



Northumberland  
County Council

**MEETING OF THE PENSION FUND PANEL**

**10 SEPTEMBER 2018**

**REPORT OF THE SERVICE DIRECTOR - FINANCE**

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**1. Northumberland County Council Pension Fund: 2017/2018 Annual Report and Accounts and external audit**

**Purpose of the report**

The purpose of this report is to update the Panel on the publication of the Northumberland County Council Pension Fund Annual Report and Accounts for the year to 31 March 2018, and provide the external auditor's "**Audit Results Report**".

**Recommendation**

**The Panel is requested to accept the report.**

**Key issues**

- 1.1 The Northumberland County Council **Pension Fund** (NCCPF) Annual Report and Accounts form 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.
- 1.2 NCC's Audit Committee is responsible for approving NCC's Financial Statements and NCCPF's Annual Report and Accounts. Approval of the final, audited Pension Fund Annual Report and Accounts for 2017/2018 was given at the 25 July 2018 NCC Audit Committee meeting.
- 1.3 The **draft** NCCPF Annual Report and Accounts for 2017/2018 was reported to the Pension Fund Panel at its meeting held on 22 June 2018. The **final** NCCPF Annual Report and Accounts for 2017/2018 has *not* been provided with these papers as there were no significant changes made to the draft. The final version has been published on NCC's website.
- 1.4 Claire Mellons (Manager) of Ernst & Young LLP (trading as EY), the Council's external auditors, will attend this meeting of the Pension Fund Panel to present EY's "**Audit Results Report**" (also known as an ISA 260) on the 2017/2018 NCCPF Accounts. The EY draft report is **enclosed** with these papers.
- 1.5 The enclosed Audit Results Report was also reported to the Audit Committee meeting on 25 July 2018.

## 1. Northumberland County Council Pension Fund: 2017/2018 Annual Report and Accounts and external audit

### BACKGROUND

- 1.6 The **draft** NCCPF Annual Report and Accounts for 2017/2018 were reported to the Pension Fund Panel at its meeting on 22 June 2018.
- 1.7 New statutory guidelines requiring earlier publication of NCC's accounts (of which the Fund accounts form part) meant that the accounts preparation and audit work took place earlier in the annual cycle this year than in prior years.
- 1.8 The **final** audited Annual Report and Accounts for 2017/2018, signed by NCC's Executive Director of Finance, were approved at NCC's Audit Committee on the 25 July 2018. The final version has not been brought back to the Panel at this meeting as there were **no significant changes** made to the draft version already provided in June, other than the inclusion of the independent auditor's opinion. The final version is available from the NCC website or upon request.
- 1.9 The final NCCPF Annual Report for 2017/2018 has been sent to the employers participating in the Fund and other interested parties.
- 1.10 As in prior years, Northumberland County Council Pension Fund's Annual Report and Accounts has been prepared as a stand-alone document as well as forming part of Northumberland County Council's Annual Financial Statements. The "**true and fair**" audit opinion is provided on NCC's Financial Statements.
- 1.11 There is a regulatory 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. The Annual Report for the year ended 31 March 2018 must be published before 1 December 2018.
- 1.12 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, **not** a separate legal entity.

### NCC's Audit Committee review of the 2017/2018 draft Financial Statements

- 1.13 NCC's 2017/2018 **draft** Financial Statements (incorporating the NCCPF accounts) and NCCPF's 2017/2018 **draft** Annual Report and Accounts were provided to members of the Audit Committee, who were invited to attend one of two "drop in" sessions held in June, where officers were available to provide information and explanations.

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

- 1.14 EY's audit work on the Fund's Annual Report and Accounts for 2017/2018 was completed at the end of July 2018. EY's **Audit Plan** for the year ending 31 March 2018 for NCCPF was presented to the February 2018 Panel meeting and the audit results will be presented at this meeting.

