

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 23 February 2018 at 9.30 a.m.

PRESENT

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

MEMBERS

Dunn, L.
Kennedy, D.

Robinson, M.

TRADE UNION REPRESENTATIVES

Storey, I.

OBSERVER REPRESENTATIVES

Adams, Ms. J.H.

Employer Representative

PENSION FUND PANEL ADVISER MEMBER

Ms. S Greenwood

Mercer Ltd.

OFFICERS IN ATTENDANCE

Mrs. C. Gorman

Principal Accountant (Pensions) -
Project Officer

Mr. C. Johnson

Senior Accountant (Pensions)

Mr. A. Lister

Principal Accountant (Pensions)

D. Taylor

Operations Team Manager (TWPF)

Ms. N. Turnbull

Democratic Services Officer

ALSO PRESENT AS OBSERVERS

G.F. Moore

Chair of LGPS Local Pension Board

Cllr B. Pidcock

LGPS Local 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.

Ch.'s Initials.....

41. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Bawn and Swithenbank, Ms. Dick (Employees / Pensioner Representative), Mr Culling (Trade Union Representative) and J.P. Clark (LGPS LPB Observer).

42. MINUTES

RESOLVED that:

- (a) the minutes of the following meetings of the Pension Fund Panel , as circulated, be confirmed as a true record and signed by the Chair:-
 - (i) 3 November 2017
 - (ii) 24 November 2017
- (b) the minutes of the LGPS Local Pension Board, held on 11 December 2017, as circulated, be received for information.

43. 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.

44. REPORTS OF THE SERVICE DIRECTOR - FINANCE

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

(1) External audit of Northumberland County Council Pension Fund 2017/2018 accounts – Planning Report

A copy of the external auditors' Planning Report for the 2017/18 Pension Fund audit was received by the Panel at the meeting (a copy of which is filed with the signed minutes).

Ms. C. Mellons outlined EY's risk based approach to the 2017/18 audit of the Fund. Areas of risk and focus were identified as:

- misstatements due to fraud and error; and

- valuation of unquoted investments.

The materiality level for audit of the Fund's 2017/2018 financial statements had been set by EY at £26.1 million, based on 2% of total net asset value as at 31 March 2017. This was a change from materiality based on 1% of total net assets value set in previous years as there had been no numerical adjustments required in the accounts for either of the two years they had been audited by EY. Members agreed that the reporting threshold for uncorrected misstatements be set at £250,000.

It was noted that there had been a change in personnel and the audit opinion would now be signed by Hassan Rohimun, Associate Partner at EY.

The findings of the 2017/2018 audit would be presented to the 21 September 2018 meeting of the Panel, and the 25 July 2018 meeting of the Audit Committee, as the audit opinion on the County Council accounts must be signed by a new deadline of 31 July 2018. The practice in previous years had been for the Fund accounts to be signed at the same time as the NCC accounts.

The scale of fees set by the Public Sector Audit Appointments Ltd remained the same as 2016/2017. However, Ms. Mellons reported that discussions were being held within EY regarding the processes required following NCC's change to a shared pensions administration service with Tyne and Wear Pension Fund (TWPF), which could result in audit charges in excess of the scale fee.

RESOLVED that the report be received and that uncorrected misstatements in the accounts greater than £250,000 be reported as part of the 2017/2018 audit findings.

(2) General Data Protection Regulation (GDPR)

The Panel received an update about the implications for NCC, as LGPS administering authority, of the General Data Protection Regulation (GDPR), which will take effect from 25 May 2018.

The Principal Accountant (Pensions) - Project Officer explained that the shared LGPS administration service between NCC and TWPF did not remove NCC's responsibilities under GDPR, as administering authority, as NCC and TWPF were joint data controllers for the LGPS data; TWPF was also a data processor for NCC's LGPS data.

Legal advice provided to the LGA by Squire Patton Boggs indicated that potential implications of the GDPR legislation regarding obtaining consent for use of personal data would not be required for most LGPS processing. A summary of the legal advice was contained in paragraph 2.12 of the report.

Squire Patton Boggs had also been asked to produce template documents including privacy statements and notices, and a memorandum of understanding for employers. These were to be published in March 2018.

The Principal Accountant (Pensions) - Project Officer commented that data sharing agreements were to be updated to ensure GDPR compliance, for example with the Fund's actuary. She would be attending a TWPF training event in Edinburgh the following week, at which GDPR implications would be discussed further.

