

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

1. Northumberland County Council Pension Fund draft Annual Report and Accounts for 2017/2018

Purpose of the report

The purpose of this report is to present the Northumberland County Council Pension Fund draft Annual Report and Accounts for the year to 31 March 2018 to the Panel.

Recommendation

The Panel is requested to accept the report.

Key issues

- 1.1 The Northumberland County Council Pension Fund (NCCPF) Annual Report and Accounts forms part of the Northumberland County Council Financial Statements, reflecting the legal status of the Fund as part of NCC. The LGPS Regulations also require a separate Annual Report and Accounts for the Pension Fund. The separate *draft* Annual Report for NCCPF for the year to 31 March 2018 has been **enclosed with these papers**.
- 1.2 NCC's Audit Committee is responsible for approving NCC's Financial Statements. Approval of the final, audited Pension Fund Annual Report will be sought at the 25 July 2018 NCC Audit Committee meeting. Members of the Audit Committee will have the opportunity to review NCC's 2017/2018 draft Financial Statements during June and July 2018.
- 1.3 The points to note from the 2017/2018 Pension Fund accounts are:
 - the **net withdrawal** from dealings with members was £3 million in 2017/2018 (compared to £6 million in 2016/2017), representing a partial reversal of the trend for increasing the net withdrawal seen in recent years, due to increased Fund receipts from higher employer contributions paid with effect from 1 April 2017 following implementation of the 31 March 2016 actuarial valuation;
 - whilst the number of active LGPS members of NCCPF has increased in the year to 31 March 2018, so has the number of deferred and pensioner members, indicating a continuation of the previously observed trend of increasing Fund maturity; and
 - the increase in Fund value during 2017/2018 reflects the relatively low positive returns experienced by funds generally over that period, which follows the strong performance in 2016/2017, the main driver of which was the impact of sterling depreciation.

1. Northumberland County Council Pension Fund draft Annual Report and Accounts for 2017/2018

BACKGROUND

- 1.4 A copy of the **draft** Pension Fund Annual Report and Accounts for the year to 31 March 2018 is **enclosed with these papers**. The final version of the Annual Report will be sent to all of the employers participating in the Fund and other interested parties. The final version will not be brought back to the Panel *unless there are significant changes* to the enclosed draft (other than the insertion of Auditor's Opinion on page 64), but it will be made available upon request.
- 1.5 As explained in the introduction to the enclosed Annual Report, the total market value of the Fund, net of liabilities, has increased from £1,308 million to £1,344 million over the year to 31 March 2018. This increase in value reflects the fact that payments made from the Fund have been less than the annual return on the Fund (comprising income and realised and unrealised gains and losses on investments) together with receipts to the Fund in the year, despite the relatively low investment return on the Fund of **3.4%**.
- 1.6 Members' attention is drawn particularly to **pages 66 and 67** of the draft Annual Report, which show the financial position for the Fund as a whole. The Fund Account, on page 66, shows all of the receipts to and payments from the Pension Fund in the year.
- 1.7 The aggregate net **withdrawal** from dealings with members shown in the enclosed draft accounts was £3 million in 2017/2018 (£6 million in 2016/2017). Prior to 2016/2017, withdrawals from dealings with members had been increasing, year on year, reflecting the increasing number of pensioners and the fact that the increased contributions from active members were not matching the increased value of benefit payments, as the Fund **matures**.
- 1.8 As in prior years, Northumberland County Council Pension Fund's Annual Report and Accounts have been prepared as a stand-alone document as well as forming part of Northumberland County Council's main Annual Financial Statements. There is a legal requirement to prepare a separate Annual Report for the Fund and the County Council's external auditors, Ernst & Young LLP (trading as EY), are required to express a separate "consistent with" audit opinion on the Fund accounts.
- 1.9 Note that the requirement to prepare a separate Annual Report and Accounts for the Fund and to have a separate audit opinion does not reflect any change in the legal status of the Pension Fund. Legally, the Pension Fund is part of Northumberland County Council: it is not a separate legal entity.
- 1.10 The Northumberland County Council Audit Committee will be requested to approve the final audited Accounts for Northumberland County Council and for Northumberland County Council Pension Fund at its meeting scheduled for 25 July 2018. Implementation of new statutory guidelines for earlier publication of NCC's accounts (which the Fund accounts form part of), means that the accounts preparation and audit work have been brought forward, compared to earlier years.

- 1.11 The LGPS Regulations require the separate Annual Report for the year ended 31 March 2018 to be published before 1 December 2018. The final signed version of the Annual Report will be posted to the NCC website after it has been signed at the July Audit Committee to ensure this deadline is met.

Items of note from the accounts: **increased receipts from employer contributions**

- 1.12 Receipts from employer contributions have increased from £36.0 million in 2016/2017 to £39.5 million in 2017/2018. This is due to the impact of the 31 March 2016 actuarial valuation of the Fund which brought in new employer contribution rates for participating employers with effect from 1 April 2017.
- 1.13 The employer rates in payment in 2016/2017 were set at the 31 March 2013 actuarial valuation of the Fund, with an average employer contribution rate of **24.8%** of pensionable pay, whereas the 31 March 2016 valuation set an average employer contribution rate of **27.2%**. The impact of this increased rate of contributions has been positive for the Fund's cash flow during 2017/2018.
- 1.14 Members should note that, whilst the deficit recovery period was shortened from 22 years to 21 years at the 2016 valuation, the main driver of the increase in contributions payable by the employers is the impact of the **primary contribution rate** (also known as the future service rate), which increased for the Fund as a whole from **15.7%** of pensionable pay in the three years to 31 March 2017 to **19.3%** from 1 April 2017.

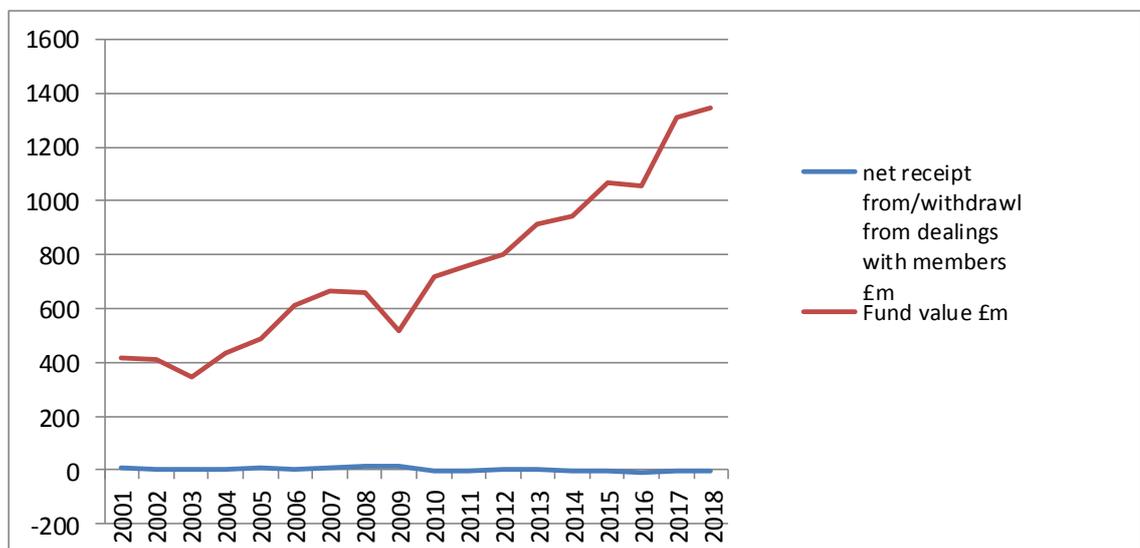
Items of note from the accounts: **continuing Fund maturity**