- 1.15 Claire Mellons (Manager) of EY will attend this meeting of the Pension Fund Panel to present EY's "**Audit Results Report**" on the 2017/2018 NCCPF Annual Report and Accounts, a draft of which is **enclosed** with these papers. This has already been presented to the Audit Committee on 25 July 2018.
- 1.16 Unadjusted differences in the Pension Fund Accounts of £2 million are identified (on page 17) in the EY report. These relate to more up to date valuations of investments being received from investment managers after the draft accounts were prepared. Due to the nature of private equity and infrastructure investments, final valuations at 31 March 2018 were received from investment managers too late to be incorporated in the draft accounts. NCC has adopted the approach that unless there is a material change in valuations notified after the draft accounts have been prepared, they will not be changed.
- 1.17 Two weaknesses in the control environment are identified (on page 21) in the EY report. No problems have been noted as a result of the control weaknesses identified. The control weakness referring to creating and authorising journals was also identified in the audit results report for NCC's financial statements. A corporate change in the use of NCC financial systems will be required to address this weakness. In relation to the bank reconciliation control mentioned in the EY report, bank statements from the Pension Fund bank account are used as the source for updating the general ledger and therefore there have been no reconciling items to identify. Officers will work with EY to produce a suitable reconciliation process during 2018/2019.



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### 2. IORP II: implications for LGPS administering authorities

#### Purpose of the report

This report provides information about IORP II, the EU Directive for pension schemes which must be brought into UK legislation by 13 January 2019.

#### Recommendation

**The Panel is requested to accept the report.**

#### Key issues

- 2.1 In January 2017, the EU approved major revision to the legislation on workplace pension schemes, the **Directive on Institutions for Occupational Retirement Provision**. The revision to this Directive is known as “**IORP II**”. Member states have until 13 January 2019 to bring their own legislation in line with IORP II.
- 2.2 UK pension schemes, including the LGPS, must comply with IORP II as it becomes effective in January 2019, prior to the UK leaving the EU on 29 March 2019. The exact requirements for UK schemes will depend on how the IORP II measures are transposed into UK legislation, and particularly how the references to “proportionality” are interpreted. It is likely that there will be an **increased focus on governance and risk** for schemes, following implementation of IORP II in UK legislation.
- 2.3 The **enclosed** Mercer briefing note provides background information on IORP II. The IORP II Directive can be accessed from:  
<http://data.consilium.europa.eu/doc/document/PE-35-2015-INIT/en/pdf>.
- 2.4 In an email from Jeff Houston, Head of Pensions at the Local Government Association, to Clare Gorman on 16 August 2018, Jeff refers to his ongoing discussions with the Department for Work and Pensions (DWP) about the implementation of IORP II. Jeff’s expectation, at this stage, is that DWP will introduce the legislation in the UK in such a way as to minimise the impact on pension schemes.
- 2.5 Jeff points out that the UK Government can, under Article 5, exclude the LGPS from significant elements of the Directive, especially around investments (under Article 19). The final UK legislation will depend, to some extent, on availability of parliamentary time in the next few months.
- 2.6 Further report(s) on the implementation of IORP II and the implications for the LGPS will be brought to the Panel in due course.



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### 3. CMA proposed changes to the investment consultancy market

#### Purpose of the report

This report provides information about reforms to the investment consultancy market proposed by the Competition and Markets Authority (CMA) in its provisional decision report, published in July 2018.

#### Recommendation

**The Panel is requested to accept the report.**

#### Key issues

- 3.1 In September 2017, the Panel received a report about the Financial Conduct Authority's (FCA's) reference to the CMA covering the FCA's concerns over conflicts of interests among investment advisers, and the potential for advisers to encourage clients to move from consultancy to more lucrative "fiduciary management" mandates. The FCA's concerns were over concentration in the market, most notably for Aon, Mercer and Willis Towers Watson.
- 3.2 On 18 July 2018, the CMA published (for consultation) its "Investment Consultants Market Investigation" *provisional* decision report. This concluded that while there is good competition in the market, nevertheless there is scope to improve in both the investment consultancy and fiduciary management markets.
- 3.3 Hyman's Robertson's sixty second summary of the reforms proposed by CMA is attached as **Appendix 1** to this report. The CMA's *final* report will be published by 13 March 2019.
- 3.4 The CMA's chairman for the investigation, John Wotton, said:  
  
