, which places a lower value on the Fund's liabilities. This has been partially offset by an increase in expected future inflation. Asset performance has also been higher than expected, which also acts to reduce the deficit.

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Results of any monitoring of key variables such as longevity experience, ill health retirements and use of discretionary powers impacting on the Fund's solvency.	n/a	The key demographic assumptions are formally reviewed with the actuary at the start of each triennial valuation and any changes reflected in the valuation results. The assumptions used in the latest valuation are set out in Appendix E of the Funding Strategy Statement.

7 Executive summary of the last triennial valuation report

1 Executive summary

We have carried out an actuarial valuation of the Northamptonshire Pension Fund ('the Fund') as at 31 March 2013. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the financial position of the Fund at 31 March 2013 in respect of benefits earned by members up to this date.

Past Service Position	31 March 2010 (£m)	31 March 2013 (£m)
Past Service Liabilities	1,651	2,191
Market Value of Assets	1,206	1,545
Surplus / (Deficit)	(445)	(646)
Funding Level	73.0%	70.5%

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

Contribution Rates	31 March 2010 (% of pay)	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	16.2%	19.8%
Past Service Adjustment (20 year spread)	8.4%	12.3%
Total employer contribution rate (incl. expenses)	24.7%	32.1%
Employee contribution rate	6.5%	6.2%
Expenses	0.8%	0.9%

Again, the increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate is a theoretical figure – an average across the whole Fund. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each employer from 1 April 2014 to 31 March 2017 are shown in the Rates and Adjustment Certificate in **Appendix G**.

E: GOVERNANCE COMPLIANCE STATEMENT

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Governance Compliance Statement	12	See Annual Report page 12, Governance Policy and Compliance Statement. The Pension Fund Board has approved the Governance Policy and Compliance Statement which can be found on the Fund's website at: http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/ . The key features are described below.

Summary requirement	Annual Report Reference Page No.	Additional disclosure
An outline of the governance structure and the roles and responsibilities of each element within the structure (including whether the element is executive or advisory) – pensions board and sub committees.	9	The Northamptonshire County Council has established a Pension Fund Board and Investment Sub-Committee having strategic and operational investment decision making powers, respectively. Membership of both bodies consist of elected, non-elected and scheme member representatives. All members of the Investment Sub Committee sit on the Pension Fund Board. The Pension Fund Board's business covers all Fund matters with the exception of investment issues, which is delegated to the Investment Sub Committee. Officers who work in Pension Services or the Investment Team support Pension Fund Board and Investment Sub Committee meetings as required.
Membership of the pensions board and sub committee within a matrix showing for each member; Voting rights Attendance at meetings Training received during the reporting period	4 and 9	Details of membership, attendance and training are shown in Note 8, below. All members have equal voting rights.

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Policy and processes for managing any conflict of interest.	n/a	At the start of Pension Fund Board and Investment Sub Committee meetings, members are invited to declare any interests in any items to be discussed on the agenda. Elected members of the County Council need only declare the existence of any interest if that interest is not already listed in their register of Members' interests. Members of the Pension Fund Board and Investment Sub Committee need to consider whether any of the matters for discussion and/or decision conflict with their own interests.

Notes

8 The Pension Fund Board consists of 13 members. The Investment Sub Committee comprises 7 members drawn from the Pension Fund Board which will include the Chairman and Vice Chairman of the Pension Fund Board. The Pension Fund Board may appoint substitute members to the Investment Sub Committee.

		Number of meetings attended (max 5)	Number of Investment Sub Committee meetings attended (max 4)	Training – participation in CIPFA Skills and Knowledge Programme
County Council Members	Graham Lawman (Chairman)	5	4	✓
	Jim Hakewell (Vice Chairman from 3 May 2013)	5	4	✓
	Michael Brown (from 3 May 2013)	5	1	✓
	Matthew Golby (from 3 May 2013)	2	-	-
	Dennis Meredith (from 3 May 2013)	2	-	-
	Russell Roberts (from 3 May 2013)	2	2	✓
	Bob Scott (from 3 May 2013)	3	4	✓
District/Borough Councils' Representatives	Malcolm Ward (Wellingborough B.C.)	5	3	✓
	Martin Wilson (South Northants D.C. from 3 May 2013)	-	-	
Universities and Colleges Representative	Roger Morris	3	4	✓
Other Employers' Representatives	Alicia Bruce (from 3 May 2013)	3	-	✓
Employees' Representatives	Peter Borley-Cox	5	2	✓
	Josie Mason	3	1	✓

F: FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

The Fund Account, Net Assets Statement and Notes are presented in the Statement of Accounts attached to the Annual Report on pages 49 to 83.

G: PENSIONS ADMINISTRATION STRATEGY REPORT

Summary requirement	**Annual Report Reference Page No.**	**Additional disclosure**
Describe the service standards agreed in any service level agreements with Fund employers and report performance against the standards by employer. E.g. The provision of named pension contacts for the employer The provision of an employer discretions policy document Submission of statements of compliance regarding the administration of the scheme within the employer Timeliness of data submissions by the employer Timeliness of employer responses to Fund enquiries	15	The Cambridgeshire Pension Fund and Northamptonshire Pension Fund's have approved a Joint Administration Strategy, which sets out the quality and timeliness standards expected to be met by both LGSS and employers and can be found at: http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/ LGSS holds regular employer forum events to communicate the performance against agreed standards. Examples of KPIs currently measured are as follows:-: The provision of named pension contacts for the employer – a named representative to be confirmed within 30 working days of employer joining Fund or change to nominated representative - KPI 100% - This has been fully achieved. Employers must have published Employer Discretions, accessible to all employees and copy provided to LGSS Pensions Service. To be published and provided to LGSS within 30 days of approval – KPI 100%. None received. Accurate employer year end information must be provided for all Scheme members by 30 April following the contribution year end. In total 236 were received, 167 of which were late and 69 on time.

Summary requirement	Annual Report Reference Page No.	Additional disclosure
		A revised strategy was approved by the Pension Fund Board on 20th October 2014 effective 1 April 2015.
Any use of powers to seek compensation from employers in respect of any service standard breaches.	15	During 2013-14 the scheme did not exercise its powers to recover additional costs from scheme employers.

H: FUNDING STRATEGY STATEMENT

Summary requirement	Annual Report Reference Page No.	Additional disclosure
State the most recent Funding Strategy Statement in full giving references to where previous Funding Strategy Statements can be found.	13	The full Funding Strategy Statement is attached as Appendix A to this Addendum. The previous versions of the Funding Strategy Statement can be found at: http://pensions.northamptonshire.gov.uk/index.php/governance2/key-documents-for-the-northamptonshire-fund/ .

I: STATEMENT OF INVESTMENT PRINCIPLES

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Include current version of the Statement of Investment Principles.	12	The full Statement of Investment Principles is attached as Appendix B.
The Statement of Investment Principles should state the extent to which it complies with statutory guidance for producing the Statement of Investment Principles including any reasons for non-compliance.	n/a	See the Statement of Investment Principles, section B.
The Statement of Investment Principles should link with the investment policy and performance section of the annual report (Section B of this Addendum).	n/a	See Section B: Investment Policy And Performance Report, on page 21 of this Addendum.
The Statement of Investment Principles should link with the financial instrument risk disclosures included in the Pension Fund accounts (Section F).	n/a	The Statement of Investment Principles is currently under review and it is expected to be presented to the Pension Fund Board for approval in December 2014.

J: COMMUNICATIONS POLICY STATEMENT

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Include statement in annual report.	14	The latest version of the Cambridgeshire Pension Fund and Northamptonshire Pension Fund's Joint Administration Strategy and Joint Communication Strategy was approved by the Pension Fund Board on 20th October 2014.

Summary requirement	Annual Report Reference Page No.	Additional disclosure
Commentary on how the Fund has met the commitments set out in the communication policy statement including; How scheme information has been provided to members, their representatives and employers. In what format and how frequently information has been provided What steps the Fund has taken to promote scheme membership to prospective members.	n/a	The LGSS communications team maintains the Pension Fund website with dedicated web pages providing information for members and employers including regular newsletters for members and bulletins on scheme developments for employers The team also delivers training and communication workshops for employers and, more recently, a series of road show presentations for members explaining the impact of LGPS 2014, for example, across the Cambridgeshire and Northamptonshire Funds: – Delivered 80 LGPS 2014 road show presentations for members with 1,218 attendees – Presented 10 employer training sessions – 180 attendees – 2 employer workshops – 60 attendees – 5 employer pension bulletins – viewed 1,398 times – 1 member newsletter – viewed 499 times – 2 dedicated LGPS 2014 web pages –the member page has been viewed 2,474 times and the employers' page viewed 565 times. When requested by employers, the communications team provide induction briefings for new members.

K: ANY OTHER APPROPRIATE MATERIAL

Summary requirement	**Annual Report Reference Page No.**	**Additional disclosure**
A summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities). See guidance for layout.	n/a	See Note 9, below.
Analysis of Fund assets as at the reporting date. See guidance for categories and layout.	n/a	See Note 10, below
Analysis of investment income accrued during the reporting period. See guidance for categories and layout.	n/a	See Note 11, below

Notes

9 Summary of the number of employers in the Fund:

	Active	**Ceased**	**Total**
Scheduled body	127	15	142
Admitted body	54	24	78
Total	181	39	220

10 The Fund assets at 31 March 2014 are analysed below:

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	-	-	1,209	1,209
Bonds	-	-	304	304
Property - direct holdings		-		-
Alternatives	2	-	113	115
Cash and cash equivalents	32	-	-	32
Other	-	-	-	-
Total	**34**	**-**	**1,626**	**1,660**

11 Investment income accrued during 2013-14 is analysed below:

	UK	Non-UK	Global	Total
	£000	£000	£000	£000
Equities	-	-	20,574	20,574
Bonds	-	-	4,478	4,478
Property - direct holdings	-	-	-	-
Alternatives	-	-	3,495	3,495
Cash and cash equivalents	470	-	-	470
Other	-	-	-	-
Total	**470**	**-**	**28,547**	**29,017**

APPENDIX A - FUNDING STRATEGY STATEMENT

Northamptonshire Pension Fund

Funding Strategy Statement

March 2014

Main contact:

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Funding and Governance Manager (LGSS)

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APPENDIX A - FUNDING STRATEGY STATEMENT

Contents

APPENDIX A - FUNDING STRATEGY STATEMENT

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Northamptonshire Pension Fund ("the Fund"), which is administered by Northamptonshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 25th December 2013.

