



Northumberland County Council

## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 1. External audit of Northumberland County Council Pension Fund 2016/2017 accounts – Planning Report

##### Purpose of the report

The purpose of this report is to provide the external auditors' Planning Report for the 2016/2017 Pension Fund audit to the Panel in advance of this meeting. EY will present the Planning Report to the Panel at the meeting.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

- 1.1 Ernst & Young LLP (trading as EY) were appointed as external auditor to NCC with effect from 2015/2016, replacing Deloitte. Northumberland County Council Pension Fund's annual report and accounts is audited separately from Northumberland County Council's accounts. This means that the external auditors must sign a separate audit opinion for the Fund, and provide separate Planning and Final reports for the Fund.
- 1.2 The auditors use the phrase "those charged with governance (TCWG) of the Fund" to encompass the different ways administering authorities can delegate their responsibilities for the LGPS. In NCC, TCWG include the Pension Fund Panel, the Audit Committee and the Section 151 Officer (and Deputy). Therefore, the auditors attend the May/June/July and September quarterly meetings of the Pension Fund Panel to present their Planning and Final reports to members, *and* they attend and present these reports to the Northumberland County Council Audit Committee.
- 1.3 EY's 2016/2017 Planning Report for the Fund is **enclosed** with these papers. Claire Mellons (Senior Audit Manager) will attend this meeting of the Pension Fund Panel to present the Planning Report to the Panel.

## **1. External audit of Northumberland County Council Pension Fund 2016/2017 accounts – Planning Report**

### **BACKGROUND**

- 1.4 Northumberland County Council Pension Fund is part of Northumberland County Council. The Pension Fund is not a separate legal entity, and as such, the financial statements of the Fund form part of the Northumberland County Council's annual report and accounts. As the Fund is not a separate **legal** entity, a separate audit of the Fund accounts would not normally be required.
- 1.5 However, there is a requirement in England and Wales for local authorities administering the LGPS to produce a pension fund annual report (paragraph 57 of the Local Government Pension Scheme Regulations 2013, SI 2013 no. 2356), and therefore the auditors treat the Fund as a separate **reporting** entity. The equivalent regulation contained in the Local Government Pension Scheme Regulations (Administration) 2008 was first applied to the 2008/2009 financial statements.
- 1.6 For the 2016/2017 audit of the Pension Fund financial statements, Northumberland County Council's external auditor, Ernst & Young LLP (trading as EY), has prepared a (separate) Planning Report. EY's Planning Report is **enclosed** with these papers.
- 1.7 Claire Mellons (Senior Audit Manager) of EY will attend this meeting to present the 2016/2017 Planning Report to the Panel.
- 1.8 Under the 2013 regulations the Pension Fund annual report for the year ended 31 March 2017 must be published before 1 December 2017. The Fund accounts cannot be finalised prior to the completion of the audit of the County Council's accounts. As the audit opinion on the County Council accounts must be signed by 30 September 2017, it makes logistical sense to also have the Pension Fund accounts signed at the same time, and this approach was taken in previous years and will be taken again in 2017.
- 1.9 Therefore, the Pension Fund accounts will be signed at the Audit Committee meeting scheduled on 27 September 2017. EY will also attend the 4 September 2017 Panel meeting to report the audit findings in the audit Final Report.
- 1.10 The audit Planning and Final Reports are addressed to "those charged with governance" of the Pension Fund. Therefore, for Northumberland, it is appropriate that these reports are taken to the Northumberland County Council Audit Committee, as well as the Pension Fund Panel. The Planning Report will be taken to the Audit Committee scheduled to meet on 26 July 2017, and the Final Report will be taken to the 27 September 2017 Audit Committee.
- 1.11 The audit opinion included in the Pension Fund accounts is a "consistent with" opinion, because the "true and fair view of the financial position" opinion (which auditors are required to give) is included in Northumberland County Council's full Financial Statements.

- 1.12 The main part of the audit work has not yet started, and this will be undertaken over the summer.

## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 2. Disclosure of members' interest in the Scheme at Pension Fund Panel meetings

##### Purpose of the report

The purpose of this report is to provide information about individual Panel members' Local Government Pension Scheme membership.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

- 2.1 At the 25 November 2011 Panel meeting, members considered whether it was necessary to declare a personal interest in the business of the Pension Fund Panel *as a result of their own membership* of the LGPS. Advice obtained from NCC's Legal Services Department was that Scheme membership does not represent a personal interest to be declared at meetings because members cannot influence the terms of the Scheme which apply to them (individually) through participation in the business of the Panel.
- 2.3 Therefore, it was agreed that standard wording would be added to the minutes of Pension Fund Panel meetings to cover this point, and that all voting Panel members' membership in the Scheme, and observers/officers supporting the work of the Panel, would be listed in a Panel report, annually, for information.
- 2.4 As at end of June 2017 the following voting Panel members were members of the Scheme:
- Councillor D L Bawn                      deferred member;
  - Councillor Mrs E Dunn                  pensioner member;
  - Councillor D Kennedy                  deferred member;
  - Councillor I C F Swithenbank          pensioner member.

(Councillors M Robinson and J Watson were not members of the Scheme.)

- 2.5 In June 2017 *all* observers and officers regularly involved in the work of the Pension Fund Panel were members of the Scheme (i.e. observers: S L Dick, J H Adams, I Storey, and A Culling; officers: D. Brown, M A Coleran, H M Payne, A Elsdon, A Stewart, C Gorman, A F Lister, C S Johnson, A D Scott, and N J Turnbull). Of the Local Pension Board members not already mentioned in this paragraph, J P Clark and G F Moore are LGPS members, and Councillor B Pidcock is not a member.





## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 3. Formal assessment of the performance of the investment adviser

##### Purpose of the report

The purpose of this report is to inform Panel members of the results of the 2016/2017 annual formal assessment of the performance of the Pension Fund Panel adviser, Mercer.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

- 3.1 CIPFA guidance (in 2009) introduced a requirement for pension committees such as the Northumberland County Council Pension Fund Panel to have arrangements in place to formally measure the performance of the investment adviser.
- 3.2 The Panel approved a “scorecard” for use in this formal assessment at the February 2011 meeting. Given the long-term nature of the relationship between the adviser and the Panel, annual assessment is appropriate. A formal annual assessment has been undertaken by the Panel since 2011.
- 3.3 Members were asked to complete the scorecards anonymously and return them to Craig Johnson before the end of April 2017. Four out of a potential ten responses were returned.
- 3.4 A **summary** of the responses is attached as **Appendix 1** to this report. The tone of the responses was very positive, with an overall rating of 3.71 given (3.5 in 2015/2016), where 4 was the highest score possible. All responses included the answer “not applicable” to at least some of the questions asked in the scorecard.
- 3.5 Officers have shared the results of the 2016/2017 scorecard assessment in advance of this meeting with Mercer, to ensure that the comments made were conveyed.

### 3. Formal assessment of the performance of the investment adviser

#### BACKGROUND

##### CIPFA guidance

- 3.6 CIPFA (The Chartered Institute of Public Finance and Accountancy) issued a publication on 11 December 2009 called *Investment Decision-Making in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*. This guidance states:

*Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers.*

- 3.7 A “scorecard” for assessing the adviser was approved by the Pension Fund Panel at the February 2011 meeting and it was agreed that each Panel member would be asked to complete the scorecard once a year so that the views of Panel members could be summarised by officers and fed back to the adviser (Mercer). The first assessment covered the work by the adviser during the twelve months to 31 March 2011.
- 3.8 In February 2017, each Panel member (including each Panel observer) was asked to complete and return a scorecard covering the work undertaken by Mercer in 2016/2017 to Craig Johnson by 17 April 2017. The scorecards were completed anonymously. Four out of a potential ten responses were received.
- 3.9 Prior to the introduction of the scorecard, the Panel did not have a formal process in place to measure the performance of its adviser, though informal continuous assessment has always been an implicit part of the dealings between officers, members and the adviser.

##### Formal assessment of the adviser - summary

- 3.10 A summary of the 2016/2017 responses received from Panel members and observers is attached as **Appendix 1** to this report. Members were asked to give a score for each question on the scorecard within the range 1 to 4 inclusive, where:

1 means	Poor/area for improvement
2 means	Satisfactory
3 means	Good
4 means	Very good
N/A	Not applicable

- 3.11 In the (Appendix 1) summary, an average score from all of the responses received has been calculated and shown against each question.
- 3.12 The overall average score given was 3.71, and as a general conclusion of the responses received, the highest scoring questions were the ones relating the accessibility and knowledge of the regular consultant(s). Comments made were mainly positive or very positive. The number of scorecards completed was



slightly fewer than in prior years, which may have been as a result of the political landscape at the time with the (then) forthcoming local elections.