*"We're concerned that pension schemes are not currently putting pressure on the market to get the best value for money on behalf of their members. They may lack the information they need to compare competing offers and so could be sticking with their existing investment consultant or fiduciary manager when there are better options available. .... That's why we're proposing a number of important reforms to the sector, including requiring pension trustees to run a competitive tender when they choose a fiduciary manager and ensuring that trustees have much better information about fees and investment performance."*
- 3.5 Mercer currently provides investment advisory services to the Panel and NCCPF, rather than fiduciary management. For NCCPF, the most relevant CMA proposal is that trustees will be required to set strategic objectives for their consultants to report against. Susan Greenwood will provide a verbal update at this meeting of Mercer's expectations of the impact these proposals will have on the market.





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### 4. Conflicts of Interest Policy for NCC Pension Fund and individual declarations of interests

#### Purpose of the report

This report requests that the Panel updates the Fund's Conflicts of Interest Policy which applies to Pension Fund Panel and Local Pension Board members and key officers involved in administering the LGPS, and requests that Panel and Board members review their current individual declarations under that Policy.

#### Recommendation

The Panel is requested to:

- (i) note the Fund's adopted Conflicts of Interest Policy, attached as Appendix 2 to this report, and approve the updates to the Policy set out in paragraph 4.11; and

Each Panel and Board member is requested to:

- (ii) review his/her own existing declaration and update if necessary; and
- (iii) review the Fund's Register of Conflicts of Interest which will be available at this meeting.

#### Key issues

4.1 To comply with the LGPS Advisory Board (SAB) guidance, the first **Conflicts of Interest Policy** for NCC Pension Fund was adopted in May 2015. This is attached as **Appendix 2** to this report. The Policy is due for its first three-yearly review, and whilst substantial revision is not considered necessary, some updates are proposed, as shown in paragraph 4.11 of this report. The next three-yearly review is due in September 2021.

4.2 The Policy applies to:

- Pension Fund Panel members;
- Local Pension Board Members; and
- the supporting officers involved in the administration of the LGPS.

Adopting a formal policy of this type is intended to demonstrate compliance with the Pensions Regulator (tPR) and SAB guidance.

4.3 The Fund's **Register** of Conflicts of Interest is maintained by the Principal Accountant (Pensions). All members of the Pension Fund Panel, the Local Pension Board and key officers are asked to complete or update an individual declaration of interests, annually. The individual declarations are retained in the Register, which may be viewed by any interested party at any point in time

#### 4. Conflicts of Interest Policy for NCC Pension Fund and individual declarations of interests

##### BACKGROUND

###### Scheme Advisory Board Guidance on the Local Pension Board

- 4.4 The LGPS (Amendment) (Governance) Regulations 2015 which established the Local Pension Boards within the LGPS were laid before Parliament in January 2015, and the (then Shadow) LGPS Advisory Board (SAB) immediately published its final “*Guidance on the creation and operation of Local Pension Boards in England and Wales*”. The Guidance (a 75 page document) can be accessed from the link:  
[http://www.lgpsboard.org/images/Guidance/LGPS\\_Board\\_Guidance\\_FINAL\\_PUBLISHED.pdf](http://www.lgpsboard.org/images/Guidance/LGPS_Board_Guidance_FINAL_PUBLISHED.pdf).
- 4.5 To comply with the Public Service Pensions Act 2013, the LGPS Governance Regulations 2015, the Pensions Regulator's (tPR) Code of Practice for Public Service Schemes, and the SAB guidance, NCC as administering authority for the NCC Pension Fund adopted a conflicts policy in May 2015.
- 4.6 The SAB guidance contains the following **comments** in relation to Local Pension Boards' conflicts policy (see chapter 7 of the guidance):
- *When establishing its Local Pension Board, the Administering Authority should prepare and approve a conflicts policy for the Board to adopt. The conflicts policy should cover the points discussed in the preceding paragraphs relating to the identification, monitoring and management of potential conflicts of interest (including adviser conflicts). Once adopted, the Local Pension Board should keep this policy under regular review.*
  - *The conflicts policy should include as a minimum:*
    - *examples of scenarios giving rise to conflicts of interest;*
    - *how a conflict might arise specifically in relation to a member of a Local Pension Board; and*
    - *the process to be followed by members of a Local Pension Board and the Administering Authority to address a situation where members are subject to a potential or actual conflict of interest.*
- 4.7 The SAB guidance contains the following **action points** in relation to Local Pension Boards' conflicts policy:
- *An Administering Authority should prepare a code of conduct and a conflicts policy for its Local Pension Board for approval in accordance with the Administering Authority's constitution and at the first meeting of the Local Pension Board. The Local Pension Board should keep these under regular review.*
  - *Training should be arranged for officers and members of a Local Pension Board on conduct and conflicts.*
  - *A Local Pension Board should establish and maintain a register of interests for its members.*

