

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 22 June 2018 at 9.30 a.m.

PRESENT

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

MEMBERS

Kennedy, D. (from 9.45 a.m.) Robinson, M.

TRADE UNION REPRESENTATIVES

Culling, A. Storey, I.

OBSERVER REPRESENTATIVES

Adams, Ms. J.H. Employer Representative

PENSION FUND PANEL ADVISER MEMBER

Ms. S. Greenwood Mercer Ltd.

OFFICERS IN ATTENDANCE

Mr. P. Cooper	Communications Manager (TWPF)
Mrs. C. Gorman	Principal Accountant (Pensions) - Project Officer
Mr. C. Johnson	Senior Accountant (Pensions)
Mr. A. Lister	Principal Accountant (Pensions)
Ms. N. Turnbull	Democratic Services Officer

ALSO PRESENT AS OBSERVERS

G.F. Moore	Chair of NCC LGPS Local Pension Board
Cllr B Pidcock (from 10.00 a.m.)	NCC LGPS Local Pension Board Member

1. APOLOGIES FOR ABSENCE

Ch.'s Initials.....

Apologies for absence were received from Councillors Bawn, Dunn and Swithenbank, Ms. Dick (Employees/Pensioner Representative), and J.P. Clark (NCC LGPS Local Pension Board Observer).

2. MINUTES

RESOLVED that:

- (a) the minutes of the meeting of the Pension Fund Panel, held on Friday 13 April 2018, as circulated, be confirmed as a true record and signed by the Chair.
- (b) the minutes of the NCC LGPS Local Pension Board, held on Monday, 17 April 2018, as circulated, be received for information.

3. 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.

4. REPORTS OF THE SERVICE DIRECTOR - FINANCE

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

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

The report presented the Northumberland County Council Pension Fund draft Annual Report and Accounts for the year to 31 March 2018.

The Principal Accountant (Pensions) reported that there had been a net withdrawal from dealings with members in 2017/2018 of £3 million, where payment of pensions had exceeded contributions from active members. It was noted that this was a decrease on the 2016/2017 net withdrawal from dealings with members (£6 million), and reversed the upward trend of previous years. A net withdrawal was to be expected given the maturity of the Fund and the continuing increase in the number of pensioners and deferred pensioners. The Fund, however, was cash flow positive in 2017/2018 with the inclusion of investment income.

It was noted that the NCC Pension Fund Accounts needed to be consistent with the NCC Statement of Accounts, and were required to be completed and audited by 31 July 2018. As the deadline for the accounts had been brought forward by two months, it had been necessary to include more valuation estimates than in previous years. Claire Mellons of EY, NCC's external auditor, would attend the September 2018 Panel meeting to present EY's Final Audit Report for 2017/2018.

The Chair expressed his appreciation to the Principal Accountant (Pensions) and Senior Accountant (Pensions) who had prepared the Pension Fund Annual Report and Accounts. The report contained a number of key documents required by LGPS Regulations including: the Investment Strategy Statement, the Funding Strategy Statement, the Fund Account, the Net Assets Statement, the actuarial value of the Fund at 31 March 2016, and was therefore a valuable reference document for Panel members.

RESOLVED that the report be accepted.

(2) LGPS Scheme Annual Report 2017

The Panel was provided with information about the LGPS Scheme Annual Report at 31 March 2017, published by the LGPS Scheme Advisory Board (SAB) in May 2018.

The data for Northumberland County Council Pension Fund (NCCPF) was comparable with the other LGPS funds which, collectively, had seen an increase in membership and assets, and a net withdrawal from dealings with members. It was noted that NCCPF had a relatively high weighting to index linked gilts and a relatively low weighting to property, compared to other LGPS funds.

Members discussed the differences in longevity and life expectancy across both Northumberland, at county level, and the UK as a whole, and the significant impact such differences would have on the Fund's valuation. The Principal Accountant (Pensions) - Project Officer reported that the evidence suggested that the pace of increase in longevity was now slowing down and this could potentially be taken into account by the actuary in the next triennial valuation of the Fund, as at 31 March 2019.

RESOLVED that the report be accepted.

(3) NCC Pension Fund's Communication Strategy Statement

The updated NCC LGPS Communication Strategy Statement was provided to the Panel, for information.

