

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 7 July 2017 at 9.30 a.m.

PRESENT

Councillor J.G. Watson
(Chair, in the Chair)

MEMBERS

Bawn, D.L.	Robinson, M.
Kennedy, D. (from 9.40 am)	Swithenbank, I.C.F.

TRADE UNION REPRESENTATIVES

Culling, A.	Storey, I.
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OBSERVER REPRESENTATIVES

Adams, Mrs. J. H.	Employers Representative
Dick, Ms. S.	Employees / Pensioner Representative

PENSION FUND PANEL ADVISER MEMBER

Mr. I Campbell	Mercer Ltd
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OFFICERS IN ATTENDANCE

Mr. M. Coleran	Pensions Team Leader (Items 11 (7) and (8) only)
Mrs. C. Gorman	Principal Accountant (Pensions) - Project Officer
Mr. C. Johnson	Senior Accountant (Pensions)
Mr. A. Lister	Principal Accountant (Pensions)
Ms. N. Turnbull	Democratic Services Officer

ALSO PRESENT AS OBSERVERS

J.P. Clark	LGPS Pension Board Member
G.F. Moore	Chair of LGPS Pension Board
Cllr B Pidcock (until 11.58 am)	LGPS Pension Board Member

Also present:

Ms. C. Mellons of EY (auditors) attended for item 11(1) on the agenda relating to the External Audit of NCC Pension Fund Accounts.

Mr. N. Kent of Portfolio Evaluation attended for item 13(9) on the agenda relating to the presentation on the Fund's performance.

8. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor L. Dunn.

9. MINUTES

RESOLVED that:

- (a) the minutes of the meeting of the Pension Fund Panel held on Monday, 5 June 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 Monday, 24 April 2017, be received for information.

10. 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.

11. REPORTS OF THE DIRECTOR OF CORPORATE RESOURCES

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

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

The Panel received the external auditors' Planning Report for the 2016/17 Pension Fund audit (a copy of which is filed with the signed minutes) and received a presentation from EY.

Ms. C. Mellons outlined EY's risk based approach to the 2016/17 audit of the Fund. Overall materiality for audit of the Fund's 2016/17 financial statements would be approximately £12 to £13 million, based on 1% of total net asset value as at 31 March 2017.

The Panel was requested to consider the auditors' reporting threshold for uncorrected misstatements. During 2015/16 the auditors' reporting threshold had been set at £250,000. It was noted that no uncorrected misstatements had been recorded in previous years and the auditors confirmed they would report anything they considered to be material, even if below the level set. The Panel agreed that the reporting threshold for uncorrected misstatements be set at £500,000, which would be more in line with EY's usual methodology.

The findings of the 2016/17 audit would be presented to the 4 September 2017 meeting of the Panel, and the September Audit Committee.

RESOLVED that the report be received and that uncorrected misstatements in the accounts greater than £500,000 would be reported as part of the 2016/17 audit findings.

(2) Disclosure of members' interest in the Scheme at Pension Fund Panel meetings

Information was received about individual Panel members' and officers'/observers' Local Government Pension Scheme (LGPS) membership.

RESOLVED that the report be received.

(3) Formal assessment of the performance of the investment adviser

Mr. I. Campbell left the meeting whilst the following item was discussed.

The Panel received a report which informed members of the results of the 2016/2017 annual formal assessment of the performance of the Pension Fund Panel adviser, Mercer.

The Senior Accountant (Pensions) provided a summary of the scorecards returned and it was reported that four out of a potential ten Panel members had completed and returned the scorecard. The results of the 2016/2017 assessment showed that the Panel continued to have confidence in Mercer's advice. Comments were mainly positive or very positive.

Members of the Panel expressed their disappointment at the low response rate and queried the validity of any conclusions that could be drawn. In response to a question, the Principal Accountant (Pensions) - Project Officer commented that this assessment of the adviser could not be used to assess Fund investment performance, as the adviser does not make the investment decisions, instead she gives advice to the Panel to make those decisions. The survey results indicated that the Panel continued to have confidence in Mercer.

RESOLVED that the report be received.

(4) Action Plan 2017 for NCC Pension Fund

Members received the NCC Pension Fund's Action Plan 2017 to increase new members awareness of the key issues for the Panel.

The Principal Accountant (Pensions) - Project Officer outlined the Plan which included matters to be considered in the next 12 months, periodic reviews, agenda items for quarterly meetings and past reviews carried out by the Panel.