- 4.8 NCC LGPS Pension Fund's **Conflicts of Interest Policy**, adopted in **May 2015**, is attached as **Appendix 2** to this report. Members should note that whilst the SAB guidance relates to Board members only, most administering authorities (including NCC) have taken the approach that standards which apply to the Board must also apply to the decision makers, i.e. the pensions committee. Also, it is implicit within the tPR Code of Practice that conflicts for Panel members and key officers are *at least* as relevant to the robust governance of the LGPS as conflicts for Local Pension Board members.
- 4.9 Therefore, NCC Pension Fund's Conflicts Policy applies to:
- Pension Fund Panel members;
  - Local Pension Board Members; and
  - supporting officers involved in the administration of the LGPS.
- 4.10 The Conflicts of Interest Policy itself requires review every three years or sooner if necessary. Therefore, it is appropriate to update it at this meeting.
- 4.11 The framework provided by the Policy remains applicable, but some **updates** are needed. The following changes to the Policy (at Appendix 2) are proposed:
- the Policy date (22 May 2015) be changed to **10 September 2018**;
  - the name and contact details for Andrew Lister and Craig Johnson replace those shown for Clare Gorman;
  - under the heading on page 3 of the Policy "**to whom this policy applies**"
    - a further bullet point be added to cover "*all employees of South Tyneside Council who are involved in the administration of the LGPS as part of the shared administration service with NCCPF*";
    - "*and including responsibilities representing the Fund on other committees, groups and bodies*" be added to the first bullet point;
    - "*asset pooling operator*" be added to the list of advisers;
  - under the heading on page 4 "**legislation and related context**" reference to the recent CIPFA governance principles on asset pooling guidance be added;
  - under the heading on page 6 "**Administering Authority specific requirements**" the **Employees** section be expanded with "*employees of South Tyneside Council are required to adhere to STC's Employees' Code of Conduct*";
  - references to the Chairman of the Panel be changed to Chair; and
  - two **examples** of a potential conflict arising due to the requirement to pool assets be added on page 13
    - "*a Fund officer applying to the pool operator for employment may give misleading advice to the Panel to improve his/her prospects*";
    - "*a member of the Pension Fund Panel or officer is serving on the pool's joint committee or officer group and a matter is being considered that would benefit one Partner Fund disproportionately to the others*".
- 4.12 Subject to Panel approval being given for the updates referred to in paragraph 4.11, the Policy will be updated and published shortly after this meeting.

## Register of Conflicts of Interest

- 4.13 The Policy refers to the maintenance of a Register of Conflicts of Interests. All current members of the Board and the Panel have already signed an individual declaration of interests. Such declarations should be updated annually or more often if required, and the annual review takes place in September.
- 4.14 Members and officers should consider their **other** interests in Scheme employers and in potential Scheme employers (such as parish councils and governorships or directorships of schools or academies) when deciding on appropriate wording for their individual declarations. An up to date list (as at 31 March 2018) of the Fund's Scheme employers is shown on **page 84** of the NCCPF Annual Report which can be accessed from the link:  
<http://www.northumberland.gov.uk/NorthumberlandCountyCouncil/media/About-the-Council/Finance/Final-NCC-Pension-Fund-Annual-Report-and-Accounts-2017-18.pdf>
- 4.15 The Fund's Conflicts Policy and Register operates **in addition to** the existing member/officer codes of conduct, because it is looking for conflicts that might not be also picked up as pecuniary interests. Also, having a separate, specific Policy and a Pension Fund Register of Conflicts of Interest ensures transparency and consistency across all of the groups covered.
- 4.16 In late August 2018, Craig Johnson contacted Panel and Board members by email to ask each member to consider and review his/her own existing declaration and update it if necessary.
- 4.17 Panel members are asked to consider any conflicts that might apply to them individually and, if necessary, discuss them with Andrew Lister, Craig Johnson, Clare Gorman or NCC's Monitoring Officer, before completing or updating the individual declaration.
- 4.18 A declaration has been obtained for Northumberland County Council's newly appointed (in June 2018) Section 151 Officer, Barry Scarr. Once the Policy is updated to clarify that it applies to staff at South Tyneside Council, a declaration will be requested from Ian Bainbridge, Heather Chambers and Paul Cooper, the key officers of Tyne and Wear Pension Fund.