It was agreed that as the next meeting of the Panel was after the implementation date of 25 May 2018, an update would be presented to the next meeting of the NCC LGPS Local Pension Board.

RESOLVED that the report be received.

(3) Meeting with the Pensions Regulator held in December 2017

The report summarised details of the meeting held with the Pensions Regulator (tPR) and representatives of the four North East LGPS funds, on 21 December 2017, at Durham County Council.

Gerard Moore, Independent Chair of the NCC LGPS Local Pension Board, also provided feedback following a second, informal meeting with tPR on 22 February 2018 to address the unique nature of the LGPS, the only funded public sector scheme. He reported that tPR had been pleased to engage with the North East LGPS funds and the 22 February discussion included reference to:

- GDPR, with tPR seeking to gain assurance that administering authorities were making arrangements for compliance;
- Boards' understanding and monitoring of shared service arrangements and third party administrators; and
- tPR had anticipated more breaches being reported by LGPS administrators.

The Chair thanked Mr. Moore for arranging the meetings with tPR. It was suggested that it might be beneficial to meet regularly in the future.

RESOLVED that the report be received.

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

The Panel received an update on the client status categorisations (MiFID II) confirmed by financial services providers for the services and promotions obtained by NCC, in its capacity as LGPS administering authority for NCC Pension Fund. From 3 January 2018, administering authorities were moved to

'retail' client status by default unless they completed an opt up process to achieve 'elective professional' status.

A review and status update was included in the Action Plan (considered later in the meeting) to be brought to the Panel on an annual basis.

RESOLVED that the report be received.

(5) Outcomes of the December 2017 meeting of the NCC LGPS Local Pension Board

The report provided information to the Panel about outcomes and proposals from the meeting of NCC's LGPS Local Pension Board held on 11 December 2017.

Gerard Moore, Chair of the LGPS Local Pension Board, outlined the contents of the report which included recommendations by the Board, assurances gained and information to note. All items had been actioned by officers.

It was proposed that the Board consider the implications of the anticipated change of Section 151 Officer in NCC and his responsibilities for the Pension Fund.

RESOLVED that:

1. The proposals from the LGPS Local Pension Board meeting held on 11 December 2017, as set out in Appendix 3, be accepted.
2. The assurances gained by the Board at 11 December 2017 meeting, be noted.

(6) Formal measurement of the performance of the investment adviser

The Panel was informed about the requirement to formally assess the performance of the Pension Fund Panel investment adviser on an annual basis, as recommended by CIPFA's guidance on investment decision making in the LGPS.

The deadline for submission of scorecards was 6 April 2018 to enable results to be reported to the Panel meeting on 22 June 2018 and feedback given to the adviser.

RESOLVED that the report be received.

(7) Formal assessment of the effectiveness of the Pension Fund Panel

Information was received about the requirement to formally assess the effectiveness of the Pension Fund Panel as a decision making body, and approval sought for the draft formal assessment, attached as Appendix 4. It

was noted that CIPFA guidance recommended that pensions committees should assess their own effectiveness as a decision making body and report on this to Scheme members. The formal assessment would therefore be included in the Pension Fund Annual Report and Accounts for 2017/2018.

The Principal Accountant (Pensions) - Project Officer outlined the main achievements of the Panel identified in paragraph 7.3 of the report. She also commented on the excellent ongoing, collaborative working relationship of the Panel and Local Pension Board and the commitment to training by new and returning members.

RESOLVED that the formal assessment of the Pension Fund Panel as a decision making body, as set out in Appendix 4 of the report, be approved.

(8) NCC Pension Fund's Objectives

The report sought approval by the Panel for the Statement of NCC Pension Fund's Objectives. One minor amendment was to change the name of the responsible Government body from the Department for Communities and Local Government (DCLG) to the Ministry of Housing, Communities and Local Government (MHCLG).

The Principal Accountant (Pensions) - Project Officer explained that the Statement of Objectives collated objectives set out in the various strategies which the Council was required to have in place to comply with LGPS Regulations, the Pensions Regulator's code of practice and other related guidance. She reported that as part of the preparation for the shared service with South Tyneside Council, the Governance and Administration Strategies had been updated in November 2017, with a revised NCC Communication Strategy included as a separate item on this agenda for Panel approval.

RESOLVED that the Statement of NCC Pension Fund's Objectives, as set out in Appendix 5 of the report, be approved.

(9) NCC Pension Fund's Communication Strategy Statement

The report sought approval for a revised and updated NCC LGPS Communication Strategy Statement.