1.2 What is the Northamptonshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Northamptonshire Fund, in effect the LGPS for the Northamptonshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

APPENDIX A - FUNDING STRATEGY STATEMENT

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

APPENDIX A - FUNDING STRATEGY STATEMENT

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment principles.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Paul Tysoe, LGSS Funding and Governance Manager in the first instance at e-mail address phtysoe@northamptonshire.gov.uk or on telephone number 01604 368671.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E. Note that this is a notional Fund-wide, not employer specific, contribution rate.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances. These may be suitably adjusted for employers who are approaching cessation from the Fund.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31st March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3. This will also include consideration of whether the employer appears to be heading for cessation from the Fund (eg due to having a low and reducing number of active members).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status; in addition, other forms of school (such as Free Schools) can be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The provision of benefits to ex-employees and their families has broader benefits to society, such as a healthier local economy and reduced means-tested State benefit payments;
- Unlike other public sector pension schemes, the LGPS Funds must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

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2.7 10General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

2.8 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

2.9 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authorities**	**Police, Fire, Colleges etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Yes - see Note (b)	Academies contribution rate Note (b)	No	No	No but see Note (i)
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	Average expected future working lifetime	Average expected future working lifetime	Outstanding contract term (or future working lifetime, if less)
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Percentage of pay	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes – Note (e)	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	3 years or outstanding contract term if less
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Reviewed annually by request in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement, or similar. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising. If cessation prior to end of contract then see Note (j).

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Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the *discount rate* used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see headings in table below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Less mature* tax-raising authority, police authority	More mature* tax-raising authority	Academy **	College or University
Base cont rate	Actual 2013-14 rate	Actual 2013-14 rate	County rate plus 1% of pay	Actual 2013-14 rate
Max cont increase each year	+1% of pay	+2% of pay	+1% of pay	+1% of pay
Max cont decrease each year	-1% of pay	-2% of pay	-1% of pay	-1% of pay

The 4th year (2017-18) contributions are being held exactly as the 3rd year (2016-17 contributions), subject to adverse market conditions not making it unsafe to do so.

*The split in maturity is based on criteria such as ratio of liabilities to payroll (“gearing”) and current contribution rate, after discussion between the actuary and Administering Authority, on the basis of analysis carried out by the actuary. The criterion for “less mature” is that the gearing ratio should be no more than 9, with higher gearing relating to a “more mature” authority.

**The Academy stabilised rate is a single minimum rate applicable for all academies in the Fund as an alternative to their individual calculated rate, if the latter is higher. This rate will normally be close to (but not exactly equal to) the rates applicable to the ceding Local Authority.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2018. This will take into account the employer’s membership profiles, the issues surrounding employer security, and other relevant factors. At the 2013 valuation the Administering Authority adopted a policy of ensuring the stabilised rates would remain in force for two years (as opposed to one year) after each future valuation date, to provide sufficient advance notice to such employers regarding possible changes in their contribution rates.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 10 years, unless other arrangements are in place (such as pooling).

Note (d) (Deficit Recovery Payments)

Deficit recovery payments for each employer covering the four year period until the next valuation will typically be set as a monetary sum as opposed to a percentage of salaries. However, where a percentage of salaries approach is adopted, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

  For certain employers the Fund may split contributions in recognition of different groups of employees, and apply different contribution approaches accordingly. Any such arrangements will be identified in the Rates & Adjustments Certificate produced with the formal valuation report.

Note (e) (Phasing in of contribution changes)

It has been agreed at the 2013 valuation that contributions will be set for the next four years (ie to 2017/18), moving to three-yearly thereafter: this will assist employers in their budget planning process in future.All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at the date of this valuation will not be phased.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee. In other words, if higher contributions are required then these will be implemented immediately (and will therefore supersede the rates put forward at the formal 2013 valuation), to be in force for the remaining period to the next valuation.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

e) As an alternative to (d), the academy will have the option to elect to pay contributions outlined in Note (b) above (regarding stabilised contribution rates).These have been calculated in line with the ceding Local Authority. However, this election will not alter the academy's asset or liability allocation as per (b) and (c) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (d) and (e) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

In some cases it may be deemed that the risk is minimal, in which case no security will be required: this will only apply with the agreement of the Administering Authority, and recorded as such.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor.

Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Under the standard approach, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Instead of the above approach, employers which "outsource" have flexibility and can share the pension risk potentially taken on by the contractor. In particular there are three different risk-sharing routes that such employers may wish to adopt, in place of the above standard approach. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit. A variation of this is where the letting employer is paying a "stabilised" contribution rate, and permits the contractor to pay the same rate.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in a side agreement between the contractor and letting employer (such as the transfer agreement), as opposed to the Admission Agreement. The side agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

  Note that, as such risk-sharing arrangements are by agreement between the letting employer and the contractor (as opposed to the Fund), then these will normally fall outside the Admission Agreement: the Admission Agreement will still require that the contractor pays full (and variable) contributions to the Fund, and any adjustments are then settled between the letting employer and the contractor separately.

It should be noted that a letting employer which establishes a number of risk-sharing arrangements will inevitably face different (and possibly higher) pension costs and risks to itself in the future. This arises due to the retention of risk but the transfer-out of staff and revenue. This situation may require further analysis, and changes in contribution arrangements, for the letting employer.

Note (j) (Admission Bodies and Designating Employers Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

Where a cessation event has been triggered as per the above, or for non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

2.10 Pooled contributions

From time to time the Administering Authority may set up pools for employers, and change or alter the membership of such pools. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools (other than academies) are generally pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

2.11 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority, and/or it is considered appropriate to adopt a probabilistic-based analysis on the employer's contributions and obligations.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;

- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

2.12 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Normally such payments are required in a single lump sum immediately. However, with the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 3 years
Community Admission Bodies and Designating Employers	- up to 3 years
Academies	- up to 3 years

2.13 Ill health early retirement costs

At the time of writing, all employers have ill health liability insurance (see 3.8 below) which means that such costs are met (at least up to a point) by a single lump sum paid by the relevant insurer.

2.14 Ill health insurance

The Administering Authority has arranged a current insurance policy covering ill health early retirement strains for all employers in the Fund, on a mandatory basis. The employer's contribution to the Fund each year includes its share of that year's insurance premium. The existence of whole Fund insurance therefore has no impact on the total contributions paid to the Fund.

The Administering Authority will keep the employers notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

2.15 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund;

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

2.16 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- Notwithstanding the above, the Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

3 Funding strategy and links to investment principles

3.1 What are the Fund's investment principles?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is described as the investment principles.

Investment principles are set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment principles are set for the long-term, but reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and kept under review annually between actuarial valuations to ensure that they remain appropriate to the Fund's liability profile.

The same investment principles are currently followed for all employers.

3.2 What is the link between funding strategy and investment principles?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment principles). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

3.3 How does the funding strategy reflect the Fund's investment principles?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment principles of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

3.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment principles, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2018, it should be noted that this will need to be reviewed following the 2016 valuation.

3.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Board meetings, and also to employers through newsletters and Employers Forums.

APPENDIX A - FUNDING STRATEGY STATEMENT

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS 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 framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was made available for comment on the Fund website in November 2013.

b) Comments were requested within [30] days;

c) There was an Employers Forum on 13 November at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in [December 2013].

A3 How is the FSS published once finalised (after the consultation)?

The FSS is made available through the following routes:

- Published on the website, at [http://pensions.northamptonshire.gov.uk];
- A full copy linked from the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;

- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Board and would be included in the relevant Board Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at http://pensions.northamptonshire.gov.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 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;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Large scale outsourcings affect letting employer's ability to meet legacy liabilities	Situation monitored for all such employers (mainly local authorities), and Officers liaise with Actuary to determine whether further analysis is necessary in any given case.
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level. Appropriate probability margin used in target funding level for stabilised employer.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance	Quarterly investment monitoring analyses market

Risk	Summary of Control Mechanisms
relative to benchmark.	performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored,

Risk	Summary of Control Mechanisms
	and insurance is provided.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Change in local government landscape (eg due to large scale outsourcings and reorganisations, and/or budget cuts) reduce local authorities' ability to properly fund pension obligations	Position monitored at triennial valuations, and full discussions with local authorities to ensure proper understanding of long term obligations, costs and risk.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor.

Risk	Summary of Control Mechanisms
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

It should be noted that, whilst this assumption will affect the pre-2013 accrual of liabilities (and hence deficits), it will no longer be relevant for most employers under the new 2014 LGPS design: this is because of the Career Average approach replacing the current final salary basis.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is to add around 1% per annum per year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).

APPENDIX A - FUNDING STRATEGY STATEMENT

Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**. It is usually expressed as a percentage of pay.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service	The part of the employer's annual contribution which relates to past service **deficit**

adjustment	repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

APPENDIX A - FUNDING STRATEGY STATEMENT

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NORTHAMPTONSHIRE LOCAL GOVERNMENT PENSION SCHEME

Statement of Investment Principles

July 2013

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

Statement of Investment Principles

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APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

A. Introduction

A.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1 January 2010, require an Administering Authority, after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement of the principles governing its decisions about the investment of Fund money.

A.2 This Statement of Investment Principles (SIP) must cover the Fund's policy on:-

a) the types of investment to be held;
b) the balance between different types of investments;
c) risk, including the ways in which risks are to be measured and managed;
d) the expected return on investments;
e) the realisation of investments;
f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
h) Stock lending.

A.3 The SIP must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not comply, the reasons for not complying.

A.4 The SIP must be reviewed and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policies or breach of compliance, within six months of such change. To meet this requirement the Pension Fund Board (PFB) reviews the SIP annually.

A.5 The purpose of this document is to satisfy the requirements of these regulations.

A.6 In addition Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect 1 April 2004, requiring Administering Authorities to publish a Funding Strategy Statement (FSS). The FSS must have regard to the SIP. This document contains reference to the FSS for information.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

B. Compliance Statement

B.1 As stated above, the SIP is required to state the extent to which the Administering Authority is compliant with the Guidance given by the Secretary of State and also the extent the authority does not comply and if so the reasons for non compliance.

B.2 The table below sets out the requirements of the contents of the SIP, and the section within the SIP evidences this. This document therefore demonstrates that the Fund is currently Fully Compliant with all its requirements under the Regulations.

Document Ref	**Requirement** ***That the SIP covers statements on:***	**Compliance Status**
C2	The types of investment to be held	Fully Compliant
C4	The balance between different types of investments	Fully Compliant
C5, Appendix C	Risk, including the ways in which risks are to be measured and managed	Fully Compliant
C6	The realisation of investments	Fully Compliant
C7	The expected return on investments	Fully Compliant
C8	Stock Lending	Fully Compliant
C10, Appendices D and E	The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments	Fully Compliant
C10, Appendices D and E	The exercise of the rights (including rights) attaching to investments, if the authority has any such policy	Fully Compliant

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

C. Investment Principles

C.1 Investment Policy

C.1.1 The primary investment objective is to ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.

C.1.2 The investment objectives are to maximise investment returns over the long term within specified reasonable risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income combined).

C.1.3 The investment style is to appoint suitable expert fund managers with a clear performance benchmark and place maximum accountability for performance against that benchmark on the fund manager.