- 1.15 The broad indications from the 31 March 2018 LGPS membership shown in the Annual Report is that NCCPF continues to **mature**. In this context, fund maturity means the proportion of active to non-active liabilities, and the greater the proportion of non-active liabilities, the more mature is the Fund. From the actuarial valuations of the Fund, liabilities (valued on a low risk basis) have gone from:
- 51% actives : 49% non-actives as at 31 March 2004; to
 - 50% actives : 50% non-actives as at 31 March 2007; to
 - 45% actives : 55% non-actives as at 31 March 2010; to
 - 40% actives : 60% non-actives as at 31 March 2013; to
 - 38% actives : 62% non-actives as at 31 March 2016.
- 1.16 One sign of Fund maturity which can be seen in the 2017/2018 Fund Account is the Fund has a net **withdrawal** from its dealings with members (meaning that that the Fund is paying more out for pensions and transfers out than it is receiving from employee and employer contributions and transfers in). Note that the net withdrawals from dealings with members does not allow for the costs incurred in administering the Scheme. The graph below shows the net withdrawals from or net receipt from members to the Fund since 2000/2001:

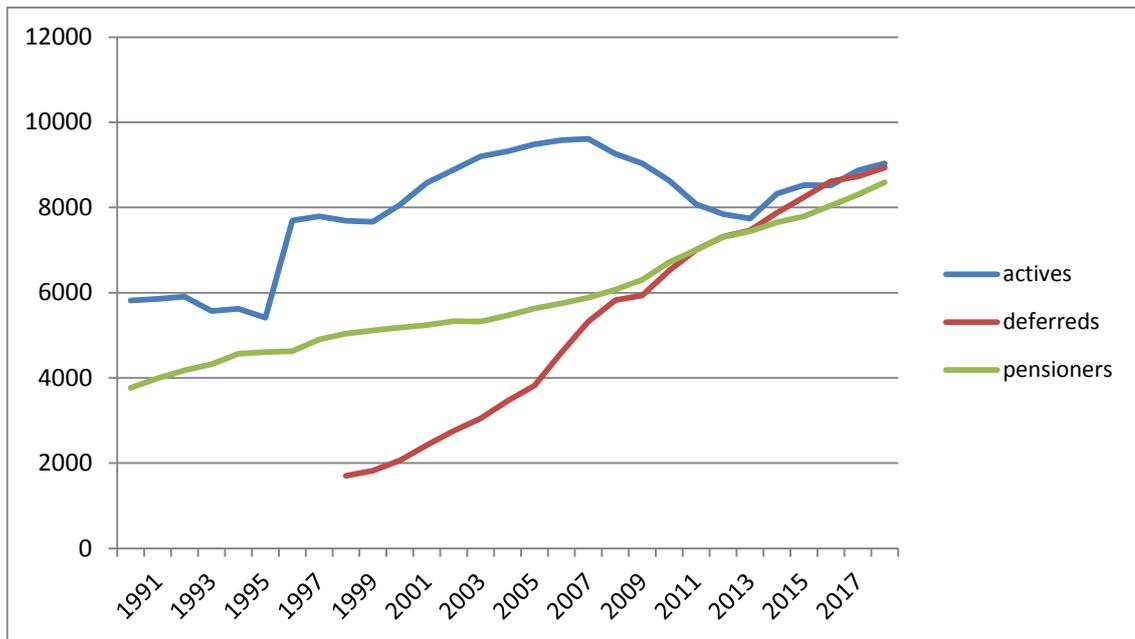


{The dip in 2006 is due to a one-off £9.7 million group transfer re Northumberland Care Trust staff.}

1.17 The switch from net receipt from members to net withdrawal from 2009 reflects the reduction in staffing numbers before and after local government reorganisation (LGR) in Northumberland. In the context of the increasing value of the Fund, cash outflows are not significant, as the graph below shows, and there is no indication at this stage, that Fund assets will need to be realised to pay pensions in the medium term.



1.18 One other sign of the Fund maturing is the increase in the number of pensioners and deferred pensioners. The graph below shows the numbers of pensioner members, deferred pensioner members and active members at each year end since 1990 for the Fund as a whole. The upward trend in pensioner and deferred pensioner numbers is consistent since 1990. The upward trend in active member numbers **reversed in 2007** for the first time in the Fund's history, and the steady decline in the number of actives after that (until 2014) reflected reductions in payroll expenditure for Fund employers, particularly for NCC.



{The large increase in actives 1996 is due to a change in LGPS regulations which allowed certain part-timers to join the Scheme.}

- 1.19 The “uptick” in active member numbers from 2014 was due to the **effect of auto-enrolment** legislation, which has increased the *number* of active members in NCCPF. The increase in number of actives in 2013/2014 was not accompanied by an increase in payroll *value* (and employee/employer contributions to the Fund) because auto-enrolment brought mainly low-paid staff into the Scheme; however, it has been accompanied by a modest increase in payroll since 2014/2015.
- 1.20 Northumberland County Council’s auto-enrolment staging date (as employer in the Fund) was **1 March 2013**, and its first three yearly re-enrolment date was 1 March 2016. The LGPS nationally has a relatively high opt out rate compared to other public sector schemes, with opt out rates before auto-enrolment estimated to be as high as one third of the potential membership. The majority of optants-out are lower paid, part-time employees, so the financial implications for employer pension contributions payable following implementation of auto-enrolment have been relatively modest. NCC opted to apply **transitional delay** arrangements, which in effect postponed the date on which all previously opted out staff had to be bought into the LGPS until **30 September 2017**. With the end of the period of transitional delay for NCC during 2017/2018, NCC’s active membership will have increased, but it has been masked by other changes (such as transfers of staff to newly forming academies) reducing the active membership attributable to NCC.
- 1.21 Auto-enrolment applies to new employees taken on after the employer’s staging date, and to those who cross the auto-enrolment thresholds, i.e. attain age 22, and/or start earning more than £10,000 (the earnings trigger of £10,000 applies in 2017/2018 and has been frozen since 2014/2015). All of the NCCPF employers that are required to auto-enrol employees in the LGPS will now have passed their first staging dates, and therefore there should be no further impact on Fund membership from this in future years.