The Principal Accountant (Pensions) - Project Officer reported that time constraints had prevented the revised Communications Strategy Statement from being finalised in time to be presented at the meeting, as significant revision was required to reflect the new shared pensions administration service with South Tyneside Council. It was anticipated that it would be completed within the next few weeks and she therefore requested that delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, to approve the NCC LGPS Communication Strategy Statement

RESOLVED that:

1. Delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, to approve the revised Communication Strategy Statement; and
2. Participating employers and trade unions, be approved as consultees.

(10) Action Plan 2018 for NCC Pension Fund

Members received NCC Pension Fund's Action Plan 2018 for consideration and approval and monitored the progress against the Action Plan 2017.

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. A number of items on Section A of the Action Plan 2018 were identified which would be carried out in the next twelve months, for example, the review of AVC arrangements. It was possible that others might be deferred if non-planned work needed to take precedence.

The Panel discussed the monitoring arrangements for the Action Plan and it was agreed that a regular update to monitor progress be included at the quarterly meetings. It was also suggested that Section A be subdivided to identify what was essential/mandatory and what was discretionary and could be deferred, if required.

RESOLVED that:

1. The Action Plan 2018, attached as Appendix 6 to the report, be approved subject to the Section A being subdivided into essential and non-essential.
2. A report to monitor progress against the Action Plan 2018 be considered by the Pension Fund Panel at the quarterly meetings.
3. The progress against the Fund's Action Plan 2017, attached to the report as Appendix 7, be noted.

(11) Reports on internal controls operated by fund managers and the custodian

The report provided information about the most recently available internal control reports provided by Northumberland County Council Pension Fund's custodian and its investment managers.

The Senior Accountant (Pensions) explained that the purpose of the report was to provide comfort to clients and their auditors on the security of assets held by custodians and managed by fund managers. Each internal control

report was independently verified by an accountant who tested the internal controls described in the report.

Whilst the majority of the reports noted no significant control weaknesses, the report for Schroder Investment Manager, one of the Fund's two property managers, included a qualified audit opinion in respect of one of the controls tested (because the independent review prior to dispatch control was not evidenced in 5 out of a sample of 90 client reports). The internal control report detailed Schroder's management's response, which set out new procedures implemented to prevent recurrence of that control weakness. Officers had requested early sight of the next internal control report from Schroder.

RESOLVED that the report be received.

(12) Investment Strategy Statement

The report sought approval of NCC's LGPS Investment Strategy Statement which had been updated to include reference to new Fund investments and to reflect the Fund's legal commitment to pooling.

RESOLVED that

1. The NCC LGPS Investment Strategy Statement, attached as Appendix 9 to the report, be approved.
2. Delegated authority be given to the Service Director - Finance in consultation with the Chair and Vice-Chair of the Pension Fund Panel to make any further changes required to the Statement as a result of the consultation with the participating employers and trade unions.

(13) Training records

A report was submitted to enable the Panel to undertake an annual review of the training records of Pension Fund Panel members, Local Pension Board members and key officers, to assess the adequacy of knowledge and skills acquired.

It was confirmed that training was to be arranged on the Myners principles as it had been identified through the formal Training Needs Analysis procedure by members as an area where, collectively, they would like to improve their knowledge.

RESOLVED that the report be received.

(14) Additions to the NCC Pension Fund risk register

The report provided information to the Panel about recent additions to the NCC risk register, to include new risks faced by NCC as administering

authority for the LGPS, including risks from cyber security and GDPR.

RESOLVED that the report be received.

(15) Reporting breaches: progress and quarterly monitoring report

The Pension Fund Panel referred consideration of the breaches logs to the LGPS Local Pension Board at its next scheduled meeting.

RESOLVED that the report and enclosures be referred to the LGPS Local Pension Board for review and consideration at its next scheduled meeting.

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

Information was provided about the KPIs in the quarter to 31 December 2017 for NCC's Pensions Administration Team.

The Operations Team Manager (TWPF) commented that KPI performance had been better than anticipated given how much of the NCC Pensions Administration Team's time had been spent on the data transition ahead of the implementation of the shared administration service with TWPF in January 2018. Processing new member information was the only indicator where performance was significantly lower than target. As previously agreed, officers would be looking at the KPIs of both NCCPF and TWPF to harmonise the style and content in the next few months.

RESOLVED that the report be received.

