



Northumberland
County Council

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

1. External audit of Northumberland County Council Pension Fund 2018/2019 accounts – Audit Planning Report

Purpose of the report

The purpose of this report is to provide information about the external auditor's Planning Report for the 2018/2019 Northumberland County Council Pension Fund audit. EY will present the Audit Planning Report at the meeting.

Recommendation

The Panel is requested to consider the level at which EY should set reporting materiality for the 2018/2018 audit, as explained in paragraph 1.18 of this report.

Key issues

- 1.1 Ernst & Young LLP (trading as EY) was appointed as external auditor to NCC with effect from 2015/2016, replacing Deloitte. Northumberland County Council Pension Fund's financial statements are audited separately from Northumberland County Council's financial statements. This means that the external auditors must sign a separate ("**consistent with**") audit opinion for the Fund's Financial Statements, and provide separate Audit Planning and Final reports for the Fund.
- 1.2 The auditors use the phrase "those charged with governance of the Fund" to encompass the different ways administering authorities can delegate their responsibilities for the LGPS. In NCC, the governance of the Fund's financial statements is within the remit of the Section 151 Officer, the Pension Fund Panel, and the Audit Committee. Therefore, the auditors present the Planning and Final reports each year to both the Panel and NCC's Audit Committee.
- 1.3 To meet the publication deadlines for NCC's accounts (which the Fund accounts form part of), the EY auditors attend the February and September quarterly meetings of the Pension Fund Panel each year to present their Planning and Final reports to members.
- 1.4 EY's Audit Planning Report for year ending 31 March 2019 for NCCPF is **enclosed** with these papers. Claire Mellons (Senior Audit Manager) will attend this meeting of the Pension Fund Panel to present the Planning Report.

1. External audit of Northumberland County Council Pension Fund 2018/2019 accounts – Planning Report

BACKGROUND

- 1.5 Northumberland County Council Pension Fund is part of Northumberland County Council. The Pension Fund is **not** a separate **legal** entity, and as such, the financial statements of the Fund form part of the Northumberland County Council's annual report and accounts, and a separate audit of the Fund's accounts would not normally be required.
- 1.6 However, there is a requirement in England and Wales for local authorities administering the LGPS to produce a pension fund annual report (paragraph 57 of the Local Government Pension Scheme Regulations 2013, SI 2013 no. 2356), and therefore the auditors treat the Fund as a separate **reporting** entity. The equivalent regulation contained in the Local Government Pension Scheme Regulations (Administration) 2008 was first applied to the 2008/2009 financial statements.
- 1.7 For the 2018/2019 audit of the Pension Fund financial statements, Northumberland County Council's external auditor, Ernst & Young LLP (trading as EY), has prepared a (separate) Audit Planning Report. EY's Audit Planning Report is **enclosed** with these papers.
- 1.8 Claire Mellons (Senior Audit Manager) of EY will attend this meeting to present the 2018/2019 Planning Report to the Panel.
- 1.9 Under the 2013 regulations the Pension Fund annual report for the year ended 31 March 2019 must be published before **1 December 2019**. The Fund accounts cannot be finalised prior to the completion of the audit of the County Council's accounts.
- 1.10 As the audit opinion on the County Council accounts must be signed by 31 July 2019, it makes logistical sense to also have the Pension Fund accounts signed at the same time as the County Council accounts, and this approach was taken in previous years and will be taken again in 2019.
- 1.11 The NCCPF Audit Planning and Final Reports are addressed to "those charged with governance" of the Pension Fund. Therefore, for NCC, it is appropriate that these reports are taken to the Northumberland County Council Audit Committee, as well as the Pension Fund Panel.
- 1.12 The NCCPF Audit **Planning** Report will be taken to:
- the Audit Committee meeting on 27 March 2019; and
 - this meeting of the Panel.
- 1.13 The NCCPF Audit **Final** Report will be taken to:
- the Audit Committee meeting on 24 July 2019; and
 - the 20 September 2019 meeting of the Panel.
- 1.14 The audit opinion included in the Pension Fund accounts is a "**consistent with**" opinion, because the "**true and fair view of the financial position**" opinion (which auditors are required to give) is included in Northumberland County Council's full Financial Statements.

1.15 The main part of the 2018/2019 audit work will be undertaken in June 2019.

Reporting materiality

1.16 As noted on page 6 of the enclosed EY Audit Planning Report:

“Our methodology suggests that we should report all uncorrected misstatements relating to the primary statements (fund account and net assets statement) greater than £0.7m to you; however we recognise that in previous years the Pension Fund Panel and Audit Committee has requested that we inform them of all misstatements over £0.25m and we would like to agree the reporting threshold for 2018/19 with you. Other misstatements identified will be communicated to the extent that they merit the attention of the Pension Fund Panel.”

1.17 *Planning* materiality for the 2018/2019 audit work has been set at **£13.4 million**, or 1% of the Fund’s prior year assets. This is the amount **above** which, in EY’s view, misstatements would influence the economic decisions of a user of the financial statements.

1.18 The *reporting* materiality threshold sets the level above which any misstatements identified by EY as part of the 2018/2019 audit work will be reported to the Panel and Audit Committee, later in 2019. EY is requesting the Panel’s view on setting the reporting materiality threshold for the 2018/2019 audit at this meeting.

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REPORT OF THE SERVICE DIRECTOR - FINANCE

2. Northumberland County Council Pension Fund Annual Employers' Meeting

Purpose of the report

This report provides information about the Northumberland County Council Pension Fund Annual Employers' Meeting, which was held on 22 January 2019.

Recommendation

The Panel is requested to accept the report.

Key issues

- 2.1 All participating employers were invited to attend the NCCPF Annual Employers' Meeting held at County Hall, Morpeth, on 22 January 2019.
- 2.2 The topics covered were:
 - prospects for the 31 March 2019 actuarial valuation, presented by Jonathan Teasdale of Aon;
 - key features of the Local Government Pension Scheme and the respective responsibilities of each employer and the administrator, presented by Diane Taylor of Tyne and Wear Pension Fund;
 - "who does what" in administering NCCPF, presented by Clare Gorman.
- 2.3 Fifteen employers and two members of the NCC LGPS Local Pension Board (thirty five people in total) attended the meeting. The feedback and follow up from the meeting was very positive. A summary of the feedback and attendees is attached as **Appendix 1**.
- 2.4 Whilst there remains much uncertainty surrounding **employer contribution** rates following the 31 March 2019 Fund valuation, contributions are the key focus for employers. The overall message from the actuary regarding future contributions, *albeit heavily caveated*, was more positive than it has been for many years, which was welcome news for employers. This contrasts with the (now widely known) significant increases expected in employer contributions for the unfunded schemes such as the Teachers' Pension Scheme.
- 2.5 The shared administration service with South Tyneside Council has now been in place for a year. The previous two meetings for NCCPF employers (one in October 2017, one in January 2018) were focussed on communicating the requirements and impact of the shared service on them. The shared service did not get a mention from employers at the 22 January 2019 meeting, which is hugely positive and an indication that the service is running as expected.
- 2.6 Employers have also been invited to attend Tyne and Wear Pension Fund's annual seminar for all employers of the shared service on **12 February 2019**, to receive information about the 31 March 2019 year end procedures.