C.2 Types of Investment to be held

C.2.1 An Investment Management Agreement is in place for each fund manager, setting out the relevant benchmark, performance target, asset allocation ranges and any statutory restrictions or other restrictions determined by the PFB and/or Investment Sub Committee (ISC) as appropriate.

C.2.2 As per the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the types of investment which the fund managers may hold include:

- UK Equities
- Global Equities
- UK Fixed Interest Bonds
- Global Fixed Interest Bonds
- UK Index-linked Investments
- Global Index-linked Investments
- Property Unit Trusts
- Hedge Fund of Funds
- Private Equity Fund of Funds
- Alternatives Investments such as Infrastructure, Futures, Derivatives and Commodities.
- Cash Instruments
- Relevant Insurance Instruments

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

C.3 Approach to managing the Fund

C.3.1 The Administering Authority strategically reviews the allocation over the different types of investment formally on a triennial basis; however reviews can occur more frequently should material issues arise.

C.3.2 Following the strategic review and allocation of investment types, the Scheme will review and if necessary change, its mix of external fund managers to efficiently deliver the Scheme's investment portfolio.

C.3.3 The Fund currently has eleven investment mandates with seven fund managers. Each will have an agreement in place that sets out the relevant benchmark against which performance will be measured, a performance target and any constraints and parameters within which the manager must operate. Appendix A and B show the detailed breakdown of managers and mandates as at the date of this report.

C.3.4 The Administering Authority believes the current strategic asset allocation and blend of fund managers, provides a strong diversification, specialisation and spread of risk for the investments of the Fund's assets.

C.4 Balance between different types of investment

C.4.1 Local Government Pension Scheme (LGPS) regulations require that Funds achieve 'proper diversification'. This may be considered in terms of ensuring that investments are spread across a wide range of investment types.

C.4.2 Active fund managers are given wide discretion over asset allocation, subject to regular review, and are required to report at least once every three months their current asset allocation position against their strategy, and seek approval for variations to their strategies.

C.5 Investment Risk

C.5.1 The constant monitoring of performance relative to a performance target constrains fund managers from deviating significantly from the intended approach, whilst permitting flexibility to manage the Fund in such a way as to enhance returns. The appointment of more than one fund manager introduces a level of diversification of manager risk.

C.5.2 Fund managers are instructed to diversify between investment types and within each investment type so that the prospects of potential losses are reduced. Fund managers are also instructed to observe the Council's restrictions in investments as set out in the Investment Regulations 2009.

C.5.3 Fund managers will bias their portfolios towards stocks which are expected to out-perform in rising or falling markets, but not take such contrarian positions that major under-performance occurs if they are incorrect in their strategies. They are required to operate in such a way that the possibility of under-performance against the target is kept within an acceptable limit. Fund managers will use and report on the risk measures employed on a regular basis.

C.6 The realisation of investments

C.6.1 Some fund managers are required to maintain portfolios that consist of assets that are readily realisable. The majority of the Fund's investments are quoted on major stock markets and thus may be realised relatively quickly if required.

C.6.2 The PFB has delegated to the fund managers responsibility for the selection, retention and realisation of assets.

C.7 Expected return on investments

C.7.1 The Fund is expected to produce a return over the long term in excess of the investment return assumed in the actuarial valuation. The majority of the Fund's assets are managed on an active basis and, overall, the Fund is expected to out-perform its benchmarks over the long term.

C.7.2 At the last actuarial valuation, an excess return of 1.6% p.a. over gilts was assumed for the Fund's assets. The Fund monitors investment return against the valuation assumptions, through quarterly performance monitoring from WM Company (the Fund's performance reporter) and meeting with managers at quarterly ISC and Interim meetings to discuss performance relative to their benchmark and longer term objectives. Additionally WM Company and the Fund's Investment Consultant, Mercer, report on fund performance annually at the PFB and ISC.

C.8 Stock Lending

C.8.1 The Fund actively engages in Stock lending through the Funds custodian. The Fund receives a net income, which in 2012-13 was £156.7k. This income is the premium paid by third parties who borrow stock held by this Fund. Collateral stock is held to safeguard the Fund's assets. Lending is limited to 35% of the stock held by the Fund, although actual activity in 2012-13 averaged 9.2% and in 2011-12 9.5%.

C.8.2 As at 31 March 2013 the value of stock loaned to third parties was £44.8m against collateral held of £48.6m. More information is available in the Pension Fund Annual Report and Statement of

Accounts in the Notes to Accounts section.

C.9 Operational Risk

C.9.1 The overall risk for any Pension Scheme is that its assets will be insufficient to meet its liabilities. The risk is negligible for Local Authority Funds as these are assessed on an actuarial basis every 3 years (Fund Valuation) and contribution rates are adjusted to ensure solvency.

C.9.2 In terms of specific investment risk, the Northamptonshire Pension Fund is managed in a way that is designed to control and mitigate against this.

C.9.3 Further Asset Liability Studies will be undertaken to help the PFB and ISC determine, from time to time, appropriate asset allocation ranges. The aim of these is to ensure that the Fund's assets are prudently spread across different asset types and markets. As the Fund's liabilities are based in sterling, the majority of the Fund's assets are likely to be sterling denominated. The asset allocation will be formally reviewed following the triennial valuation, and at other times as required.

C.9.4 The Fund will normally hold a large proportion of its assets in equities, which are considered to be the most appropriate match with the Fund's liabilities. Over the long term, they should provide a hedge against inflation and grow in line with the underlying economy. To minimise the risks associated with this policy, a broadly based portfolio of stocks is held, spread across different countries and different industrial sectors.

C.9.5 The Fund's investment performance is reviewed quarterly by the ISC and should remedial action be required the ISC will determine the action to be taken and, where necessary, recommend to the PFB for approval.

C.9.6 The Fund is subject to actuarial review every three years. The Fund's actuary calculates the contributions required from employing authorities to ensure the solvency of the Fund. The Fund's position is based on the market values of the assets at the time of the review.

C.9.7 At present the Fund has a positive cash flow and is forecast to remain in this position for a number of years. However the Fund is acutely aware of significant potential pressures arising from Opt Outs, fiscal pressures on employers, and the general economic climate. The Fund is actively monitoring the situation to ensure it can act quickly should the need arise. It does, however, sell investments from time to time as part of normal investment management activities. However with pending scheme changes and the circumstances outlined above the positive cash flow horizons are anticipated to significantly reduce.

C.9.8 An alternative annual review of performance is undertaken annually upon receipt of annual data from WM, which provides a local government perspective.

C.9.9 The Fund’s Custodian will be reviewed annually. The aim of this is to;

- Gain feedback on the quality of services from the existing provider and comparisons with alternative providers.
- Provide transparency and openness with regard to the investment operations of the Fund.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

C10. Responsible Investment Policy

C.10.1 Responsible Investment – Position, Definition and Beliefs

The Northamptonshire Pension Fund (the "Fund") is a long-term investor, with a commitment to responsible investment (RI). The Fund defines "responsible investment" as the "integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices".

The Fund believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Fund's beneficiaries and aligned with fiduciary duty.

The Fund believes that ESG and ethical issues can affect the performance of investment portfolios and should therefore be considered as part of the Fund's investment process.

This policy constitutes the mechanism by which the Fund will monitor ESG risks and opportunities across its assets.

With regard to RI, the authority is mindful of the following principles that are based on legal rulings applicable to all pension schemes:

- Administering authorities are free to adopt a policy of RI investment provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

- Administering authorities are free to avoid certain kinds of prudent investment which they consider scheme members would regard as objectionable so long as they make equally financially advantageous and prudent investments elsewhere. Administering authorities may make RI related or ethical investments provided these are otherwise justifiable on investment grounds.

- Administering authorities are not entitled to subordinate the interests of members to ethical or social demands. The financial performance of the Fund, consistent with proper diversification and prudence is paramount.

C.10.2 Scope

This RI Policy covers the Fund's activities as an asset owner, specifically the decisions and activities that we undertake as we manage the Fund's assets and liabilities.

The Fund's assets are managed by third-party investment managers. Monitoring how the investment managers are meeting the Fund's expectations set out in this policy will be a major part of how we meet our objectives in this area.

C.10.3 Governance of the RI Policy

The Fund's PFB is responsible for the development, implementation and monitoring of this policy.

The PFB is also responsible for reviewing and, if necessary, updating this policy on an annual basis.

The PFB has delegated responsibility for monitoring the Fund's investment managers to the Fund's ISC. The ISC is responsible for monitoring the RI activities of the Fund's investment managers and for reporting on the Fund's RI activities to members.

RI reporting will focus on areas such as the development of the Fund's manager monitoring activities, including their voting and engagement activities.

C.10.4 Engagement – encouraging ESG best practice

The Fund's objective in addressing RI and related issues is to use its influence to encourage ESG best practice by its investment managers.

The Fund supports the UK Stewardship Code and expects the Fund's investment managers to comply with the UK Stewardship Code. In Appendix D, the Fund has issued a Statement of Commitment to the UK Stewardship Code highlighting how the Fund is discharging its stewardship responsibilities.

The Fund will exercise its ownership responsibilities by doing the following:

- Ensuring that all investment management agreements clearly set out the Fund's expectations regarding the consideration of ESG issues.

- Managers should have a clear process for integrating ESG considerations into investment decision-making processes
- Managers will be expected to adhere to all relevant stewardship guidelines (e.g. the UK Stewardship Code) on a comply or explain basis

- Monitoring the Fund's investment managers annually to determine the extent to which our expectations are being met.
  - Where portfolio companies fail to meet certain minimum ESG standards, investment managers must explain what steps are being taken to bring them up to the minimum level.
  - Managers will report regularly (at least annually) and in detail to the ISC on how they are meeting or addressing the Fund's ESG requirements.

C.10.5 Collaborative engagement

At times the Fund finds it more effective to work in collaboration with other investors to achieve its aims. For example, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) This initiative enables the Fund to work with other investors to understand the impacts of ESG considerations on financial performance.

C.10.6 Corporate Governance and Proxy Voting

The Fund has used best practice standards to develop a view on the most important high-level governance issues. With respect to investments in the UK, we expect the managers to have due regard to the UK Corporate Governance Code. With respect to overseas investments, we expect the managers to have due regard to relevant recognised standards, including the ICGN's [International Corporate Governance Network] Global Corporate Governance Principles and Securities Lending Code of Best Practice as well as the OECD [Organisation for Economic Co-operation and Development] Corporate Governance Guidelines.

These principles are as follows:

- **Effective Boards**: An effective board of directors is essential to the long-term success of a company. The board provides strategic guidance to as well as oversight of the executive directors on behalf of shareholders. The board should also consider the interests of company stakeholders including employees, suppliers, customers, the environment and society. To do this requires sufficient independence from the executives as well as the right mix of skills, competence and experience.

- **Accountability & Risk Management**: The board must at all times be conscious of its accountability to shareholders. It is responsible for determining the nature and extent of any significant risks taken on by the company in the pursuit of its strategic objectives. Risk management should be dynamic and comprehensive, considering operational, reputational and ESG risks in addition to financial risks.