- 3.13 When comparing the 2016/2017 scorecards with prior years, it can be noted that, in some areas average scores have increased, while other areas decreased. The overall average score for 2016/2017 (3.71) was an improvement on the 2015/2016 equivalent (3.5), although this could be due to fewer responses being received from Panel members, coupled with the subjective nature of the scoring. The positive comments received indicate continued trust in the investment adviser.

#### Feedback to Mercer

- 3.14 Following receipt of the completed scorecards, Craig Johnson contacted Joanne Holden of Mercer to share the results and the individual comments made.
- 3.15 When conducting a formal assessment of this type, it is to be hoped that there will be no surprises from the results as surprises would indicate poor communication between the adviser and the Panel or officers during the year. This formal assessment did not contain any surprises.



## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 4. Action Plan 2017 for NCC Pension Fund

##### Purpose of the report

The purpose of this report is to provide the NCC Pension Fund Action Plan 2017 for members' consideration.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

- 4.1 For the last three years, at the Panel's request, the NCC Pension Fund has had an annual **Action Plan** instead of an annual Business Plan. The format of the Action Plan is shorter and more succinct than a Business Plan, and is therefore more user friendly.
- 4.2 The Action Plan is updated annually and normally brought to the quarterly Pension Fund Panel meeting for approval at the beginning of each year. The Action Plan 2017 was discussed at the 31 March 2017 Panel meeting, and completed under delegation to an officer in consultation with the (then) Chairman and Vice Chairman of the Panel. It is attached as **Appendix 2** to this report.
- 4.3 The **Action Plan 2017** follows the same format as earlier plans, and is shown under four headings:
  - A** Specific items to be considered/actioned by the Panel in 2017/18;
  - B** Reviews to be undertaken by the Panel in 2017/18 and beyond;
  - C** Quarterly meetings – agenda items: usual pattern; and
  - D** Past reviews carried out by the Panel.

Its purpose is **not** to set a rigid framework that cannot be deviated from, but instead just to set out current expectations of future actions.
- 4.4 The Action Plan 2017 is intended to act as a checklist and progress monitoring tool for one-off and regular items to be brought to the Pension Fund Panel in the next year and beyond.
- 4.5 As it is a key document, providing information about the likely agenda for meetings in the next year, it has been brought to the Panel at this meeting to help new members' awareness of the key issues for the Panel.





## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 5. Annual report of the NCC LGPS Local Pension Board

##### Purpose of the report

The purpose of this report is to provide the 2016/2017 report of the NCC LGPS Local Pension Board (LPB) to the Panel, for information.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

- 5.1 The NCC LGPS LPB Terms of Reference require that:  
*“.... an annual report of the LGPS Local Pension Board (as prepared by the Chair of the LGPS Local Pension Board), must be provided to the Chief Financial Officer, the Monitoring Officer and the Pension Fund Panel, and be published in the Northumberland County Council Pension Fund's Annual Report and Accounts.”*
- 5.2 The first annual report of the LGPS LPB covering the year 2015/2016 was published in the 2015/2016 NCC Pension Fund annual report and accounts, and reported to the 27 May 2016 Panel meeting and the 27 July 2016 Audit Committee meeting. There is no guidance available from the Scheme Advisory Board, CIPFA or DCLG on the required content of the Board's annual report.
- 5.3 In March/April 2017, the Independent Chair of the NCC LGPS LPB, Gerard Moore, prepared the 2016/2017 annual report on the work of NCC's LGPS LPB in that year. The report was taken in draft form to the 24 April 2017 meeting of the LPB for discussion and input from other Board members.
- 5.4 The 2016/2017 annual report of the LPB is attached as **Appendix 3** to this report. It is included in the 2016/2017 NCC Pension Fund (draft) annual report and accounts and has also been published on NCC's website. It will be reported to the 26 July 2017 meeting of the Audit Committee.



## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 6. Training

##### Purpose of the report

This report reminds Pension Fund Panel members of forthcoming training events and provides information about recent training events held.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

- 6.1 Induction training for new Panel members was held on 12 June 2017 at County Hall. This event was attended by Pension Fund Panel members and observers, NCC Local Pension Board members, and officers. It covered an introduction to NCC Pension Fund, the LGPS and governance arrangements, and investments.
- 6.2 In prior years, NCC has *not* sent members or officers to the Pensions and Lifetime Savings Association (known as PLSA, formerly NAPF) Annual Local Authority Conference in May, but many other LGPS funds attend regularly and find it topical and relevant. The May 2017 dates did not work well for councils such as NCC with 2017 local elections, so no NCC Panel member attended. Andrew Lister, Principal Accountant (Pensions) attended and his report on the key messages from the event is attached as **Appendix 4** to this report.
- 6.3 In prior years, NCC has sent members and officers to the Local Government Pensions Committee Annual LGPS Trustees' Conference, and found it excellent value for money providing a synopsis of current LGPS hot topics. At the time of finalising this report, the conference was imminent and Councillor Derek Kennedy, Clare Gorman and Craig Johnson planned to attend. The programme is attached as **Appendix 5** to this report. A verbal report on the conference will be provided at the meeting.
- 6.4 The recently appointed Panel members have received details (by email) of the Local Government Association (LGA) 2017 Three-Day Fundamentals training in October, November and December 2017, attached as **Appendix 6** to this report. Panel members have also received details of a two-day training event arranged by officers of Border to Coast Pensions Partnership (BCPP) funds, attached as **Appendix 7**, which is intended to cover the same material as the Three-Day Fundamentals training. New Panel members have been given the opportunity to attend one of these training events.







## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 7. Reporting breaches: progress and quarterly monitoring report

##### Purpose of the report

This report provides information about breaches of the law which have occurred in the quarter to 31 March 2017.

##### Recommendation

The Panel is requested to accept the report.

##### Key issues

- 7.1 Oversight of the LGPS by the Pensions Regulator (tPR) with effect from 1 April 2015 brought with it the requirement for administering authorities to enforce the LGPS Regulations and supporting law and guidance more assiduously than before due to the requirement to record and (potentially) report all breaches of LGPS Regulations. Since April 2015, NCC has reported some breaches of the law to the Panel on a quarterly basis and considered whether each recorded breach is *of material significance to the Regulator* and should be reported to tPR.
- 7.2 Since 1 April 2015, all breaches in relation to contributions receivable, pensionable pay information and ABSs have been reported to the Panel. Since 1 April 2016, all other known breaches have also been reported to the Panel.
- 7.3 In the quarter to 31 March 2017 there were no breaches of the requirement to pay contributions within 19 days of the month end.
- 7.4 Following advice taken from Karen McWilliam of Aon Hewitt in August 2016, the Pensions Administration Team began its current method of recording all known breaches, effective from 1 April 2016.
- 7.5 The following records of breaches for the Pensions Administration Team are **enclosed** for the:
  - quarter ended 31 March 2017 (an A3 spreadsheet), showing all breaches in the most recent quarter;
  - quarter ended 31 December 2016 (a separate A3 spreadsheet), showing all brought forward breaches that had not been resolved when reported to the February 2017 Panel meeting; and
  - quarter ended 30 September 2016 (a separate A3 spreadsheet), showing all brought forward breaches that had not been resolved when reported to the November 2016 or February 2017 Panel meetings.

## 7. Reporting breaches: progress and quarterly monitoring report

### BACKGROUND

- 7.6 Oversight of the LGPS by the Pensions Regulator (tPR) with effect from 1 April 2015 brought with it the requirement for administering authorities to enforce the LGPS Regulations and supporting law and guidance more assiduously than before due to the new requirement to record and (potentially) report all breaches of LGPS Regulations.
- 7.7 Since April 2015, NCC has reported some breaches of the law to the Panel on a quarterly basis and considered whether each breach is *of material significance to the Regulator* and should be reported to the Regulator. The breaches reported to the Panel form the Northumberland County Council Pension Fund's breaches log. These breaches are recorded so the Panel can assess whether, in its view, any item is of material significance to tPR and should be reported to tPR.
- 7.8 A NCC Pension Fund Breaches Procedure was approved at the September 2015 meeting of the Pension Fund Panel, applicable with effect from 1 April 2015. Breaches occurring in the quarter to 30 June 2015 (only in relation to contributions and pensionable pay information) were reported to the September 2015 Panel.

