

# **ANNUAL REPORT OF THE PENSION FUND PANEL 2016-2017**

**(Meetings held on 27 May, 28 June, 16 September, 7 and 28 October, 25 November 2016, 27 January, 24 February and 31 March 2017)**

## **1. Appointment of Chairman and Vice-Chairman**

Councillor A. W. Reid was appointed Chairman and Councillor A. Tebbutt was appointed Vice-Chairman of the Pension Fund Panel for the 2016/2017 Council year.

## **2. LGPS Management and Investment of Funds Regulations 2016 and Investment Strategy Statement Guidance**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force in November 2016, which required administering authorities to have an Investment Strategy Statement (ISS) in place by 1 April 2017.

The 2016 Regulations replaced the 2009 LGPS Investment Regulations, the constraints of which effectively precluded the pooling of LGPS investments.

The 2016 LGPS Investment Regulations:

- removed prescriptive investment restrictions previously imposed on LGPS funds;
- introduced a prudential framework for investment decision making;
- introduced a power of direction for Government to intervene in the investment function of administering authorities; and
- required LGPS funds to publish an Investment Strategy Statement by 1 April 2017, setting out the administering authority's approach to pooling.

## **3. NCC Pension Fund's Investment Strategy Statement**

At the 24 February 2017 meeting, the Panel approved NCC's first LGPS Investment Strategy Statement (ISS).

The requirement to have an ISS replaced the requirement contained in the 2009 LGPS Investment Regulations to have a Statement of Investment Principles (SIP) in place.

LGPS administering authorities must set out their approach to pooling investments in the ISS, and NCC's ISS refers to plans to pool assets in Border to Coast Pensions Partnership (BCPP) pooling arrangement.

#### **4. Government requirement to pool LGPS investments**

In July 2015 the Government announced that it would work with LGPS administering authorities to ensure that they pooled their LGPS investment assets. The subsequent DCLG consultation on LGPS pooling, published in November 2015, set out the criteria to be met by prospective pools.

In February 2016, the Panel resolved to work with eleven other LGPS administering authorities in the proposed BCPP pooling arrangement, and submitted an initial proposal to DCLG by the February 2016 deadline.

Following positive feedback from DCLG on the initial proposal, a fully costed proposal for the BCPP pooling arrangement was submitted to DCLG by the July 2016 deadline.

Following receipt in December 2016 of the approval letter from DCLG, the Panel received updates at every subsequent Panel meeting on progress by the BCPP collaboration of funds in establishing the (separate) BCPP pool entity and pooling governance arrangements.

The Chairman and Vice-Chairman of the Panel represented NCC on BCPP's Member Steering Group (MSG). The role of the BCPP MSG was to provide guidance to officers to establish BCPP pool.

In January 2017, the Panel recommended to NCC's Cabinet and to Council that NCC, acting in its capacity as administering authority for the LGPS, should provide authority to enter into the governance arrangements to become an investor and shareholder in BCPP Ltd. Both Cabinet and full Council approved the recommendation.

#### **5. Fee reduction proposals**

The Panel approved a proposal from Legal and General (the Fund's passive manager) to reduce the fees charged to NCC Pension Fund, with effect from 1 April 2016.

#### **6. Disclosure of members' interests in the Local Government Pension Scheme (LGPS)**

Pension Fund Panel members' and officers' membership of the LGPS does not represent a personal interest to be declared at Panel meetings because members cannot influence the terms of the Scheme which apply to them individually. However, for transparency, once a year the LGPS membership for all members, observers and officers involved in the operation of the Pension Fund Panel has been reported.

**7. Northumberland County Council Pension Fund annual report and accounts for 2015/2016**

The Panel received the Fund's annual report and accounts for the year to 31 March 2016 together with the external auditor's planning report and final report.

**8. Quarterly monitoring of investments with information from Mercer, NCC Pension Fund's investment managers and the performance measurement service provider**

Each quarter, the Pension Fund Panel received quarterly performance information, Mercer's research information and ratings of NCC Pension Fund's investment managers, and presentations from selected managers following an agreed programme.

An additional Panel meeting was held in October 2016 to enable further monitoring of the Fund's two property fund managers.

