

**NORTHUMBERLAND COUNTY COUNCIL PENSION FUND
Pension Fund Panel Meeting 22 June 2018**

**DRAFT ANNUAL REPORT OF THE NORTHUMBERLAND COUNTY COUNCIL
LGPS LOCAL PENSION BOARD FOR 2017/2018**

1 Constitution, Representation and Attendance

1.1 The Northumberland County Council LGPS Local Pension Board (“**the Board**”) was constituted under the Public Service Pensions Act 2013. It consists of two representatives of the Scheme employers, and two representatives of the Scheme members. In addition it has a non-voting independent Chair. The Board met on four occasions during the year, and now meets shortly after each quarterly meeting of the Northumberland County Council (NCC) Pension Fund Panel (“**the Panel**”).

1.2 In 2017/2018, all meetings of the Board were quorate. Membership and attendance at the Board meetings held in the year was as follows:

	24 April 2017	17 July 2017	6 October 2017	11 December 2017
Gerard Moore Independent Chair (Non-voting)	✓	✓	✓	✓
Councillor Bernard Pidcock Employer Representative, Northumberland County Council	✓	x	✓	✓
Mrs Helene Adams Employer Representative, Northumberland National Park Authority	✓	✓	x	✓
Ms Sue Dick Scheme Member Representative, pensioner member	✓	✓	✓	✓
John Clark Scheme Member Representative, pensioner member	✓	✓	✓	✓

This represents an overall attendance record of 90%.

1.3 The Board operates under Terms of Reference which were agreed by Northumberland County Council on 25 February 2015.
http://committeedocs.northumberland.gov.uk/MeetingDocs/8857_M1029.pdf

1.4 The Board is not a Committee of the Council, but is established under the Public Service Pensions Act 2013. It is supported by a Board Secretary.

1.5 Under the current Terms of Reference, Board meetings are not open to the public, although agendas and minutes can be found at the following web link:

<http://committee.northumberland.gov.uk/Committee.aspx?BodyID=173>

2 Functions and Operation of the Board

- 2.1 The two primary functions of a Local Pension Board are to assist the Administering Authority to:
- ensure effective and efficient governance and administration of the LGPS; and
 - ensure compliance with relevant laws and regulation.
- 2.2 It therefore has a monitor/assist/review purpose, rather than being a decision making body. It could be seen as being a critical and supportive friend. As such, the general approach of the Board is to seek assurances, with evidence from Northumberland County Council Pension Fund ("**the Fund**"), that it is meeting its objectives (as set out in the Statement of the Fund's Objectives approved by the Panel on 26 February 2016 and 7 July 2017), producing its required statements, managing its risks, etc. so as to achieve the overall Board's objectives as set out in paragraph 2.1 above.
- 2.3 In so doing, the Board is helping manage the reputational risk of the Fund, and of the Administering Authority, which is more critical now that the LGPS in England and Wales has both the Ministry of Housing, Communities and Local Government (MHCLG) and the Pensions Regulator (tPR) as its regulators.
- 2.4 To facilitate the operations of the Board, its members are invited as observers to meetings of the Panel. This arrangement is reciprocated, with the Chair and Vice Chair of the Panel being invited to attend Board meetings, also in an observer capacity. With both arrangements, there is a strong record of cross-observing, resulting in transparency, improved understanding and mutual trust and respect.
- 2.5 This healthy relationship between Panel and Board has enabled the Panel to better manage its own agenda by requesting that the Board give prior consideration and scrutiny to certain activities, such as new risks, progress chasing on key implementation dates and reviewing recorded breaches of the law or of Scheme regulations. However, all breaches information is initially reported to the Panel and any breach viewed by the Scheme Manager as potentially reportable to the Pensions Regulator would be brought to the attention of and considered by the Panel.
- 2.6 To reflect this evolving role, a sharper feedback mechanism has been implemented during the year, whereby, as Board Chair, I present a written executive summary report to the Panel following each meeting of the Board. This sets out the recommendations from the Board, the assurances it has gained, and any other information deemed of relevance to the Panel.
- 2.7 With this additional level of transparency now in place, the Board had not formally adopted a set of key performance indicators (KPI's). Some measurements of inputs are readily available and positive, such as attendance records at Board meeting and as observers at Panel meetings and training events. However, regarding the more important dimension of

outputs, the Board believes that the ultimate test of its effectiveness is that the Panel is satisfied with the work of the Board.