#### Breaches in relation to contributions and provision of Annual Benefit Statements

- 7.9 From 1 April 2015 all known breaches in relation to contributions receivable, pensionable pay information and Annual Benefit Statements (ABSs) have been recorded in the breaches log and reported to the Panel. To date, none of the recorded breaches have been viewed as being of material significance to tPR, so none have been reported to the Regulator.
- 7.10 The Panel *and* Board has given careful consideration to reporting the breaches in issuing the 2014/2015 ABSs and 2015/2016 ABSs by their respective 31 August deadlines, and after taking all relevant information into account.
- 7.11 At the Board meeting held on 3 November 2016, the Board considered the 2015/2016 ABS breaches in detail concluding that they were not reportable to tPR on this occasion, and made detailed recommendations and comments to the Scheme Manager which were reported to the November 2016 Panel meeting.

#### Breaches in relation to pensions administration

- 7.12 As a result of staffing issues in NCC's Pensions Administration Team, recording breaches in the log did not begin until the quarter ended 30 June 2016.
- 7.13 In August 2016, after taking advice from Karen McWilliam of Aon Hewitt, Clare Gorman consulted with the (then) Chairman and Vice Chairman of the Panel to obtain authority to:
- start the process of full breaches recording from the quarter ended 30 June 2016, rather than backdating; and

- include in the breaches log any breaches the Pensions Administration Team is aware of from earlier periods if they have not already been fully resolved.
- 7.14 The Chairman and Vice Chairman were supportive of this approach, noting that the most important part of the breaches procedure is recognising as quickly as possible that there has been a breach; ensuring that it has been corrected on a timely basis with no detriment to any LGPS member; and that any system failures are quickly addressed.
- 7.15 The following records of breaches for the Pensions Administration Team are **enclosed** for the:
- quarter ended 31 March 2017 (an A3 spreadsheet), showing all breaches in the quarter;
  - quarter ended 31 December 2016 (a separate A3 spreadsheet), showing all brought forward breaches that had not been resolved when reported to the February 2017 Panel meeting; and
  - quarter ended 30 September 2016 (a separate A3 spreadsheet), showing all brought forward breaches that had not been resolved when reported to the November 2016 or February 2017 Panel meetings.



## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 8. Key Performance Indicators (KPIs) for LGPS administration

##### Purpose of the report

The purpose of this report is to provide information to the Panel about the KPIs in the quarter to 31 March 2017.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

8.1 The NCC Pension Fund's Administration Strategy Statement was updated and approved at the November 2016 Panel meeting. The Statement refers to Key Performance Indicators (KPIs) for the NCC Pensions Administration Team. These KPIs have been reported to the Panel on a quarterly basis since the quarter to 31 December 2016. **Appendix 8** sets out the KPIs in full.

8.2 KPIs in the quarter to 31 March 2017 are as follows:

Process	Fund timescale	Target	Quarter to 31 December 2016	Quarter to 31 March 2017	Against regulatory requirement
new members	30 days	95%	45% *	100%	100%
inform leavers of rights /options	30 days	90%	72%	88%	88%
notify retirement benefits payable	5 days	95%	75%	81%	97%
notify death benefits payable	5 days	95%	79%	84%	99%
provide ABSs	by 31 Aug †	100%	N/A	N/A	N/A
employee contributions received	by 19 <sup>th</sup> of following month	100%	100%	100%	100%
employer contributions received	by 19 <sup>th</sup> of following month	100%	100%	100%	100%

\* An exceptionally high volume of new members starting in September 2016 resulted in this KPI not being met.

† ABSs are only due in the quarter to 30 September.

- 8.3 Compared to the previous quarter, the KPI relating to processing new member information has improved, as expected. Other KPIs have also shown an improvement.



## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 9. Judicial review re DCLG statutory guidance on pension exclusion policies

##### Purpose of the report

This report provides information about the judicial review in relation to DCLG guidance which prevented LGPS administering authorities from pursuing pension exclusion policies which were contrary to UK foreign policy or UK defence policy.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

