

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 31 March 2017 at 9.30 a.m.

PRESENT

Councillor A.W. Reid
(Chair, in the Chair)

MEMBERS

Bawn, D.L.
Tebbutt, A.

Tyler, Mrs. V. (until 10.55 a.m.)
Watson, J.G.

TRADE UNION REPRESENTATIVES

Culling, A.

OBSERVER REPRESENTATIVES

Adams, Mrs. J. H.
Dick, Ms. S.

Employers Representative
Employees / Pensioner
Representative

PENSION FUND PANEL ADVISER MEMBER

Mrs. J. Holden

Mercer Ltd

OFFICERS IN ATTENDANCE

Mr. C. Johnson
Mrs. C. Gorman
Ms. N. Turnbull

Senior Accountant (Pensions)
Principal Accountant (Pensions)
Democratic Services Officer

ALSO PRESENT AS OBSERVERS

A. Lister
G.F. Moore
J.P. Clark

Observer
Chair of LGPS Pension Board
LGPS Pension Board Member

The Chair introduced Andrew Lister who had recently been appointed as Principal Accountant (Pensions) and would be commencing his employment at Northumberland County Council in the near future.

The Chief Executive attended the beginning of the meeting to thank Councillor Reid for his role as Chairman of the Pension Fund Panel, given that it was his last meeting as he was not standing in the forthcoming elections. He made reference to the national award which had recognised Councillor Reid's contribution to in the Local Government Pension Scheme, and his knowledge, which staff in the Pensions team had appreciated.

Councillor Tebbutt, Vice-Chairman of the Pension Fund Panel endorsed the comments made by the Chief Executive and added that Councillor Reid had been an excellent Chairman as the Panel had worked to one aim without involving party politics. He commented that it had been a pleasure to work with Councillor Reid and wished him well in the future.

Councillor Reid thanked everyone for their kind words and commented that he had found the issue of pensions, the impact of current affairs and the people involved, very interesting.

64. MINUTES

RESOLVED that:

- (a) the minutes of the meeting of the Pension Fund Panel held on Friday, 24 February 2017, as circulated, be confirmed as a true record, and signed by the Chairman.
- (b) the minutes of the LGPS Local Pension Board held on Tuesday, 7 March 2017, be received for information.

65. DISCLOSURE OF MEMBERS' INTERESTS

The Local Government Pension Scheme is a national pension scheme set by central Government and the terms and conditions apply equally to all Scheme members. Panel members and attendees cannot influence the terms and conditions of the Scheme that apply to them, and they do not set the regulatory framework which governs it.

Membership of the Scheme does not represent a personal interest for Panel members, observers or officers in attendance.

Councillor Tebbutt disclosed a personal and prejudicial interest in agenda item 8(5) Assessment of newly forming academies as he was a governor of Abbeyfields First School, Morpeth.

Councillor Tyler disclosed a personal and prejudicial interest in agenda item 8(5) Assessment of newly forming academies as she was a governor of Whitley Memorial First School, Bedlington.

Councillor Tyler disclosed a personal interest in agenda item 8(1) Actuarial valuation as at 31 March 2016 as she was a board Member of Active Northumberland.

66. REPORTS OF THE CHIEF EXECUTIVE

The Panel was invited to consider the following reports, enclosed as Appendix A:-

(1) Analysis of pension breach

The Panel considered whether breach 79, from the breaches log for the quarter ended 31 December 2016, was reportable to the Pensions Regulator.

The Principal Accountant (Pensions) explained that the issue was whether the breach should be reported due to the length of time since it had occurred i.e 2007, rather than the specific nature of the breach itself. The Principal Accountant (Pensions) had engaged the Fund adviser, Aon Hewitt, to investigate whether the breach ought to be reported. Aon Hewitt had concluded that the breach was not reportable on the grounds of both materiality, and the fact it had not breached either the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (2014) or the LGPS Regulations.

RESOLVED that the report be received.

(2) Action Plan 2017 for NCC Pension Fund

The Panel were required to consider and approve the NCC Pension Fund Action Plan 2017 and monitor progress against the Action Plan 2016. The Action Plan was intended to act as a checklist and progress monitoring tool for one-off and regular items to be brought to the Pension Fund Panel.

The Principal Accountant (Pensions) explained that she had not yet drafted the Action Plan 2017 for it to be tabled at the meeting although she confirmed that it would follow a similar format to the Action Plan 2016. All of the essential items on the Action Plan 2016 had been completed and those deferred would be included in the Action Plan 2017. The following items would be included in the Action Plan 2017:

- Progress GMP reconciliation work
- Review AVC arrangements
- Introduce individual training needs assessments
- Compliance with the Stewardship Code
- MiFID II
- Progress work on pooling and shared services

RESOLVED that:

- (a) The progress made against the Fund's Action Plan 2016 (Appendix 2) be noted.
- (b) Delegated authority be given to the Chief Executive in consultation with the Chairman and Vice-Chairman of the Pension Fund Panel to finalise the Fund's proposed Action Plan 2017.

