

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held in Committee Room 2, County Hall, Morpeth on Monday, 4 September 2017 at 9.30 a.m.

PRESENT

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

COUNCILLORS

Bawn, D.L.
Dunn, E.

Robinson, M.
Swithenbank, I.C.F.

UNION REPRESENTATIVES

Culling, A.

Storey, I.

OBSERVER

Adams, J.H.

OFFICERS IN ATTENDANCE

C. Gorman

Principal Accountant (Pensions) - Project
Officer

A. Lister

Principal Accountant (Pensions)

C. Johnson

Senior Accountant (Pensions)

S. Nicholson

Scrutiny Co-ordinator

ALSO PRESENT AS OBSERVERS

G.F. Moore

LGPS Pension Board, Chairman

J.P. Clark

LGPS Pension Board Member

Councillor B. Pidcock

LGPS Pension Board Member

ALSO PRESENT

J. Holden of Mercer was present throughout the meeting.

C. Mellons, Senior Manager Governance & Public Sector (auditor) of EY attended for item 4 (2) on the agenda (External Audit of Northumberland County Council Pension Fund Panel 2016/2017 Accounts).

J. Sparshott and J. Joiner of Legal and General attended to give presentations at the conclusion of the meeting.

14. APOLOGIES FOR ABSENCE

Apologies were received from Councillor D. Kennedy and S. Dick.

15. MINUTES

RESOLVED that

- (a) the minutes of the meeting of the Pension Fund Panel, held on Friday 7 July 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 17 July 2017, as circulated, be received for information.

16. REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

The Panel considered the following reports, enclosed with the signed minutes as Appendix A, which were presented by the Principal Accountant (Pensions) - Project Officer, unless otherwise stated.

16.1 Northumberland County Council Pension Fund draft Annual Report and Accounts for 2016/2017

This report presented the Northumberland County Council Pension Fund draft Annual Report and Accounts for the year to 31 March 2017, with the main points of note being the increase in Fund value during 2016/2017 and the Fund being £7 million 'net new money negative' in the period (£10 million net new money negative in 2015/2016), which represented a reversal of the trend seen in recent years.

RESOLVED that the report be accepted.

16.2 External Audit of Northumberland County Council Pension Fund Panel 2016/2017 Accounts

This report provided information to the Panel about the external auditors' draft Audit Results Report ISA 260 (i.e. the audit findings). (A copy of the presentation is enclosed with the signed minutes).

Claire Mellons of EY, the Council's external auditors, presented their final report on the 2016/2017 NCC Pension Fund Annual Report and Accounts. An increase in the

value of the Fund's net assets had impacted on the materiality level used by the auditors, while the threshold for reporting audit differences remained at the £500,000 value previously agreed with the Panel at its 7 July 2017 meeting.

It was explained that EY had requested amendments to the draft financial statements in order to meet the requirements set out in the CIPFA Code of Local Authority Accounting, most notably the inclusion of a disclosure on key officer remuneration in the notes to the accounts.

RESOLVED that the report be accepted.

16.3 Conflicts of Interest Policy for NCC Pension Fund and individual declarations of interests

Information was provided about the Fund's Conflicts of Interest Policy, which applies to members of the Pension Fund Panel and NCC's LGPS Local Pension Board, as well as key officers involved in administering the LGPS, and the requirement to retain and update a Register of Conflicts of Interests for the Fund. New Panel members were requested to complete a declaration of interests form, and existing Panel and Board members, as well as key officers, were asked to review and update their current individual declarations.

Members were reminded that certain conflicts are unavoidable, particularly with decision making around employer contribution rates which arise every three years as part of the triennial valuation process, and discussed the importance of managing these conflicts.

RESOLVED that each Panel and Board member be requested to:

- (a) review and note the Conflicts of Interest Policy, as set out in Appendix 1 to the report;
- (b) *either* review his/her own existing declaration and update if necessary, or (for new Panel members) agree and sign an individual declaration of interests form; and
- (c) review the Fund's Register of Conflicts of Interest which had been made available at this meeting.

16.4 Recent actions taken by the Pensions Regulator

This report provided information to the Panel regarding recent actions taken by the Pensions Regulator to ensure pension schemes are compliant with their legal obligations.

The London Borough of Barnet became the first LGPS administering authority to receive a fine from the Regulator for failure to provide the administering authority's annual scheme return. The Regulator had also taken its first action against employers participating in the Teachers' Pension Scheme, where employers had failed to submit year-end returns. The Principal Accountant (Pensions) - Project

Officer confirmed that NCC's Administration Strategy Statement includes a provision to enable fines to be passed on to culpable employers.

RESOLVED that the report be accepted.

16.5 Proposed changes to the State Pension Age

This report provided information to the Panel about the Government's plans to accelerate the previously proposed increase in the State Pension Age and the likely impact on future employer contribution rates payable. The Fund's actuary, Aon Hewitt, has estimated that the proposed changes in State Pension Age could potentially lead to a reduction in employer contribution rates of between 0.1% and 0.2% of pensionable pay.

RESOLVED that the report be accepted.