- 1.22 All eligible employees that opt out of the LGPS must be re-enrolled after three years, and the indications are that most eligible employees do not opt out. Therefore, auto enrolment has been a very successful Government initiative to increase workplace pension scheme participation.
- 1.23 Increasing fund maturity, for a funded scheme such as the LGPS, in theory should not *in itself* be a concern. NCCPF can trace its origins back to the 1937 Superannuation Act when it became mandatory to maintain a fund for full time officers, and at the outset it only had active member liabilities. In the years since then, the non-active members' liabilities have steadily and slowly increased as active members leave and retire. Therefore the Fund has matured, **but** because the Scheme is open to new members, maturing is very slow as departing active members are mainly replaced by new active members. Increasing maturity would be *expected* given the current "age" of the Local Government Pension Scheme, and the whole purpose of having a fund is to have assets available to pay the pension promises that have already been made, as they fall due, irrespective of the number of active members contributing to the Scheme.
- 1.24 However, increasing maturity **is** a concern when a fund is significantly under-funded because the **shortfall** in assets compared to liabilities (i.e. the deficit) can **only** be **collected based on the active membership** of the fund. In other words, as a fund matures the shortfall is being collected based on a shrinking payroll base, and the contributions to collect deficit expressed as a percentage of payroll, go up when payroll falls.
- 1.25 The LGPS has been in existence mainly in periods of increasing numbers of active members and increasing payroll. For the NCCPF, the increasing payroll trend reversed in 2008 with the advent of LGR, though it has been restored since then. The trend of increasing maturity can be observed across the whole of the LGPS due to Government austerity, and anecdotal evidence at this stage suggests that NCCPF was "ahead of the curve" in experiencing increased maturity earlier than other funds, and that others are starting to catch up.

Other documents contained in the Annual Report

- 1.26 The Pension Fund Annual Report and Accounts includes **key documents**, as required by the LGPS Regulations, including:
- the Investment Strategy Statement [page 7];
 - the Funding Strategy Statement [page 21];
 - the Fund Account (i.e. the equivalent of an income and expenditure account) [page 66];
 - the Net Assets Statement (i.e. the equivalent of a balance sheet, but without the pension liabilities) [page 67]; and
 - a statement showing the actuarial value of the Fund at the last actuarial valuation of the Fund (31 March 2016) restated for accounts purposes i.e. "Whole of Pension Fund Disclosures under IAS26" [page 87].
- 1.27 The Report shows [on page 90] total Pension Fund assets of £1,055.3 million and liabilities restated for accounts purposes of £1,421.4 million as at 31 March 2016, giving a **funding ratio of 74%** (71% as at 31 March 2013)

- 1.28 Northumberland County Council (as employer) participates in the Northumberland County Council Pension Fund, together with 40 other employers. Northumberland County Council is the biggest participating employer, with **approximately 84%** (85% as at 31 March 2016) of the Fund's membership.

NCC's Audit Committee review of the 2016/2017 draft Financial Statements

- 1.29 NCC's Audit Committee reviewed NCC's 2016/2017 draft Financial Statements (incorporating the NCC Pension Fund accounts) on 27 July 2017. There was a comment from the Audit Committee that NCC's Financial Statements are lengthy and therefore difficult for the reader to interpret, and a request to remove any superfluous information or shorten information included, where possible. Audit Committee has asked that the 2017/2018 Financial Statements be prepared with this comment in mind.
- 1.30 The approach taken by officers to the preparation of the NCC Pension Fund Financial Statements (i.e. pages 68 to end of the enclosed Annual Report) is, and has been in the past, to include the *minimum disclosure information* only, in an attempt to retain clarity for the reader of the accounts. The CIPFA/LASAAC Code of Practice on Local Authority Accounting requirements have tended to only increase disclosure requirements, year on year, in the last decade or so, and the trend is set to continue with CIPFA currently consulting on increasing disclosures relating to fund reporting following asset pooling.

External audit of NCCPF's draft Annual Report and Accounts for 2017/2018

- 1.31 At the time of finalising this report, EY's external audit work on the Fund's draft Annual Report and Accounts for 2017/2018 had begun. EY's Audit Plan for the year ending 31 March 2018 for NCCPF was presented to the February 2018 Panel meeting, and EY's Final Report will be presented at the Panel meeting on 10 September 2018. EY will also present its Final Report on NCCPF's Annual Report and Accounts to the Audit Committee on 25 July 2018.

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REPORT OF THE SERVICE DIRECTOR - FINANCE

2. LGPS Scheme Annual Report 2017

Purpose of the report

This report provides information about the LGPS Scheme Annual Report as at 31 March 2017, which was published by the LGPS Scheme Advisory Board (SAB) in May 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

- 2.1 In May 2018, LGPS Scheme Advisory Board (SAB) issued the Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales, for the year ended 31 March 2017. The LGPS is one of the largest pension schemes in the world, with over 14,000 participating employers, 5.6 million members and investment assets of £263 billion as at 31 March 2017.
- 2.2 The 2017 Scheme Annual Report aggregates and analyses the 2016/2017 Annual Reports of the 90 component LGPS funds (including NCC Pension Fund) in England and Wales. The data it is based on, therefore, is already over a year out of date.
- 2.3 The purpose of this report is to summarise the key issues identified in the 2017 Scheme Annual Report and compare NCC Pension Fund information with the LGPS as a whole. The key highlights, identified by the SAB, are set out in paragraph 2.11, and detail taken from the 2017 Scheme Annual Report is shown in **Appendix 1**.
- 2.4 Comparing NCCPF with the Scheme as a whole shows that in 2016/2017 NCCPF's experience has been very much in line with that of other funds, with key features being increased membership and a significant increase in asset values.

2. LGPS Scheme Annual Report 2017

BACKGROUND

Purpose of the Scheme Annual Report

- 2.5 In May 2018, the LGPS Scheme Advisory Board (SAB) issued its fifth Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales, covering the year ended 31 March 2017. The 2017 Scheme Annual Report **aggregates information** supplied to SAB in the 2016/2017 annual reports of the 90 LGPS funds.
- 2.6 The LGPS is one of the largest defined benefit (DB) schemes in the world and the largest DB scheme in the UK, with over 14,000 participating employers, 5.6 million members and assets of £263 billion as at 31 March 2017. The Scheme Annual Report is one of the methods that the SAB uses to communicate with stakeholders of the LGPS, including the Government.
- 2.7 The aim of the Scheme Annual Report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. Continually improving key information about the Scheme as a whole is one of the priorities of the SAB.
- 2.8 It should be noted that the data the 2017 Scheme Annual Report is based on is already over a year out of date. LGPS pension funds are legally required to publish their 31 March 2017 annual reports by 1 December 2017, and the SAB must obtain all 90 before compiling the 2017 Scheme Annual Report to publish in May 2018.
- 2.9 The 2017 Scheme Annual Report contains sections on governance, funding, membership, investment, benefits, financial statements, auditor statements and adviser statements.
- 2.10 The full 2017 Scheme Annual Report can be accessed from the SAB website at: <http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report>. Detail taken from the 2017 Report, together with industry commentary from the May 2018 Pensions and Lifetime Savings Association (PLSA) LGPS Conference, is attached as **Appendix 1** to this report.