(17) Tyne and Wear Pension Fund's quarterly regulatory report

The Panel received a copy of Tyne and Wear Pension Fund's quarterly regulatory reports for 2017 which had been provided to South Tyneside Council's Pensions Committee to keep members up to date with relevant LGPS regulatory changes. This regulatory update was viewed as good practice and would be brought to NCC's Panel each quarter from now on.

RESOLVED that the report be received.

(18) Fund performance and total Fund value

Information was provided to the Panel about the Fund performance in the quarter to 31 December 2017 and the total Fund value at that date.

RESOLVED that the report be received.

45. 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 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.

46. BCPP LTD'S CEO

The Panel received a presentation from Rachel Elwell, CEO of BCPP Ltd who was in the process of meeting with the Pensions Committees of the twelve BCPP administering authority member funds, to start building relationships prior to the anticipated 'go-live' date of BCPP Ltd in July 2018. An overview was provided to the Panel of the process to date against key milestones, as well as a review of the transition timeline.

The Panel discussed the timeline for investment in infrastructure and noted that as one of the smallest funds in BCPP Pool, NCC's needs were likely to be relatively straightforward for BCPP Ltd to fulfil. A number of key risks for BCPP Ltd were identified and information shared as to how these were being managed.

RESOLVED that the presentation be received.

47. URGENT BUSINESS

The Panel considered an additional report from the Service Director - Finance which the Chair had agreed should be considered as a matter of urgency.

Active Northumberland's request for an additional closed admission agreement

The report sought approval from the Panel for the Fund to enter into a separate closed admission agreement with Active Northumberland, to give LGPS access to one proposed key appointment to Active Northumberland. (A copy of the report which was tabled at the meeting, marked "Not For Publication" is filed with the signed minutes as Appendix C).

The Principal Accountant (Pensions) - Project Officer explained the background of the request and that agreement would be subject to fulfilment of the conditions set out, which would limit the risk to the Fund.

RESOLVED that a separate admission for Active Northumberland to the Fund be approved for one (proposed) key appointment, subject to:

1. Confirmation from STC's Pension Fund Team Legal Services that Active Northumberland continues to meet the criteria in the LGPS Regulations to be an admitted body in the Fund;
2. Completion of a formal closed admission agreement with Active Northumberland on the standard terms before the date of appointment; and
3. Within two months of this decision, NCC's Risk Appraisal Panel (RAP) confirming that NCC, as Scheme employer, will carry the risk which this and all other Active Northumberland admissions impose upon NCC Pension Fund (i.e. agreement from RAP for NCC to subsume any future Active Northumberland deficit in the event of Active Northumberland's default).

48. REPORTS OF THE SERVICE DIRECTOR - FINANCE

The Panel considered the following reports, which were not reproduced, were 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.

It was noted that the actuary had estimated the funding level as at 31 December 2017 to be significantly higher than the funding level calculated at the 2016 actuarial valuation of the Fund. The Panel noted how the improved position would have impacted on employer contributions payable, if the Fund's actuarial valuation had been undertaken as at 31 December 2017.

RESOLVED that the report be received.

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

An update was provided on the implementation of the shared pensions administration service with Tyne and Wear Pension Fund (TWPF) which became effective from 29 January 2018.

The Principal Accountant (Pensions) - Project Officer confirmed that NCC pensions administration staff had been transferred to TWPF from 15 January 2018 and outlined the communications that had been issued to, and meetings that had been held with, employers over the last few months.

The Panel expressed thanks and appreciation to NCC's pensions administration staff for their dedication in effecting the transition of NCCPF's c26,000 LGPS member records to TWPF.

In particular, the efforts of Mark Coleran, Pensions Team Leader had been recognised by the Council in a Pride of Northumberland award given in January 2018. Mark Coleran had taken responsibility for ensuring the accurate and timely transfer of NCCPF's LGPS membership records, although Mark pointed out that his colleagues had taken responsibility for the other ongoing pensions administration work at that time, to enable him to focus on the transition.

The Operations Team Manager commented on the smooth transition and the integration of the Northumberland employees at TWPF. She reported that the NCCPF employers each now had their own named client manager and good working relationships were being established.

The Panel was informed that the list of issues yet to be resolved, which had arisen during the transition, was still being compiled and would not therefore be tabled at the meeting. It would, however, be provided to the next meeting of the Board.

RESOLVED that the report be received.

(3) Costs of moving to a shared administration service with the Tyne and Wear Pension Fund

The report provided information on costs incurred in moving to a fully integrated shared administration service with Tyne and Wear Pension Fund (TWPF), from 29 January 2018.