- **Shareholder Rights**: Shareholders should be encouraged to participate in supporting good governance – voting rights should be equal across all shareholders; the exercise of voting rights should not be subject to unnecessary hurdles; directors should engage shareholders to explain voting issues where necessary; shareholders should have a say on major decisions (e.g. approving executive remuneration and major share issuance, nominating and appointing directors and external auditors etc.)

- **Shareholder responsibilities**: Shareholders should remain conscious of their duties to beneficiaries at all times including when considering corporate governance and other ESG issues. This can be achieved by considering ESG issues when assessing the risk of portfolio companies; exercising voting rights actively and intelligently and by collaborating with other investors. Beneficial owners should also aim to integrate ESG criteria into investment management mandates where appropriate.

- **Remuneration**: Remuneration policies should reinforce (rather than undermine) company culture. The board should use remuneration policies to align the interests of executives and shareholders, incentivising behaviour that encourages long-term financial health and promotes sound risk management. Significant aspects of remuneration policy should be developed through formal and transparent processes and be adequately disclosed to and approved by shareholders.

- **Transparency**: The board should ensure that shareholders receive accurate, relevant and timely information regarding financial, strategic, operational, and ESG issues. Accounting, governance, remuneration and wider corporate responsibility policies should be clearly disclosed and come with a statement of support by the board.

- **Stock lending**: Prior to engaging in a programme of stock lending beneficial owners should consider the risks inherent in this activity.

The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed by the ISC as part of the Fund's manager monitoring processes.

The Fund expects its investment managers to demonstrate adherence to the above principles in the proxy voting decisions undertaken in relation to the Fund's assets. The PFB will capture the extent to which this has happened through the Fund's manager monitoring process.

The Fund expects that its delegated investment managers will:

- Vote all shares (for listed equity assets) without exception unless a valid reason is provided as to why not (such as share blocking)
- Not undertake stock-lending to any third party without the prior agreement of the Fund

C.10.7 Manager Monitoring

Manager monitoring is a key element of the Fund's RI strategy. The PFB monitors the progress of its investment managers regarding the integration of ESG issues into their investment decision-making processes.

The Fund's monitoring process will look for evidence of positive momentum towards its ESG expectations by:

- Developing a formal but straightforward system of monitoring our investment managers based on the Fund's ESG expectations
- Using this system to keep track of progress

- Using information obtained from this monitoring process to demonstrate progress to the Fund's members via reporting on the Fund's website

The Fund's manager monitoring process for the integration of ESG covers all asset classes.

The Fund expects investment managers to:

- Integrate ESG considerations into their investment decision-making processes.
- Adhere to all relevant stewardship guidelines and codes of practice, such as the UK Stewardship Code, or explain why they have not.
- Report regularly (annually) and in detail to the PFB or ISC on how they are meeting or addressing the Fund's ESG requirements.

C.10.8 Negative screening/investment exclusions

The Fund adopts the view that it should seek out investment opportunities on the basis that they meet the needs of its long-term investment strategy and the nature of its liabilities.

In line with this policy and the Fund's commitments to responsible investment, the Fund does not exclude its investment managers from investing in any area.

The Statement of Investment policies and the Responsible Investment policy are reviewed by the Fund on an annual basis.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

Appendix A

Fund Managers and Mandates

Asset Allocation and Fund Specific Benchmarks July 2013

The table below shows the Fund's asset allocation together with the specific benchmarks (indices) against which to measure investment performance.

UK Equity		**23.0%**	
Majedie	11.5%		FTSE All-Share index
UBS	11.5%		FTSE All-Share index
Global Equity		**41.0%**	
UBS	20.0%		FTSE All World (inc EM)* Passive
Newton	16.0%		MSCI World AC
Skagen	5.0%		Benchmark agnostic (but MSCI World AC is used as a guide for performance monitoring purposes)
Fixed Income		**20.0%**	
Wellington Uk fixed Income	10.0%		6.67% BofA Merrill Lynch Sterling Broad Market 3.33% BofA Merrill Lynch Index Linked Gilts Index
Wellington Global Total Return	5.0%		BofA Merrill Lynch T-Bill Index
Wellington Global Strategic Credit	5.0%		No specific benchmark (but Barclays Global Aggregate Credit 1-5y GBP Hedged Index is used for performance monitoring purposes)
Property		**8.0%**	
CBRE	6.0%		IPD All Balanced Funds Index
UBS	2.0%		IPD All Balanced Funds Index
Diversified Growth Fund		**8.0%**	
Baillie Gifford	8.0%		UK base rate + 3.5%
		100.0%	

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

Appendix B

Performance Targets

The Managers appointed to the Scheme and their individual performance targets over the benchmark indices above [over a rolling three-year program] are;

Investment Manager	Asset Class	Individual Target
UBS	Multi-Asset	1.25%
Wellington	UK Fixed Interest	1%
	Global Strategic Credit	n/a
	Global Total Return	3 Month T-Bills +5%
Majedie	UK Equities	2%
Skagen	Global Equities	n/a (assumed 3% as guide)
Newton	Global Equities	2%
UBS	Passive Global Equities	0%
Baillie Gifford	Diversified Growth	UK Base Rate +3.5%
CBRE	Property	1%
Overall Fund Target		**1.6%**

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

Appendix C

Key Risks and Controls

Risk	Summary of Controls	Risk Index
	FINANCIAL RISKS	
Inappropriate long-term investment strategy.	• Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.	3
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	• Only anticipate long-term return on a relatively prudent basis to reduce the risk of under-performing. • Analyse progress at three yearly valuations for all employers. • Inter-valuation monitoring of investment performance.	5
Fall in risk-free returns on government bonds, leading to a rise in the value placed on liabilities.	• Inter-valuation monitoring of investment performance. • Asset Allocation reviews	3
Active investment manager under performance relative to benchmark over the medium term.	• Quarterly monitoring of market performance and active managers' performance relative to their benchmark and longer term objectives.	3
Pay and price inflation significantly more than anticipated.	• The focus of the actuarial valuation process is on the real return on assets, net of price and pay increases. • Inter valuation monitoring provides early warning. • Some investment in index-linked bonds helps to mitigate this risk.	3
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	• Seek feedback from employers on scope to absorb short-term contribution rises. • Mitigate impact through deficit spreading and phasing in of contribution rises where this is possible and does not negatively impact the Fund. This to be considered against the need to ensure that deficit spreading does not become a one-off opportunity.	3

Risk	Summary of Controls	Risk Index
	• Introduction of "Smoothing" over a number of valuation periods. • Ensure decisions are well informed and account for current and future asset and liability expectations.	
	DEMOGRAPHIC	
Pensioners living longer than previous experience.	• Consider allowance in future valuations for future increases in life expectancy beyond experience to date. • Fund Actuary monitors combined experience of around 50 Funds to look for early warnings of differing mortality rates than those assumed in funding. • Administering Authority encourages any employers concerned at pension costs to promote late retirement culture. • Implementation of Hutton review.	5
Deteriorating patterns of early retirements.	• Employers are charged the extra capital cost of non ill health early retirements following each individual decision • Employer ill health retirement experience is monitored.	3
	REGULATORY	
Changes to regulations. This may give rise to: • More favourable benefits packages. • Potential new entrants to the Fund. • Backdating of benefits	• The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself. • New CARE Scheme proposals falling out of Hutton by 2015. • It considers all consultation papers issued by the ODPM and comments	4

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

Risk	**Summary of Controls**	**Risk Index**
improvements or membership e.g. developments around part-time workers Changes to national pension requirements and/or Inland Revenue rules e.g. the new scheme scheduled for introduction from April 2008 and subsequent new regulations.	where it considers that that is appropriate. • The Administering Authority will consult employers where it considers that it is appropriate. It urges all employers to participate where national consultation exercises are undertaken.	
GOVERNANCE		
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contribution (under Regulation 78) between triennial valuations. Deficits are expressed as monetary amounts.	3
Administering Authority not advised of an employer closing to new entrants.	• The Fund maintains communication with all employer bodies to understand the impact of changes in their business on the Pension Fund. • The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contribution (under Regulation 78) between triennial valuations. • The Fund monitors the receipt of contributions on a monthly basis and investigates all non-receipts.	4
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in any debt in respect of a funding deficit.	• The Fund is developing a database to monitor all admission bodies. • Data on all bodies is provided to the Actuary at valuation. • The Fund monitors the receipt of contributions on a monthly basis and investigates all non-receipts.	4

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

Risk	Summary of Controls	Risk Index
An employer ceases to exist with insufficient funding or adequacy of bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by a prudent admissions policy which: • Sets out the employer obligations clearly. • Seeks an appropriate funding guarantee. • Encourage the employer to take actuarial advice. • Where permitted under the regulations, require a bond to protect the Fund.	1
Administering Authority fails to implement sound internal governance arrangements for the management of the Fund.	The Administering Authority operates a Pensions Committee with a supporting Investment Advisory Panel, as recommended by CIPFA best practice. All meetings are duly minuted and minutes inspected as part of the annual external audit process. Adoption of the CIPFA Skills and Knowledge Framework.	1

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

Appendix D

Northamptonshire Local Government Pension Scheme – Statement of Commitment to the UK Stewardship Code

The Northamptonshire Local Government Pension Fund (the "Fund") believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Fund's beneficiaries and aligned with fiduciary duty. Therefore, the Fund supports the principles of the UK Stewardship Code (the "Code").

The Fund believes that Environmental, Social and Corporate Governance ("ESG") issues can affect the performance of investment portfolios and are therefore considered as part of the Fund's investment process.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Fund has given its managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Fund's investments. This policy is outlined in the Fund's Responsible Investment Policy, which is publicly available and is reviewed on an annual basis.

The Fund supports the UK Stewardship Code and expects the Fund's investment managers to comply with the UK Stewardship Code. The Fund monitors the investment managers in this regard on an annual basis.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund encourages the investment managers to adopt effective policies addressing potential conflicts of interest with regards to stewardship activities. The Fund monitors the investment managers in this regard.

The Funds' overriding obligation is to act in the best financial interests of the members. Our policy of constructive engagement with companies is consistent with the Funds' fiduciary responsibilities.

Principle 3 – Institutional investors should monitor their investee companies.

The Fund has delegated responsibility of the management of its equity holdings to investment managers and monitoring investee companies is part of this responsibility. The Fund encourages investment managers to monitor companies, intervene where necessary and report back regularly on activity undertaken.

The Fund undertakes regular monitoring of the activities of the investment managers.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for stewardship activities is delegated to the Fund's investment managers.

As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary and the Fund monitors the investment managers in this regard.

We expect the approach to engagement on our behalf to be value orientated and focussed on long term profitability. We expect the Fund's investment managers to disclose their guidelines for such activities in their own statements of commitment to the Code.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund is willing to work collaboratively with other investors, where appropriate, to enhance the influence that it has on individual companies.