- 2.8 The direct costs of operating the Board in 2017/2018, covering travel and training expenses relating to Board members as well as the fees and expenses of the Independent Chair, amounted to £14,425 and were met by the Fund. These costs do not include any indirect costs relating to officer time nor apportioned costs for the use of the Council's premises, systems and services which are recharged to the Fund by the Council. This represents an increase of £2,050 on the direct costs for the previous year. This reflects both the additional roles as described in paragraphs 2.5 and 2.6, plus the Panel decision to increase the number of Board meetings to reflect the number of quarterly meetings of the Panel itself (whereas in 2016/2017 there were only two physical meetings of the Board, plus one virtual meeting). The Board is now expected to meet four times a year. Nevertheless, the Board is mindful of delivering value for money, and has adopted various means of working in a cost effective manner.

3 Work Programme of the Board

- 3.1 In devising its work programme, the Board needs to take into account guidance, expectations and requests from a number of different sources. Mindful of the sheer range of issues and papers which it could consider within its governance budget and its Terms of Reference, the Board recognises the need to prioritise and continues to differentiate in its agenda between items for detailed discussion, and those for awareness or noting. The Board sets its own agenda and prioritises its time accordingly.
- 3.2 The Board agenda needs to reflect the expectations as set out in its Terms of Reference, supplemented by specific requests from the Panel, as reflected in paragraph 2.5 above. In addition, Board members may request consideration of specific issues.
- 3.3 In managing its agenda, the NCC Local Pensions Board is mindful of the role of the LGPS Scheme Advisory Board for England and Wales (SAB). The SAB has two roles: giving advice both upwards to MHCLG and downwards to individual funds. A two way flow of information between the SAB and individual funds is expected, and it is the aim of the NCC Board to be seen as an example of good practice.
- 3.4 Members of the Board are also accountable to the Pensions Regulator (tPR) for their performance. The Regulator can issue fines to Board members, or, more likely, to administering authorities. As at 31 March 2018, the issue of providing insurance cover for Board members was still unresolved, although informal discussions with tPR have clarified the type of exceptional circumstances which could lead to fines on Board members. In 2017/2018, tPR levied its first fine on an administering authority for the failure to submit its Annual Scheme Return. Whilst it was a nominal fine on this London authority, it was more, perhaps, to serve as a warning to others. As stated in paragraph 2.3, the Board is keen to protect the reputational risk of the Fund.

- 3.5 The Regulator has issued Code of Practice 14, and expects administering authorities both to measure themselves against and comply with the detailed elements of the Code. The main focus of the Code is administration and benefits, rather than investment issues, and this, generally but not exclusively, is reflected in the composition of the Board agendas. As such the Board endeavoured to incorporate into its work programme for 2017/2018 the Regulator's priorities of basic compliance, focussing on the top three risks of record keeping, internal controls and poor and inefficient communications. In addition, the Board was instrumental in arranging a training and discussion event for Panel and Board members and officers, attended by the Regulator, held in Durham in December 2017, which was also attended by three neighbouring LGPS funds.
- 3.6 Whilst investment activity is, generally, outside the consideration by the Pensions Regulator, nevertheless, the Board is expected to ensure compliance with relevant legislation, and thus does seek assurances that due process has been followed regarding investment strategies, statements and decisions, and that LGPS regulations have been complied with.
- 3.7 Board agendas are also determined by any changes in processes and procedures, and by requirements to comply with both existing annual statutory deadlines and deadlines resulting from new legislative and regulatory requirements. For the Fund, two key local developments were the continuing progress towards the establishment of Border to Coast Pensions Partnership pooling arrangement for investments, and the move to a shared administration service with the Tyne and Wear Pension Fund (TWPF) from January 2018. In addition, 2018 particularly has brought a raft of compliance dates for new legislation, which has required inclusion in the Board's agendas.