The Principal Accountant (Pensions) - Project Officer reported that the NCCPF Communication Strategy had been updated to reflect the new working

arrangements following implementation of the shared administration service with South Tyneside Council in January 2018.

RESOLVED that the report be accepted.

(4) General Data Protection Regulation (GDPR)

The Panel received an update on the General Data Protection Regulation (GDPR), which became effective from 25 May 2018. Examples were provided of template documents produced by Squire Patton Boggs for LGPS administering authorities, including a privacy notice and a Memorandum of Understanding (MoU), along with Tyne and Wear Pension Fund's (TWPF) list of key actions required to be completed to ensure GDPR compliance.

The Principal Accountant (Pensions) - Project Officer added that copies of the documents were available on the TWPF website. The MoU had also been issued to all NCCPF employers to reassure them that data sharing agreements were not required for employers to provide data to the administrator. The MoU pointed out that employers and the administrator can rely on the "lawful basis for processing data" exemption from GDPR.

In response to a question, the Communications Manager (TWPF) confirmed that officers were working towards compliance and had identified areas which required action in a plan which was expected to be complete within the next two months, although GDPR compliance would likely be an ongoing, evolving issue and potentially never be fully attainable.

RESOLVED that the report be accepted.

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

The Panel was provided with information about outcomes and proposals from the meeting of NCC's LGPS Local Pension Board held on 17 April 2018.

Mr. Moore, the Independent Chair of the NCC LGPS Local Pension Board, outlined the contents of the report which included recommendations by the Board, assurances gained and information to note.

RESOLVED that

- (a) the proposals from the Local Pension Board meeting held on 17 April 2018, as set out in Appendix 6 of the report, be accepted; and
- (b) the assurances gained by the Board at that meeting be noted.

(6) Action Plan 2018 for NCC Pension Fund: quarterly monitoring

The Panel received a report which monitored progress against the NCCPF Action Plan 2018.

The Principal Accountant (Pensions) - Project Officer reported that progress was in line with the plan.

RESOLVED that the report be accepted.

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

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

RESOLVED that the report be accepted.

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

Ms S. Greenwood left the meeting whilst the following item was discussed.

The Panel received a report which informed members of the results of the 2017/2018 formal assessment of the performance of the Pension Fund Panel investment adviser, Mercer.

The Senior Accountant (Pensions) provided a summary of the responses; areas such as accessibility and knowledge had scored highly as expected, whereas some lower scoring questions would potentially have warranted a 'not applicable' response, and this had possibly skewed the overall score. It was emphasised to Panel members that, for any questions they felt they were unable to comment on, 'not applicable' would be appropriate. The overall average score was 3.5 out of a maximum 4, a slight decrease on the previous year (3.7), however the results of the 2017/2018 assessment showed that the Panel continued to have confidence in Mercer's advice, and comments were mainly positive.

The Chair noted the promotion of Joanne Holden to UK Investment Head, and that Susan Greenwood would now be primary contact for NCCPF.

RESOLVED that the report be accepted.

(9) Training

Members of the Pension Fund Panel were reminded about the availability of Local Government Association (LGA) 3-Day 'Fundamentals' training which was available at either Cardiff, Leeds or London between October and December 2018.

A summary of the May 2018 Public Lifetime and Savings Association (PLSA) Annual Local Authority Conference highlights, produced by Hymans

Robertson, was provided to the Panel for information, as well as feedback from the Chair of the Panel, Principal Accountant (Pensions) - Project Officer, and Mr Moore, who had all attended the event. It was believed that there would be an increasing focus on the benefits of economies of scale on the administration of the Scheme. This had already been addressed at NCCPF by implementing the shared administration service with TWPF.

RESOLVED that the report be accepted.

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

Information was provided about the results of the Pensions Regulator (tPR) public service governance and administration survey which was published in May 2018.

The Principal Accountant (Pensions) - Project Officer outlined some of the key findings of the report which concluded that process improvements had stalled in some LGPS funds and that LGPS funds had been the least likely to respond to the survey compared to other public sector funds.

It was understood that tPR intended to focus resources on the LGPS in 2018 and that this would include a review or inspection of approximately ten funds.

RESOLVED that the report be accepted.

(11) Recording breaches: progress and quarterly monitoring report

The report provided information about breaches of the law which had occurred in and before the quarter to 31 March 2018.