Key LGPS highlights for 2017

- 2.11 The SAB has identified the following highlights from the 2017 Scheme Annual Report:
- total membership of the LGPS grew by 394,000 (7%) to 5.6 million members in 2017 from 5.2 million in 2016;
 - total assets of the LGPS increased to £263 billion (a change of 21%);
 - assets were invested in pooled investment vehicles (52%), public equities (32%), bonds (7%), direct property (3%), and other asset classes (6%);
 - net return on investments over 2016/2017 was 19.0%, reflecting good market conditions during the year;
 - the LGPS had net **withdrawals** from dealings with members (i.e. Scheme outgoings exceeded incomings by £484 million) in 2016/2017, though was cash flow **positive** when including investment income;

- all 90 funds' financial statements received unqualified external audit opinions;
 - over 1.6 million pensioners were paid over the year; and
 - 39 formal complaints about scheme administration were determined and less than 13% were upheld by the Pensions Ombudsman.
- 2.12 At the 31 March 2016 actuarial valuations, the total LGPS liabilities were estimated at £254 billion, indicating an overall funding level of about 85%. Members should note that each fund will have used different assumptions, and therefore funding levels are not fully comparable across funds.
- 2.13 The SAB has been actively developing proposals to further tackle the estimated funding deficit as at 31 March 2016 of £37 billion (£47 billion as at 31 March 2013) to improve the sustainability of the LGPS and its future funding levels.
- 2.14 The 2017 Scheme Annual Report identifies (what may be) the start of a slowdown in the rate of improvement of life expectancy. **Appendix 1** contains the analysis of changes in observed longevity, taken from the SAB website. What impact, if any, this will have at the next (31 March 2019) actuarial valuation of Northumberland County Council Pension Fund is not known at this stage.

Comparisons with NCCPF data

- 2.15 The total membership of the LGPS grew by 6.9% in the year to 31 March 2017, which compares with an increase of 2.8% for Northumberland County Council Pension Fund. For each membership category:
- active membership increased by 3.3% (for NCCPF it increased by 4.0%)
 - deferred pensioner membership increased by 10.5% however this increase is distorted by the inclusion, at 31 March 2017, of previously-unreported undecided leavers as deferreds (for NCCPF it increased by 1.2%); and
 - pensioner membership increased by 6.8% (for NCCPF it increased by 3.1%).
- 2.16 The Scheme remained in a near neutral cash flow position in 2016/2017. Contribution income increased by £352 million or 3.8% on prior year (for NCCPF it increased by £0.9 million or 2.1%). Contribution income was £2.6 million higher than benefit outgoings (for NCCPF it was £6.2 million lower, probably reflecting NCCPF's higher than average fund maturity).
- 2.17 The total number of employers in the 2017 Scheme Annual Report was 14,019, compared with 12,915 for 2016. These totals include active and ceased employers, scheduled and admitted bodies, outsourcing companies and academies. The average number of employers in a County Council LGPS fund as at 31 March 2017 was 245. NCCPF had 42 employers at 31 March 2017, and 40 at 31 March 2016, reflecting the size of the Fund, single tier local government in Northumberland, and the relatively small number of separate academies in NCCPF.
- 2.18 The total Scheme assets of the LGPS increased to £263 billion (a change of 21%) during 2017. The net investment return on these assets (after fees) for the year to 31 March 2017 was 19.0% compared with 0.1% in 2016. This compares with 24.2% in 2017 and -0.7% in 2016 for NCCPF.

2.19 Asset allocation across the LGPS compared to NCCPF is shown below:

Allocation	31 March 2016	31 March 2017	NCCPF 31 March 2017
	%	%	%
Equities	60	62	63
Bonds	16	15	25
Alternatives	9	10	8
Property	9	8	4
Cash	3	2	-
Diversified growth	3	3	-

This confirms that NCCPF retains a relatively high weighting to bonds, and a relatively low weighting to property, compared to other LGPS funds. However, NCCPF's exposure to equities, the highest risk asset class, is in line with the Scheme as a whole.

2.20 For the LGPS as a whole and for NCCPF, long term performance of investments has been strong. There have been only six years of negative performance in the last thirty, with the negative years following the stock market crash of 1987, the bursting of the dot-com bubble of 2000 and the global financial crisis of 2008.

2.21 The thirty year annualised return of 8.6% per annum demonstrates the strength of investment returns and highlights that it is the increase in the value of liabilities rather than any failing on the asset side that has caused the deficit issues that administering authorities have been dealing with in recent years. Investment returns have also exceeded long term inflation over each of the periods shown below. NCCPF's results compare well with other LGPS funds.

Returns	3 years	5 years	10 years	20 years	30 years
	%	%	%	%	%
Average	11.2	10.7	7.0	7.4	8.6
Median	10.8	10.7	6.8	7.1	-
NCCPF	11.8	10.6	7.1	-	-
Inflation					
RPI	1.9	2.3	2.8	2.8	3.3
CPI	0.9	1.4	2.3	2.0	2.6

2.22 The median result is below the average over all periods, indicating the relatively strong performance of larger funds over their smaller peers. This masks the range of results across the smaller funds, a group within which there is a marked dispersion, and over all periods the best (and worst) performances have come from some of the smallest funds.

2.23 The UK Stewardship Code and global United Nations Principles of Responsible Investment (UNPRI) set out key principles of effective stewardship for asset owners to help funds exercise their stewardship responsibilities. As at 31 March 2017, 28 LGPS funds (31%) were signatories to the UK Stewardship Code and 8 funds (8%) were signatories to the UNPRI. NCCPF has an Action Plan item to sign up to the Stewardship Code in 2018/2019.

- 2.24 When comparing NCCPF's funding level with that of the aggregate LGPS fund, members should note that each fund uses different assumptions, and therefore funding levels are **not** fully comparable.

Valuation	Assets £ million	Liabilities £ million	Deficit £ million	Funding level	NCCPF funding level
2016	216.4	253.6	37.2	85%	84%
2013	180.5	227.3	46.8	79%	81%
2010	141.6	178.5	36.9	79%	78%

This comparison (above) indicates that NCCPF's funding level is likely to be in line with that of most other funds. The Section 13 Report, due to be published in July 2018, is a more reliable indicator of relative funding level, and report 1 on the confidential report to this meeting provides further details of this.