**9. Local Authority Pension Fund Forum (LAPFF)**

The Panel agreed to take out a one year subscription for NCC Pension Fund, with the Local Authority Pension Fund Forum (LAPFF). This decision meant that all twelve funds collaborating to establish the BCPP pooling arrangement now had LAPFF membership.

**10. Unauthorised payments**

The Panel received information in a report which had been commissioned and already considered by NCC LGPS Local Pension Board, regarding unauthorised payments. The report concluded that there had been no known unauthorised payments made in administering the LGPS in the year.

**11. Formal measurement of the performance of the investment adviser**

Panel members conducted the annual formal assessment of the performance of the Pension Fund Panel adviser, Mercer.

**12. Formal measurement of the effectiveness of the Pension Fund Panel**

The Panel approved a report formally assessing its own effectiveness as a decision making body to ensure compliance with CIPFA guidance on decision making in the LGPS.

### **13. Action Plan 2016 for NCC Pension Fund**

The Panel approved the Action Plan 2016 for NCC Pension Fund, which acts as a checklist and progress monitoring tool for one-off and regular items to be brought to the Pension Fund Panel in the following year and beyond.

### **14. Northumberland County Council's Funding Strategy Statement**

The Panel approved NCC Pension Fund's updated Funding Strategy Statement (FSS). This approval was required before 31 March 2017 for the actuary to complete the 31 March 2016 actuarial valuation of the Fund. The main change to the FSS compared to the previous version related to the introduction of a 21 year maximum deficit recovery period for all employers (with one specified exception).

### **15. Northumberland County Council Pension Fund actuarial valuation as at 31 March 2016**

During 2016/2017, Panel members received the initial, provisional and final results of the 31 March 2016 actuarial valuation of NCC Pension Fund. The 31 March 2016 actuarial valuation set the contribution rates for participating employers for the three years 2017/2018, 2018/2019 and 2019/2020. The valuation report was finalised ahead of the legal deadline of 31 March 2017.

In September 2016, at a separate training meeting, the actuary presented the initial results of the 2016 NCC Pension Fund actuarial valuation to the Pension Fund Panel (and NCC LGPS Local Pension Board), to obtain the Panel's view before setting the parameters for use in the valuation. This determined the level of prudence in the 2016 valuation. Subsequently, a discount rate of 4.4% and a maximum deficit recovery period of 21 years were set for the main employers in the Fund. This retained the same level of prudence (i.e. a 75% chance of success) in the 2016 valuation as in the 2013 valuation.

The Panel agreed to retain the 30 year deficit recovery period for one employer only, as a specific exception to the 21 year maximum, and to allow the use of stepping to reduce the immediate impact of a significant increase in employer contribution payable.

The Panel reviewed the covenant risk of all employers participating in NCC Pension Fund as at 31 March 2016.

The Panel noted that data gathered by the LGPS Advisory Board of 2016 actuarial valuations indicated that NCC Pensions Fund's funding ratio improved between 2013 and 2016, relative to other LGPS funds in England and Wales when expressed on a like for like basis.

**16. Monitoring of breaches of the law**

The Panel received quarterly monitoring reports detailing minor breaches of the law. All such recorded breaches were deemed not to be reportable to the Pensions Regulator.

**17. AAF 01/06 reports on internal controls operated by fund managers and the custodian**

The Panel received information about the most recently available AAF 01/06 (or equivalent) reports provided by NCC Pension Fund's custodian and its investment managers. The AAF 01/06 reports (or equivalent) are prepared at least annually by the Fund's custodian and fund managers, to describe the internal controls each has in place to protect the interests of clients.

**18. NCC Pension Fund's Administration Strategy Statement**

The Panel approved an updated NCC's LGPS Administration Strategy Statement with a number of minor changes made to the statement.

Quarterly reporting to the Panel of key performance indicators (KPIs) for the NCC Pensions Administration Team was brought to the Panel for the first time at in February 2017, covering the quarter ended 31 December 2016.

**19. Shared pensions administration service with Tyne and Wear Pension Fund (TWPF)**

The Panel received information about potential collaborative working with TWPF (i.e. South Tyneside Council) to develop a shared pensions administration service.