RESOLVED that the NCC LGPS Local Pension Board be requested to consider breaches of the law for the quarter to 31 March 2018 at its next meeting.

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

Information was provided about the Fund's KPIs in the quarter to 31 March 2018.

RESOLVED that the NCC LGPS Local Pension Board be requested to consider KPIs for LGPS administration at its next meeting.

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

The Panel received a copy of TWPF's quarterly regulatory reports, which were provided to South Tyneside Council's Pensions Committee to keep members up to date with relevant LGPS regulatory changes.

The Principal Accountant (Pensions) - Project Officer highlighted two items of note:

- The interim solution had been extended with regard to Guaranteed Minimum Pensions (GMPs) for those individuals reaching state pension age on or before 5 April 2021. Reconciliation work on behalf of NCCPF was currently being undertaken by TWPF. Further announcements, at national level, were expected in regard to any potential rectification work required and would be considered by the Panel in a report at a future meeting.
- Payment of a surplus or exit credit to an exiting employer was now permitted by the Regulations.

RESOLVED that the report be received.

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

A copy of the annual report of the NCC LGPS Local Pension Board (LPB) 2017/2018 was provided to the Panel, for information.

The Chair of the NCC LGPS LPB highlighted a number of areas within the report including the 90% attendance of Board members at meetings; the direct costs of the board; the acceptance of Board recommendations and outcomes from meetings; consideration of investment issues; and other actions performed by the Chair, on behalf of the Board.

He also reported that he had recently been appointed as the Independent Chair of Bedfordshire Pension Fund's LGPS Local Pension Board.

The Panel Chair commented that the Fund benefited from the experience of the LGPS LPB Chair and the arrangement to share the cost of his attendance at various events with the other funds Mr Moore chairs.

RESOLVED that the report be accepted.

(15) Fund performance and total Fund value

Information was provided to the Panel about the Fund performance in the quarter to 31 March 2018 and the total Fund value at that date.

RESOLVED that the report be received.

5. 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 - 11	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.

6. MINUTES

RESOLVED that the confidential minutes of the meeting of the Pension Fund Panel held on Friday 13 April 2018, as circulated, be confirmed as a true record, and signed by the Chair.

7. 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) Shared pensions administration service with Tyne and Wear Pension Fund

The report updated the Panel about the work done by officers following the implementation of the shared pensions administration service with Tyne and Wear Pension Fund (TWPF) in January 2018.

The Principal Accountant (Pensions) - Project Officer reported that follow up work was ongoing as a result of a data validation exercise undertaken in February 2018 by TWPF. TWPF normally undertook the exercise on an annual basis and had carried out the same exercise on the Northumberland

data following the implementation of the shared pensions administration service and was providing an opportunity to cleanse data.

The report highlighted errors, such as incorrect dates of birth for members, probably due to manual input errors, which had not previously been identified.

In response to a question, Paul Cooper, Communications Manager (TWPF) confirmed that the matters identified were teething issues and not a major cause for concern. He was pleased to report that the former NCC employees who had been TUPE transferred had integrated well within the Pensions Team at South Tyneside Council and had improved the flexibility and resilience of the Pensions Administration Service for members in both funds.

RESOLVED that:

- (a) The report be accepted.

Paul Cooper, Communications Manager (TWPF) left the meeting following this item.

(2) Current estimated funding position for Northumberland County Council Pension Fund

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

Members considered the actuary's estimate of the funding level as at 31 March 2018. Although there had been a slight fluctuation since the previous quarter, the funding ratio remained significantly higher than at the 31 March 2016 formal actuarial valuation of the Fund.

The Panel discussed the changes that could be made by the Actuary for the 2019 valuation including a change in employer contribution rates and/or changes to the level of prudence built into the valuation process by the Actuary when assessing liabilities.

RESOLVED that the report be accepted.

(2) New commitment to infrastructure fund managed by Pantheon

The report informed Panel members of the £40 million commitment to Pantheon's Global Infrastructure Fund III, following the decision made at the Panel meeting on 13 April 2018.

The Principal Accountant (Pensions) - Project Officer confirmed that clarification had been obtained on the issues requested by the Panel at the April meeting and, following the completion of the necessary due diligence

work, had enabled officers to complete legal terms on the investment in May 2018. It was anticipated that the first drawdown of funds would take place in summer 2018.