(3) NCC LGPS: the Pension Regulator's code compliance checklist

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

It was expected that the code compliance checklist would be brought to Panel for review annually, or more often if there was a material change.

The Principal Accountant (Pensions) highlighted the following areas:

- Work was required on the risk register and the issue was identified as not compliant within the checklist. The item would be included in the Action Plan 2017. It was also suggested that items on the register could be reviewed in detail as part of the work of the LGPS Local Pension Board.
- Internal Dispute Resolution (IDRPs) - a review of the process was to be carried out with Tyne and Wear Pension Fund colleagues as part of the development of shared services.

Panel members discussed the 'non-compliant' classification of pre-appointment training for new Pension Board members (B9). The Principal Accountant (Pensions) made reference to the composition of the Board and the difficulty in carrying out pre-appointment training before a new councillor is assigned to the role of the Board. It was agreed that the status of B9 be revised to 'partially compliant'.

RESOLVED that:

- (a) The report be received.
- (b) Item B9, availability of pre-appointment training for new Pension Board members be revised to amber on the traffic light system i.e. partially compliant.

(4) Portfolio Evaluation: quarterly risk and return analysis

The Panel received information about fund performance from NCC Pension Fund's performance measurement service provider, Portfolio Evaluation, for the quarters to 30 June 2016, 30 September 2016 and 31 December 2016. The Principal Accountant (Pensions) explained that it had taken Portfolio Evaluation, who took over from The WM Company as the Fund's performance

measurement service provide in September 2016, some time to obtain the necessary data feeds from the Fund's investment managers as well as the Fund's historic data import from WM. Reports in future would be considered on a quarterly basis.

RESOLVED that the report be received.

(5) Councillors' LGPS

The Panel received information about upcoming changes to the conditions of Councillors' membership of the LGPS.

Councillors' active participation in the LGPS would cease at the end of their current fixed term of office in May 2017 due to the implementation of the new LGPS 2014, which came into effect on 1 April 2014.

The Principal Accountant (Pensions) stated that the Pensions Administration Team would be writing to each NCC Pension Fund LGPS councillor member, after 4 May 2017, to inform them of their options. A link to the full scheme guide was also included within the report.

RESOLVED that the report be noted.

67. EXCLUSION OF PRESS AND PUBLIC

RESOLVED that

- (a) under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items on the Agenda as they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act and as indicated below:

Agenda Items	Paragraph of Part I of Schedule 12A
7-9	3
	Information relating to the financial or business affairs of a particular person (including the Authority holding that information).

AND

- (b) the public interest in seeking this exemption outweighs the public interest in disclosure because:-
 - (i) it contains information that, if in the public domain, could affect the preferential rates the Fund is charged;

- (ii) because the information would not be provided at future meetings if it were considered in public; and
- (iii) because the industry standard is to keep this information confidential.

68. REPORTS OF THE CHIEF EXECUTIVE

The Panel considered the following reports, which were not reproduced, are coloured pink and marked “Not For Publication”, a copy of which is filed with the signed minutes as Appendix B:-

(1) Actuarial valuation as at 31 March 2016

The report presented information about the 31 March 2016 actuarial valuation of NCC Pension Fund, which had to be finalised by 31 March 2017.

The Principal Accountant (Pensions) confirmed that the valuation had been finalised on 29 March 2017. She referred to documents tabled at the meeting which included correspondence in relation to an employer categorised within the orphan funding group and the increase in its contribution rate payable from 1 April 2017. For this employer, a late change of approach had been agreed by the Chief Executive following consultation with the Chairman and Vice-Chairman of the Pension Fund Panel, which would result in the use of six annual steps to bring in the increased deficit amount payable to the Fund. Comparison was made with how increases for the same type of employer were being dealt with by other LGPS funds.

A brief comparison was made with the Scheme Advisory Board (SAB) standardised valuation results for LGPS funds in England and Wales as at 31 March 2016 which showed that Northumberland County Council Pension Fund had moved up the rankings compared to other LGPS funds.

It was confirmed that contribution rates had increased for most Fund employers and the actuary had assessed the chance of funding success at the 2016 valuation as 75%.

Data was provided which contained covenant risk information for the participating employers as at 31 March 2016. An update was provided on employers who had since exited the Fund or were in negotiations to exit the Fund.

RESOLVED that the report be received.

(2) Mercer’s papers on currency hedging

Information was provided about the enclosed Mercer papers: “Currency Hedging”, “2017 Themes and Opportunities” and “Preparing Portfolios for

Transformation” to be discussed at the meeting.

The Principal Accountant (Pensions) referred to the arrangements that had been put in place on 3 April 2017 with regard to implementing hedging for US equity investments and the associated implementation and annual costs. The Panel considered whether currency hedging should also be implemented in relation to equity investments with exposure to Japanese Yen and/or Euro currency fluctuations.