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REPORT OF THE SERVICE DIRECTOR - FINANCE

3. Investment Strategy Statement

Purpose of the report

This report seeks Panel approval to update NCCPF's LGPS Investment Strategy Statement (ISS).

Recommendation

The Panel is requested to:

- (i) approve the draft NCCPF LGPS Investment Strategy Statement (ISS) attached as Appendix 2 to this report; and
- (ii) delegate authority to the Service Director - Finance in consultation with the Chair and Vice Chair of the Panel to make any further changes required as a result of consultation with the participating employers and trade unions.

Key issues

- 3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to have an Investment Strategy Statement (ISS) in place. These Regulations replaced the earlier requirement to have a Statement of Investment Principles in place. The 2016 Investment Regulations include a requirement to invest in a "wide variety" of investments and set out the authority's approach to matters such as risk, **pooling**, environmental, social and corporate governance issues and exercise of voting rights. The ISS must be prepared in accordance with MHCLG's guidance which is attached as **Appendix 3**.
- 3.2 Regulation 8 of the 2016 Investment Regulations allows the Secretary of State to intervene directly in the investment management of a LGPS fund should an administering authority fail to act in accordance with MHCLG's guidance. This is widely interpreted as meaning that the Secretary of State will intervene, if necessary, to ensure **all LGPS funds commit to a pooling** arrangement.
- 3.3 NCC's first ISS was in place (as required) by 1 April 2017. It must be reviewed at least every three years, and it is appropriate to review in February each year so the updated version can be included in the Fund's next published annual report and accounts. The updated *draft* ISS is attached as **Appendix 2**. Changes made since the last version brought to the Panel in February 2018 include:
 - adding the Fund's new investment in Pantheon's infrastructure fund; and
 - removing references to PIRC as the Fund's share voting service provider to reflect the recent termination of PIRC's appointment.
- 3.4 Consultation on the revised ISS will take place following this meeting, therefore a delegation is sought to ensure any changes required can be made quickly.

3. Investment Strategy Statement

BACKGROUND

NCC Pension Fund's Statement of Investment Principles

3.5 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required administering authorities to have a Statement of Investment Principles (SIP) in place. Until February 2016, NCC Pension Fund's SIP was reviewed and approved by the Panel at least annually.

The 2016 Investment Regulations

3.6 The 2009 Investment Regulations were revoked and replaced by the 2016 Investment Regulations, with effect from 1 November 2016. The 2016 Investment Regulations introduced a requirement to formulate an Investment Strategy Statement (ISS) which replaced the requirement to have a SIP in place.

3.7 The requirements of the ISS and SIP are very similar. Unlike the 2009 Investment Regulations, the 2016 Investment Regulations do not set **prescribed limits** for the type of investments which LGPS funds may hold or the weighting of different asset classes within the investment portfolio. Instead of complying with limits, under Regulation 7, each administering authority will be required, in the ISS, to **outline its approach** to investing. Certain parameters are set out in the Regulations, for example, the ISS must include a requirement to invest in a "wide variety" of investments, and must set out the authority's approach to matters such as risk, pooling of investments, environmental, social and corporate governance (ESG) considerations and the exercise of voting rights.

Guidance on Preparing and Maintaining an ISS

3.8 The ISS must comply with MHCLG's guidance, and the authority must take "proper advice" when preparing it. NCCPF's first ISS was published before the deadline of **1 April 2017** and there is a requirement in the LGPS Regulations to review and revise it at least every **three** years. However, the ISS is reproduced each year in the Fund's annual report, and to ensure consistency with other information contained in the annual report, the ISS is updated at least annually.

3.9 The most controversial provision in the 2009 Regulations is Regulation 8, which allows the Secretary of State to intervene **directly** in the investment management of a LGPS fund in the event that an administering authority fails to act in accordance with the Secretary of State's guidance.

3.10 The Secretary of State's *Guidance on Preparing and Maintaining an ISS* was issued in September 2016 and updated in July 2017. The updated Guidance is attached as **Appendix 3** to this report.

3.11 The 2016 Investment Regulations provide a prudential framework within which the investment strategy can be implemented and managed, rather than the more prescriptive approach that was previously in place. The **extra freedom** given to administering authorities comes with the **quid pro quo** of greater **power of intervention** given to MHCLG.

- 3.12 The ISS Guidance includes the requirement that all authorities must (by now) have committed to a suitable pool to achieve benefits of scale. Administering authorities must have confirmed their chosen investment pool meets the investment reform and **criteria** published in **November 2015**, or that they have received confirmation from Government to continue with pooling proposals that do not.
- 3.13 The November 2015 criteria states that authorities must have submitted **proposals** which describe pooling arrangements which “*have regard to*” each of four criteria, namely:
- A. Asset pool(s) that achieve the benefits of scale;
 - B. Strong governance and decision making;
 - C. Reduced costs and excellent value for money; and
 - D. An improved capacity to invest in infrastructure.
- 3.14 NCC Pension Fund’s chosen pooling arrangement, BCPP, **received confirmation** from Government in December 2017 that it’s pooling proposal (submitted to Government in July 2016) met the November 2015 criteria.

Consultation on new statutory guidance on LGPS asset pooling

- 3.15 Proposed new statutory guidance on LGPS asset pooling has been prepared by MHCLG and sent to administering authorities (among others) on 3 January 2019 for an informal consultation. The consultation will close on 28 March 2019.
- 3.16 This proposed new guidance will **replace**:
- the section at pages 7 to 8 of Part 2 of the ISS Guidance (shown in Appendix 3); and
 - the *Investment Reform Criteria and Guidance*, issued in November 2015 (referred to in paragraphs 3.12 and 3.13 above).
- 3.17 Report 5 on the confidential Report of the Service Director – Finance provides further information on the proposed new guidance.
- 3.18 Once the new guidance is issued, if necessary a revised ISS will be brought to the Panel for approval.

Requirement to formulate and publish an ISS

- 3.19 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require each administering authority to formulate and publish a statement of its investment strategy.
- 3.20 Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 sets out:

“Investment strategy statement

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

(2) The authority’s investment strategy must include—

- (a) a requirement to invest fund money in a wide variety of investments;*
 - (b) the authority's assessment of the suitability of particular investments and types of investments;*
 - (c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;*
 - (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;*
 - (e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and*
 - (f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.*
- (3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.*
- (4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.*
- (5) The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.*
- (6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017.*
- (7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.*
- (8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund."*

NCC Pension Fund's first ISS (1 April 2017)

- 3.21 The Fund's first ISS was prepared by officers with advice from the Fund's investment adviser, Mercer. Officers in the Border to Coast Pensions Partnership (BCPP) Officer Operations Group (OOG) collaborated on part of the drafting of each administering authority's ISS, to ensure consistency in the references made to the approach to pooling.
- 3.22 Officers also consulted on the ISS with the Fund's investment managers, and (following approval for consultation by the Panel) consulted with the Fund's participating employers and relevant trade unions.