- 2.25 As a comparison, the funding level of the 5,945 DB occupational pension schemes within the Pension Protection Fund index was 81% as at 31 March 2016, on an insurance buyout basis which is more prudent than the LGPS ongoing valuation basis.

Conclusions

- 2.26 The Scheme Annual Report provides a source of analysis of data and a "health check" on the LGPS (in England and Wales). The 2017 Scheme Annual Report shows an increase in Scheme membership in 2017 following no real change in membership the year before, and shows a significant increase in asset values as a result of high investment performance in the year.
- 2.27 Comparisons of NCCPF with the Scheme as a whole reveal no surprises. The experience of NCCPF in 2016/2017 is similar to the Scheme as a whole, with NCCPF also experiencing increased membership and a significant increase in asset values.
- 2.28 Two aspects in which NCCPF differs from the Scheme as a whole are:
- NCCPF's asset allocation is relatively high in bonds; and
 - NCCPF's benefit payments exceeded contribution income in 2016/2017, probably reflecting NCCPF's higher than average fund maturity.

In most other aspects, NCCPF's experience is very much in line with the Scheme as a whole.

DCLG statistical release 2016/2017

- 2.29 A report taken to the 24 November 2017 Panel meeting on the DCLG statistical release, issued in October 2017, analysed information provided to DCLG by all LGPS funds in England and Wales, for the year ended 31 March 2017. The 2016/2017 statistical release covers the same period as the 2017 Scheme Annual Report, and (on the whole) uses the same information, i.e. information from the pension fund annual reports. The only difference is the statistical release is based on the "SF3" information which requires authorities to interpret and submit their own data, whereas the Scheme Annual Report is SAB's interpretation of the information contained in the 90 annual reports.

- 2.30 The main conclusions drawn from the 2016/2017 statistical release in the report to the Panel in November 2017 were:

“The statistical release shows that compared with prior year, in 2016/17 expenditure on LGPS benefits increased by 3.2%, income from employees’ contributions increased by 0.4%, income from employers’ contributions increased by 4.8%, with a 1.1% increase in the number of contributors. The numbers retiring due to redundancy has decreased by less than 0.6%.

Comparing this information with NCC Pension Fund’s information shows NCCPF’s number of contributors has increased by more than the average fund, with the income from employer contributions also increasing at a lower rate than average. The increase in market value of the NCC Fund is comparable with the national figure (24%), which reflects the favourable market conditions over the past 12 months.”

- 2.31 Whilst the overall messages from the 2016/2017 statistical release and the 2017 Scheme Annual Report are similar, there are differences which call into question the validity of the information provided and the conclusions that can be drawn. For example, the statistical release shows an increase in the number of contributing LGPS members of 1.1% in the year, whereas the Scheme Annual Report shows an increase of 4.1%.

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3. NCC Pension Fund's Communication Strategy Statement

This report provides the updated NCC LGPS Communication Strategy Statement to the Panel, for information.

Recommendation

The Panel is requested to accept the report.

Key issues

- 3.1 Significant revision of the Northumberland County Council Pension Fund (NCCPF) Communication Strategy Statement was required to reflect the new working arrangements following implementation of the shared administration service with South Tyneside Council (STC) from January 2018. The majority of NCCPF's contact with LGPS members and participating employers is now delivered by STC via the shared administration service, and it was necessary to set this out clearly in the revised Statement.
- 3.2 At the 23 February 2018 meeting of the Pension Fund Panel authority was Delegated to the Service Director – Finance, in consultation with the Chair and Vice Chair of the Pension Fund Panel, to finalise the NCCPF Communication Strategy Statement as soon as possible. The draft Statement was then taken to the 17 April 2018 meeting of the NCC LGPS Local Pension Board, for the Board's comments and consideration.
- 3.3 The Statement was finalised at the end of April 2018, and is attached as **Appendix 2** to this report, for information.
- 3.4 There is no legal requirement to consult on the Communication Strategy Statement, but it is best practice to do so. Therefore, once it was approved by the Chair and Vice Chair, the Statement was circulated to all participating employers and the relevant trades unions for consultation. No comments or questions were received from the consultees.

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4. General Data Protection Regulation (GDPR)

Purpose of the report

This report updates the Panel on the implications for NCC, as LGPS administering authority, of the General Data Protection Regulation (GDPR), which is effective from 25 May 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

- 4.1 The Panel has received reports in November 2017 and February 2018 explaining the implications of GDPR. GDPR builds on the principles of the Data Protection Act 1998 and raises levels of personal data security and privacy protections. GDPR compliance cannot be achieved quickly and the Information Commissioner's Office (ICO) has made it clear that leeway will be given as organisations continue to develop processes and conduct training after 25 May 2018. Implementation of the shared LGPS administration service between NCC and South Tyneside Council (STC) in January 2018 does not remove NCC's responsibilities under GDPR. For shared administration, NCC and STC are **joint data controllers** for LGPS data, and STC is also a data processor for NCC's LGPS data. NCC is also data controller for the other LGPS administration functions it has retained.
- 4.2 STC has provided a **full privacy notice**, attached as **Appendix 3**, which has been used from 25 May 2018 in STC's dealings with members of NCCPF. The privacy notice is referred to in all communications with NCCPF members. It provides information to members about personal information held, what STC does with it and members' rights in relation to it.
- 4.3 STC has provided the **Memorandum of Understanding** (MoU), attached as **Appendix 4**, to all NCCPF employers, to set out that participating employers in the LGPS can share data with the LGPS administering authority (i.e. in this case, with NCC and STC) without a data sharing agreement being in place.
- 4.4 The Local Government Pensions Committee Secretariat, on behalf of LGPS administering authorities, commissioned Squire Patton Boggs to produce various template documents, including the full privacy notice, and the MOU, for administering authorities to tailor and use as part of their GDPR compliance.
- 4.5 STC has provided a list of key actions required to ensure compliance with GDPR, which is attached as **Appendix 5**. This provides assurance to NCCPF that STC has made good progress towards compliance and is working to complete the further development that remains.

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5. Outcomes of the April 2018 meeting of the NCC LGPS Local Pension Board

Purpose of the report

This report provides information to the Panel about outcomes and proposals from the meeting of NCC's LGPS Local Pension Board held on 17 April 2018.

Recommendation

The Panel is requested to:

- (i) accept the proposals from the Local Pension Board meeting held on 17 April 2018, as set out in Appendix 6; and
- (ii) note the assurances gained by the Board at that meeting.