An email alert dated 5 July 2017 'Big reprieve for LGPS as Regulator eases EU rules' was tabled at the meeting. It confirmed that the FCA had added a fourth quantitative criteria to enable LGPS funds to opt up to professional status before January 2018, to comply with the requirements imposed by the implementation of Markets in Financial Instruments Directive II (MiFID II) in the UK. Ensuring procedures were in place for NCC Pension Fund to opt up to professional status before January 2018 would be a significant part of the Fund's Action Plan.

RESOLVED that the report be received.

(5) Annual report of the NCC LGPS Local Pension Board

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

The Principal Accountant (Pensions) - Project Officer reported that there was no guidance from the Scheme Advisory Board, CIPFA or DCLG regarding the content of the Board's annual report.

Mr. Moore, the Independent Chair of the LGPS Local Pension Board, commented that there were a number of recommendations contained within the minutes of the Board meeting held on 24 April 2017 which had been considered earlier in the meeting. He commented that he valued the relationship between the Board and the Panel and confirmed the willingness of the Board to assist the Panel with issues such as the review of breaches.

RESOLVED that the report be received.

(6) Training

The report set out details of forthcoming training events available to Panel members and provided information about events that had recently been attended by officers/members.

The Principal Accountant (Pensions) summarised the key issues arising from the Pensions and Lifetime Savings Association (PLSA) Annual Local Authority Conference, which he had attended in May 2017. A number of organisations had used the event to launch publications relevant to the industry.

Councillor Kennedy, Vice-Chair of the Pension Fund Panel gave a brief overview of the issues discussed at the Local Government Association (LGA) Annual LGPS Trustees' Conference in Bournemouth on 29 to 30 June 2017, which he had attended along with Clare Gorman and Craig Johnson. A summary of the conference highlights written by Hymans Robertson was also tabled at the meeting.

The Panel discussed issuing the annual benefits statements by the legal deadline and the role of the Pensions Regulator. Mr. Moore explained that the Board was considering requesting an informal meeting with the Pensions Regulator to clarify which types of breach the Regulator considered to be of material significance.

Members were requested to liaise with officers should they wish to attend any of the training events referred to in the report.

RESOLVED that the report be received.

Mr. M. Coleran was in attendance for the following two items, (7) and (8).

(7) Reporting breaches: progress and quarterly monitoring report

The report provided information about a breach of the law which had occurred in the quarter to 31 March 2017 and an update on breaches from the previous two quarters.

The Principal Accountant (Pensions) - Project Officer reported on the process and reminders that were issued when contributions were not paid within 19 days of the month end. A breach of the 19 day rule had occurred in the quarter to 31 March 2017 when an employer paid late in one month. As it was believed to be an isolated incident and not of material significance, it had not been reported to the Pensions Regulator.

It was noted that the Pensions Administration Team's breaches logs for the quarters to 30 September 2016, 31 December 2016 and 31 March 2017 needed to be reviewed and updated. The Panel agreed that the LGPS Local Pension Board would review the updated logs in more detail at the 17 July

2017 meeting of the Board. Revised copies of the breaches logs would be issued to both Panel and Board members.

RESOLVED that

- (a) The report be received
- (b) The breaches log for the quarters to 30 September 2016, 31 December 2016 and 31 March 2017 be updated and then reviewed by the LGPS Local Pension Board at the meeting on 17 July 2017.

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

The report provided information to the Panel about the KPIs in the quarter to 31 March 2017. It was noted that the additional column which compared performance against regulatory requirements had now been included, following an earlier recommendation of the Board.

RESOLVED that the report be received.

(9) Judicial review re DCLG statutory guidance on pension exclusion policies

Information was provided 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. A copy of the judgement was included as Appendix 10.

In answer to a question, the Principal Accountant (Pensions) - Project Officer confirmed that the judgment did not impact on the NCC Pension Fund as the Fund not operate an exclusion policy.

RESOLVED that the report be received.

(10) Options for academies in the LGPS

The Panel received a report which provided information about the PwC report "*Options for Academies in the LGPS*" published in May 2017 and commissioned by the LGPS Scheme Advisory Board (SAB) to explore the scope for resolving issues within the LGPS. The report set out a balanced view and considered options for issuing further guidance, issuing regulations and / or primary legislation. Reference was made to the time limited guarantee issued by the Department for Education in July 2013 in relation to academies' LGPS liabilities. Further information was included in a separate report later on the agenda.

RESOLVED that the report be received.

(11) Fund performance and total Fund value

The report provided information to the Panel about the Fund performance in the quarter to 31 March 2017 and the total Fund value at that date.

RESOLVED that the report be received.

12. 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 item 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 Item	Paragraph of Part I of Schedule 12A
7	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.

13. REPORTS OF THE DIRECTOR OF CORPORATE RESOURCES

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) Current estimated funding position for Northumberland County Council Pension Fund

The report presented to Panel members the latest quarterly update on the actuarial funding position for the Pension Fund as a whole.