The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF"), which engages with companies over ESG issues on behalf of its members.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund's investment managers exercise voting rights and undertake engagement in accordance with their own corporate governance policies, including escalation procedures to protect investment value. Each manager's policy is expected to be provided to the Fund and is reviewed as part of the Fund's manager monitoring processes.

The Fund expects its delegated investment managers to vote on all shares held (without exception unless a valid reason is provided as to why not (such as share blocking)).

Reporting on voting and engagement activities is provided to the Fund on a regular basis and the Fund monitors the investment managers in this regard.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

The Fund expects the investment managers to report regularly on their stewardship and voting activities.

APPENDIX B - STATEMENT OF INVESTMENT PRINCIPLES

In addition, the Fund encourages the investment managers to consider and report the impact of engagement activity.

The Fund reports annually on stewardship activity through a specific section on Responsible Investment in the Funds' annual report and accounts.

July 2013

Appendix E

LGPS signatories to the UK Stewardship Code

Avon Pension Fund
Bedfordshire Pension Fund
East Riding Pension Fund
Environment Agency Active Pension Fund
Greater Manchester Pension Fund
Lincolnshire Pension Fund
London Borough of Hillingdon Pension Fund
London Pensions Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
North East Scotland Pension Fund
Northern Ireland Local Government Officers' Superannuation Committee
Somerset County Council
Strathclyde Pension Fund
The London Borough of Ealing Pension Fund
The Tyne and Wear Pension Fund
West Midlands Pension Fund
Wiltshire Pension Fund

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

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Northamptonshire County Council

Northamptonshire

Local Government Pension Fund

Governance Policy & Governance Compliance Statement

January 2013

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Northamptonshire Local Government Pension Scheme (LGPS)

Governance Policy Statement

1) Contents | Page No.

2) Regulation

Governance of local government pension schemes is covered in administration regulations, which require administering authorities to set out in a Governance Compliance Statement how they govern their respective scheme. Such Statements should address the requirements of the regulation, as detailed below:-

31.-
(1) This regulation applies to the written statement prepared and published by an administering authority under regulation 73A of the 1997 Regulations.
(1A) An administering authority that has not published the first such statement as prescribed by regulation 73A(2), must do so on or before 1st November 2008. (SI 2008/2425. /Amended/SI/20082425.htm.)

(2) The authority must-`
- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in paragraph (3); and
- (c) if revisions are made-
  (i) publish the statement as revised, and

(ii) send a copy of it to the Secretary of State.

(3) The matters are-

(a) whether the authority delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the authority;

(b) if it does so-

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and, if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.

(4) In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

3) Compliance against the Regulations

This section refers to the sub sections of regulation 31 as detailed above.

1) The Northamptonshire Fund (the Fund) has published a Governance Compliance Statement since the original required date of November 2008.

2) The Fund has undertaken an annual review of the Governance Compliance Statement since inception.

3) The Fund sets out in
    a. Appendix 1 the Operating Protocol of the Pension Fund Board and the Investment Sub Committee;

4) The review of the Governance Arrangements of the Fund has undergone extensive consultation with Pension Committee members and senior officers, supported by the Fund's Actuary Hymans. The County Council approved changes to the constitution to reflect the review of the Powers and creation of the Pension Fund Board and Investment Sub Committee.

4) Performance and Risk Monitoring

1) In respect of investments the Fund employs professional and Industry recognised investment performance measuring providers to measure and report on the performance and risk of individual portfolios and the Total Fund.

2) The Fund employs a professional and industry recognised actuary, who provides wider Fund specific performance and risk information in particular covering Fund and Employer matters.

3) All such arrangements are governed by formal agreement.

4) The Pension Fund Board, the Investment Sub-Committee and the Funds Officers consider formally the performance and risk issues in relation to managers and the Total Fund. Additionally, quarterly reports provided by suitable external providers are distributed to members of the Investment Sub-Committee on a quarterly basis.

5) An annual review of performance is undertaken, in line with the production of the Annual Report and Statement of Accounts.

5) Accountability and Publication of Information

Details of Pension Fund Board meetings are published on the Northamptonshire County Council website together with agendas, reports to be considered by the Board and minutes of proceedings. The meetings of the Pension Fund Board which are usually held at the County Council Offices in George Row, Northampton, NN1 1DF, are open to the public.

An Annual Pension Scheme Report and Accounts is published on the County Council's website, (pensions.northamptonshire.gov.uk, within the Key Documents Library), reporting on the activities and investment performance during the year. Details of matters considered during the year and meetings held are reported and a copy of the annual report is available on the Council's website. Extracts of the annual report and details of its availability are also reported in the members newsletters sent to all scheme members.

Published

January 2013

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Governance Compliance Statement

Best Practice Principles

This section sets out the extent to which the delegation complies with guidance from the Secretary of State, with reasons.

PART II/A - Structure

Recommended Principle:

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.

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.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

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.

Existing NCC Position:

II/A	**Not Compliant**				**Fully Compliant**
a)					X
b)					X
c)					X
d)					X

a) Northamptonshire County Council agreed at the Full Council meeting of 21st June 2012 to establish a Pension Fund Board (PFB) and Investment Sub-Committee (ISC) with both having decision making powers.

b) Pension Fund Board and Investment Sub Committee Membership are set out on the following table. Membership of the Investment Sub-Committee is drawn from Pension Fund Board membership.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

<table>
<tr><th>Representatives of</th><th>PFB</th><th>ISC</th></tr>
<tr><td>Northamptonshire County Council</td><td>7</td><td>4</td></tr>
<tr><td>All other local authorities and police</td><td>2</td><td rowspan="2">2</td></tr>
<tr><td>All other employers</td><td>2</td></tr>
<tr><td>Active Scheme Members</td><td>1</td><td rowspan="2">1</td></tr>
<tr><td>Deferred and Pensioner Scheme Members</td><td>1</td></tr>
<tr><td>Total Board Membership</td><td>13</td><td>7</td></tr>
</table>

c) Investment Sub-Committee meetings take place a number of weeks before Pension Fund Board meetings, to facilitate the monitoring of ISC business through vehicles such as ISC minutes. The same members sit on both, therefore members receive papers for both. Hence the two bodies are closely linked.

d) All members of the Investment Sub-Committee sit on the Pension Fund Board.

Proposed Action:

b) Implement and embed the new Board and Investment Sub Committee structures and governance arrangements.

Timescale:

2013-14

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

PART II/B - Representation

Recommended Principle:

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

i) employing authorities (including non-scheme employers, e.g. admitted bodies);

ii) scheme members (including deferred and pensioner scheme members),

iii) where appropriate independent professional observers, and

iv) expert advisors (on an ad-hoc basis).

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.

xisting NCC Position:

II/B	**Not Compliant**				**Fully Compliant**
a) i)					X
a) ii)					X
a) iii)					X
a) iv)					X
b)					X

a) i) & ii) Pension Fund Board membership

The Fund is fully compliant with this principle as demonstrated on the table from section PARTII/A above.

Note: each employer group as the autonomy to select its representatives including substitutes.

iii) According to guidance, an independent professional observer could be invited to:

- Participate in the governance arrangement to enhance the experience, continuity, knowledge, impartiality and performance of committees or panels.

- Carry out independent assessments of compliance against Myners' principles, together with other benchmarks that the Scheme authority's performance is measured against.

- Offer a practical approach to address and control risk, their potential effects, what should be done to mitigate them and whether the costs of doing so are proportionate.

The Scheme has access to actuarial and benefits support through Hymans Robertson.

iv) In addition an independent Investment Consultant (Mercers) is invited to attend all Pension Fund Board Meetings and Investment Sub Committee meetings.

Other expert advisors are available to the scheme as required ie WM Universe.

b) A lay member, according to guidance, is a formal member of the committee other than an elected member. Membership of the Pension Fund Board and Investment Sub-Committee consists of a mixture of elected, non-elected and scheme representatives. All members have full voting rights and receive all papers.

Proposed Action:

b) Implement and embed the new Board and Investment Sub Committee structures and governance arrangements.

Timescale:

2013-14

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

PART II/C - Selection and role of lay members

Recommended Principle:

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.
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

Existing NCC Position:

II/C	**Not Compliant***				**Fully Compliant**
a)					X
b)					X

a) Members are briefed on what is required of them on election to the Pension Fund Board and Investment Sub-Committee meetings. Members and officers are required to undergo regular training to develop their skills and knowledge and awareness. The training programme and log of attendance is maintained.

b) At the start of Pension Fund Board and Investment Sub-Committee meetings, members are invited to declare any interests in any items to be discussed on the agenda.

Elected members of the County Council need only declare the existence of any interest if that interest is **not** already listed in their register of Members' interests.

Members of the Pension Fund Board and Investment Sub-Committee need to consider whether any of the matters for discussion and/or decision conflict with their own interests. These could include areas such as: -

i) Membership of the Local Government Pension Scheme as an individual, Councillor or dependent.
ii) Being in receipt of or potential future receipt of benefits from the Local Government Pension Scheme.
iii) Decisions that could impact or conflict with their own financial or pecuniary interests.
iv) Decisions that could impact on or be impacted on by their status, role or function within any other Committee.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Proposed Action:

a) The Governance Compliance Statement includes at Appendix 1 an Operating Protocol approved at the September 2012 Pension Fund Board to remind the members of their duties and to ensure that non-elected members are fully compliant and understand the code of conduct.

b) To embed Protocol during 2013-14.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

PART II/D – Voting

Recommended Principle:

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 main LGPS committees.

Existing NCC Position:

II/D	Not Compliant*				Fully Compliant
a)					X

a) All committee representatives appointed to either the Pension Fund Board or the Investment Sub-Committee and have full voting rights.

Proposed Action:

a) No further action proposed.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

PART II/E - Training/Facility time/Expenses

Recommended Principle:

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.

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.

Existing NCC Position:

II/E	**Not Compliant***				**Fully Compliant**
a)					X
b)					X

a) A training policy is in place.

Part 6 (Members' Allowances Scheme) of the 'Constitution of Northamptonshire County Council' covers reimbursement of expenses for members.

b) Training and reimbursement of expenses applies equally to all members of the Pension Fund Board and Investment Sub-Committee.

Proposed Action:

a) To deliver the training plan approved at the October 2012 Pension Fund Board.

b) To review the process of reimbursement of expenses to make more efficient and easier to use.

Timescale:

2013-14

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

PART II/F - Meetings (frequency/quorum)

Recommended Principle:

a) That an administering authority's main committee or committees meet at least quarterly.

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.

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.

Existing NCC Position:

II/F	Not Compliant*				Fully Compliant
a)					X
b)					X
c)					x

a) The Pension Fund Board meets at least five times per year.

b) The Investment Sub-Committee meets at least four times per year.

c) Lay members are represented as shown in the structure of the Pension Fund Board. In addition, Employer seminars are held on an ad hoc basis.