- 9.1 In a judgement published on 23 June 2017, the High Court ruled on judicial review that the section on boycotting foreign nations and the UK defence industry within the DCLG statutory guidance, *“Guidance on preparing and maintaining an investment strategy statement”* published in September 2016 is unlawful. The judgement is attached as **Appendix 9** to this report. The guidance referred to in the judgement is attached as **Appendix 10** to this report.
- 9.2 The judgment sets out that the Secretary of State for Communities and Local Government had exceeded his regulation making powers by using the guidance to protect government foreign policy and UK defence policy, which, in the judges view, were not policies for “pension purposes”. The Secretary of State was held to have acted for an unauthorised purpose and therefore unlawfully. Although not expressly referred to in the judgement, the inference is that the part of the guidance referred to in paragraph 1 of the judgement is struck out.
- 9.3 The High Court was also asked to judge whether:
- the guidance lacked clarity and certainty; and
  - whether Article 18(4) of the 2003 IORP Directive applied to prevent the Secretary of State from imposing a form of approval before investment decisions are made.
- On both matters, the judge ruled in favour of the Secretary of State.
- 9.4 DCLG received a high volume of responses when the guidance was at the consultation stage objecting to the part which states that *“administering authorities must not use pensions policies to pursue boycotts, disinvestment and sanctions against foreign nations and UK defence industries .... other than where formal legal sanctions embargoes and restrictions have been put in place by Government;”* or *“pursue policies that are contrary to UK foreign policy or UK defence policy”*.

- 9.5 NCC Pension Fund, in common with most other LGPS funds, does not operate an exclusion policy, therefore this judgement will have no immediate impact on the Fund.

## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 10. Options for academies in the LGPS

##### Purpose of the report

This report provides information about the PwC report “*Options for Academies in the LGPS*” published in May and commissioned by the LGPS Scheme Advisory Board (SAB) to explore the scope for resolving issues within the LGPS.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

10.1 In a judgement published on 23 June 2017, the High Court ruled on judicial review that the section on boycotting foreign nations and the UK defence industry in the DCLG statutory guidance, “*Guidance on preparing and maintaining an investment strategy statement*” (ISS) published in September 2016, is unlawful. The judgement is attached as **Appendix 9** to this report. The ISS guidance referred to in the judgement is attached as **Appendix 10** to this report.

10.2 The judgment sets out that the Secretary of State for Communities and Local Government had exceeded his regulation making powers by using the guidance to protect government foreign policy and UK defence policy, which, in the judges view, were not policies for “pension purposes” The Secretary of State was held to have acted for an unauthorised purpose and therefore unlawfully. Although not expressly referred to in the judgement, the inference is that the part of the guidance referred to in paragraph 1 of the judgement is struck out.

10.3

##### **Appendix 11**



## MEETING OF THE PENSION FUND PANEL

7 JULY 2017

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### 11. Fund performance and total Fund value

##### Purpose of the report

The purpose of this report is to provide information to the Panel about the Fund performance in the quarter to 31 March 2017 and the total Fund value at that date.

##### Recommendation

**The Panel is requested to accept the report.**

##### Key issues

- 11.1 The total Fund value (externally managed) was **£1,314** million as at 31 March 2017, compared to £1,264 million as at 31 December 2016, reflecting the positive investment returns over the quarter.
- 11.2 The Fund returned **4.0%** in the quarter to 31 March 2017, underperforming its benchmark return of 4.3%. The returns for the year to 31 March 2017 were 24.2%, outperforming the benchmark of 24.1% by 0.2%.
- 11.3 This has been a good quarter for NCC Pension Fund, except for the negative contribution to Fund performance from private equity, and (to a much lesser extent) from infrastructure. Both of these asset classes underperformed their benchmarks in the quarter, and the Fund's private equity investments also underperformed in the year.
- 11.4 However, in the year to 31 March 2017, the Fund's private equity investments did perform well, returning 12.5% and the underperformance against benchmark in the year reflects the benchmark used which is the FTSE World Index, which returned 32.9% in the year. At least half of the FTSE World Index return was driven by currency movements against sterling in the year.
- 11.5 Further detail of annual and quarterly performance by manager and asset class for the period ending 31 March 2017 is shown in the **enclosed** "*Quarterly Risk and Return Analysis*" provided by Portfolio Evaluation Ltd (the Fund's performance measurement service provider).
- 11.6 Nick Kent of Portfolio Evaluation Ltd will attend this meeting of the Panel to give a presentation about the Fund's returns in the year to 31 March 2017. Performance measurement services were provided to NCC Pension Fund by the WM Company until 31 March 2016 when WM withdrew services from all LGPS clients.