RESOLVED that the report be received and that consideration of currency hedging be deferred until later in the meeting.

(3) LGPS Pooling

The Panel received an update on progress by the Border to Coast Pensions Partnership (BCPP) collaboration of funds, as the participating funds begin work to establish the BCPP Pool entity and its governance arrangements.

The Panel received the following documents at the meeting:

- An extract from the Scheme Advisory Board website following a meeting of the Board on 6 March 2017 regarding employer and member representation within pooling arrangements.
- A summary prepared by the Chair of the LGPS Local Pension Board on the issues considered at the SPS Conference on 23 March 2017: Local Authority Investment and Pooling issues.

The Principal Accountant (Pensions) confirmed that all twelve of the administering authorities had obtained the necessary approvals from full Council to commit to the BCPP Pool. There were now eight proposed or existing LGPS pools in England and Wales although the arrangements for each varied due to circumstances and different interpretations of the DCLG guidance on pooling.

The Panel considered the draft minutes of the meeting of the BCPP Member Steering Group held on 24 March 2017. The Chairman gave a summary of the discussion which included: arrangements for a host authority and secretarial services; appointment of Chairman and Vice-Chairman; stamp duty payable on transition of assets to BCPP Ltd; eligibility of membership; recruitment of senior posts and timetable.

The Panel discussed the arrangements for the selection and interviews for the senior posts.

The Chair of the LGPS Local Pension Board outlined a number of issues raised at the SPS Conference on 23 March 2017.

RESOLVED that the report be received.

(4) Potential joint working with Tyne and Wear Pension Fund

The report provided information about potential joint working with Tyne and Wear Pension Fund.

The Principal Accountant made reference to the change in senior personnel at Tyne and Wear Pension Fund and gave a brief update about the timetable and administrative processes of joint working.

RESOLVED that the report be received.

(5) Assessment of newly forming academies

The Panel received information about the categorisations and applicable deficit recovery periods for three proposed academy conversions of NCC schools, namely Abbeyfields (First School) Academy, Haydon Bridge High School and Prudhoe West (First School) Academy.

RESOLVED that the report be received.

(6) Collaborating with other BCPP funds

The report provided information about proposals to work in collaboration with other BCPP administering authorities.

The Principal Accountant outlined opportunities that were being explored to take advantage of collectively agreed lower fees on private equity investments by working with other BCPP funds.

RESOLVED that delegated authority be given to the Chief Executive in consultation with the Chairman and Vice-Chairman of the Pension Fund Panel to work with Mercer and other BCPP funds to consider making a commitment to a private equity investment.

(7) Update on MiFID II and its likely impact

The Panel received information on recent developments following the FCA consultation on implementation of MiFID II and its likely impact on NCC Pension Fund.

A copy of email correspondence was tabled at the meeting to update the Panel on national developments with respect to the impact of MiFID II on LGPS investments.

The Senior Accountant (Pensions) referred to email correspondence he had received on 31 March 2017 which provided an update on the stage reached in the discussions between the LGA (on behalf of LGPS administering authorities) and the FCA about making changes to the proposed process to be followed by authorities to opt up to professional status. At this stage, LGA

remains confident of a positive outcome as it continues to engage in dialogue with the FCA.

RESOLVED that the report be received.

69. MERCER'S REPORT ON CURRENCY HEDGING

The Panel considered a report from Joanne Holden of Mercer Ltd.

Joanne Holden gave a presentation which highlighted the benefits of currency hedging and the reasons for considering hedging.

Panel members discussed the impact of worldwide events and agreed that there was a case for currency hedging of the Euro to reduce future volatility faced by the Fund from Euro exchange rate fluctuations, however they did not feel the case was strong for the Japanese Yen. The impact of hedging (for both the US Dollar and the Euro) would be reviewed as part of the usual quarterly review of investments by the adviser and the Panel.

RESOLVED that

- (a) The report be received.
- (b) Delegated authority be given to the Chief Executive in consultation with the Chairman and Vice-Chairman of the Pension Fund Panel to introduce passive currency hedging in the NCC Pension Fund, as recommended by the investment adviser at this meeting, in relation to 50% of the Fund's passively managed equity investments with exposure in the Euro. Currency hedging would be implemented by switching 50% of the Fund's investments managed by Legal and General in the European (ex UK) regional equity index fund to the equivalent currency hedged index fund. A trigger point of €1.25 to £1 be implemented at which to switch out of the L&G's hedged European Equity index fund or reconsider the trigger point.

70. MERCER'S REPORT ON PREPARING PORTFOLIOS FOR TRANSFORMATION

The Panel considered a report from Joanne Holden of Mercer Ltd.

RESOLVED that the report be received.

71. MERCER'S REPORT ON 2017 THEMES AND OPPORTUNITIES

The Panel considered a report from Joanne Holden of Mercer Ltd.

RESOLVED that the report be received.

CHAIR _____

DATE _____