Proposed Action:

No further action proposed.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

PART II/G - Access

Recommended Principle:

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.

Existing NCC Position:

II/G	Not Compliant*				Fully Compliant
a)					X

a) To be on the Investment Sub Committee members must be on the Pension Fund Board, therefore members of the Investment Sub Committee receive all papers of both bodies.
Non Investment Sub Committee members receive electronic copies of Investment Sub Committee papers, and are able to attend the Investment Sub Committee in an observatory capacity.

Proposed Action:

a) No further action proposed.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

PART II/H - Scope

Recommended Principle:

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

Existing NCC Position:

II/H	Not Compliant*				Fully Compliant
a)					X

a) The Pension Fund Board's business covers all Fund matters with the exception of operational investment issues, which is delegated to the Investment Sub Committee.

Officers who work in Pensions Services or the Investment Team attend Pension Fund Board and Investment Sub-Committee meetings as required.

Members and Officers also keep abreast of wider scheme issues and developments by attending external seminars (e.g. NAPF, LAPFF) and Local Authority Pension User Group meetings.

With reference to the powers of the Pension Fund Board and Investment Sub-Committee it is clear that the Administering Authority has facilitated wider scheme issues within the scope of their wider governance arrangements.

The Fund has approved a training plan which requires members to attain and maintain Skills and Knowledge standards and attend external seminars and conferences to maintain knowledge and awareness of current issues.

Proposed Action:

a) Embed the new training plan. Review and update training plan for March 2014.

Timescale:

2013-14

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

PART II/I - Publicity

Recommended principle:

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.

Existing NCC Position:

II/I	Not Compliant*				Fully Compliant
a)					X

a) The latest Governance Policy & Governance Compliance Statement is currently available on the Council's internet site and the Fund's specific website: pensions.northamptonshire.gov.uk.

Proposed Action:

a) No further action proposed.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Appendix 1

Northamptonshire Pension Fund Board and Investment Sub-Committee

OPERATING PROTOCOL

NOTE:

a) Nothing in this Operating Protocol can override legislation or the procedures and information contained in Northamptonshire County Council's Constitution including its Code of Conduct.

b) This document will form part of Northamptonshire Pension Fund's Governance Policy and will be subject to review on an annual basis, which may result in recommendations to update the Council's Constitution in relation to Pension Fund matters.

A. Contents:

B. Constitution

1 On the 21 June 2012, Northamptonshire County Council approved the amendment of its Constitution to implement a new governance structure for Northamptonshire Pension Fund consisting of:

- A Pension Fund Board ("PFB"), and
- An Investment Sub-Committee ("ISC"),

2 The amendments to the Constitution showing the Terms of Reference of the PFB and ISC are attached as Appendix 1.

3 This Operating Protocol has been developed to provide an overview of how the PFB and ISC will operate in practice.

C. Background

4 The Northamptonshire Pension Fund is an LGPS Fund under the Local Government Pension Scheme (Administration) Regulations 2008 and any ancillary regulations or legislation, as amended.

Under that legislation Northamptonshire County Council are specified as the administering authority, and therefore required to maintain and manage the Fund.

D. PFB Role and Powers

5 The role of the PFB is to manage the Northamptonshire Pension Fund ("the Fund") and have responsibility for all Fund matters except those that are the responsibility of the ISC. The Terms of Reference included in the Council's Constitution summarise the function of the PFB as:

- Overall responsibility for all administering authority pension fund matters
- Responsibility for developing and reviewing all policies and strategies in relation to administering authority pension fund matters.
- Responsibility for the governance of the pension fund and ensuring that the fund complies with all relevant legislation.
- Responsibility for ensuring appropriate arrangements for the administration of benefits are in place.

6 The following specific powers have been delegated to the PFB under the Constitution:

- Power to set the pension fund's objectives and determine and maintain appropriate strategies, policies and procedures with ongoing monitoring in relation to the following areas:
    - Funding Strategy - ongoing monitoring and management of the liabilities including ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
    - Investment strategy - to determine the Fund's investment objectives and to set and review the long-term high level investment strategy to ensure these are aligned with the Fund's specific liability profile and risk appetite.
    - Administration Strategy – the administration of the fund including collecting payments due, calculating and paying benefits, gathering from and providing information to scheme members and employers.
    - Communications Strategy – determining the methods of communications with the various stakeholders including scheme members and employers.
    - Discretions – determining how the various administering authority discretions are operated for the Fund.
    - Governance - the key governance arrangements for the Fund, including representation.
    - Risk Management Strategy – to include regular monitoring of the Fund's key risks and agreeing how they are managed and/or mitigated.
- Power to approve and apply the policy on, and to take decisions relating to, employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- Power to agree the terms and payment of bulk transfers into and out of the Fund in consultation with the S.151 Officer.
- Power to consider and agree business plans at least annually and monitor progress against them and to monitor compliance with the Myners Principles on an annual basis.

- Power to develop and maintain a training policy for all Pension Fund Board and sub-committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring attendance at training events.
- Power to select, appoint, monitor and where necessary terminate advisors to the Fund not solely relating to investment matters.
- Power to agree the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- Power to consider and determine where necessary, alternative investment strategies for participating employers.
- Power to oversee the work of the Investment Sub-Committee and consider any matters put to them by the Investment Sub-Committee
- Power to set up Sub-Committees and Task and Finish Groups including jointly with other LGPS Administering Authorities
- Power to review and amend the Statement of Investment Principles on an annual basis, in consultation with the S.151 Officer.
- Power to manage any other strategic or key matters pertaining to the Fund not specifically listed above.

E. ISC Role and Powers

7 The role of the ISC is to address all secondary investment issues in relation to the Fund. The following specific powers have been delegated to the ISC under the Constitution:

- Power to implement the Fund's investment strategy
- Power to review and maintain the detailed asset allocation of the Fund within parameters agreed with the PFB.
- Power to appoint and terminate investment managers to the Fund and to monitor the performance of investment managers leading to review and decisions on termination where necessary.
- Power to appoint and monitor and where necessary terminate external advisors and service providers solely relating to investment matters, for example, the Fund Custodian, independent investment advisers, investment consultants and investment managers.
- Power to set benchmarks and targets for the Fund's investment managers.
- Power to monitor the risks inherent in the Fund's investment strategy in relation to the Fund's funding level
- Power to determine operational matters such as rebalancing and the most appropriate methodology for asset transitions within parameters agreed by the Pension Fund PFB.
- Power to monitor and review:
    - Legislative, financial and economic changes relating to investments and their potential impact on the Fund;
    - The investment management fees paid by the Fund and to implement any actions deemed necessary;

- The transactions costs incurred by the Fund across its investment mandates and raise relevant issues and concerns with the investment managers as necessary;
- The investment managers' adoption of socially responsible investment considerations, on an annual basis, including corporate governance matters and a review of compliance with the UK Stewardship Code.

- Power to receive reports on Interim Manager meetings and other operational meetings
- Power to undertake any task as delegated by the Pension Fund PFB.
- Power to refer any matter to the Pension Fund PFB as they consider appropriate.
- Power to provide minutes and such other information to the Pension Fund PFB as they may request from time to time

F. Other Sub-Committees and Task and Finish Groups

8 The Council's Constitution includes the power for the PFB to set up Sub-Committees and Task and Finish Groups including jointly with other LGPS Administering Authorities.

9 These Sub-Committees may be established as short-term or otherwise. The PFB will be responsible for outlining the powers and purpose of any such Sub-Committee or Group, including expectations in relation to reporting back to the PFB.

10 This Operating Protocol will apply equally to any such Sub-Committees or Task and Finish Groups unless the PFB specify otherwise or any areas within the Operating Protocol are considered not relevant as agreed by the Chairman.

G. Membership of PFB and ISC

11 The membership of the PFB has been agreed as part of the Council's Constitution to be thirteen members representing a range of Fund stakeholders as follows:

Representatives of	Number of Representatives
Northamptonshire County Council	7
All other local authorities and police	2
All other employers	2
Active scheme members	1
Deferred and pensioner scheme members	1

12 The term of appointment for all PFB members is approximately four years in accordance with the following cycles. The table also provides information on how the appointments are agreed:

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Representatives of	Cycle and Method of Appointment
Northamptonshire County Council	Membership reviewed after each County Council main election (2013, 2017, etc). Appointments made by Northamptonshire County Council.
All other local authorities and police	Reviewed after Council elections in 2015, 2019, etc. The Leaders or Chief Executives of these authorities will agree the representatives.
All other employers	To be appointed via voting by eligible employers during 2014, 2018, etc.
Active scheme members	To be appointed by Unison during 2014, 2018, etc. Where Unison fails to nominate a member for any period of 6 months or more, nominations will be requested from all active scheme members and a representative appointed following interviews.
Deferred and pensioner scheme members	To be appointed by Unison during 2014, 2018, etc. Where Unison fails to nominate a member for any period of 6 months or more, nominations will be requested from all active scheme members and a representative appointed following interviews.

13 The membership of the ISC has been agreed as part of the Council's Constitution to be seven members representing a range of Fund stakeholders as shown in the following table. All ISC members must be drawn from PFB members.

Representatives of	Number of Representatives
Northamptonshire County Council	4
All other employers	2
Scheme member representative	1

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

14 The table provides information on how the appointments to ISC are agreed:

Representatives of	Method of Appointment
Northamptonshire County Council	The Northamptonshire County Council representatives on the PFB agree which members are to be appointed to the ISC.
All other employers	The “All other local authorities and police” and “All other employers” representative on the PFB determine which representatives are to be appointed to the ISC.
Scheme member representative	The Active and Deferred/Pensioner Representatives on PFB determine which representative is to be appointed to the ISC.

H. Role of Members on PFB and ISC

15 Though Members of the PFB and ISC are each representing a specific category of stakeholder (e.g. Northamptonshire County Council, other employers or scheme members) each Member is required to have due regard to the purpose of the PFB i.e.

- Overall responsibility for all administering authority pension fund matters
- Responsibility for developing and reviewing all policies and strategies in relation to administering authority pension fund matters.
- Responsibility for the governance of the pension fund and ensuring that the fund complies with all relevant legislation.
- Responsibility for ensuring appropriate arrangements for the administration of benefits are in place.

16 Accordingly all Members are expected to work jointly with the key purpose of governing (and hence safeguarding) the pension fund putting aside any individual views of any stakeholders. This should not take away from Members sharing their knowledge on how decisions might impact specific stakeholders of the Fund.

I. Chairman and Vice Chairman’s Term of Office

17 The Chairman and Vice Chairman of the PFB shall also be the Chairman and Vice Chairman of the ISC.

18 The PFB’s Chairman is appointed (or removed) by the Council at its Annual General Meeting. The Chairman shall be a member of Northamptonshire County Council. The Vice Chairman is appointed (or removed) by the PFB.