Key issues

- 5.1 Under the NCC LGPS Local Pension Board's Terms of Reference, the Board is required to meet at least twice a year, and current practice is to meet four times a year. As set out in the remit of the Pension Fund Panel, the Panel's functions include ensuring the proper administration of the Local Government Pension Scheme and the "*Board provides oversight of the governance and administration of the LGPS.*"
- 5.2 Since its first meeting in July 2015, the Board has made a number of recommendations to the Scheme Manager (i.e. Northumberland County Council as administering authority for the LGPS) for changes to the LGPS administration arrangements. A formal mechanism for communicating Board proposals to the next Panel meeting via a Report of the Board Chair was adopted in September 2017, to ensure all relevant Board meeting outcomes are captured and considered by the Panel as a separate agenda item.
- 5.3 The Report of the Board Chair, covering the outcomes of the Board meeting on 17 April 2018, is attached as **Appendix 6** to this report. The Board Chair will provide further information about those outcomes at this Panel meeting.
- 5.4 Members should note that the 17 April 2018 Board meeting **recommendation** (regarding the format of the Key Performance Indicators) involves a development process which officers of NCCPF and Tyne and Wear Pension Fund are currently working on, and the intention is to keep the Board updated of progress and seek the Board's feedback as the KPIs are developed.
- 5.5 CIPFA published the **enclosed "the guide for local pension boards"** in May 2018. As noted in the foreword: "*This new 2018 publication contains various ideas which could help local pension boards in their quest to add value and ensure that they fulfil the various requirements and responsibilities....CIPFA would like to thank **Gerard Moore** for preparing this guide....*"

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

6. Action Plan 2018 for NCC Pension Fund: quarterly monitoring

Purpose of the report

The purpose of this report is to monitor progress against the NCCPF Action Plan 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

- 6.1 At the 23 February 2018 meeting of the Pension Fund Panel members approved the Action Plan 2018 for NCCPF and requested that quarterly monitoring against the Plan be brought to future meetings. This is the first of the quarterly monitoring reports.
- 6.2 The Action Plan 2018, attached as **Appendix 7**, should be viewed as a checklist of actions expected in the year, rather than a rigid framework to be followed.
- 6.3 Progress made in the period since the previous quarterly meeting of the Panel, on 23 February 2018, is set out in **Appendix 8** to this report. Reasonable progress has been made in this period, in line with expectations.

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

7. 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

7.1 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.

7.2 Therefore, it was agreed that standard wording would be added to the minutes of all Pension Fund Panel meetings to cover this point, and that membership of the LGPS for all voting Panel members' and observers/officers supporting the work of the Panel would be listed in a Panel report, annually, for information.

7.3 As at June 2018, the following voting Panel members were LGPS members:

- 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.)

7.4 In June 2018 *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: A Elsdon, A Stewart, C Gorman, A F Lister, C S Johnson, A D Scott, and N J Turnbull; administration: South Tyneside Council's officers including H Chambers and P Cooper). 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. Note that B Scarr replaced A Elsdon as NCC's Section 151 Officer from 1 June 2018.

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

8. 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 2017/2018 annual formal assessment of the performance of the Pension Fund Panel adviser, Mercer.

Recommendation

The Panel is requested to accept the report.

Key issues

- 8.1 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.
- 8.2 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.
- 8.3 Members of the Panel and observers were asked to complete the scorecards anonymously and return them to Craig Johnson before the end of April 2018. Seven out of a potential ten responses were returned.
- 8.4 A **summary** of the responses is attached as **Appendix 9**. The tone of the responses was very positive, with an overall rating of 3.5 given (3.7 in 2016/2017), where 4 was the highest score possible. As expected, all responses included the answer “not applicable” to at least some of the questions. Officers have shared the results of the 2017/2018 assessment in advance of this meeting with Mercer, to ensure that the individual comments made have been conveyed.
- 8.5 In April 2018, Mercer announced the promotion of **Joanne Holden** to Head of UK Investment, further detail of which is attached as **Appendix 10**. Joanne has been NCCPF’s primary consultant since Mercer’s appointment in March 2009. Joanne’s new role includes oversight of Mercer’s public sector consultancy business, but she will have less time to devote to individual clients. Therefore, following discussions between Joanne and the Chair of the Pension Fund Panel, it has been agreed that **Susan Greenwood** is now NCCPF’s primary contact with Joanne as reserve. Susan’s CV is attached as **Appendix 11**, for information.

8. Formal assessment of the performance of the investment adviser

BACKGROUND

CIPFA guidance

- 8.6 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.

- 8.7 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.
- 8.8 In February 2018, each Panel member (including each Panel observer) was asked to complete and return a scorecard covering the work undertaken by Mercer in 2017/2018 to Craig Johnson by 6 April 2018. The scorecards were completed anonymously. Seven out of a potential ten responses were received (four out of ten responses received in 2016/2017).
- 8.9 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

- 8.10 A summary of the 2017/2018 responses received from Panel members and observers is attached as **Appendix 9** 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

- 8.11 In the (Appendix 9) summary, an average score from all of the responses received has been calculated and shown against each question.
- 8.12 The overall average score given was 3.5, and as a general conclusion of the responses received, the highest scoring questions were the ones relating to the accessibility and knowledge of the regular consultant(s). Comments made were mainly positive or very positive. The number of scorecards completed was slightly more than in prior years.

- 8.13 When comparing the 2017/2018 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 2017/2018 (3.5) was a decrease on the 2016/2017 equivalent (3.7), although this could be due to the fact that more responses were received from Panel members, coupled with the subjective nature of the scoring. The positive comments received indicate continued trust in the investment adviser.
- 8.14 To set the overall score in context, scores for the last five years have been:

Year	Overall score	Number of responses out of ten
2013/2014	3.5	seven
2014/2015	3.7	nine
2015/2016	3.5	six
2016/2017	3.7	four
2017/2018	3.5	seven

Feedback to Mercer

- 8.15 Following receipt of the completed scorecards, Craig Johnson contacted Susan Greenwood of Mercer to share the results and the individual comments made.
- 8.16 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.

NCCPF's primary contact at Mercer

- 8.17 On 17 April 2018, Mercer announced the promotion of **Joanne Holden** as UK Chief Investment Officer. Further detail of the promotion and Mercer's business is shown in **Appendix 10**, attached to this report. Joanne has been NCCPF's primary consultant since Mercer's appointment in March 2009. Mercer's website includes the following information:

"Ms Holden joined Mercer in Liverpool in 2002 from PwC's actuarial team. In 2010, she moved to Mercer's Manchester office to set up a new investment team there. Ms Holden is a recognised leader in public sector consulting, and over the last few years has overseen the doubling of Mercer's investment consulting client base in this market."

- 8.18 Joanne's new role includes oversight of Mercer's public sector consultancy business, but she will have less time to devote to individual clients. Therefore, following discussions between Joanne and the Chair of the Pension Fund Panel, it has been agreed that **Susan Greenwood** is now NCCPF's primary contact with Joanne as reserve. Susan's CV is attached as **Appendix 11**, for information. Joanne will work closely with Susan and remain involved with NCCPF as a client.

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

9. Training

This report reminds Pension Fund Panel members of the forthcoming “Fundamentals” training and provides information about the PLSA Annual Conference in May 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

Forthcoming “3 Day Fundamentals” training

9.1 The Local Government Association Circular has provided the dates of the forthcoming LGPS Trustees’ training programme “Fundamentals”, organised by the Local Government Pensions Committee (LGPC). This is bespoke Local Government Pension Scheme training, aimed mainly at elected members serving on pensions committees and others who support committees.