## Monitoring and reporting

- 4.19 The Conflicts Policy states:

*"The Fund's Register of Conflicts of Interest may be viewed by any interested party at any point in time. It will be made available by the Principal Accountant (Pensions) on request.*

*In order to identify whether the objectives of this Policy are being met the Administering Authority will review the Fund's Register of Conflicts of Interest on an annual basis and consider whether there has been any potential or actual conflicts of interest that were not declared at the earliest opportunity."*

- 4.20 If necessary, a line could be added to the Annual Report of the Pension Fund Panel which is taken to full Council in May each year, to summarise how conflicts have been dealt with through the year, and whether, in the Chair of the Panel's view, the objectives of the Conflicts of Interests Policy have been met.

4.21 Panel members are asked to review the Register of Conflicts of Interest at this meeting.



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### 5. Pensions Ombudsman's ruling against Northumbria Police

#### Purpose of the report

This report provides information about the Pensions Ombudsman's recent ruling against Northumbria Police in a pension liberation fraud, and the procedures in place at Tyne and Wear Pension Fund (TWPF), as part of the shared service, to prevent a similar occurrence at NCCPF or TWPF.

#### Recommendation

**The Panel is requested to accept the report.**

#### Key issues

- 5.1 In a recent decision, the Pensions Ombudsman (TPO) ruled against Northumbria Police Authority in a pension liberation fraud. In 2014 "Mr N" transferred his pension rights out of the Police Pension Scheme to the London Quantum Scheme. London Quantum is now being investigated for pension liberation fraud, and Mr N may have lost some/all of his pension pot.
- 5.2 TPO concluded it was maladministration as the Police Authority had not conducted proper investigations into London Quantum and had not sent Mr N any warnings (including the scorpion leaflet). TPO held that Mr N would not have transferred his rights had he been warned appropriately, and ordered the Authority to provide Mr N with benefits equal to the £124,000 he lost (less whatever Mr N ultimately recovers from London Quantum).
- 5.3 This TPO case was widely reported in the pensions press in August 2018, and two press articles commenting on the case are shown in **Appendix 3**.
- 5.4 The ruling highlights the responsibilities of LGPS administering authorities (and all other schemes) towards their members, not only in **alerting** them to the risk of scams but also in performing **proper checks** on the receiving scheme.
- 5.5 TWPF undertakes the work on members' transfers out on behalf of NCCPF as part of the shared administration service. When a NCCPF LGPS member requests a transfer value to a non-public sector scheme, TWPF provides the scorpion leaflet and embeds links to it in all communications. TWPF also has a robust legal due diligence procedure in place to check the receiving pension scheme. For information, the scorpion leaflet can be accessed from:  
<http://www.twpf.info/CHttpHandler.ashx?id=27927&p=0>.
- 5.6 In August 2018, the Pensions Regulator and the Financial Conduct Authority launched a press campaign to warn members of the public to be wary of cold callers who may be operating a pension liberation fraud. Details of the campaign are shown in **Appendix 4**.





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#### 6. Outcomes of the July 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 26 July 2018.

##### Recommendation

The Panel is requested to:

- (i) consider the recommendations from the Local Pension Board meeting held on 26 July 2018, as set out in Appendix 5; and
- (ii) note the assurances gained by the Board at that meeting.