19 The normal term for the PFB’s Chairman and Vice Chairman’s shall be one year subject to earlier removal by vote of the Council (for the PFB Chairman) or the PFB (for the Vice Chairman).

J. Attendance and Absences of Members and of the Chair

20 All Members of the PFB and ISC are expected to regularly attend meetings. Records of attendance of all Members will be maintained and reported to the PFB on at least an annual basis.

21 Substitutes may be appointed for the PFB in accordance with the appointments process for PFB representatives outlined in the Constitution i.e.:

- The Council will determine substitutes to attend should a Northamptonshire County Council members be unable to attend
- The Chief Executives or Leaders of the other local authorities and police shall appoint one or more substitutes to attend should their appointed representatives be unable to attend
- All other employers shall appoint one or more substitutes should their appointed representatives be unable to attend
- Unison shall appoint one or more substitutes should their appointed representatives be unable to attend.

22 Substitutes may be appointed for the ISC by ISC members. Substitutes to the ISC should be PFB members (not substitutes to the PFB) and relevant to the specific representative class of the ISC member unless such a PFB member is not available.

23 If a PFB Member or ISC Member is unable to attend a meeting, then the relevant Member shall, where possible, identify the appropriate substitute member to attend in his/her place. Any reference to PFB Members or ISC Members in this Operating Protocol shall include substitute members unless stated otherwise.

24 Substitutes are welcome to attend all PFB meetings. However, they will not be able to participate in any voting unless they are substituting for a full Member of the PFB.

25 Non ISC Members (including substitutes) are welcome to attend all ISC meetings where they are not required to substitute for a full Member of the ISC however they will not be able to participate in any voting.

26 The Chairman shall preside at PFB and ISC meetings if s/he is present. In his/her absence the Vice Chairman shall preside. If both are absent the PFB (or ISC as appropriate) shall appoint from amongst its members an acting Chairman for the meeting in question.

K. Training Requirements

27 The Council's Constitution states that Members may not take part in meetings of the PFB or ISC unless they have complied with any training requirements set out by the Chairman.

28 The Fund will develop and keep under review a Training Policy which may set out targets to be achieved by PFB and ISC Members. Members of the PFB and ISC will be provided with training to assist them in achieving these targets. Members (including substitutes) are expected to undertake the necessary training to assist them in achieving targets set out in the Training Policy.

L. Quorum

29 The quorum for any PFB meeting is 6 (1/3 plus 1) of PFB Members. The quorum for any ISC meeting is 4 (1/3 plus 1) ISC Members.

30 No business requiring a decision shall be transacted at any meeting of the PFB or ISC unless the meeting is quorate. If it arises during the course of a meeting that a quorum is no longer present, the Chairman shall either suspend business until a quorum is re-established or declare the meeting at an end and arrange for the completion of the agenda at the next meeting or at a special meeting.

M. Voting

31 All PFB Members and ISC Members have the right to vote in meetings. All matters to be decided by the PFB or ISC shall be decided by a simple majority of the Members present. In the case of an

equality of votes, the person presiding as Chairman at the meeting shall have a second or casting vote. All votes shall be taken by a show of hands unless decided otherwise by the Chairman and duly recorded, if necessary, in the minutes of the meeting.

N. Frequency of Meetings

32 The PFB will meet a minimum of five times a year. The Chairman may call meetings more frequently if deemed necessary.

33 The ISC will meet a minimum of four times a year. The Chairman may call meetings more frequently if deemed necessary.

34 The Chairman may convene additional meetings of the PFB or ISC, including at short notice to consider matters of urgency. The notice convening such meetings shall state the particular business to be transacted.

35 The Chairman will be required to convene a special meeting of the PFB or ISC if s/he is in receipt of a written request to do so signed by no fewer than three other PFB Members or ISC Members, respectively. Such request shall specify the business to be transacted and no other business shall be transacted at such meeting. The meeting must be held within ten working days of the Chairman's receipt of the request or such longer period as may be agreed with the Members who signed the request.

36 By the decision of the Chairman of the PFB, or by the decision of a majority of those present at a meeting of the PFB, meetings of the PFB may be adjourned at any time to be reconvened at any other day, hour and place, as the PFB shall decide subject to ensuring that the appropriate public notices can be posted. The same principle applies to the ISC.

O. Conduct

37 Members of the PFB and ISC are expected to comply with the Code of Conduct for Northamptonshire County Council elected members.

38 At all meetings of the PFB and ISC, it shall be the duty of the Chairman to preserve order and to ensure that all PFB and ISC Members and those in attendance are treated fairly. S/he shall decide all questions of order that may arise.

P. Declaration of Interests

39 Any PFB member or person in attendance as a co-opted member having the right to vote on an item at a PFB or ISC meeting must declare any interest which is known as a 'disclosable pecuniary interest'. Such interests are listed in Appendix A of this document and apply not only to the member/co-opted member concerned, but also to their spouse, civil partner etc who may have such an interest. Failure to disclose disclosable pecuniary interests is a criminal offence punishable by a fine of up to £5,000 and/or disqualification from holding such a position for up to 5 years.

40 In addition all PFB Members and co-opted members having the right to vote must also declare what is called non-statutory interests. Failure to declare these is not a criminal offence and such interests fall into two groups:

- Items of business that can affect your wellbeing or the wellbeing of any family members or close associate to a greater extent than they would affect the wellbeing of the majority of Council Tax payers.
- The items of business to be declared relate to the categories of interest listed in Appendix A but in respect of <u>any</u> family member or close associate.

41 If any such PFB Member or co-opted member having the right to vote has a query or any potential interest then they should consult with the appropriate clerk at the respective meeting who will provide appropriate advice. Any declared interest must be noted in the minutes of that particular meeting.

Note:

i) Please note that in addition to the list of interests provided in Appendix A, a Guidance Note has been enclosed for co-opted members.

It is also important to note that the consequences of having a 'disclosable pecuniary interest' and possibly a non-statutory interest means that neither a PFB member and/or a co-opted member can speak or vote or remain in the meeting when the matter is being considered. The Monitoring Officer to the Council has limited power to grant dispensations and these are referred to in the Guidance Note.

ii) It is important to read both documents in Appendix A, which includes the Guidance Note.

Please note that any query you may have can be referred to the clerk of the meeting or any officer of the Council present at the meeting.

Q. Authority

42 The PFB and ISC shall receive written and/or oral information and may seek any information it requires from any employee of Northamptonshire County Council, other Council, supplier responsible for administering the Northamptonshire Pension Fund or stakeholder of the Fund. The PFB may agree to such persons attending PFB and/or ISC as considered appropriate including private items where it is considered appropriate.

43 The PFB or ISC may obtain independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. All such advisers shall be those officially appointed to contracts with Northamptonshire Pension Fund unless there are appropriate reasons for this not to be the case as considered by the PFB or ISC. The costs, if any, of obtaining such third party advice shall be charged to the Northamptonshire Pension Fund. The PFB may agree to such persons attending PFB and/or ISC as considered appropriate including private items where it is considered appropriate.

R. Meeting Administration

44 PFB and ISC meetings shall be advertised and held in public and be administered by Northamptonshire County Council. The County Council shall give at least five clear working days' notice in writing to each Member of every ordinary meeting of the PFB and ISC, to include any agenda of the business to be transacted at the meeting. Papers for each PFB and ISC meeting will be sent out five working days in advance. Late papers will be sent out or tabled only in exceptional circumstances.

45 The PFB and ISC may hold certain agenda items in private session when deemed appropriate in view of the nature of business to be discussed.

46 All PFB and ISC reports, agenda and minutes, other than those reports or parts of agendas and minutes relating to private items of business, will be published on the Northamptonshire County Council website.

47 The County Council shall prepare minutes in relation to all PFB and ISC:

a) The names of all PFB (or ISC, if it is such a meeting) members present at a meeting and those in attendance

b) Apologies

c) Details of all proceedings, decisions and resolutions of the meetings and received reports.

48 Minutes shall be printed and circulated to each PFB Member before the next meeting of the PFB when they shall be submitted for the approval of the PFB. The same principle applies to the ISC. When the minutes of the previous meeting have been approved they shall be signed by the Chair.

49 Substitutes shall receive all papers in the same way as full Members of the PFB. All non-ISC Members will also receive all ISC papers.

Review

50 There shall be an annual review of this Operating Protocol as part of the annual review of the Fund's Governance Policy.

51 In addition, there will be a regular review (at least biennially) of the effective working of the PFB and the ISC, the results of which will be reported back to the PFB.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Article 8 of the Constitution

Pension Fund Board (Pensions Committee) – Functions

- Overall responsibility for all administering authority pension fund matters
- Responsibility for developing and reviewing all policies and strategies in relation to administering authority pension fund matters.
- Responsibility for the governance of the pension fund and ensuring that the fund complies with all relevant legislation.
- Responsibility for ensuring appropriate arrangements for the administration of benefits are in place.

Part 3 of the Constitution

Pension Fund Board (Pensions Committee)

Membership

Northamptonshire Pension Fund Board:

Representatives of	Number of Representatives	Term of Appointment	Method of Appointment
Northamptonshire County Council	7	4 years from County Council elections	Determined by Northamptonshire County Council.
All other local authorities and police	2	4 year periods commencing from 2015	Nominations determined by a leaders/CEX group. Selection would be following the Council elections in 2015 and 4 year periods thereafter. Details of process to be agreed by the Chairman.
All other employers	2	4 year periods commencing from 2014	Nominations to be determined by eligible employers. Details of process to be agreed by the Chairman.
Active scheme members	1	4 year periods commencing from 2014	Determined by Unison. Where Unison fail to nominate a Board Member for any period of 6 months or more, nominations will be requested from all eligible active scheme members and a representative will be picked following interviews. Details of process to be agreed by the Chairman.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Deferred and pensioner scheme members	1	4 year periods commencing from 2014	Determined by Unison. Where Unison fail to nominate Board Member for any period of 6 months or more, nominations will be requested from all eligible deferred and pensioner scheme members and a representative will be picked following interviews. Details of process to be agreed by the Chairman.
Total Board Members	13		

Note – the periods of appointment may not be exactly four calendar years due to the dates of the respective elections or nominations.

Substitutes
Substitutes for Board members will be identified which relate to the same representative group using the same process for appointment as outlined in the table above.

Delegated Authority	Statutory Reference
Power to set the pension fund's objectives and determine and maintain appropriate strategies, policies and procedures with ongoing monitoring in relation to the following areas: • Funding Strategy - ongoing monitoring and management of the liabilities including ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer. • Investment strategy - to determine the Fund's investment objectives and to set and review the long-term high level investment strategy to ensure these are aligned with the Fund's specific liability profile and risk appetite. • Administration Strategy – the administration of the fund including collecting payments due, calculating and paying benefits, gathering from and providing information to scheme members and employers. • Communications Strategy – determining the methods of communications with the various stakeholders including scheme members and employers. • Discretions – determining how the various administering authority discretions are operated for the Fund. • Governance - the key governance arrangements for the Fund, including representation. • Risk Management Strategy – to include regular monitoring of the Fund's key risks and agreeing how they are managed and/or mitigated.	Regulations under the Superannuation Act 1972.