**20. Proposals to implement the New Fair Deal for the LGPS**

The Panel received information about DCLG proposals to introduce Regulations to implement New Fair Deal guidance in the LGPS, for which the Government had launched a consultation in May 2016.

**21. Review of the active global equity manager's appointment**

The Panel considered the options for NCC Pension Fund's active global equity portfolio, following decisions made in the previous year to defer the previously planned asset transfer from M&G to Baillie Gifford. The Panel had deferred implementation of its earlier decision due to concerns that the asset transition from M&G to Baillie Gifford could be for a relatively short time period before implementation of LGPS pooling, and pooling could lead to a further transition from Baillie Gifford to a third investment manager. Each transition has a significant cost and the Panel sought to avoid incurring double transition costs in a short period of time.

At the 27 May 2016 meeting, the Panel gave delegated authority to the Chief Executive, following consultation with the Chairman and Vice-Chairman of the Panel, to transfer the assets from M&G to Legal and General (the Fund's passive manager) in a phased approach, with approximately half the transferred assets to be invested in a value-style bias global equity index-tracking fund and the other half to be invested in Legal and General's global equity market capitalisation index funds. Following implementation of pooling, it is anticipated that Legal and General will continue to manage NCC Pension Fund assets due to the legal structure currently used for efficient passively managed investments.

## **22. GMP reconciliation**

The Panel was updated on GMP reconciliation work carried out by the NCC Pensions Administration Team.

A Guaranteed Minimum Pension (GMP) is the minimum benefit an occupational pension scheme must provide for a member in relation to the periods of scheme membership during which the member was contracted out of the State Earnings Related Pension Scheme between 6 April 1978 and 5 April 1997. Due to contracting out ceasing from April 2016, GMP reconciliation work must be carried out to compare the Fund's GMP records with those held by HM Revenue and Customs.

## **23. Reforms to public sector exit payments**

The Panel was updated on Government plans to introduce an exit payment cap in the LGPS and recovery of termination payments made to re-employed high earners.

In September 2016, the Government published a response to its earlier consultation about reforms to public sector exit payments. In this response, Government set out that there would be a further consultation in autumn 2016 on regulations for the exit payment cap, with a view to introducing the reform by July 2017. The autumn 2016 consultation has not yet been published.

## **24. Currency hedging**

The Panel received information, at three separate Panel meetings, from the Fund's investment adviser, Mercer, regarding the potential to hedge some of the Fund's exposure to currency risk. The adviser recommended introducing currency hedging across a range of currencies, particularly the US dollar, the euro and the Japanese yen.

The Panel delegated authority to the Chief Executive, in consultation with the Chairman and Vice-Chairman of the Panel, to consider introducing passive currency hedging in the NCC Pension Fund. A decision was made under this delegation to move 50% of the Fund's holdings in US equities managed by Legal and General from the unhedged fund into the hedged fund, with effect from April 2017.

Subsequently, a decision was made by the Panel to move 50% of the Fund's holdings in European (ex UK) equities managed by Legal and General from the unhedged fund into the hedged fund, with effect from May 2017.

**25. Potential joint working arrangements with Tyne and Wear Pension Fund (TWPF) and other BCPP funds**

At the 27 January 2017 meeting, the Panel received information, including a presentation from Aon Hewitt (i.e. fund actuary to both NCC Pension Fund and TWPF), about potential joint working arrangements with TWPF. Following the presentation, the Panel passed a resolution that it was minded to pursue joint working arrangements and would receive further due diligence reports in due course.

At the 31 March 2017 meeting, the Panel received information about proposals to work in collaboration with other BCPP administering authorities in advance of formal pooling, to take advantage of potential fee savings on investments arising from this arrangement. The Panel agreed to delegate authority to the Chief Executive, in consultation with the Chairman and Vice-Chairman of the Panel, to work with Mercer and other BCPP funds to consider making a commitment to a private equity investment. In April 2017, the decision was made under this delegation to commit to Pantheon's Global Select Fund.

**26. FCA consultation on MiFID II**

The Panel received information on the FCA consultation on MiFID II and its likely impact on NCC Pension Fund.