ISS update

- 3.23 NCC's first ISS was in place (as required) by 1 April 2017. Whilst there is a legal requirement to review it at least every three years, it is appropriate to review now so the up to date version can be included in the Fund's 2018/2019 Annual Report and Accounts, which is published and distributed to the Fund's stakeholders.
- 3.24 Minor updates were made to the original version and it was approved by the Panel at the 23 February 2018 meeting.
- 3.25 At the 23 November 2018 Panel meeting, the Panel terminated PIRC's appointment as the Fund's share voting service provider and the ISS was changed under a delegation to the Service Director – Finance, with effect from 1 December 2018, to reflect this.
- 3.26 The updated draft ISS is attached as **Appendix 2**. The changes made to the previously reported version (February 2018) are minimal, and include:
- updating the information about BCPP pooling arrangement to reflect the transfer of the first tranche of assets (from South Yorkshire, Teesside and East Riding Pension Funds) to BCPP Ltd;
 - adding the Fund's new investment in Pantheon's infrastructure fund;
 - removing references to PIRC as the Fund's share voting service provider to reflect the recent termination of PIRC's appointment; and
 - other minor changes.

Approval and consultation

- 3.27 Members are asked to review and approve the updated draft ISS (attached as Appendix 2) for consultation.
- 3.28 The authority must **consult** over the ISS with "persons it considers appropriate", therefore, following Panel approval for the draft ISS at this meeting, the Fund's participating employers and relevant trade unions will be consulted. This report also seeks delegated authority to the Service Director - Finance in consultation with the Chair and Vice Chair of the Panel to amend the ISS, if appropriate, as a result of comments received from the consultation process.
- 3.29 Any **significant** revisions to the ISS, following consultation, will be brought back to the Panel meeting on 21 June 2019, for information.

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REPORT OF THE SERVICE DIRECTOR - FINANCE

4. Governance Policy and Compliance Statement

Purpose of the report

This report seeks Panel approval to update NCCPF's LGPS Governance Policy and Compliance Statement (GPCS).

Recommendation

The Panel is requested to:

- (i) approve the draft NCCPF Governance Policy and Compliance Statement (GPCS) attached as Appendix 4 to this report; and
- (ii) delegate authority to the Service Director - Finance in consultation with the Chair and Vice Chair of the Panel to make any further changes required as a result of consultation with the participating employers and trade unions.

Key issues

- 4.1 LGPS funds must prepare and maintain a Governance Compliance Statement which shows whether the governance arrangements in place comply with MHCLG's statutory guidance (attached as **Appendix 5**). For NCCPF, the Governance Compliance Statement is combined with its Governance Policy Statement in its Governance Policy and Compliance Statement (GPCS).
- 4.2 The GPCS was last updated in November 2017, to reflect the changes to the Fund's governance arrangements which were about to take place to implement the shared administration service with South Tyneside Council. The shared service was (at that time) expected to start in January 2018.
- 4.3 A further update is now necessary to ensure the GPCS is consistent with other content that will be published in the NCCPF 2018/2019 Annual Report. The revised draft GPCS is attached as **Appendix 4** to this report.
- 4.4 The changes made to the GPCS since the 2017 version include:
 - updating the remit of the Pension Fund Panel to include governance of the pool company, Border to Coast Pensions Partnership Ltd;
 - reference to the shared LGPS pensions administration service with Tyne and Wear Pension Fund which is now in place; and
 - other minor changes.

4. Governance Policy and Compliance Statement

BACKGROUND

Pension Fund Panel governance

- 4.5 LGPS funds must prepare and maintain a Governance Compliance Statement which shows whether the governance arrangements in place comply with MHCLG's statutory guidance (attached as **Appendix 5**). For NCCPF, the Governance Compliance Statement is combined with its Governance Policy Statement in the Governance Policy and Compliance Statement (GPCS).
- 4.6 The GPCS was substantially revised in 2015 following the introduction of the (then) newly formed NCC LGPS Local Pension Board, and revised again in 2017 in anticipation of the start of the shared administration service.
- 4.7 Responsibility for updating the GPCS rests with the Pension Fund Panel.
- 4.8 There are strong arguments for leaving certain detail relating to governance of the Fund out of the NCC Constitution in the interests of keeping the Constitution "high level". For NCCPF, **detail** of the governance arrangements is maintained in the GPCS. Part of the change approved by full Council on 25 February 2015 included cross referencing the Panel remit to the Governance Policy and Compliance Statement, so that future changes to the governance arrangements, as recorded in the GPCS, will not *also* require an update to the NCC Constitution.
- 4.9 The Pension Fund Panel *can* update the GPCS without taking such changes to full Council, but it would depend *which* changes were being made whether the GPCS should also go to full Council.

NCCPF's updated Governance Policy and Compliance Statement

- 4.10 In 2007, MHCLG (then DCLG) introduced a requirement for LGPS administering authorities to put a Governance **Compliance** Statement in place before 1 March 2008. This requirement replaced the earlier requirement to have a Governance **Policy** Statement in place by 1 April 2006, though it effectively required administering authorities to have *both*.
- 4.11 LGPS Regulations 2013 (SI 2013 No. 2356) contain the following:

"Administering authorities: governance compliance statement

55. —(1) *An administering authority must prepare a written statement setting out—*

(a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so—

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement.”

- 4.12 Regulation 55 (above) covers the same items as the predecessor Governance Compliance Statement Regulation, except for sub clause 55 (1) (d), which requires the Governance Compliance Statement to include details of the local pension board.
- 4.13 The statutory guidance referred to in 55 (1) (c) is attached as **Appendix 5** to this report. This guidance is dated November 2008. MHCLG has not indicated that it plans to update this guidance.
- 4.14 The revised NCCPF GPCS is attached as **Appendix 4** to this report. Revising the GPCS does not mean a change to the operation, business or responsibilities of the Pension Fund Panel.
- 4.15 Regulation 55 (3) (above) requires the administering authority to consult such persons as it considers appropriate before preparing or revising a statement under this Regulation. Once approved by the Panel at this meeting, the revised draft GPCS will be distributed to participating employers and the trade unions for consultation. Any **significant** revisions to the GPCS, following consultation, will be brought back to the Panel meeting on 21 June 2019, for information.
- 4.16 The changes made to the attached draft GPCS since the 2017 version are:
- updating the remit of the Pension Fund Panel to include governance of the pool company, Border to Coast Pensions Partnership Ltd;
 - reference to the shared LGPS pensions administration service with Tyne and Wear Pension Fund which is now in place; and
 - other minor changes.

These changes do not require approval from full Council.