##### Key issues

- 6.1 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.*"
- 6.2 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.
- 6.3 The Report of the Board Chair, covering the outcomes of the Board meeting on 26 July 2018, is attached as **Appendix 5** to this report. The Board Chair will provide further information about those outcomes at this Panel meeting.
- 6.4 Members should note the 26 July 2018 Board meeting **recommendations**:
  - that the Panel considers the need for either separate independent advice and/or greater emphasis on declaration of potential conflicts of interests; and
  - that officers at Tyne and Wear Pension Fund make changes to the wording used in the annual benefit statement mailing to deferred members.
- 6.5 The Panel has previously considered and ruled out having a separate independent Panel adviser (other than for specific, one-off projects) but this could be reconsidered. Officers at Tyne and Wear Pension Fund have made changes to the wording used in the next annual benefit statement mailing.



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#### 7. 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

- 7.1 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 second of the quarterly monitoring reports.
- 7.2 The Action Plan 2018, attached as **Appendix 6**, should be viewed as a checklist of actions expected in the year, rather than a rigid framework to be followed.
- 7.3 Progress made in the period since the previous quarterly meeting of the Panel, on 23 February 2018, is set out in **Appendix 7** to this report. Reasonable progress has been made in this period, in line with expectations.



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### 8. 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 30 June 2018.

#### Recommendation

**The Panel is requested to note the information in this report and delegate to the NCC LGPS Local Pension Board to review this information in detail at its meeting on 8 November 2018, and report back to the Panel.**

#### Key issues

- 8.1 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.
- 8.2 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 are reported by TWPF. However, breaches within the functions retained by NCC, including collection of contributions, are reported by NCC officers.

#### Breaches within functions retained by NCC

- 8.3 In the quarter to 30 June 2018 there were no breaches of the requirement to pay contributions within 19 days of the month end. Details of a breach which occurred when a school joined a multi-academy trust in a neighbouring LGPS fund are attached as **Appendix 8**.

#### Breaches within member administration services

- 8.4 All previously unresolved breaches to 30 August 2018 have been consolidated onto a single breaches record (an A3 spreadsheet) covering all quarters ended 31 December 2017, and **enclosed** with these papers.
- 8.5 Breaches information within member administration services for the period April to August 2018 (after the shared service began) is attached as **Appendix 9**.

#### Annual benefit statements (ABSs)

- 8.6 ABSs as at 31 March 2018 for NCCPF's deferred members were mailed out in July 2018, and for active members were mailed out in August, both before the statutory deadline of 31 August 2018.



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### 9. 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 30 June 2018.

#### Recommendation

**The Panel is requested to note the information in this report and delegate to the NCC LGPS Local Pension Board to review this information in detail at its meeting on 8 November 2018, and report back to the Panel.**

#### Key issues

- 9.1 The NCC LGPS Administration Strategy before 29 January 2018 included Key Performance Indicators (KPIs) which were reported quarterly to the Panel. The NCC LGPS Administration Strategy **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 it does **not** specify KPIs.
- 9.2 From January 2018, quarterly **performance information** in relation to the **member administration services** function has been provided by TWPF (and the equivalent information for TWPF is reported quarterly to South Tyneside Council's Pensions Committee). KPIs relating to the functions retained by NCC, including collection of contributions, are reported by NCC officers.

#### KPIs for functions retained by NCC

- 9.3 **Appendix 10** sets out the KPIs for the quarter ended 30 June 2018 compared with the previous two quarters.

#### KPIs for member administration services

- 9.4 Employer monitoring performance information within member administration services after 29 January 2018 (when the shared service began) is attached as **Appendix 11**. Heather Chambers, Principal Pensions Manager at TWPF, will attend this meeting to provide further information about this performance monitoring.

#### Ongoing development work for KPIs and recording of breaches

- 9.5 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 previously reported for TWPF, with all enhancements applied to the quarterly reporting for both TWPF and NCCPF.





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### 10. 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 30 June 2018 and the total Fund value at that date.