In September 2016, the Financial Conduct Authority (FCA) consulted on proposals to implement the Markets in Financial Instruments Directive (MiFID) II. The FCA proposals will reclassify the status of local authorities when carrying out investment transactions from "professional per se" to retail client status. The FCA proposals will be effective from January 2018.

**27. NCC LGPS: the Pensions Regulator's code compliance checklist**

The Panel received information about NCC Pension Fund's second annual assessment against the standards set out in the Pensions Regulator's code of practice number 14.

**28. 2016/2017 strategy review for NCC Pension Fund**

The Panel received information about phase-one of the formal 2016/2017 strategy review of NCC Pension Fund, undertaken by Mercer.

Phase-two of the strategy review, originally scheduled for the 31 March 2017 Panel meeting, was deferred into 2017/2018.

## 29. Performance measurement service provider

The Panel received information about the selection of Portfolio Evaluation as performance measurement service provider to NCC Pension Fund with effect from 1 April 2016, to replace the WM Company.

## 30. Training records

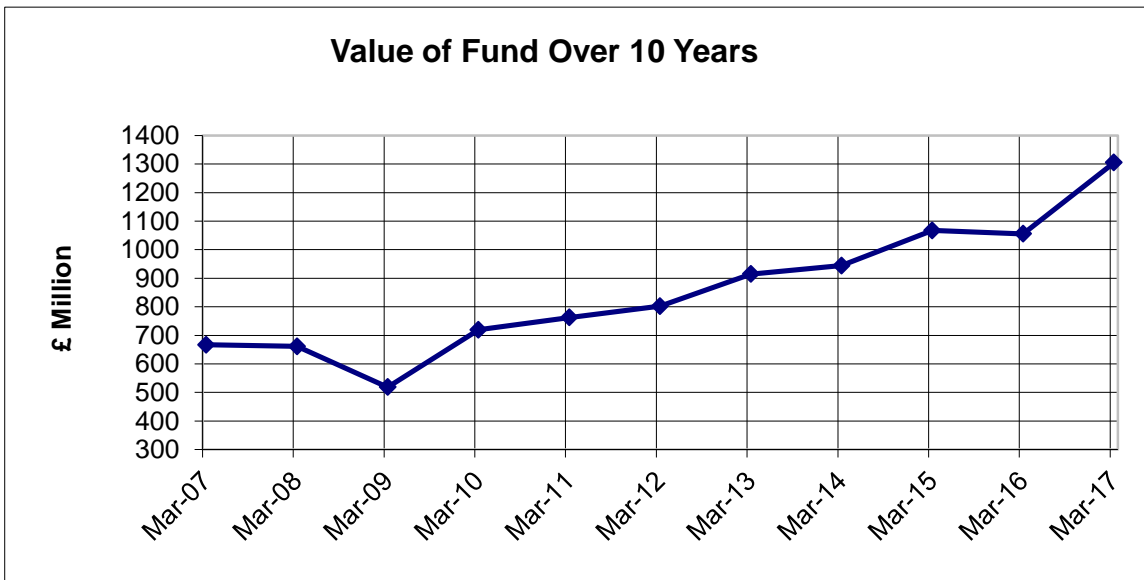
The Panel completed the 2015/2016 annual review of the training records of Pension Fund Panel members, NCC LGPS Local Pension Board members, and officers involved in administering the LGPS in NCC.

## 31. Fund value

The Panel has received quarterly performance information for the Fund as a whole and for each fund manager, as well as the total Fund value analysed by manager. The total Fund value at the last ten year-ends and the (unaudited) value at the most recently available quarter end are shown below:

	<u>total Fund value</u> £m
31 March 2017 (unaudited)	1,305
31 March 2016 (audited)	1,055
31 March 2015 (audited)	1,067
31 March 2014 (audited)	944
31 March 2013 (audited)	914
31 March 2012 (audited)	802
31 March 2011 (audited)	763
31 March 2010 (audited)	719
31 March 2009 (audited)	520
31 March 2008 (audited)	661
31 March 2007 (audited)	667





**Councillor Tony Reid**  
**Chairman of the Pension Fund Panel**

[Acknowledgements](#)

*The Chairman thanked the NCC Pensions Team, members of the Pension Fund Panel, and members of the NCC LGPS Local Pension Board for their hard work and continued collaborative working throughout 2016/2017.*