9.2 Fundamentals 2018 will be delivered at three locations as follows:

	Leeds	London	Cardiff
Day 1	2 October	10 October	23 October
Day 2	6 November	30 October	13 November
Day 3	5 December	4 December	11 December

9.3 NCCPF’s training policy actively encourages Panel members to complete all three days of this course, and members that have not already done so are asked to consider their own availability for the dates shown above and liaise with Craig Johnson to organise attendance.

PLSA Annual Local Authority Conference 21-23 May 2018

9.4 Councillor Watson, Gerard Moore and Clare Gorman attended the Pensions and Lifetime Savings Association (PLSA) Annual Local Authority Conference in May 2018. Hymans Robertson’s summary of the Conference highlights is attached as **Appendix 12**.

9.5 Key themes from the conference were pooling, cost transparency and data quality. Rishi Sunak, Minister for Local Government, keynote speaker was clear that his priority is making a success of pooling, and appeared to suggest an aspiration of a 10%-15% allocation to infrastructure in line with what he described as the international average, although he was also very clear that there would be “no arbitrary targets”. He also referred to forthcoming consultations on the participation of academies in LGPS funds and on fair deal.

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

10. The Pensions Regulator's governance and administration survey results published May 2018

Purpose of the report

This report provides information about the results of the Pensions Regulator's public service governance and administration survey which was published in May 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

- 10.1 The Pensions Regulator (tPR) published its annual survey of public service governance and administration in May 2018. The full results can be accessed from: <http://www.thepensionsregulator.gov.uk/docs/public-service-research-2018.pdf>, and the summary results are attached as **Appendix 13** to this report.
- 10.2 NCCPF submitted its response to the survey in November 2017.
- 10.3 The annual survey results identified significant improvements overall in performance across the public sector for most areas covered but identified some levels of performance as too low. It noted that process improvements had 'stalled' in some LGPS funds and LGPS funds had been the least likely to respond to the survey. TPR has made it clear that it plans to focus its resources on the LGPS in 2018. Hymans Robertson's sixty second summary, attached as **Appendix 14**, comments on the survey results and concludes that tPR will be focussing *with intensity* on the 10% of LGPS funds that tPR views as "high risk".
- 10.4 The key findings of tPR's survey were:
- **data:** funds should undertake an annual data review, though the proportion carrying out a review fell from 83% in 2016 to 74% in 2017;
 - **annual benefit statements (ABSs):** 45% of LGPS funds issued 100% of their ABSs in 2017, showing no improvement on prior year;
 - **administration standards/reporting:** boards should focus on data quality and administration at every meeting and tPR noted that *only* 13% of funds use penalties where standards are not met; and
 - **enforcement:** tPR is more likely to use its enforcement powers in the coming year.
- 10.5 Currently tPR is having difficulties of its own with the "threat" that government may abolish tPR following its failure to safeguard Carillion pensions, and replace it with a more powerful body encompassing the Pension Protection Fund. Also, in May, tPR's Chief Executive, Lesley Titcomb, announced her intention to leave tPR in February 2019 at the end of her four-year term, commenting that there remains much work to be done.

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

11. Recording breaches: progress and quarterly monitoring report

Purpose of the report

This report provides information about breaches of the law which have occurred in and before the quarter to 31 March 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

- 11.1 Oversight of the LGPS by the Pensions Regulator (tPR) 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 breaches to tPR.
- 11.2 Panel members will be aware that, following implementation of the shared administration service with Tyne and Wear Pension Fund (TWPF) in January 2018, information about breaches occurring within the **member administration services** function will no longer be provided *in the format previously* used (to 31 December 2017). However, breaches occurring within the functions retained by NCC, including collection of contributions from employers, will continue to be reported in the same format as before.

Breaches within functions retained by NCC

- 11.3 In the quarter to 31 March 2018 there were no breaches of the requirement to pay contributions within 19 days of the month end.

Breaches within member administration services

- 11.4 At the meeting of the NCC LGPS Local Pension Board on 17 April 2018, the Board reviewed the records prepared by NCC's Pensions Administration Team of the breaches prior to 31 December 2017. This was an update, as at 16 April 2018, of the information provided to the Panel at the 23 February 2018 meeting. All previously unresolved breaches to 16 April 2018 have been consolidated onto a single breaches record (an A3 spreadsheet), covering quarters ended 31 December 2017, and **enclosed** with these papers.
- 11.5 Breaches information within member administration services after 29 January 2018 (when the shared service began) will be **tabled** at the meeting. Paul Cooper, Communications Manager at TWPF, will attend this Panel meeting to provide further information about these breaches records.

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

12. 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 Fund's KPIs in the quarter to 31 March 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

- 12.1 The NCC LGPS Administration Strategy in place until 29 January 2018 included Key Performance Indicators (KPIs) for NCCPF. These KPIs have been reported to the Panel on a quarterly basis since the quarter to 31 December 2016. The NCC LGPS Administration Strategy, effective from 29 January 2018 was purposefully drafted to align with Tyne and Wear Pension Fund's (TWPF) Strategy, for the efficient operation of the shared service and does **not** specify KPIs.
- 12.2 Following implementation of the shared administration service with TWPF in January 2018, quarterly **performance information** in relation to the member administration services function will be provided to NCCPF; the equivalent information for TWPF is reported each quarter to South Tyneside Council's Senior Management Team and Pensions Committee. KPIs relating to the functions retained by NCC, including collection of contributions from employers, will continue to be reported in the same format as before.

KPIs for functions retained by NCC

- 12.3 **Appendix 15** sets out the KPIs and the achievements for the quarter ended 31 March 2018 compared with the previous two quarters.

KPIs for member administration services

- 12.4 Performance information within member administration services after 29 January 2018 (when the shared service began) will be **tabled** at the meeting. Paul Cooper, Communications Manager at TWPF, will attend this Panel meeting to provide further information about these breaches records.

Ongoing development work for KPIs and recording of breaches

- 12.5 Officers of TWPF and NCCPF are working together to develop KPIs and breaches recording for both funds. The starting point is the quarterly performance information reported for TWPF, with all enhancements developed to be applied to reporting for both TWPF and NCCPF.

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

13. Tyne and Wear Pension Fund's quarterly regulatory report

Purpose of the report

This report provides information to the Panel about Tyne and Wear Pension Fund's quarterly regulatory reports, which are provided to South Tyneside Council's Pensions Committee to keep members up to date with relevant LGPS regulatory changes.

Recommendation

The Panel is requested to accept the report.

Key issues

13.1 Tyne and Wear Pension Fund's (TWPF) takes a report ("the regulatory report"), each quarter, to update its Pensions Committee on relevant LGPS regulatory changes and other related matters. The most recent regulatory reports taken to South Tyneside Council's Pensions Committee over the last quarter are attached as **Appendices 16** and **17** to this report.