Exercising the administering authority's discretion over death grants payable

- 4.17 Members may recall that at the start of the shared administration service with South Tyneside Council, the Panel delegated the death grant discretion for NCCPF to the Head of Pensions at TWPF. With effect from the same date (29 January 2018) NCC's Constitution was also changed to remove the power to exercise the administering authority's discretion over the recipient of any death grant(s) payable from NCC's Staff Committee.
- 4.18 Typically, NCCPF has no more than one death case every year where the administering authority's discretion must be exercised.
- 4.19 South Tyneside Council's Pensions Committee has also delegated the death grant discretion for TWPF to the Head of Pensions at TWPF. The Head of Pensions must follow a written protocol, which is reviewed by the Committee annually and updated when necessary. Delegating this discretion to an officer means that there are no unnecessary delays in the process.
- 4.20 The most recent version of TWPF's Death Grant Protocol, dated May 2014, is attached as **Appendix 6** to this report.

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REPORT OF THE SERVICE DIRECTOR - FINANCE

5. NCCPF's updated Funding Strategy Statement

Purpose of the report

This report provides the recently updated version of NCCPF's Funding Strategy Statement to the Panel, for information.

Recommendation

The Panel is requested to accept the report.

Key issues

- 5.1 At the Panel meeting held in November 2018, authority was delegated to the Service Director – Finance, in consultation with the Chair and Vice Chair of the Pension Fund Panel, to amend NCCPF's Funding Strategy Statement (FSS) and consult with NCCPF's participating employers before finalising. No responses to the subsequent consultation were received. The updated FSS, finalised in January 2019 under the delegation, is attached as **Appendix 7**.
- 5.2 Regulation 58 of the 2013 LGPS Regulations requires LGPS administering authorities to have a FSS in place. The previous version of the FSS was approved by the Panel in February 2017, for the actuary to take into account when finalising the 31 March 2016 actuarial valuation. The FSS is updated at least every three years, to tie in with the triennial actuarial valuation cycle.
- 5.3 The 2013 LGPS Regulations were amended with effect from 14 May 2018 adding a new provision to enable the **repayment of a surplus** to exiting employers. Prior to May 2018, an employer exiting a LGPS fund could *not* recover a surplus.
- 5.4 In the relatively unusual circumstances which can now arise (as a result of the change to the Regulations) where a Scheme employer ("employer A") **subsumes** the LGPS assets and liabilities of another Scheme employer ("employer B"), without an amendment to NCCPF's FSS it was *possible* that the Fund would be liable to repay a surplus to employer B despite employer B being in deficit on exit, when calculated on an orphan basis.
- 5.5 Therefore, the NCCPF FSS was amended in January 2019 to clarify that an exit valuation is always calculated **and subsumed** on an orphan basis, so that no surplus can arise to be repaid by the Fund *unless* the orphan basis calculation is a surplus.

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6. Revised Training Policy for NCC Pension Fund

Purpose of the report

This report seeks Panel approval to update NCCPF's Training Policy which applies to members of the Pension Fund Panel and the Local Pension Board, and key officers involved in administering the LGPS.

Recommendation

The Panel is requested to approve the revised Training Policy as set out in Appendix 8 to this report.

Key issues

6.1 In May 2015, the Pension Fund Panel first adopted a formal Training Policy for NCCPF which explicitly applied 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 was intended to **demonstrate** compliance with the spirit of the Pensions Regulator (tPR) and CIPFA guidance.

6.2 The Policy was revised in February 2016 to allow for amendments around competencies for members and officers to assess against, following a change to the CIPFA guidance. The Policy specified that a formal training needs analysis procedure would be implemented for the Fund, and this procedure was introduced in September 2017.

6.3 The Training Policy is now due for its three-yearly review, and Panel approval is sought for the revised Policy, attached as **Appendix 8**. Although substantial revision is not considered necessary, some updates are proposed to reflect new officer contact details, reference to various industry bodies and MiFID II requirements.

6.4 The Training Policy will be reviewed by the Panel every three years.

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7. Training needs analysis

Purpose of the report

This report provides information to the Panel about the results of the annual formal training needs analysis (TNA) procedure.

Recommendation

The Panel is requested to accept the report.

Key issues

- 7.1 NCCPF's formal Training Policy applies to Panel and Local Pension Board members and senior officers. The Policy aims to comply with CIPFA's Knowledge and Skills Framework, and includes the use of a TNA procedure.
- 7.2 To complete the application to opt up to elective professional status under MiFID II, it was necessary for NCCPF to provide information to relevant financial institutions about whether those ***directly involved in decision making*** are required to complete a self-assessment of their understanding of risk management and knowledge of investments. To ensure NCCPF could comply and show evidence for the MiFID II opt up process, NCCPF's TNA procedure was introduced in September 2017.
- 7.3 Panel and Board members were each asked to complete a TNA form in November 2018, and all members have now done so. The primary roles and responsibilities of Panel and Board members differ, and therefore an analysis of the results of the TNA procedure for Panel members has been brought to this meeting, and a similar analysis for Board members will be taken to the 25 March 2019 Board meeting for consideration.
- 7.4 The TNA form requested Panel and Board members to score a series of questions using a scale of 1 to 5, where 1 means no knowledge and understanding, and 5 means excellent understanding. The TNA assessment of Panel members' responses *only* is attached as **Appendix 9**. The scores for the six responses received are shown:
- as an average of all scores for each question; and
 - as an average of the top three scores for each question.
- The "top three" average score can be used to assess the Panel's *collective* knowledge and understanding, to identify any training needs that need to be addressed.
- 7.5 The results of the analysis shown in Appendix 9 will be discussed at this meeting, together with a proposal for addressing the training needs identified.

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REPORT OF THE SERVICE DIRECTOR - FINANCE

8. Training records

Purpose of the report

This report enables the Panel to conduct an annual review of the training records of Pension Fund Panel and Local Pension Board members and key officers.

Recommendation

The Panel is requested to review the training records attached as Appendices 10 and 11 to this report and assess the adequacy of knowledge and skills acquired by Panel members to fulfil Panel duties.

Key issues

8.1 NCCPF's formal Training 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 spirit of the guidance from the Pensions Regulator (tPR) and CIPFA.

8.2 An individual training log showing training undertaken by each of the Panel and Board members as well as key officers was first brought to the May 2015 Panel meeting for review. Training records are reported to the Panel and reviewed on an annual basis.

8.3 A formal Training Needs Analysis (TNA) procedure was introduced for Panel and Board members in September 2017. Following its introduction, responsibility for assessing the knowledge and understanding acquired individually by **Board** members has been assumed by the Board itself.

8.4 In order to assess the adequacy of the knowledge and understanding acquired using current practices, the training records for **Panel** members are shown in **Appendix 10**, attached to this report for members' review. For information, the training records for the key officers are shown in **Appendix 11** attached to this report.

8.5 Panel members are asked to review the training records for Panel members:

- to confirm completeness; and
- to assess the evidence of adequacy for ensuring that Panel members, *collectively*, have sufficient knowledge and understanding to fulfil the Panel's duties.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

9. Outcomes of the December 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 10 December 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

- 9.1 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.*"
- 9.2 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 and outcomes 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.
- 9.3 The current practice is for the previous Board meeting outcomes to be captured by the Board Chair in a report to the next meeting of the Panel. The most recent Board meeting was held on 10 December 2018 and the Board Chair's report is attached as **Appendix 12**.
- 9.4 Members should note the 10 December 2018 Board meeting recommendations and the ongoing work for the Board in relation to:
- developing the Regulator's Code 14 compliance checklist for NCCPF;
 - developing NCCPF's data improvement plan (in conjunction with the administrator);
 - monitoring legacy breaches from pre-December 2017.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

10. Progress made against NCCPF's Action Plan 2018

Purpose of the report

The purpose of this report is to monitor progress made in 2018/2019 against the NCCPF Action Plan 2018, and to note that the Action Plan 2019 will be brought to the 21 June 2019 Panel meeting for approval.