The Principal Accountant (Pensions) - Project Officer compared the costs set out in the report with the estimates prepared by Aon Hewitt in its paper dated 31 May 2017. Whilst the predicted annual cost of the shared service in 2018/2019 was higher than the estimate, the transition costs incurred had been lower than anticipated. It was noted that over each of the last three years, the cost of the administration function at TWPF had come in at 8% under budget. The expected payback period of just under four years was within the range estimated by Aon Hewitt during its due diligence work carried out in May 2017. NCC would pay approximately 17% of the total budgeted amount for the administration function at TWPF, based on scheme membership numbers.

RESOLVED that:

1. The report be noted; and
2. The TWPF LGPS shared administration service budget for 2018/2019 to 2020/2021, attached as Appendix 6 to the report, be approved.

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

The report updated the Panel on progress made by the BCPP collaboration of funds in developing the BCPP Pool entity, BCPP Ltd, and sought a delegation to the Service Director – Finance, in consultation with the Chair and Vice-Chair of the Panel, to approve the LGPS pension guarantee(s) sought by BCPP Ltd, once the terms of the guarantee are finalised.

The Principal Accountant (Pensions) - Project Officer gave a detailed explanation regarding the LGPS arrangements that will need to be in place for the TUPE transfer of staff from the three internally managed funds to BCPP Ltd from July 2018. This will require BCPP Ltd to be admitted to South Yorkshire Pension Fund and guarantees to be given by the twelve participating authorities.

The Principal Accountant (Pensions) - Project Officer explained BCPP Ltd's proposal to gain admission to the LGPS on the basis of an 'ajar' admission agreement. She set out the circumstances in which BCPP Ltd could bring new members (other than the TUPE transferred members) into the LGPS and described the defined contribution pension scheme which would be provided to all other BCPP Ltd employees.

Reference was made to an emailed request from Unison for the Panel to reject BCPP Ltd's proposal to enter into an ajar admission agreement, and request, instead, an open agreement.

The Panel discussed Unison's request and agreed that NCC, as shareholder in BCPP Ltd, should give consent to the ajar admission in the LGPS requested by BCPP Ltd, as this provided a pragmatic solution which would give BCPP Ltd flexibility to bring certain new recruits into the LGPS (to help with recruitment and retention of staff), while limiting the potentially significant deficit attributable to and payable by BCPP Ltd in the future.

Councillor Dunn added that, as a retired Unison member, she supported Unison's stance, and abstained from this discussion.

RESOLVED that:

1. Delegated authority be given to the Service Director – Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, to approve the LGPS pension guarantee(s) sought by BCPP Ltd, once the terms of the guarantee are finalised.
2. An additional £75,000 be allocated by NCCPF towards the set up costs of BCPP Pool.
3. No Northumberland County Council Pension Fund Panel member be put forward for the role of Shareholder Non-Executive Director of BCPP Ltd, at this time, however, the decision to be reviewed when the opportunity next arises (expected in approximately 12 months).

(5) Letter to constituent about fossil fuel disinvestment

The report provided information about the response issued on behalf of the Fund, to an email to Panel members from a constituent expressing concern about the Fund's investments in fossil fuel companies and seeking support for divestment from those companies.

RESOLVED that the report be received.

(6) Wellington fee proposal

The report provided information about a fee reduction proposal from Wellington, the Fund's active bond manager, for the period 1 January 2018 to 31 December 2018.

RESOLVED that Wellington's fee proposal, as set out in Appendix 13 to the report, be accepted.

Councillor Watson left the meeting and Councillor Kennedy, Vice-Chair, chaired the remainder of the meeting.

(7) 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 Dr Thomlinson CE Middle School, Thropton Village First School and Harbottle CE First School.

RESOLVED that the report be received.

(8) Transaction costs

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

RESOLVED that the report be received.

49. MERCER'S REPORTS ON INVESTMENT MANAGERS AND CURRENCY HEDGING FRAMEWORK TO EXIT

The Panel considered a report from Mercer Ltd, on the fund's investment managers and a potential exit framework around the Fund's currency hedged units, which was presented by Susan Greenwood.

RESOLVED that the Fund continue to hedge 50% of the Fund's public equity exposure to North American and European (ex UK) currencies (mainly US Dollar and the Euro).

Councillor Dunn left the meeting before the presentation on investment managers.

The meeting became inquorate and the presentation on investment managers was received for information by the remaining two members.

RECOMMENDED that the presentation be received.

CHAIR _____

DATE _____