4 Outcomes from the Board 2017/2018

- 4.1 As indicated in paragraph 2.6, a summary report is made to the Panel covering the Board's recommendations, assurances gained and the provision of other information for the awareness of the Panel. The Board is pleased that all its recommendations in 2017/2018 were accepted. Some of the recommendations were implemented routinely by the Board Secretary, whilst others were accepted by the Panel. Indeed, this new process for succinct feedback to the Panel was itself a recommendation from the Board meeting on 6 October 2017.
- 4.2 As indicated in paragraph 3.7, the Fund had to meet a number of deadlines during the year, some of which were critical from a risk perspective, and fell in between scheduled meetings of the Panel. The Board recommended that Panel and Board members were kept informed of progress towards successful completion of the following deadlines:
- 31 August 2017 for issuing the 2017 Annual Benefit Statements;
 - 31 December 2017 for submission of the Annual Scheme Return to the Pensions Regulator; and
 - 3 January 2018 for the opting up process with regards to the Markets in Financial Instruments Directive (MiFID II).

A similar approach is being taken in 2018/2019 regarding the 25 May 2018 implementation date of the General Data Protection Regulation, the

December 2018 deadline for the Guaranteed Minimum Pension reconciliation exercise, and annual deadlines for issuing the 2018 Annual Benefit Statements and submission of the Annual Scheme Return. It is now clear that the Regulator's Annual Scheme Return for 2018 will be more complex and this will need to be factored into the Board's work programme for 2018/2019.

- 4.3 Also mentioned in paragraph 3.7, one of the key events of the year was the move to sharing administration services with TWPF. Effective and timely communications with Scheme members is an important element of the Regulator's Code of Practice 14 (paragraph 196 et al). Fund officers actively engaged with Panel and Board members to help ensure that Scheme member anxiety regarding the implications of this change would be minimised and appropriately responded to. The immediate post-transfer evidence indicates that these desired outcomes were achieved. Likewise, early communications with Scheme employers, as recommended by the Board, helped with the smooth transition. The Board also gained assurances that there would be no adverse impact on the access to advice for members of the Scheme.
- 4.4 Other areas of the "communication with Scheme members" agenda which the Board considered were the 50:50 option and the opportunity to participate in the additional voluntary contributions (AVCs) and additional years' options. In both cases, the Board examined the documents made available to Scheme members.
- 4.5 Paragraphs 4.2 and 4.3 indicate the pace of change facing the Fund, which is not likely to reduce. To help mitigate and manage the associated increased risks, the Panel accepted the recommendation from the Board that the Board meet at the same frequency as the quarterly meetings of the Panel, which implies four meetings a year. In so doing, the Panel asked the Board to make observations and recommendations regarding any new risks which are identified. The Board gained assurances that each new risk was being managed by key personnel at a high level.
- 4.6 The Board was involved in the completion of the annual survey by the Scheme Advisory Board and discussed in detail the annual survey by the Pensions Regulator. Both surveys were completed within the requested deadlines.
- 4.7 A standing item on each Board agenda is a review of recorded breaches, and reporting back to the Panel on its findings. For the more significant breaches, the Board and its members, together with other individuals (Panel members, officers, Scheme employers) all have a responsibility to report a breach of law to the Pensions Regulator should they believe it to be of material significance to the Regulator (Code of Practice 14 paragraphs 241 to 275). The Board did examine in detail a breach caused by the Fund reissuing a small minority of 2017 Annual Benefit Statements to correct the Statements originally provided to members (Code of Practice 14 paragraphs 187 to 193), and concurred that this was not a reportable breach. Internal procedures allow any differing opinions to be independently considered and a conclusion reached, and this may involve seeking a specialist external perspective. Training has been provided in this area, and recording and reporting procedures are in place. **During 2017/2018, to the best of the Board's knowledge, there were no breaches reported to the Regulator.**