Recommendation

The Panel is requested to review progress made against NCCPF's Action Plan 2018 which is set out in Appendix 13.

Key issues

- 10.1 At the 23 February 2018 meeting of the Pension Fund Panel, members approved the Action Plan 2018 for NCCPF and asked that the items to be considered in 2018/2019 be split and shown under headings of either essential or desirable. Quarterly monitoring against the 2018 Plan has been brought to meetings in the last year. **Appendix 13** shows the **annual monitoring** against the 2018 Plan.
- 10.2 The Action Plan should be viewed as a checklist of actions expected in the year, rather than a rigid framework to be followed.
- 10.3 Appendix 13 shows that all items classed as essential and most items classed as desirable have been achieved during 2018/2019.
- 10.4 The Action Plan 2019 was scheduled to be brought to this meeting of the Panel for approval, however it has been deferred until the 21 June 2019 meeting, when there will be greater clarity on whether closer joint working with Tyne and Wear Pension Fund (TWPF) will be pursued.
- 10.5 Members will be aware that NCCPF and TWPF have already been exploring the potential for closer joint working in the future, beyond the current joint working which includes:
 - a shared administration service operating out of TWPF's South Shields offices;
 - collaboration over the triennial actuarial process to share costs; and
 - membership of the same asset management pool, Border to Coast Pensions Partnership.
- 10.6 If a decision is made by both administering authorities to pursue further joint working, the Action Plan 2019 will need to reflect the work that will be required, by officers and the Panel, to implement this.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

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

Purpose of the report

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

Recommendation

The Panel is requested to accept the report.

Key issues

- 11.1 Internal control reports, known as ISAE 3402, AAF 01/06, or an equivalent, are prepared at least annually by the Fund's custodian and fund managers. These reports describe the internal controls each has in place to protect the interests of clients.
- 11.2 ISAE 3402 (International Standards for Assurance Engagements) and AAF 01/06 (Audit and Assurance Faculty) are frameworks for assurance reports on the internal controls of service organisations. Both are issued by the Institute of Chartered Accountants in England and Wales. They provide guidance to fund managers and custodians on reporting internal controls to clients. The internal control report is independently verified by an accountant who tests the controls described.
- 11.3 The purpose of the internal control report is to provide comfort to clients and their auditors on the security of assets held by custodians and managed by fund managers. It is produced on a voluntary basis, and all of Northumberland County Council Pension Fund's managers and custodian have provided a report or a suitable substitute.
- 11.4 The most up to date reports available have been obtained and reviewed by officers. In all of them the reporting accountants noted no significant control weakness. Officers had requested early sight of the internal control report for the year to 31 December 2017, for Schroders Investment Management, following a 'qualified' audit opinion in the 2016 version of the report. The latest report indicated improved internal control processes which had provided Schroders' auditors with the necessary assurance.
- 11.5 The Fund's external auditors (EY) review the most recent internal control reports as part of their year-end audit work, as well as the Pension Fund Panel meeting minutes, which show that the control assurance reports have been reviewed by officers and reported (annually) to the Panel.

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

BACKGROUND

- 11.6 ISAE 3402, AAF 01/06, and SSAE16 (i.e. the US equivalent of AAF 01/06) reports are obtained by the Pensions Accounting Team from the fund managers and custodian, normally on an annual basis, though sometimes more frequently. The above are all frameworks through which a report is prepared by the fund manager, or custodian, describing the control environment and control objectives for UK managed clients, and the policies and procedures established to meet these objectives. It is produced for third parties (i.e. clients) to provide assurance on the control environment operated by the service provider. The report also contains the opinion of the reporting accountant who has tested the internal controls described in the report. AAF 01/06 replaced the previous guidance for reporting accountants contained in FRAG 21. SSAE16 stands for Standards of Attestation Engagements number 16, and this replaced SAS 70 reports.
- 11.7 The internal control report is intended to provide comfort to clients and their auditors regarding the security of assets held by custodians and managed by fund managers, in a consistent reporting standard. AAF 01/06 (**Audit and Assurance Faculty**) and ISAE 3402 (**International Standards for Assurance Engagements**) internal controls reports are both produced under the guidance issued by the Institute of Chartered Accountants in England and Wales. This guidance is for both directors and reporting accountants and recommends that the report covers certain key controls. The internal control report is the responsibility of the directors of the entity reported on.
- 11.8 There is no legal obligation on fund managers or custodians to provide an internal control report, however, all of the managers that manage the Northumberland Fund and the Fund's custodian have provided one, or a suitable substitute.
- 11.9 Prior to preparing this report, officers requested the most recent internal control reports from the Fund's custodian, its managers and each managers' own custodian. The internal control reports received are as follows:
- Assurance Report on Internal Controls for the year ended 31 December 2017 for **Legal and General** Investment Management (Holdings) Limited, plus PMC Custody of Assets Briefing Note (not a control report), providing a position statement as at 31 December 2017 (the latest statement currently available to Legal and General), relating to Legal and General's custodian;
 - Internal Controls Report for the year ended 31 December 2017, for **Schroder** Investment Management Limited;
 - Report on Internal Controls for the year ended 30 September 2018 for **BlackRock**;
 - Report on the Suitability of the Design and Operating Effectiveness of Controls as of 30 September 2018, for **Morgan Stanley**;

- Service Organization Control (SOC) 1 Report for the period 1 January 2017 to 31 December 2017 for **NB Alternatives** Investments;
- Internal Controls of the Investment Management Activities for the year ended 31 October 2017 for **Wellington**;
- Internal Controls of the Investment Management Activities for the year to 30 September 2017 for **Antin**;
- Controls Placed in Operation Relating to Investment Advisory and Management Activities for the year to 30 September 2018 for **Pantheon**;
- Custody and Fund Services – Service Organisation Control Report for the year ended 30 September 2018 for **Northern Trust**.

11.10 **GIP** does not have an AAF 01/06, ISAE 3402 or equivalent report, but has sent a report from its custodian, J.P. Morgan, on the Suitability of the Design and Operating Effectiveness of its Controls, referring to its internal controls for the twelve months to 30 September 2018.

11.11 For the reports listed above, the reporting accountants noted no significant control weakness.

11.12 Copies of the internal control reports are retained by the Pensions Accounting Team, and can be made available upon request.

