



# Northumberland

## County Council

### **AUDIT COMMITTEE**

24 JULY 2019

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#### **Pension Fund Annual Report and Accounts 2018-19**

Report of Alison Elsdon – Service Director - Finance

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services

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#### **Purpose of the Report**

The purpose of this report is to provide the Audit Committee with an overview of the key issues related to the Council's 2018-19 Pension Fund Annual Report and to assist Members in carrying out their role in reviewing the Financial Statements.

#### **Recommendations**

**It is recommended that the Members of the Audit Committee:**

1. **Approve the Pension Fund Annual Report and Accounts 2018-19; and,**
2. **Note the Annual Report of the Local Government Pension Scheme Local Pension Board for 2018-19 (enclosed as Annex 1);and,**
3. **Note the Minutes of the five meetings of the Board held during the 2018-19 financial year, dated 17 April 2018, 26 July 2018, 8 November 2018 10 December 2018 and 25 March 2019 (enclosed as Annex 2);and,**
4. **Note the Annual Report of the Firefighters' Pension Scheme Local Pension Board for 2018-19 (enclosed as Annex 3).**
5. **Note the Minutes of the two meetings of the Board held during the 2018-19 Council year, dated 23 October 2018 and 16 April 2019 (enclosed as Annex 4).**

#### **Link to Corporate Plan**

This report is relevant to all priorities included in the NCC Corporate Plan 2018-2021.

#### **Key Issues**

The Northumberland County Council Pension Fund (NCCPF) Annual Report and Accounts forms part of the Northumberland County Council Financial Statements,

reflecting the legal status of the Fund as part of NCC. The LGPS Regulations also require a separate Annual Report and Accounts for the Pension Fund.

The points to note from the 2018-19 Pension Fund accounts are:

- the net withdrawal from dealings with members was £30 million in 2018-19 (compared to £3 million in 2017-18), which includes £26 million asset transfer in relation to Northumberland College;
- whilst the number of active LGPS members of NCCPF has increased in the year to 31 March 2019, so has the number of pensioner members; and;
- the increase in Fund value during 2018-19 reflects 6.9% returns on investments also experienced by funds generally over that period.

## **BACKGROUND**

1. The Pension Fund Annual Report and Accounts 2018-19, which has previously been circulated, has been compiled in accordance with the requirements of the Accounts and Audit Regulations 2015; the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2018-19; the Service Accounting Code of Practice (SeRCOP); and, other best practice guidance issued by CIPFA.
2. The Pension Fund Annual Report and Accounts 2018-19 will be certified as consistent with the Council's Statement of Accounts by the External Auditors, Ernst & Young LLP. The audit is due to be completed by the end of July 2019. The results of the external audit will be reported to the Audit Committee.
3. The draft Pension Fund Annual Report and Accounts 2018-19 were presented to the 21 June 2019 meeting of the Pension Fund Panel.
4. Although substantially complete at the time of writing this report the External Auditors were still finalising some of their testing. If any changes are made from this work a list of changes will be tabled at the meeting.
5. The final version of the Annual Report will be sent to all of the employers participating in the Fund and other interested parties and published on Northumberland County Council's website.

## **CONTENTS OF THE PENSION FUND ANNUAL REPORT AND ACCOUNTS**

1. The following table summarises the purpose of the key statements and other elements of the Pension Fund Annual Report and Accounts:

<b>Statement</b>	<b>Purpose</b>
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Management	List of the management arrangements of the Fund including investment managers, advisors and key service providers.
Investment Strategy Statement	Basis on which investments will be made on behalf of the Fund to meet its future liabilities.
Funding Strategy Statement	Statement of how the Fund will meet its long term liabilities whilst maintaining contribution rates as nearly constant as possible.
Communication Strategy Statement	Description of how the fund will communicate with stakeholders.
Governance Policy and Compliance Statement	Description of the governance arrangements of the Pension Fund Panel which oversees the administration of the Pension Fund and assessment of compliance with governance standards.
Pension Fund Panel training	Description of the training undertaken by the Pension Fund Panel.
Assessment of the effectiveness of the Pension Fund Panel decisions made in 2018-19	Description of the work during the year of the Pension Fund Panel which oversees the administration of the Pension Fund and is the decision makers in making Fund investments.
Annual Report of Northumberland County Council's LGPS Local Pension Board 2018-19	Report by the Chair of the Local Pension Board which assists the Administering Authority to ensure effective and efficient governance and administration of the Fund.
Administration	Description of how the Fund was administered over the year.
Scheme Members	Summary of the number of employers and members of the Fund.
Value for Money	Description of the Fund's approach to achieving value for money.
Fund Performance	Analysis of the returns made by the Fund's investments and the associated investment costs. Context is provided over time and against the benchmark returns expected for asset categories.