## 11. Fund performance and total Fund value

### BACKGROUND

#### Total Fund value

11.7 The total value of the Fund at the last four quarter ends is as follows:

	as at <u>30 June</u> <u>2016</u> £m	as at <u>30 September</u> <u>2016</u> £m	as at <u>31 December</u> <u>2016</u> £m	as at <u>31 March</u> <u>2017</u> £m
<b>Legal and General</b> <i>Index tracker</i>	<b>766.27</b>	<b>908.77</b>	<b>1008.96</b>	<b>1051.55</b>
<b>M&amp;G Investments</b> <i>Active global equities</i>	<b>124.51</b>	<b>71.38</b>	<b>0.0</b>	<b>0.0</b>
<b>Wellington</b> <i>Active corporate bonds</i>	<b>95.53</b>	<b>97.76</b>	<b>98.30</b>	<b>99.91</b>
<b>Schroder</b>	25.89	25.16	25.94	25.11
<b>BlackRock</b>	25.34	24.57	24.27	26.35
<i>Property</i>				
<b>subtotal</b>	<b>51.23</b>	<b>49.73</b>	<b>50.21</b>	<b>51.46</b>
<b>Morgan Stanley</b>	38.06	34.60	35.67	34.71
<b>NB Crossroads</b>	17.64	19.53	21.09	26.17
<i>Private equity</i>				
<b>subtotal</b>	<b>55.70</b>	<b>54.13</b>	<b>56.76</b>	<b>60.88</b>
<b>GIP</b>	23.94	26.89	31.07	32.11
<b>Antin</b>	14.73	15.43	18.34	17.93
<i>Infrastructure</i>				
<b>subtotal</b>	<b>38.67</b>	<b>42.32</b>	<b>49.41</b>	<b>50.04</b>
<b>Total</b>	<b>1,131.91</b>	<b>1,224.09</b>	<b>1,263.64</b>	<b>1,313.84</b>

Note that capital calls and capital repayments have been made during the year to 31 March 2017 for private equity and infrastructure investments. Extra funding, when needed, came out of cash held by the Pension Fund for the day-to-day expenditure incurred in administering the Scheme and by disinvesting from Legal and General. Capital repayments have been transferred to Legal and General to invest, or when timing can be matched, used to pay other capital calls.

11.8 Further detail of annual and quarterly performance by manager and asset class for the period ending 31 March 2017 is shown in the **enclosed** “*Quarterly Risk and Return Analysis*” provided by Portfolio Evaluation Ltd (the Fund’s performance measurement service provider).

## Fund performance

11.9 The Fund’s performance is measured by Portfolio Evaluation Ltd (formerly, until 31 March 2016 by the WM Company, later known as State Street/GS Performance Services). Shown below are the annual returns achieved by the Fund for the five years to 31 March 2017 and for the latest four quarters. Also shown are the annualised returns achieved by the Fund for the five years to 31 March 2017.

### 11.10 Annual returns

	Financial Year Ended 31 March				
	2013	2014	2015	2016	2017
	%	%	%	%	%
Fund	14.0	3.8	13.2	-0.7	24.2
Benchmark	14.2	3.7	13.1	-1.2	24.1

### 11.11 Quarterly returns

--- 2016/17 ---				
	Quarter 2	Quarter 3	Quarter 4	Quarter 1
	2016	2016	2016	2017
	to 30 Jun 16	to 30 Sep 16	to 31 Dec 16	to 31 Mar 17
	%	%	%	%
Fund	6.4	8.5	3.6	4.0
Benchmark	7.0	8.1	2.9	4.3

### 11.12 Annualised returns

	All Financial Years Ended 31 March		
	2012/17	2014/17	2017
	%	%	%
Fund	10.6	11.8	24.2
Benchmark	10.4	11.6	24.1
	5	3	1
	years	years	year





## IMPLICATIONS ARISING OUT OF THE REPORT

This applies to items 1. to 11. (inclusive) in this report

<b>Policy:</b>	None
<b>Finance and value for money:</b>	All investment decisions and funding strategy decisions could have an implication for the future employer contribution rates payable by employers participating in the Pension Fund. There are no investment decisions arising directly from these reports.
<b>Human Resources:</b>	None
<b>Property:</b>	None
<b>Equalities:</b>	None
<b>Risk Assessment:</b>	A risk assessment is performed as part of the asset liability modelling study undertaken periodically (usually every three years) to set the Fund's asset allocation strategy. There is no change to investment strategy contained within these reports.
<b>Sustainability:</b>	None
<b>Crime &amp; Disorder:</b>	None
<b>Customer considerations:</b>	None
<b>Consultation:</b>	None
<b>Electoral divisions:</b>	All

## Report sign off

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Director (Corporate Resources)	AE
Portfolio Holder(s)	N/A

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