Schroders previous 'qualified' opinion

11.13 As reported to the February 2018 Panel meeting, in the Internal Controls Report for the year ended 31 December 2016, for **Schroder** Investment Management Limited, the auditors had issued a qualified opinion. The service auditor's assurance report stated:

“For the period from 1 January 2016 to 31 December 2016, management did not consistently provide evidence to demonstrate the independent review performed by authorised personnel of client reports for accuracy, completeness and compliance with client and portfolio requirements prior to dispatch. As a result, we were not able to conclude that the control was operating effectively to achieve the objective “Client reporting in respect of portfolio transactions, holdings and performance, commission and voting is complete and accurate and provided within required timescales” during this period.”

11.14 The Schroders internal control report 2016 set out that for 5 out of a sample of 90 client reports there was *no evidence of review* prior to dispatch. The response from Schroders outlined that management had:

- performed a review to confirm that no errors had been made in those client reports where the review was not evidenced.
- undertaken a process review in January 2017 to identify and implement control enhancements to ensure that the review of client reports was evidenced in the future.

11.15 Officers reviewed the management response and made further enquiries with Schroders. It appeared that Schroders' management had responded quickly and appropriately to the service auditor's findings and taken action to enhance the control environment operated, and officers requested early sight of the internal control report for the year to 31 December 2017. This report was provided to officers by Schroders in April 2018 and did not demonstrate any areas of concern in relation to the controls in place.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

12. Review of MiFID II documentation and status

Purpose of the report

This report confirms that there are no changes to NCCPF's circumstances which could affect the professional client status opt ups (under MiFID II) that have already been confirmed to NCCPF by financial institutions.

Recommendation

The Panel is requested to accept the report

Key issues

- 12.1 With effect from 3 January 2018, under Markets in Financial Instruments Directive (MiFID II) LGPS administering authorities were automatically classed as "**retail**" clients unless they had been successfully opted up to "**elective professional**" status by the relevant financial institution.
- 12.2 If classed as a retail client by its fund managers, NCCPF would not have had access to the full range of investments required to implement its investment strategy, as set out in its Investment Strategy Statement (at Appendix 2)
- 12.3 Late in 2017, NCCPF formally applied to be opted up to elective professional client status by its existing fund managers, custodian and investment advisers. NCCPF provided information for opt up, in a standard template developed by the LGPS Scheme Advisory Board. Professional client status is achieved for each financial institution only when it provides the formal confirmation.
- 12.4 On 23 February 2018, it was reported to the Panel that all necessary opt up confirmations from NCCPF investment managers and other financial service providers had been received before 3 January 2018.
- 12.5 Officers now maintain a MiFID II **status update record** showing each financial institution that classes NCCPF as an elective professional client. The most recent addition to this record is Border to Coast Pensions Partnership Ltd, with NCCPF's opt up confirmed in September 2018.
- 12.6 Authorities are **not** required to renew elections on a regular basis but are required to review the information provided and notify the relevant financial institutions of **any changes** in circumstances which **could affect their status**.
- 12.7 A review of the MiFID II application documentation was undertaken in February 2019 and updated in readiness for any future opt up applications. This review confirmed that there are **no notifiable changes** that NCCPF should inform the relevant financial institutions of.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

13. Formal measurement of the performance of the investment adviser

Purpose of the report

This report informs Panel members of the requirement to formally assess the performance of the Pension Fund Panel investment adviser in the year to 31 March 2019, and encloses a “scorecard” for use in this process.

Recommendation

The Panel is requested to accept the report.

Key issues

- 13.1 The CIPFA guidance on decision making in the LGPS effectively recommends that pension committees should **formally** assess the performance of the investment adviser periodically.
- 13.2 The seventh such formal assessment of Mercer (the Fund’s investment adviser) took place a year ago, using a “scorecard” approach. Annual assessment is appropriate, and therefore the formal assessment for the work undertaken by Mercer in the year to 31 March 2019 is now due.
- 13.3 A scorecard, in the same format as last year’s is **enclosed** with these papers (**Enclosure 1**). Each Panel member and observer is asked to complete the scorecard enclosed with the Panel papers and return it to Craig Johnson before **5 April 2019**. Page 1 of the scorecard lists the work undertaken by Mercer on the Fund’s behalf during 2018/2019.
- 13.4 The completed scorecards will be summarised and reported to the June 2019 Panel meeting, and feedback given to the adviser.

13. Formal measurement of the performance of the investment adviser

BACKGROUND

CIPFA guidance on the formal assessment of the adviser

13.5 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*.

13.6 **Principle 4** shown on **page 19** of CIPFA's investment decision-making guidance says:

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Formal process followed

13.7 At the February 2011 Pension Fund Panel meeting, a formal process was agreed, using a "scorecard" approach similar to the standard version prepared by Pensions and Lifetime Savings Association (then the National Association of Pension Funds), amended to suit Northumberland County Council Pension Fund's requirements.

13.8 Given that the relationship with the adviser is expected to be for the medium to long-term, it was agreed that assessment should be carried out no more frequently than annually.

13.9 Each Panel member and observer is asked to complete a scorecard to cover the work undertaken by the adviser during the twelve months to 31 March of the year assessed, and the results are collated by officers and reported to the next Panel meeting. Feedback of the Panel's views is also given to the adviser. Panel members **can complete the scorecard anonymously**.

Formal assessment for work undertaken in the year to 31 March 2019

13.10 The investment adviser, Mercer, was selected and appointed by the Panel in March 2009, so has now been in place for nine years, during which time the adviser has undertaken significant projects on the Fund's behalf, such as the strategy and manager reviews. The adviser also provides on-going monitoring of the incumbent fund managers, which is an important risk control for the Fund.

13.11 The specific adviser assigned to the Northumberland County Council account during 2018/2019 was Susan Greenwood, with Joanne Holden as support. Catrina Arbuckle was the "alternate" standing in when Susan was unavailable to attend a meeting.

- 13.12 A scorecard, in the same format as last year's, has been **enclosed** with these papers, i.e. **Enclosure 1**. Panel members and observers are asked to complete the scorecards and return them to Craig Johnson before 5 April 2019.
- 13.13 As an *aide memoire* the scorecard shows, on **page 1**, the range of work undertaken by Mercer on the Fund's behalf during 2018/2019.
- 13.14 The completed scorecards will be summarised and reported to the June 2019 meeting, and feedback given to the adviser.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

14. Formal assessment of the effectiveness of the Pension Fund Panel

Purpose of the report

This report informs Panel members of the requirement to formally assess the effectiveness of the Pension Fund Panel as a decision making body, and seeks approval for the drafted formal assessment, attached as Appendix 14.

Recommendation

The Panel is requested to approve the formal assessment of the Pension Fund Panel as a decision making body, as set out in Appendix 14.