- 4.8 For 2018/2019, following the implementation of the shared administration service, the Panel and Board will receive information about breaches from TWPF. The Board has received examples of the breaches reporting TWPF provides to South Tyneside Council's Pensions Committee and Local Pension Board, and noted Aon Hewitt's advice that the Fund should adopt TWPF's breaches reporting then work with TWPF to develop it further. Following discussions with TWPF officers, the Board was satisfied that appropriate explanations will be provided when future breaches information is reviewed.
- 4.9 A further standing item is to review the Key Performance Indicators (KPIs) for the Fund. During the year, the Board made recommendations regarding the format of the information to ensure that the significance and materiality of underperforming categories were better understood. Whilst some individual indicators were below target in particular quarters, the Board was satisfied with the explanations given, such as an exodus of Scheme members on 31 March, the volume of queries resulting from the issuing of Annual Benefit Statements, and the impact of planning for the commencement of the shared administration service which is expected to make services for members of the Fund more robust. The Board was satisfied with its conclusion that cases of retirements and deaths were always prioritised.
- 4.10 The Board considered the process for reviewing the strength of employer covenants, and learned that there were currently no charges on property in the Fund's favour.
- 4.11 The Board examined a number of investment issues in the year. It made recommendations regarding the implementation of MiFID II. It also recommended that when asset managers and investment advisers present investment performance statistics to the Panel, such statistics are always shown net of investment management fees, so that valid comparisons can be made with the underlying assumptions within the investment strategy. The Board noted the receipt of ISAE 3402 reports which review the internal controls used by the Fund's asset managers and custodian. A fourth investment issue considered was the cash flow arrangements in place. The Board gained the necessary assurances from the information and explanations provided that the cash flow arrangements, including any necessary realisation of assets, were sufficiently robust and flexible to ensure the payment of pensions and lump sums every month as due. Finally, the Board was kept updated on the developments of the Border to Coast Pensions Partnership pooling arrangement, and endeavoured to monitor progress from the perspective of process.
- 4.12 Other duties I performed on behalf of the Board included:
- reviewing the draft Pension Fund Annual Report and Accounts for 2016/2017 and recommending some minor changes;
 - holding my annual review with the Fund's Section 151 Officer and gaining assurances from her degree of involvement on pension fund matters;
 - as 2017 was an election year for NCC, contacting NCC's party leaders to request that, as far as possible, where previously serving Panel and Board members had been re-elected to NCC, they continue to serve in

those key roles to retain knowledge, understanding and experience in the light of the significant turnover of the Panel membership;

- attending industry conferences, and peer group meetings of Local Pension Board members, and giving verbal and written feedback for the information of the Panel and Board; and
- making a presentation to the newly-elected Panel on the role, purpose and achievements of the Board.

5 Training

5.1 Each Board member individually has to be conversant with the details of the Scheme, which translates as having a good working knowledge. Specific external training has previously been provided for Board and Panel members on the role and purpose of Board, and on the reporting and recording of breaches.

5.2 The assessment of training needs, and how they are met, is a standing item and examined on an ongoing basis. Both formal (group) and informal (by discussion, cascade or one to one) training is provided to reflect individual training needs.

- The Board was represented at the June 2017 annual LGA/LGPS Trustees Conference and will be represented at the equivalent event in 2018, which provides a good high level perspective to supplement the greater level of detail in training in individual areas.
- The Board was well represented at a regional training event in Durham in December 2017 to hear a presentation from the Pensions Regulator.
- Fund-specific training was provided at every Panel meeting held in the year, covering subjects including the requirements and potential impact on the Fund of MiFID II and the General Data Protection Regulation, and the characteristics of infrastructure as an asset class and whether the 5% Fund allocation to infrastructure remained appropriate.
- All Board members have attended at least one of the joint training and networking peer events facilitated by CIPFA and Barnett Waddingham which enabled them to meet Local Pension Board members from other funds and compare practices and experience.

6 Work plan

6.1 The adjusted work plan for 2017/2018 took account of the following areas:

- Accounts;
- Administration and record keeping including breaches;
- Audit and risk management including the risk register;
- Communications with Scheme members;
- Compliance with the regulations;
- Governance;
- Developments in pooling;
- Investments including MiFID II and investment performance monitoring;
- Shared administration services; and
- Training.

- 6.2 There will be a degree of flexibility in future work plans to allow for any additional reviews by the Scheme Advisory Board or the Pensions Regulator, or any other developments. For 2018/2019, the Regulator's 21st Century Trusteeship and its "Quicker, Clearer, Tougher" approach will influence the work plan, including its expanded Annual Scheme Return.

7 Thanks

As Chair of Northumberland County Council's LGPS Local Pension Board I wish to thank my fellow Board members who have volunteered their time and energies for their roles, and for their ongoing support, as reflected in their excellent attendance record. As a non-voting Chair, it is pleasing that votes are very rarely required, and that, when called, have all been unanimous. Sincere thanks are also expressed to the Board Secretary, Chair and Vice Chair of the Pension Fund Panel, to the Democratic Services Officers and to officers of the Tyne and Wear Pension Fund who have attended to help the Board's understanding of the implications of the shared administration service.



Gerard Moore
Independent Chair
Northumberland County Council LGPS Local Pension Board
17 April 2018