Market Commentary	Description of the investment market conditions for the year and the Funds relative performance over that period.
Independent Auditor's Opinion	Statement from the Auditor that the Pension Fund financial statements are consistent with NCC's annual statement of accounts.
Fund Account	Summary of income received and costs incurred by the Fund during the year. These principally comprise contributions received from members and employers, payments made to pensioners, returns on investments and fund expenses.
Net Assets Statement	Net Assets of the Fund as at 31 March 2019 made up of investments, current assets and current liabilities.
Notes Supporting the Pension Fund Accounts	Notes providing further detail to support the Fund Account for the year and the Net Asset Statement at 31 March 2019.
Fund Membership	List of Employers within the Fund and the number of members categorised between active pensioner and deferred status as at 31 March 2019.
Statement of the Actuary	Report of the Actuary on the actuarial valuations included in the statements.
Whole of Pension Fund IAS26 Disclosure	The present value of retirement benefits and assumptions made by the Actuary in calculating these liabilities.

## REVIEW OF THE PENSION FUND ANNUAL REPORT AND ACCOUNTS

- As explained in the introduction to the Annual Report, the total market value of the Fund, net of liabilities, has increased from £1,344.263 million to £1,400.362 million over the year to 31 March 2019. This increase in value reflects the fact that payments made from the Fund have been less than the annual return on the Fund (comprising income and realised and unrealised gains and losses on investments) together with receipts to the Fund in the year, and the investment return on the Fund of **6.9%**.

Members' attention is drawn particularly to **pages 70 and 71** of the draft Annual Report, which show the financial position for the Fund as a whole. The Fund Account, on page 70, shows all of the receipts to and payments from the Pension Fund in the year.

- The aggregate net **withdrawal** from dealings with members shown in the enclosed draft accounts was £29.935 million in 2018-19 (£2.690 million in 2017-18). This includes the asset transfer in relation to Northumberland

College exiting the Fund on 22 March 2019 for which the actuary has estimated a value of £25.980 million as at 31 March 2019. The underlying increase in net withdrawal from dealings with members of £3.955 million reflects the increasing number of pensioners and the fact that the increased contributions from active members were not matching the increased value of benefit payments, as the Fund **matures**.

3. As in prior years, Northumberland County Council Pension Fund's Annual Report and Accounts have been prepared as a stand-alone document as well as forming part of Northumberland County Council's main Annual Financial Statements. There is a legal requirement to prepare a separate Annual Report for the Fund and the County Council's external auditors, Ernst & Young LLP (trading as EY), are required to express a separate "consistent with" audit opinion on the Fund accounts.
4. Note that the requirement to prepare a separate Annual Report and Accounts for the Fund and to have a separate audit opinion does not reflect any change in the legal status of the Pension Fund. Legally, the Pension Fund is part of Northumberland County Council: it is not a separate legal entity.
5. The LGPS Regulations require the separate Annual Report for the year ended 31 March 2019 to be published before 1 December 2019. The final signed version of the Annual Report will be posted to the NCC website after it has been signed at this Audit Committee to ensure this deadline is met.
6. A small number of changes have been made to the Draft Pension Fund Annual Report and Accounts previously circulated.
  - a. The Chair of the LGPS Local Pension Board updated the Annual Report of Northumberland County Council's LGPS Local Pension Board for 2018-19 to the version attached to this report.
  - b. In note 21 Financial Instruments on pages 82 and 83 the line description "Loans and receivables" has been changed to "Financial assets amortised at cost" in two tables. This change is made to reflect the adoption of IFRS 9.
  - c. In note 9 Management expenses on page 75 the total for 2017-18 has been updated from 6,245 to 6,425.
  - d. The table on Investment management costs on page 64 has been updated. The management fee bps for Non Asset Pool has been changed from 36 to 38. The Fund total bps has been changed from 38 to 39.

Items of note from the accounts: ***Northumberland College asset transfer***

7. Northumberland College merged with Sunderland College on 22 March 2019. They received a Direction Order from the Ministry for Housing and Local Government (MHCLG) substituting South Tyneside Council as the administering authority for Northumberland College which led to this employer exiting the Fund. There will be an asset transfer from NCCPF to

Tyne and Wear Pension Fund estimated by the Fund Actuary to be £25.980 million at 31 March 2019.

8. This transaction is included in the “Payments to and on account of leavers” line in the Fund Account and as an increased “Current Liability” in the Net Assets Statement. The impact of the transaction is to reduce the net assets of the Fund by £25.980 million and the reduction in Fund liabilities will be reflected in the 2019 actuarial valuation.
9. Northumberland College also represented approximately 2.6% of the membership, so its removal from membership numbers has an impact.