#### Recommendation

**The Panel is requested to accept the report.**

#### Key issues

- 10.1 The total Fund value (externally managed) was **£1,392** million as at 30 June 2018, compared to £1,349 million as at 31 March 2018, reflecting the positive investment returns over the quarter.
- 10.2 Performance for the Fund as a whole was **4.0%** for the quarter outperforming the Fund's benchmark return of **3.8%**.

The largest contribution to the outperformance of the Fund benchmark came from GIP (infrastructure manager), though both property managers (BlackRock and Schroder) and Wellington (active bond manager) also outperformed their benchmarks in the quarter. Morgan Stanley (private equity manager) underperformed its benchmark, as did Pantheon (private equity manager), which is to be expected through the early stages of this investment.

- 10.3 Further detail of annual and quarterly performance by manager and asset class for the period ending 30 June 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 this meeting of the Pension Fund Panel to present analysis of the Fund's returns for the year to 31 March 2018.

## 10. Fund performance and total Fund value

### BACKGROUND

#### Total Fund value

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

	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	as at <u>30 June</u> <u>2018</u> £m
<b>Legal and General</b> <i>Index tracker</i>	<b>1,074.89</b>	<b>1,125.48</b>	<b>1,082.86</b>	<b>1,126.41</b>
<b>Wellington</b> <i>Active corporate bonds</i>	<b>102.48</b>	<b>103.36</b>	<b>103.25</b>	<b>103.46</b>
<b>Schroder</b>	26.84	27.47	28.17	28.56
<b>BlackRock</b>	25.85	26.44	26.74	26.95
<i>Property</i> <b>subtotal</b>	<b>52.69</b>	<b>53.91</b>	<b>54.91</b>	<b>55.51</b>
<b>Morgan Stanley</b>	27.66	26.48	26.93	21.25
<b>NB Crossroads</b>	20.74	21.10	21.69	20.54
<b>Pantheon</b>	0.81	4.55	6.62	8.00
<i>Private equity</i> <b>subtotal</b>	<b>49.21</b>	<b>52.13</b>	<b>55.24</b>	<b>49.79</b>
<b>GIP</b>	31.32	32.52	32.72	36.53
<b>Antin</b>	19.28	19.04	19.73	19.82
<i>Infrastructure</i> <b>subtotal</b>	<b>50.60</b>	<b>51.56</b>	<b>52.45</b>	<b>56.35</b>
<b>Total</b>	<b>1,329.87</b>	<b>1,386.44</b>	<b>1,348.71</b>	<b>1,391.52</b>

Note that capital calls and capital repayments have been made during the year to 30 June 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.

10.5 Further detail of annual and quarterly performance by manager and asset class for the period ending 30 June 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

10.6 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 30 June 2018 and for the latest four quarters. Also shown are the annualised returns achieved by the Fund for the five years to 30 June 2018.

#### 10.7 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

#### 10.8 Quarterly returns

	----- 2017/18 -----			
	Quarter 3 2017 to 30 Sep 17	Quarter 4 2017 to 31 Dec 17	Quarter 1 2018 to 31 Mar 18	Quarter 2 2018 to 30 Jun 18
	%	%	%	%
Fund	1.7	4.1	-2.8	4.0
Benchmark	1.8	4.3	-3.1	3.8

#### 10.9 Annualised returns

	All Financial Years Ended 31 March		
	2013/18	2015/18	2018
	%	%	%
Fund	9.8	11.0	6.6
Benchmark	9.7	10.6	6.8
	5 years	3 years	1 year



## IMPLICATIONS ARISING OUT OF THE REPORT

This applies to items 1. to 10. (inclusive) in this report

<b>Policy:</b>	None
<b>Finance and value for money:</b>	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.
<b>Human Resources:</b>	None
<b>Property:</b>	None
<b>Equalities:</b>	None
<b>Risk Assessment:</b>	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.
<b>Sustainability:</b>	None
<b>Crime &amp; Disorder:</b>	None
<b>Customer considerations:</b>	None
<b>Consultation:</b>	None
<b>Electoral divisions:</b>	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

Report author

Clare Gorman  
01670 623579

[clare.gorman@northumberland.gov.uk](mailto:clare.gorman@northumberland.gov.uk)