16.6 Implications of the Brewster decision for the LGPS

This report provided information to the Panel about the implications for the LGPS of the Supreme Court's ruling earlier this year in the Brewster case, which determined that the requirement to nominate a cohabiting partner was discriminatory. Following the ruling, DCLG had written to administering authorities giving a steer that retrospective claims for survivor pensions for cohabitants could now be considered.

The Principal Accountant (Pensions) - Project Officer commented that it was likely that liabilities, which NCC previously had not considered, *may* arise in the future as a result of this judgement, although early indications suggest that the judgement is unlikely to lead to many cases of additional liabilities.

Reference was also made to the ongoing 'Walker Case', which argues that pension rules restricting same-sex partners' rights are discriminatory, and could also lead to the LGPS having to recalculate historic cases.

RESOLVED that the report be accepted.

16.7 Outcomes of the July 2017 meeting of the NCC LGPS Local Pension Board

This report provided information to the Panel about the outcomes and proposals of the meeting of NCC's LGPS Local Pension Board held on 17 July 2017.

Gerard Moore, Chair of the Board, presented the report set out in Appendix 9, and discussed the rationale behind including Board meeting outcomes as a separate agenda item to allow the Panel to give those items due consideration. He explained that, previously, there had been no formal mechanism for communicating Board proposals to the Panel other than by enclosing the minutes of recent Board meetings within the Panel papers.

The Board's recommendation to change the format of the Key Performance Indicators (KPIs) for LGPS administration to provide more context to the data was

noted and agreed by Panel members.

RESOLVED that

- (a) the proposals from the Local Pension Board meeting held on 17 July 2017, as set out in Appendix 9 to the report, be accepted; and
- (b) the assurances gained by the Board at that meeting be noted.

16.8 Reporting Breaches: Progress and Quarterly Monitoring Report

This report provided information about the breaches of the law which had occurred in the quarter to 30 June 2017.

Following a discussion, the Panel agreed that that the review of the breaches log for the quarter ending 30 June 2017 be passed on to the NCC LGPS Local Pension Board meeting on 6 October 2017 to allow time for a thorough analysis. The Panel agreed that the analysis of breaches was a time consuming exercise which was difficult to fit within the time constraints of a Panel meeting, and that the Board had a greater capacity to carry out a more in-depth analysis.

RESOLVED that the review of breaches of the law which had occurred in the quarter to 30 June 2017 be deferred to the NCC LGPS Local Pension Board meeting on 6 October 2017 for consideration.

16.9 Key Performance Indicators (KPI's) for LGPS administration

This report provided information to the Panel about the KPI's in the quarter to 30 June 2017. Nearly all KPIs had shown an improvement for the quarter, with the KPI to inform leavers of rights or options being the only one to worsen during the period.

The Panel was advised that paragraph 9.2 should be amended to read:

Appendix 11 sets out the KPIs in full, and the achievements for the quarter ended 30 June 2017 compared with the previous two quarters. Following the recommendation of NCC's LGPS Local Pension Board, additional information regarding the context has been added to the KPIs.

RESOLVED that the report, as amended, be accepted.

16.10 FCA's report on the UK Asset Management Industry

This report provided information about the Financial Conduct Authority's (FCA) final report, published in June 2017, on the UK asset management industry, following its interim report in November 2016 stating that it would make a market investigation reference (MIR) to the Competition and Markets Authority covering its concerns over conflicts of interest among investment advisers.

The FCA was concerned that investment firms were influencing clients to make poor choices, and ultimately encouraging them into more lucrative 'fiduciary

management' mandates. Joanne Holden clarified that Mercer, as one of the three large investment adviser firms targeted by the FCA, welcomed the opportunity for transparency and the clarity any investigation may provide.

RESOLVED that the report be accepted.

16.11 Scheme Advisory Board's consultation on academies in the LGPS

This, and the following two reports, were presented to the Panel by the Principal Accountant (Pensions).

This report provided details of the LGPS Scheme Advisory Board (SAB) consultation, "*LGPS - Academies Objective*", and the proposed response from NCC Pension Fund to the consultation, which was to support the objectives suggested by SAB as part of its report.

RESOLVED that the proposed response to the consultation, as set out in paragraph 11.4 of the report, be endorsed by the Panel.

16.12 Implementation of the Markets in Financial Instruments Directive (MiFID II)

This report outlined the impact of the implementation of MiFID II and the risk to NCC Pension Fund's investment strategy of the Fund being reclassified as retail client on 3 January 2018, and recommended that the Panel agreed, where necessary, that elections to opt up to professional client status should be made, as soon as practical.

Panel members agreed that the opt up process to categorise the Fund as a professional client with relevant managers should be commenced as soon as possible, and delegated authority to the Director of Corporate Resources to complete the opt up process on behalf of the Fund. Members also acknowledged the protections available to retail clients that the Fund must forgo as part of the opt up process.

RESOLVED that

- (a) the potential impact on the Fund's investment strategy of being reclassified as a retail client from 3 January 2018 be noted and the commencement of applications for elective professional client status with all relevant institutions, be endorsed;
- (b) where necessary, the protections available to retail clients as set out in Appendix 17 to the report, be forgone; and
- (c) delegation to the Director of Corporate Resources to complete the opt up applications and determine the basis of the application, as either full or specified service, be agreed.