Members considered the actuary's estimate of the funding level as at 31 March 2017 for the Fund as a whole which showed an improved funding ratio since the 2016 actuarial valuation of the Fund. An example was provided of how the improved position would have impacted on employer contributions, payable if the funding ratio had been at the 31 March 2017 level when the 31 March 2016 valuation was undertaken.

It was noted that the actuarial valuation provided a snapshot on a particular date and was dependent on the assumptions used by the actuary in assessing liabilities, and the level of prudence built into those assumptions.

RESOLVED that the report be received.

(2) Shared pensions administration service with Tyne and Wear Pension Fund

An update was provided on progress towards a shared pensions administration service with Tyne and Wear Pension Fund.

The Panel received a draft report from Aon Hewitt dated 31 May 2017 which outlined the business case for shared administration working including an analysis of the benefits and disadvantages of a shared service, potential cost savings, key risks and timetable.

Members sought reassurance regarding the future employment of staff within the Northumberland pensions administration service.

RESOLVED that the report be received.

(3) Private equity investment with Pantheon

The Panel received an update regarding the decision made by the Chief Executive, in consultation with the Chair and Vice-Chair of the Panel, to commit to a private equity investment with Pantheon's Global Select 2017 private equity investment portfolio.

The Principal Accountant (Pensions) briefly outlined the process that had been followed and the due diligence work undertaken. Completion of the agreements was expected the following week.

The Panel discussed the positive benefits of LGPS pooling and the effect on fees payable if more LGPS funds invest with fewer managers.

RESOLVED that the report be received.

(4) 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 Ashington High School and Sports College, Bedlingtonshire Community High School, Ponteland Community Middle School and Whitfield Church of England Primary School.

The Principal Accountant (Pensions) - Project Officer explained the background and policy agreed by the Panel in 2011 to record the categorisation of newly forming categories in Northumberland. It was noted that the categories referred to in paragraphs 4.11 and 4.12 of the report were correct and not as stated in paragraph 4.4.

RESOLVED that the report be received.

(5) Border to Coast Pensions Partnership (BCPP) pooling arrangement

The Panel received an update on progress made by BCPP Ltd.

A copy of the candidate report for the position of Chair of the BCPP Ltd was circulated. The name of the successful candidate remained confidential until a press release was issued which would be after all the administering authorities formally consented to the appointment. Consent by NCC had been given but was still awaited from six of the twelve administering authorities.

Also tabled at the meeting was a transcript of an interview with Fiona Miller, BCPP project leader, which would be published soon. The interview described the stage reached in establishing BCPP Ltd.

The Principal Accountant (Pensions) - Project Officer commented that confirmation had recently been received regarding the size of sub-funds which would be established within BCPP, which were likely to be at a minimum threshold of £500,000. Given the relatively small size of NCC Pension Fund, a minimum sub-fund of this size could prevent NCCPF from exercising its future asset allocation decisions.

RESOLVED that the report be received.

(6) Potential further joint working with Tyne and Wear Pension Fund

The report provided a brief update for Panel members on the stage reached, prior to the May 2017 local election, by the Panel in considering further joint working of NCCPF with Tyne and Wear Pension Fund (TWPF).

The Panel discussed the advantages and disadvantages of the proposal including the impact on NCC's LGPS governance arrangements, the consultation process and anticipated timeline.

RESOLVED that the report be received.

(7) Transaction costs

Information was provided about the transaction costs incurred by the fund managers in the quarter to 31 March 2017.

RESOLVED that the report be received.

(8) Mercer's ratings of NCCPF's investment managers

The Panel considered a report from Mercer Ltd, on the fund's investment managers which was presented by Iain Campbell.

The Panel also considered a report from Mercer Ltd which considered the impact, to date, of currency hedging of the US dollar and the Euro, put in place in April and May 2017, respectively. The frequency of Mercer's reporting on the impact of hedging was discussed and it was agreed that twice yearly reporting was appropriate. Exchange rates exceeding the pre-set triggers of \$1.50 and €1.25 to the £1 would automatically lead to a review of hedging in any event.

RESOLVED that the report be received and Mercer be requested to provide a report on currency hedging on a twice yearly cycle, with the next report covering the period to 30 September 2017.

(9) Presentation by Portfolio Evaluation

Panel members received a report in advance of a presentation by Nick Kent, of Portfolio Evaluation, the Fund's performance measurement service provider.

Nick Kent outlined the fund's performance for the period ending 31 March 2017.

RESOLVED that the report be received.

CHAIR _____

DATE _____