RESOLVED that the report be received.

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

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

The Principal Accountant (Pensions) - Project Officer outlined the money which had been allocated equally by all of the twelve partner funds towards the costs of establishing the BCPP pool, and confirmed that the proposed go live date of July 2018 remained on track.

She provided a summary of the issues outstanding in connection with the proposed launch of the UK Equity Alpha sub-fund and the potential impact on the investors. NCCPF had no immediate plans to move assets to this sub-fund. The position with regard to staffing at BCPP Ltd was also noted.

The Panel also received an update on the high level principle agreed with regard to the sharing of transition costs and the legal clarification being sought as to whether this was possible. Given the imminent commencement of asset transfers to BCPP Ltd, it was requested that a delegated decision be agreed regarding the BCPP transition cost sharing agreement, which may be required before the next meeting of the Panel.

RESOLVED that:

- (a) The report be noted; and
- (b) 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 BCPP transition cost sharing agreement, if necessary.

(5) Assessment of newly forming academies

The Panel received information about the categorisations and applicable deficit recovery periods for seven proposed academy conversions of NCC schools, namely Hexham Priory School, Ponteland High School, Richard Coates CE School, Ponteland Primary School, Belsay Primary School, Darras Hall Primary School and Heddon on the Wall CE Primary School.

RESOLVED that the report be accepted.

(6) Transaction costs

Information was provided about the transaction costs incurred by the fund managers in the quarter to 31 March 2018.

RESOLVED that the report be accepted.

(7) Presentations at the meeting by Legal and General

The Panel received information about Legal and General (LGIM), the Fund's passive investment manager, who was attending the meeting of the Panel.

RESOLVED that the report be accepted.

(8) Mercer's ratings of NCCPF's investment managers, currency hedging update and paper on active versus passive investment management

The report provided Panel members with Mercer's ratings of all of the Fund's investment managers, a currency hedging update, and a paper on active versus passive investment management.

RESOLVED that the report be accepted.

8. LEGAL AND GENERAL

The Panel received a presentation from James Sparshott on LGIM's passive management processes, and the active v. passive investment management debate. (A copy of the presentation is enclosed with the signed minutes).

RESOLVED that the presentation be received.

9. MERCER'S REPORTS ON INVESTMENT MANAGERS, CURRENCY HEDGING 6 MONTHLY REVIEW AND ACTIVE V. PASSIVE: CONSIDERATIONS FOR THE FUTURE

The Panel considered a report from Mercer Ltd, on the fund's investment manager attending the meeting, currency hedging and active versus passive: considerations for the future, which was presented by Susan Greenwood.

RESOLVED that:

- (a) The report be noted; and
- (b) The Pension Fund Panel was minded to further explore moving some of NCCPF's investments in publicly quoted equities from (the current) passively managed strategy into actively managed strategies, with UK

equities to be considered first; a representative from BCPP Ltd be requested to attend a future meeting of the Panel to discuss options.

10. URGENT BUSINESS

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

Implementation of an equity protection strategy for NCCPF

Following receipt of the presentation by Legal and General on the principles of active versus passive investment management, it was agreed that it would be timely to give consideration to the issue of implementing an equity protection strategy for NCCPF.

The Principal Accountant (Pensions) - Project Officer gave a brief summary of the potential benefits of an equity protection strategy which could protect the recent significant increase in the value of quoted equities, prior to finalising the 31 March 2019 valuation. However, it was considered by the Chair (and officers) that there was insufficient time for the matter to be properly considered at this meeting of the Panel due to the comprehensive and busy agenda, and the complexity of the issue.

It was therefore agreed that consideration of the matter be delegated to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel. It was proposed that a date be arranged for the Chair and Vice-Chair to discuss the issue with Susan Greenwood of Mercer and that all members of the Pension Fund Panel be invited to attend, if available.

RESOLVED that delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, to consider implementing an equity protection strategy for NCCPF.

11. LEGAL AND GENERAL

The Panel received a presentation from James Sparshott and David Patt on responsible investment and share voting. (A copy of the presentation is enclosed with the signed minutes).

RESOLVED that the presentation be received.

CHAIR _____

DATE _____