Power to approve and apply the policy on, and to take decisions relating to, employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	As above
Power to agree the terms and payment of bulk transfers into and out of the Fund in consultation with the S.151 Officer.	As above
Power to consider and agree business plans at least annually and monitor progress against them and to monitor compliance with the Myners Principles on an annual basis.	As above
Power to develop and maintain a training policy for all Pension Fund Board and sub-committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring attendance at training events.	As above
Power to select, appoint, monitor and where necessary terminate advisors to the Fund not solely relating to investment matters.	As above
Power to agree the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	As above
Power to consider and determine where necessary, alternative investment strategies for participating employers.	As above
Power to oversee the work of the Investment Sub-Committee and consider any matters put to them by the Investment Sub-Committee	As above
Power to set up Sub-Committees and Task and Finish Groups including jointly with other LGPS Administering Authorities	As above
Power to review and amend the Statement of Investment Principles on an annual basis, in consultation with the S.151 Officer.	As above
Power to manage any other strategic or key matters pertaining to the Fund not specifically listed above.	As above

Pension Fund Board Investment Sub-Committee

The Pension Fund Board shall establish an Investment Sub-Committee with the following membership and powers:-

Membership

Northamptonshire Investment Sub-Committee:

All Investment Sub-Committee Members must be drawn from Board membership. The Chairman and Vice Chairman of the Investment Sub-Committee must be the Chairman and Vice Chairman of the Board respectively.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Representatives of	Number of Representatives	Term of Appointment	Method of Appointment
Northamptonshire County Council	4	As above	Determined by Northamptonshire County Council representatives on the Board. Details of process to be agreed by the Chairman.
All other employers	2	Up to term of office ceasing in accordance with Board membership or six years whichever is later	Determined by non-Northamptonshire County Council employer representatives at the Board. Details of process to be agreed by the Chairman.
Scheme member representative	1	Up to term of office ceasing in accordance with Board membership or six years whichever is later	By agreement between Active and Deferred/Pensioner Representatives on Board. Details of process to be agreed by the Chairman.

Substitutes
Members of the Investment Sub-Committee may appoint substitutes for the Investment Sub-Committee. Where possible substitutes to the Investment Sub-Committee should be full Pension Fund Board members and relate to the same representative class as the absent Investment Sub-Committee member.

Investment Sub-Committee

Delegated Authority	Statutory Reference
Power to implement the Fund's investment strategy	Regulations under the Superannuation Act 1972.
Power to review and maintain the detailed asset allocation of the Fund within parameters agreed with the Board.	As above

Power to appoint and terminate investment managers to the Fund and to monitor the performance of investment managers leading to review and decisions on termination where necessary.	As above
Power to appoint and monitor and where necessary terminate external advisors and service providers solely relating to investment matters, for example, the Fund Custodian, independent investment advisers, investment consultants and investment managers.	As above
Power to set benchmarks and targets for the Fund's investment managers.	As above
Power to monitor the risks inherent in the Fund's investment strategy in relation to the Fund's funding level	As above
Power to determine operational matters such as rebalancing and the most appropriate methodology for asset transitions within parameters agreed by the Pension Fund Board.	As above
Power to monitor and review: • Legislative, financial and economic changes relating to investments and their potential impact on the Fund; • The investment management fees paid by the Fund and to implement any actions deemed necessary; • The transactions costs incurred by the Fund across its investment mandates and raise relevant issues and concerns with the investment managers as necessary; • The investment managers' adoption of socially responsible investment considerations, on an annual basis, including corporate governance matters and a review of compliance • with the UK Stewardship Code.	As above
Power to receive reports on Interim Manager meetings and other operational meetings	
Power to undertake any task as delegated by the Pension Fund Board.	As above
Power to refer any matter to the Pension Fund Board as they consider appropriate. Power to provide minutes and such other information to the Pension Fund Board as they may request from time to time	As above

Special Rules of Procedure for the Pension Board and Investment Sub-Committee.

The Council's Rules of Procedure set out in Part 4 of the Constitution apply to the Pension Board and the Investment Sub-Committee except where they concern the following matters:-

- Frequency of meetings
- Appointment of Chairman and Vice Chairman
- Voting Rights
- Quorum
- Training Requirement

in which case the rules are modified as necessary to accommodate the provisions set out in the table below.

Frequency of Meetings	The Board will meet a minimum of five times a year. The Chairman may call meetings more frequently if deemed necessary. The Investment Sub-Committee will meet a minimum of four times a year. The Chairman may call meetings more frequently if deemed necessary.
Chairman and Vice Chairman's Term of Office	The normal term for the Pension Board's Chairman and Vice Chairman's shall be one year subject to earlier removal by vote of Council or the Pension Fund Board in the case of the Vice Chairman. The appointment or removal of the Pension Board's Chairman shall be a function of Full Council. The appointment of the Pension Board's Vice Chairman shall be a function of the Pension Fund Board. The Chairman and Vice Chairman of the Board shall also be the Chairman and Vice Chairman of the Investment Sub-Committee.
Voting Rights	All Board Members and Investments Sub-Committee Members shall have the right to vote in meetings.
Quorum	6 (1/3 plus 1) Board Members shall form a quorum for meetings of the Board. 4 (1/3 plus 1) of Investment Sub-Committee Members shall form a quorum for meetings of the Investment Sub-Committee. No business requiring a decision shall be transacted at any meeting of the Board or Investment Sub-Committee unless the meeting is quorate. If it arises during the course of a meeting that a quorum is no longer present, the Chairman shall either suspend business until a quorum is re-established or declare the meeting at an end and arrange for the completion of the agenda at the next meeting or at a special meeting.
Training Requirement	Members may not take part in meetings of the Pension Fund Board or Investment Sub-Committee unless they have complied with any training requirements set out by the Chairman.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Appendix A

Guidance Note

in Respect of Co-opted Members

Any person who is not a Councillor and is appointed to a County Council committee, board or similar body will be bound by the provisions of the Localism Act 2011 in the same way as any Councillor. Such persons are often referred to as co-opted members. However, the Guidance set out in this note in respect of disclosable pecuniary interests will only apply to co-opted members who are able to vote at the appropriate council body to which they are appointed.

Accordingly, a non-councillor member of a Local Authority body who can partake in discussions and vote will need to register and if necessary declare what is termed:

- disclosable pecuniary interests; and
- non-statutory interests.

Disclosable pecuniary interests are set out in the Appendix to this note and failure to declare such an interest or interests is a criminal offence punishable by a fine of up to £5,000 and/or disqualification for up to 5 years to hold such a position. As stated above, this statutory provision only applies if you have the ability to vote on a matter at the meeting which you are attending.

<u>What is a disclosable pecuniary interest?</u>

These are set out in the enclosed Appendix 'B' to this note and such interests have to be declared if they held by not only yourself, but also your spouse, civil partner or similar person.

All such interests have to be registered with the Monitoring Officer of the Council within 28 days of appointment to a Local Authority body etc. and if a co-opted member has a disclosable pecuniary interest in a matter under consideration at a meeting then they must not participate or vote on that matter.

The need to declare a disclosable pecuniary interest only arises if you have such an interest or you are aware that your spouse, civil partner etc. has such an interest. You are not under legal obligation to ask them but if you are aware that they have such an interest, then you must register it as if it were your own.

If your interests change then you are under a similar obligation to declare them to the Monitoring Officer and/or the meeting you are attending where such an interest arises.

Consequences of having a disclosable pecuniary interest

You cannot speak or vote or remain in the meeting when the matter is being considered. This means you will not be able to participate in any debate unless you have obtained a dispensation to speak from the Council's Monitoring Officer. It is important to note that before you have any meeting where such an interest arises you are entitled to make representations, give evidence or answer questions prior to the commencement of the debate on that matter.

The Monitoring Officer has limited power to grant a dispensation and these can be far ranging, but examples are:

- it may be appropriate to grant a dispensation; or
- without a dispensation there would not be a required quorum for the meeting.

If you consider that you will need a dispensation then the matter can be raised with the Council's Monitoring Officer, but in general it should only be granted in exceptional circumstances.

The Register of Disclosable Pecuniary/Interests:

The Council maintains a register of all such interests and there is a legal obligation to make such a register available for inspection and to publish it on the Council's website. You are not required to disclose the name of your spouse or civil partner etc. when listing such interests.

An interest can be exempted from publication if it is a "sensitive interest". This can arise if a co-opted member or someone connected to them might be subject to intimidation or violence. The decision or sensitivity is a matter for the Monitoring Officer to consider and decide.

Non-Statutory Interests – What are they?

In addition to the legal requirement to declare disclosable pecuniary interests, the Council has elected in addition, to adopt what is termed “non-statutory disclosable interests”. Failure to disclose such interests does not carry any criminal penalty as in the case of “disclosable pecuniary interests”.

Non-statutory interests fall into two groups:

- Items of business that affect your wellbeing or the wellbeing of any family members or close associate to a greater extent than they would affect the wellbeing of the majority of Council Tax payers.
- the items of business to be declared relate to the categories of interest listed in Appendix B but in respect of any family member or close associate.

What are the consequences of having a non-statutory interest?

If you have a non-statutory interest in any matter then you must declare at the meeting unless you have already referred it to the Monitoring Officer to be entered into the Council’s register of interests. You may of course, voluntarily register such interests in the Council’s register and then no longer have an obligation to declare them at the meeting you are attending.

Must I leave the meeting if I have a non-statutory interest?

If the non-statutory interest is one which a member of the public would reasonably regard as so significant that it is likely to prejudice your judgment of the public interest, then you must leave the meeting whilst the matters is being debated. Although you may make representations, give evidence or answer questions prior to the commencement of the debate on the matters.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Conclusion

The need to be aware of disclosable pecuniary interests and non-statutory interests is largely a matter of common sense. The sanctions for failure to disclose disclosable pecuniary interests are criminal, but not in the case of a similar failure to disclose a non-statutory interest. These still fall within those set out in Appendix B, but only as they would apply to other members of your family, besides a spouse, civil partner etc. and will also include a close associate.

nb. Please do not hesitate to raise any question/query you may have on this note with any officer present at the meeting you are attending or of course, contact the Council's Monitoring Officer.

APPENDIX C – GOVERNANCE POLICY & GOVERNANCE COMPLIANCE STATEMENT

Appendix B

Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011. Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows:

Interest	*Prescribed description*
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by M in carrying out duties as a member, or towards the election expenses of M. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992).
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority – (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to M's knowledge) – (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body

where-

(a) that body (to M’s knowledge) has a place of business or land in the area of the relevant authority;

and

(b) either –

(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or

(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

‘M’ means a member of a relevant authority.