Items of note from the accounts: **continuing Fund maturity**

10. The broad indications from the 31 March 2019 LGPS membership shown in the Annual Report is that NCCPF continues to **mature**. In this context, fund maturity means the proportion of active to non-active liabilities, and the greater the proportion of non-active liabilities, the more mature is the Fund. From the actuarial valuations of the Fund, liabilities (valued on a low risk basis) have gone from:
  - 51% actives : 49% non-actives as at 31 March 2004; to
  - 50% actives : 50% non-actives as at 31 March 2007; to
  - 45% actives : 55% non-actives as at 31 March 2010; to
  - 40% actives : 60% non-actives as at 31 March 2013; to
  - 38% actives : 62% non-actives as at 31 March 2016.
11. One sign of Fund maturity which can be seen in the 2018-19 Fund Account is the Fund has a net **withdrawal** from its dealings with members (meaning that that the Fund is paying more out for pensions and transfers out than it is receiving from employee and employer contributions and transfers in). In 2018-19 the net withdrawal is exaggerated through the inclusion of the asset transfer of £25.980 million in relation to Northumberland College. Note that the net withdrawals from dealings with members does not allow for the costs incurred in administering the Scheme.
12. Increasing fund maturity, for a funded scheme such as the LGPS, in theory should not *in itself* be a concern. NCCPF can trace its origins back to the 1937 Superannuation Act when it became mandatory to maintain a fund for full time officers, and at the outset it only had active member liabilities. In the years since then, the non-active members’ liabilities have steadily and slowly increased as active members leave and retire. Therefore the Fund has matured, **but** because the Scheme is open to new members, maturing is very slow as departing active members are mainly replaced by new active members. Increasing maturity would be *expected* given the current “age” of the Local Government Pension Scheme, and the whole purpose of having a fund is to have assets available to pay the pension promises that have already been made, as they fall due, irrespective of the number of active members contributing to the Scheme.
13. However, increasing maturity **is** a concern when a fund is significantly under-funded because the **shortfall** in assets compared to liabilities (i.e. the

deficit) can **only** be **collected based on the active membership** of the fund. In other words, as a fund matures the shortfall is being collected based on a shrinking payroll base, and the contributions to collect deficit expressed as a percentage of payroll, go up when payroll falls.

14. The Report shows [on page 95] total Pension Fund assets of £1,055.262 million and liabilities restated for accounts purposes of £1,421.400 million as at 31 March 2016, giving a **funding ratio of 74%** (71% as at 31 March 2013)
15. Northumberland County Council (as employer) participates in the Northumberland County Council Pension Fund, together with 40 other employers. Northumberland County Council is the biggest participating employer, with **approximately 85%** (85% as at 31 March 2016) of the Fund's membership.

## **ANNUAL REPORT AND MINUTES OF THE NCC LOCAL GOVERNMENT PENSION SCHEME LOCAL PENSION BOARD**

1. The Local Government Pension Scheme (LGPS) Local Pension Board (“the Board”) is a body established in accordance with Section 5 of the Public Service Pensions Act 2013, to assist Northumberland County Council, in its capacity as LGPS administering authority, in the governance and administration of the Northumberland County Council Pension Fund. Its Terms of Reference require the Chair of the Board to prepare an annual report which must be reported to the Audit Committee. The Terms of Reference can be found at:  
[LGPS LPB Terms of Reference](#)
2. The report summarises the work of the Local Pension Board and the assurances it has gained in the local administration of the LGPS by the Administering Authority. Also attached are the minutes of the meetings of the Board. It is implied in the Terms of Reference for the Board that these will be presented to Audit Committee.

## **ANNUAL REPORT AND MINUTES OF THE NCC FIREFIGHTERS' PENSION SCHEME LOCAL PENSION BOARD**

1. The Firefighters' Pension Scheme (FPS) Local Pension Board (“the Board”) is a body established in accordance with Section 5 of the Public Service Pensions Act 2013, to assist Northumberland County Council, in its capacity as FPS administering authority, in the governance and administration of the FPS for Northumberland Fire and Rescue Service. Its Terms of Reference require the Chair of the Board to prepare an annual report which must be reported to the Audit Committee. The Terms of Reference can be found at:  
[FPS LPB Terms of Reference](#)
2. The report summarises the work of the Local Pension Board and the assurances it has gained in the local administration of the FPS by NCC. Also attached are the minutes of the meetings of the Board. It is implied in the Terms of Reference for the Board that these will be presented to Audit Committee.

## IMPLICATIONS ARISING OUT OF THE REPORT

<b>Policy:</b>	None.
<b>Finance and value for money:</b>	The Pension Fund Annual Report and Accounts summarises the financial performance of the Fund for the 2018-19 financial year, and shows its net worth as at 31 March 2019.
<b>Human Resources:</b>	None.
<b>Legal:</b>	None.
<b>Procurement:</b>	None.
<b>Property:</b>	None.
<b>Equalities:</b>	None.
<b>Risk Assessment:</b>	The risks within the preparation of the Pension Fund Annual Report and Accounts are well managed through the embedded processes in place.
<b>Crime &amp; Disorder:</b>	None.
<b>Customer Considerations:</b>	None.
<b>Carbon Reduction:</b>	None.
<b>Consultation:</b>	Portfolio Holder for Corporate Services.
<b>Wards:</b>	All.

### **Background Papers:**

Northumberland County Council Draft Pension Fund Annual Report and Accounts 2018-19

### **Report sign off:**

Monitoring Officer/Legal	Liam Henry
Service Director - Finance	Alison Elsdon
Chief Executive	Daljit Lally
Portfolio Holder	Nicholas Oliver

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