Key issues

- 14.1 The CIPFA guidance on decision making in the LGPS effectively recommends that a pension committee should assess its own effectiveness as a decision-making body, periodically, and report on this to Scheme members.
- 14.2 Annual assessment is appropriate, and the formal assessment for the work undertaken by the Panel in the year to 31 March 2019 is now due.
- 14.3 The significant work undertaken by the Panel in 2018/2019 includes:
- participating in the development of the Border to Coast Pensions Partnership **pooling** arrangement;
 - monitoring the **shared pensions administration** service with Tyne and Wear Pension Fund;
 - updating NCCPF **policy statements** including the Investment Strategy, Funding Strategy, Communications Policy, Training Policy, Conflicts Policy, Breaches Recording Procedure and Governance Policy and Compliance;
 - considering and maintaining the Fund's overweight position in index linked gilts;
 - considering an **equity protection** strategy for NCCPF and a short term strategic **allocation to cash**; and
 - making a **commitment** to Pantheon's Global Infrastructure Fund III.
- The NCC LGPS Local Pension Board and the Panel have **worked together** to maximise the benefit to the Fund of the current governance arrangements.
- 14.4 A formal assessment of decisions made (to date) has been drafted and attached as **Appendix 14** to this report. Members are asked to consider this assessment and make suggestions for changes, if appropriate. The approach taken when drafting the assessment was to consider the 'controls' in place to help *prevent* poor decisions being made. This formal assessment will be published in NCCPF's annual report and accounts for 2018/2019.

14. Formal assessment of the effectiveness of the Pension Fund Panel

BACKGROUND

CIPFA guidance

14.5 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*.

14.6 **Principle 4** shown on **page 19** of CIPFA's investment decision-making guidance says:

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

14.7 This guidance goes on to suggest issues to consider for decision-making bodies such as the Pension Fund Panel:

The process of self-assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes.

The objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.

The committee should set out its expectations of its own performance in its business plan. This could include expected progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to the administration of the committee's business such as:

- *attainment of standards set down in CIPFA's knowledge and skills framework*
- *achievement of required training outcomes*
- *achievement of administrative targets such as target dates for issuing agendas and minutes.*

This assessment should be included in the fund's annual report to its stakeholders.

The process for assessing the effectiveness of the Panel

14.8 The first step in assessing the decisions made was to consider the backdrop of events and changes in the year in which those decisions were made. This was the approach taken when the first formal assessment took place in February 2011 to assess the effectiveness of the Pension Fund Panel as a decision-making body, and it has been followed each year since then.

14.9 When considering the effectiveness of decisions made, members are asked to consider whether the outcomes of decisions were as anticipated, were appropriate, or could have been improved.

Judging decisions made

14.10 Attempting to assess decisions made, after the event, is beset by problems. For example, if a decision is taken to allocate assets to corporate bonds shortly before corporate bonds fall in value, with the benefit of hindsight this decision would be judged to have been poor. However the decision may have been made based on the best available evidence at the time, and if judged **at the time** it was made would have been judged as good.

14.11 Another problem is the **timescale** applied to judge success or failure of a decision. For example, an active manager selected by the Panel may outperform its index in the first year of appointment and the decision to appoint would be judged a success, but if it then goes on to underperform over a three year period, is the decision now judged to be a failure? If it then goes on to outperform over a five year period, is the decision then a success?

14.12 Given the fact that pension fund investment is for the long term, there are strong arguments in favour of only measuring the success or failure of a decision after a long period of time, such as ten years. The make-up of the decision-making body is **very** likely to have changed in that time which means that the Panel would be judged on the decisions taken by a completely separate group of people.

14.13 Another problem for assessing decisions is that many of the decisions made by the Panel are not empirically or objectively measurable. For example, the decision to appoint the investment adviser cannot be measured objectively, as it is not possible to judge **which** of the decisions made subsequently by the Panel may have been made differently if another adviser had been selected instead.

14.14 The quality of the decisions made by the Panel with the input of the adviser depends greatly on the relationship, trust and understanding built up between the two, and this relationship can only be measured subjectively by the parties involved.

Assessing the effectiveness of the Panel

14.15 The guidance requires an assessment, and therefore a formal assessment has been drafted and attached as **Appendix 14** to this report. It has been purposefully kept short and succinct. Members are asked to consider this and make suggestions for changes if appropriate.

14.16 The approach taken when drafting the assessment was to consider the 'controls' in place to help prevent poor decisions being made. For example, one of the key 'controls' would be the presence of the adviser at each meeting to ensure that Panel decisions made comply with the LGPS and other regulations, *coupled with* the meetings being conducted in a manner to allow the adviser time and opportunity to give his/her advice.

14.17 The formal assessment considers the areas which help support the Panel in making effective decisions, such as the **continuity** of Panel membership. Continuity is recognised as being of vital importance as it takes time for Panel members to build up the knowledge and expertise necessary to feel confident in making decisions.

14.18 This assessment, once approved, should be reported to stakeholders; therefore it will be included in the Pension Fund annual report and accounts for 2018/2019 and published on the NCC website.

Matters considered in the year 2018/2019

14.19 The list below is a reminder of some of the matters considered in 2018/2019:

- participating in the development of the Border to Coast Pensions Partnership pooling arrangement;
- monitoring the performance of the shared pensions administration service with Tyne and Wear Pension Fund;
- considering and approving NCC Pension Fund's
 - revised Investment Strategy Statement,
 - revised Funding Strategy Statement,
 - revised Communications Policy,
 - revised Breaches Recording Procedure,
 - revised Conflicts of Interest Policy
 - revised Governance Policy and Compliance Statement, and
 - revised Training Policy;
- making a £40 million commitment to Pantheon's Global Infrastructure Fund III;
- maintaining the Fund's overweight position in index linked gilts;
- considering an equity protection strategy for NCCPF;
- setting a threshold above which to make a short term 'tactical' allocation to cash, to protect the funding level ahead of the 31 March 2019 actuarial valuation of the Fund;
- reviewing the Pension Fund accounts and external audit planning and results;
- reviewing the quarterly fund manager performance and impact of currency hedging; and
- terminating PIRC's appointment as provider of share voting advice to NCCPF.

14.20 The NCC LGPS Local Pension Board and the Panel have worked together to maximise the benefit to the Fund of the current governance arrangements.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

15. 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 December 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 25 March 2019, and report back to the Panel.

Key issues

- 15.1 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.
- 15.2 Following implementation of the shared administration service with Tyne and Wear Pension Fund (TWPF) in January 2018, information about breaches within the **member administration services** function is reported to NCCPF by South Tyneside Council (STC), provider of shared LGPS administration services to TWPF and NCCPF. However, breaches within the functions retained by NCC, including collection of contributions, are reported by NCC officers.

Breaches within functions retained by NCC

- 15.3 In the quarter to 31 December 2018, one employer breached the requirement to pay the contributions payable per the Rates and Adjustments Certificate. Details of the resulting breaches are shown in **Appendix 15**.

Breaches within member administration services

- 15.4 In the quarter to 31 December 2018, over and under payments of certain pensions in payment were identified as a result of investigating the NCCPF migration balancing items, revealing breaches of the requirement to pay pensions in line with the Regulations. Details of the resulting breaches are shown in **Appendix 16**.
- 15.5 Breaches information within member administration services for the period October to December 2018 is included in the **enclosed "NCC Pension Fund process details"** (on A3).
- 15.6 This report proposes that the Board be requested to review the attached and enclosed information in detail at its next meeting on 25 March 2019.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

16. 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 December 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 25 March 2019, and report back to the Panel.