13.2 Items of particular note in the regulatory reports:

Appendix 16
6 March 2018

- HMT's response, issued January 2018, to an earlier Guaranteed Minimum Pension (GMP) consultation, extends the existing interim solution to those reaching state pension age on or before 5 April 2021
- Updates on the Scheme Advisory Board's (SAB) ongoing reviews of academies in the LGPS and "tier 3" employers

Appendix 17
12 June 2018

- LGPS Amendment Regulations coming into force on 14 May 2018 (further details below)

LGPS (Amendment) Regulations 2018

13.3 Hymans Robertson's sixty second summary, attached as **Appendix 18**, sets out the main changes brought into the LGPS, from 14 May 2018, by the LGPS (Amendment) Regulations 2018. The amendments are largely technical, with the most significant change for participating employers being that the Regulations now allow for the payment of a surplus (an "exit credit") to an exiting employer.

GMP rectification work

13.4 Within the next few months, TWPF will start GMP rectification work on behalf of NCCPF. There remain significant issues to be resolved at a national level, not least the potential impact on rectification of HMRC's "unauthorised payment" regime. The Panel will receive further information on this in due course.

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

14. Annual report of the NCC LGPS Local Pension Board

Purpose of the report

The purpose of this report is to provide the 2017/2018 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

- 14.1 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.”
- 14.2 The first annual report of the LGPS LPB covered the year 2015/2016, and was published in the 2015/2016 NCC Pension Fund annual report and accounts, and reported to the May 2016 Panel meeting and the July 2016 Audit Committee meeting. There is no guidance available from the Scheme Advisory Board, CIPFA or MHCLG on the required content of the Board's annual report.
- 14.3 In March/April 2018, the Independent Chair of the NCC LGPS LPB, Gerard Moore, prepared the 2017/2018 annual report on the work of NCC's LGPS LPB in that year. The report was taken in draft form to the 17 April 2018 meeting of the LPB for discussion and input from other Board members.
- 14.4 The final 2017/2018 annual report of the LPB is attached as **Appendix 19** to this report. It is included in the enclosed 2017/2018 NCC Pension Fund (draft) Annual Report and Accounts and published on NCC's website. Together with the minutes of the four meetings of the LPB held during 2017/2018 (held on 24 April 2017, 17 July 2017, 6 October 2017 and 11 December 2017), it will be reported to the 25 July 2018 meeting of the Audit Committee.

MEETING OF THE PENSION FUND PANEL

22 JUNE 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

15. Fund performance and total Fund value

Purpose of the report

The purpose of this report is to provide information to the Panel about NCC Pension Fund's performance in the quarter to 31 March 2018 and the total Fund value at that date.

Recommendation

The Panel is requested to accept the report.

Key issues

- 15.1 The total Fund value (externally managed) was **£1,349** million as at 31 March 2018, compared to £1,386 million as at 31 December 2017, reflecting the negative investment returns over the quarter.
- 15.2 Performance for the Fund as a whole was
- **-2.8%** for the quarter and 3.4% for the year to 31 March 2018, outperforming the Fund's benchmark returns of
 - **-3.1%** and 3.3% respectively.
- Outperformance from Wellington (the Fund's active bonds manager), Schroder (property manager), all private equity investments, and Antin (infrastructure manager) contributed to the outperformance in the quarter.
- 15.3 Further detail of annual and quarterly performance by manager and asset class for the period ending 31 March 2018 (i.e. the "*Quarterly Risk and Return Analysis*" provided by Portfolio Evaluation Ltd, the Fund's performance measurement service provider) is **enclosed** with these papers. Nick Kent of Portfolio Evaluation will attend the meeting of the Pension Fund Panel on 10 September 2018 to present analysis of the Fund's returns for the year to 31 March 2018.

15. Fund performance and total Fund value

BACKGROUND

Total Fund value

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

	as at <u>31 March</u> <u>2017</u> £m	as at <u>30 September</u> <u>2017</u> £m	as at <u>31 December</u> <u>2017</u> £m	as at <u>31 March</u> <u>2018</u> £m
Legal and General <i>Index tracker</i>	1051.55	1074.89	1125.48	1082.86
Wellington <i>Active corporate bonds</i>	99.91	102.48	103.36	103.25
Schroder	25.11	26.84	27.47	28.17
BlackRock	26.35	25.85	26.44	26.74
<i>Property</i>				
subtotal	51.46	52.69	53.91	54.91
Morgan Stanley	34.71	27.66	26.48	26.93
NB Crossroads	26.17	20.74	21.10	21.69
Pantheon		0.81	4.55	6.62
<i>Private equity</i>				
subtotal	60.88	49.21	52.13	55.24
GIP	32.11	31.32	32.52	32.72
Antin	17.93	19.28	19.04	19.73
<i>Infrastructure</i>				
subtotal	50.04	50.60	51.56	52.45
Total	1,313.84	1,329.87	1,386.44	1,348.71

Note that capital calls and capital repayments have been made during the year to 31 March 2018 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. Capital repayments have been transferred to Legal and General to invest, or when timing can be matched, used to pay other capital calls.

15.5 Further detail of annual and quarterly performance by manager and asset class for the period ending 31 March 2018 (i.e. the “*Quarterly Risk and Return Analysis*” provided by Portfolio Evaluation Ltd, the Fund’s performance measurement service provider) is **enclosed** with these papers.

Fund performance

15.6 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 2018 and for the latest four quarters. Also shown are the annualised returns achieved by the Fund for the five years to 31 March 2018.

15.7 Annual returns

	Financial year to 31 March				
	2014	2015	2016	2017	2018
	%	%	%	%	%
Fund	3.8	13.2	-0.7	24.2	3.4
Benchmark	3.7	13.1	-1.2	24.1	3.3

15.8 Quarterly returns

	----- 2017/18 -----			
	Quarter 2 2017 to 30 Jun 17	Quarter 3 2017 to 30 Sep 17	Quarter 4 2017 to 31 Dec 17	Quarter 1 2018 to 31 Mar 18
	%	%	%	%
Fund	0.3	1.7	4.1	-2.8
Benchmark	0.4	1.8	4.3	-3.1

15.9 Annualised returns

	All Financial Years Ended 31 March		
	2013/18	2015/18	2018
	%	%	%
Fund	8.6	8.6	3.4
Benchmark	8.3	8.2	3.3
	5 years	3 years	1 year

IMPLICATIONS ARISING OUT OF THE REPORT

This applies to items 1. to 15. (inclusive) in this report

Policy:	None
Finance and value for money:	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.
Human Resources:	None
Property:	None
Equalities:	None
Risk Assessment:	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.
Sustainability:	None
Crime & Disorder:	None
Customer considerations:	None
Consultation:	None
Electoral divisions:	All

Report sign off

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

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