16.13 Training Needs Analysis

This report introduced to the Panel a formal training needs analysis procedure for NCC Pension Fund to enable the Fund's Training Policy to fully comply with CIPFA's Knowledge and Skills Framework.

Each Panel and Board member was requested to complete the training needs analysis form and return it to the Senior Accountant (Pensions) by 22 September 2017, with the results to be analysed and taken into account when developing the Fund's Training Plan for the coming twelve months.

RESOLVED that

- (a) the introduction of a formal training needs analysis procedure be noted, and
- (b) each member of the Panel and Board be requested to complete the form, attached as Appendix 21 to this report and return to the Senior Accountant (Pensions) by 22 September 2017.

16.14 Fund Performance and Total Fund Value

This report provided information to the Panel about the Fund performance in the quarter to 30 June 2017 and the total Fund value at that date, which had decreased slightly from the previous quarter to £1,309 million, reflecting the low positive investment returns in the quarter.

RESOLVED that the report be accepted.

17. 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
- (b) the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:

Agenda Item	Paragraph of Part I of Schedule 12A
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Information relating to the financial or business affairs of any particular person (including the Authority holding that information).

AND 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.

18. REPORTS OF THE DIRECTOR OF CORPORATE RESOURCES

The Panel considered the following reports, enclosed with the signed minutes as Appendix B, which were presented by the Principal Accountant (Pensions) - Project Officer, unless otherwise stated.

18.1 Current estimated funding position for Northumberland County Council Pension Fund

This report presented 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 30 June 2017 for the Fund as a whole, which was largely unchanged from the estimate provided to the Panel for the previous quarter at the 7 July 2017 Panel meeting, although still demonstrated an improved funding ratio since the 31 March 2016 actuarial valuation of the Fund.

RESOLVED that the report be accepted.

18.2 Shared pensions administration service with Tyne and Wear Pension Fund

This report provided an update on progress towards a shared pensions administration service with Tyne and Wear Pension Fund. It was confirmed that the project was still on track, with all officers involved working towards the targeted November 2017 deadline, although it would be necessary to align all of NCC Pension Fund's policies with Tyne and Wear Pension Fund's policies to facilitate the shared administration service. The Principal Accountant (Pensions) - Project Officer recommended arranging an additional meeting of the Pension Fund Panel in late October 2017 to consider all of the relevant NCC policy statements and legal implications of the shared service, to which the Panel agreed.

RESOLVED that

- (a) the report be accepted, and
- (b) an additional meeting of the Panel be arranged, as soon as appropriate, to consider changes to NCC Pension Fund's policies to facilitate the move to shared administration services.

18.3 Border to Coast Pensions Partnership (BCPP) Pooling arrangement

This report updated the Panel on progress by BCPP collaboration of funds in establishing the BCPP Pool entity and its governance arrangements, together with commentary on the implications for NCC Pension Fund, where known.

It was confirmed that, following a recruitment process, a Chief Executive Officer (CEO) for BCPP had been selected but had not yet formally accepted the role. The Principal Accountant (Pensions) - Project Officer agreed to email Panel members with confirmation once this was clarified.

RESOLVED that the report be accepted.

18.4 Aon Hewitt's Review of NCC's Breaches Recording Procedures

This report provided information about a review of NCC Pension Fund's current and future breaches recording procedures which was undertaken by Aon Hewitt in August 2017 in order to consider NCC's approach to breaches in light of recent Pensions Regulator developments, as well as finding a workable solution to recording breaches in the future once NCC's pensions administration has moved to a shared service with Tyne and Wear Pension Fund.

Aon Hewitt's findings summarised that NCC Pension Fund's breaches recording was very detailed, but could potentially be scaled back when reporting to the Pension Fund Panel or Local Pension Board. Aon Hewitt was also complimentary of Tyne and Wear Pension Fund's method of recording breaches, and recommended that NCC Pension Fund adopt this method during the implementation phase of the proposed shared services project. It was agreed that NCC's LGPS Local Pension Board would consider Tyne and Wear Pension Fund's recording breaches practices at its 6 October 2017 Board meeting, with a view to endorsing them as part of the move to a shared service arrangement.

RESOLVED that the report be referred to the NCC LGPS Local Pension Board for further consideration at its meeting on 6 October 2017, with a view to NCC Pension Fund adopting the recommendations for a workable solution to recording breaches by the shared services, as set out in Aon Hewitt's report (attached as Appendix 12).

18.5 Transaction Costs

This report provided Panel members with information about the transaction costs incurred by the fund managers in the quarter to 30 June 2017.

RESOLVED that the report be accepted.

18.6 Mercer's Ratings of NCCPF's Investment Managers

Joanne Holden presented this report which provided Panel members with Mercer's ratings of all of the Funds investment managers.

RESOLVED that the report be accepted.

19. Presentations from Legal and General

The Panel received a presentation from James Sparshott and Jonathan Joiner of Legal and General. (A copy of both presentations, circulated to members at the meeting, is enclosed with the signed minutes).

Chairman _____

Date _____