Key issues

- 16.1 Before 29 January 2018 the NCCPF LGPS Administration Strategy included Key Performance Indicators (KPIs) which were reported quarterly to the Panel. The Administration Strategy adopted **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.
- 16.2 From January 2018, quarterly **performance information** in relation to the **member administration services** function has been provided to NCCPF by South Tyneside Council (STC), provider of shared LGPS administration services to TWPF and NCCPF.
- 16.3 Officers of TWPF and NCCPF are working together to develop performance and breaches recording information for both funds. Input from the NCC LGPS Board is an integral part of this development work.
- 16.4 Information provided by STC is **enclosed** with these papers, and described as "**NCC Pension Fund process details**" (on A3). This is enhanced information compared to previous quarters. It shows all administration processes that have been carried out on NCCPF's behalf by STC for the quarter to 31 December 2018, and, for each one, how many have met the timeframes allowed in the Regulations. It also shows anonymised information about NCCPF employers where data queries have been raised by STC and not yet resolved by the employer.
- 16.5 The enclosed information is the equivalent of the KPIs which were previously provided to the Panel, but much enhanced because it covers all administration processes, rather than just five of them.
- 16.6 This report proposes that the Board be requested to review the enclosed information in detail at its next meeting on 25 March 2019.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

17. 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 the Panel and 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

- 17.1 Tyne and Wear Pension Fund (TWPF) takes a report ("the regulatory report"), each quarter, to update its Pensions Committee on relevant LGPS regulatory changes and other related matters. The regulatory report is also brought to the Panel, but, due to the timing of NCCPF's and TWPF's committee meeting dates there is no TWPF regulatory report to bring to this meeting.
- 17.2 The item of particular note for the next regulatory report is the MHCLG's January 2019 consultation: "**LGPS Fair Deal – strengthening pension protection**". The consultation document is attached as **Appendix 17**.
- 17.3 In summary, the Fair Deal proposals:
- introduce the concept of a "Fair Deal employer" and a "protected transferee" who retains the right to be in the LGPS after outsourcing;
 - remove the broadly comparable scheme option;
 - permit "deemed employers" as well as admitted employers to participate in the LGPS;
 - set out that transfers back into the LGPS from a broadly comparable scheme will be treated as individual transfers; and
 - allow automatic transfer of assets and liabilities between funds where there have been reorganisations or mergers.
- 17.4 The closing date for responses is 4 April 2019. TWPF will respond to the consultation, and NCCPF will have the opportunity to comment on the response.

Scheme Advisory Board's October meeting summary

- 17.5 SAB has recently implemented an improvement to communications with LGPS administering authorities by distributing a brief summary of the most recent SAB Board meeting. The second such summary, for the SAB Board meeting held on 16 January 2019, is attached as **Appendix 18**.

MEETING OF THE PENSION FUND PANEL

22 FEBRUARY 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

18. Fund performance and total Fund value

Purpose of the report

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

Recommendation

The Panel is requested to accept the report.

Key issues

18.1 The total Fund value (externally managed) was **£1,329** million as at 31 December 2018, compared to £1,410 million as at 30 September 2018, reflecting the negative investment returns over the quarter.

18.2 Performance for the Fund as a whole was -5.9% for the quarter in line with the Fund's benchmark return of -5.9%.

The main positive contributions to Fund performance in the quarter have come from:

- all of the private equity managers, because the benchmark they are been measured against has been negative; and
- the Fund's overweighting to index-linked gilts.

These positive contributions have been offset by underperformance from Wellington's Multi Sector Credit fund.

18.3 Further detail of annual and quarterly performance by manager and asset class for the period ending 31 December 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.

18. Fund performance and total Fund value

BACKGROUND

Total Fund value

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

	as at <u>31 March</u> <u>2018</u> £m	as at <u>30 June</u> <u>2018</u> £m	as at <u>30 September</u> <u>2018</u> £m	as at <u>31 December</u> <u>2018</u> £m
Legal and General <i>Index tracker</i>	1,082.86	1,126.41	1,139.99	1,056.37
Wellington <i>Active corporate bonds</i>	103.25	103.46	104.64	102.85
Schroder	28.17	28.56	28.89	28.95
BlackRock	26.74	26.95	27.26	27.39
<i>Property</i> subtotal	54.91	55.51	56.15	56.34
Morgan Stanley	26.93	21.25	20.55	20.14
NB Crossroads	21.69	20.54	21.46	21.40
Pantheon	6.62	8.00	7.72	8.46
<i>Private equity</i> subtotal	55.24	49.79	49.73	50.00
GIP	32.72	36.53	36.53	38.94
Antin	19.73	19.82	23.09	24.30
<i>Infrastructure</i> subtotal	52.45	56.35	59.62	63.24
Total	1,348.71	1,391.52	1,410.13	1,328.80

Note that capital calls and capital repayments have been made during the year to 31 December 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.

18.5 Further detail of annual and quarterly performance by manager and asset class for the period ending 31 December 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

18.6 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.

18.7 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

18.8 Quarterly returns

	--- 2017/18 ---		--- 2018/19 ---	
	Quarter 1 2018 to 31 Mar 2018	Quarter 2 2018 to 30 Jun 2018	Quarter 3 2018 to 30 Sep 2018	Quarter 4 2018 to 31 Dec 2018
	%	%	%	%
Fund	-2.8	4.0	1.6	-5.9
Benchmark	-3.1	3.8	1.3	-5.9

18.9 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

18.10 Asset allocation

	Target allocation	Quarter 3 2018 at 30 Sep 18		Quarter 4 2018 at 31 Dec 18	
	%	£m	%	£m	%
Equities					
UK	24.0	351.7	24.9	328.1	24.7
US	7.0	105.5	7.5	99.6	7.5
Europe	7.0	103.4	7.3	94.7	7.1
Japan	3.5	54.3	3.9	47.6	3.6
Asia Pacific ex Japan	3.5	51.9	3.7	48.0	3.6
Emerging Markets	7.0	102.6	7.3	98.6	7.4
RAFI 3000	<u>8.0</u>	121.5	<u>8.6</u>	111.7	<u>8.4</u>
	60.0		63.2		62.3
Bonds					
Index linked	15.0	249.1	17.7	228.2	17.2
Corporate bonds	<u>10.0</u>	104.6	<u>7.4</u>	102.8	<u>7.7</u>
	25.0		25.1		24.9
Illiquids					
Property	5.0	56.2	4.0	56.3	4.2
Private Equity	5.0	49.7	3.5	50.0	3.8
Infrastructure	<u>5.0</u>	59.6	<u>4.2</u>	63.2	<u>4.8</u>
	15.0		11.7		12.8
Cash		0.0	0.0	0.0	0.0
Total	100.0	1,410.1	100.0	1,328.8	100.0

18.11 The Fund remains overweight in long dated index bonds with 17.2% of Fund value invested at 31 December 2018, against a target weight of 15.0%.

IMPLICATIONS ARISING OUT OF THE REPORT

This applies to items 1. to 18. (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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