Northumberland
County Council

MEETING OF THE PENSION FUND PANEL

21 JUNE 2019

REPORT OF THE SERVICE DIRECTOR - FINANCE

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1. Northumberland County Council Pension Fund draft Annual Report and Accounts for 2018/19

Purpose of the report

This report presents the Northumberland County Council Pension Fund draft Annual Report and Accounts for the year to 31 March 2019 to the Panel.

Recommendation

The Panel is requested to accept the report.

Key issues

1.1 The Northumberland County Council **Pension Fund** (NCCPF) Annual Report and Accounts forms part of the Northumberland County Council Financial Statements, reflecting the legal status of the Fund as part of NCC. The LGPS Regulations also require a **separate** Annual Report is published for the Pension Fund. The *draft* Annual Report for NCCPF for the year to 31 March 2019 is **enclosed** with these papers.

1.2 NCC's Audit Committee is responsible for approving NCC's Financial Statements. Approval of the final, audited Pension Fund Annual Report will be sought at the 24 July 2019 NCC Audit Committee meeting. Members of the Audit Committee will have the opportunity to review NCC's 2018/19 draft Financial Statements during June and July 2019.

1.3 The points to note from the 2018/19 Pension Fund accounts are:

- the **net withdrawal** from dealings with members was £29.9 million in 2018/19 (compared to £2.7 million in 2017/18), which includes a £26.0 million asset transfer in relation to Northumberland College.
- whilst the number of active LGPS members of NCCPF has increased in the year to 31 March 2019, so has the number of pensioner members; and
- the increase in Fund value during 2018/19 reflects the investment returns earned of 6.9%, which ties in with the experience of most LGPS funds over the year.

1.4 The draft Annual Report has been prepared reflecting the new CIPFA guidance "*Preparing the Annual Report – guidance for LGPS funds*", published in April 2019. In particular this has added content in relation to pooling of assets.

1. Northumberland County Council Pension Fund draft Annual Report and Accounts for 2018/19

BACKGROUND

1.5 A copy of the **draft** Pension Fund Annual Report and Accounts for the year to 31 March 2019 is **enclosed** with these papers. The final version of the Annual Report will be sent to all of the employers participating in the Fund and other interested parties. The final version will *not* be brought back to the Panel *unless there are significant changes* to the enclosed draft (other than the insertion of Auditor's Opinion on page 68), but it will be made available upon request.

1.6 As explained in the introduction to the enclosed Annual Report, the total market value of the Fund, net of liabilities, has increased from £1,344 million to £1,400 million over the year to 31 March 2019. This increase in value reflects the fact that payments made from the Fund have been less than the annual return on the Fund (comprising income and realised and unrealised gains and losses on investments) together with receipts to the Fund in the year, and the investment return on the Fund of **6.9%**.

1.7 Members' attention is drawn particularly to **pages 70 and 71** of the draft Annual Report, which show the financial position for the Fund as a whole. The Fund Account, on page 70, shows all of the receipts to and payments from the Pension Fund in the year.

1.8 The aggregate net ***withdrawal*** from dealings with members shown in the enclosed draft accounts was £29.9 million in 2018/19 (£2.7 million in 2017/18). This includes the asset transfer in relation to Northumberland College exiting the Fund on 22 March 2019 for which the actuary has estimated a value of £26.0 million as at 31 March 2019. The underlying increase in net withdrawal from dealings with members of £3.9 million reflects the increasing number of pensioners and the fact that the increased contributions from active members has not matched the increased value of benefit payments, as the Fund **matures**.

1.9 As in prior years, NCCPF's Annual Report and Accounts have been prepared as a stand-alone document as well as forming part of Northumberland County Council's main Annual Financial Statements. There is a legal requirement to prepare a separate Annual Report for the Fund and the County Council's external auditors, Ernst & Young LLP (trading as EY), are required to express a separate "***consistent with***" audit opinion on the Fund accounts.

1.10 Note that the requirement to prepare a separate Annual Report for the Fund and to have a separate audit opinion does not reflect any change in the legal status of the Pension Fund. Legally, the Pension Fund is part of Northumberland County Council: it is **not** a separate legal entity.

1.11 The Northumberland County Council Audit Committee will be requested to approve the final audited Financial Statements for Northumberland County Council and for NCCPF at its meeting scheduled for 24 July 2019.

1.12 The LGPS Regulations require the separate Annual Report for the year ended 31 March 2019 to be published before 1 December 2019. The final signed version of the Annual Report will be posted to the NCC website after it has been signed at the July Audit Committee, to ensure this deadline is met.

1.13 One of the recommendations from the LGPS Scheme Advisory Board is that the LGPS Local Pension Boards should, as part of their remit, review the financial statements and annual reports prior to publication. The draft Annual Report and Accounts together with a completed compliance checklist was emailed to the NCC Board members for comment on 23 May 2019.

Items of note from the accounts: ***Northumberland College asset transfer***

1.14 Northumberland College merged with Sunderland College on 22 March 2019. The Ministry of Housing and Local Government (MHCLG) issued a Direction Order substituting South Tyneside Council as the administering authority for Northumberland College, which led to this employer exiting the Fund. There will be an asset transfer from NCCPF to Tyne and Wear Pension Fund estimated by NCCPF's actuary to be £26.0 million at 31 March 2019.

1.15 This transaction is included in the "Payments to and on account of leavers" line in the Fund Account and as an increased "Current liability" in the Net Assets Statement. The impact of the transaction is to reduce the net assets of the Fund at 31 March 2019 by £26.0 million, and the reduction in Fund liabilities will be reflected in the 2019 actuarial valuation.

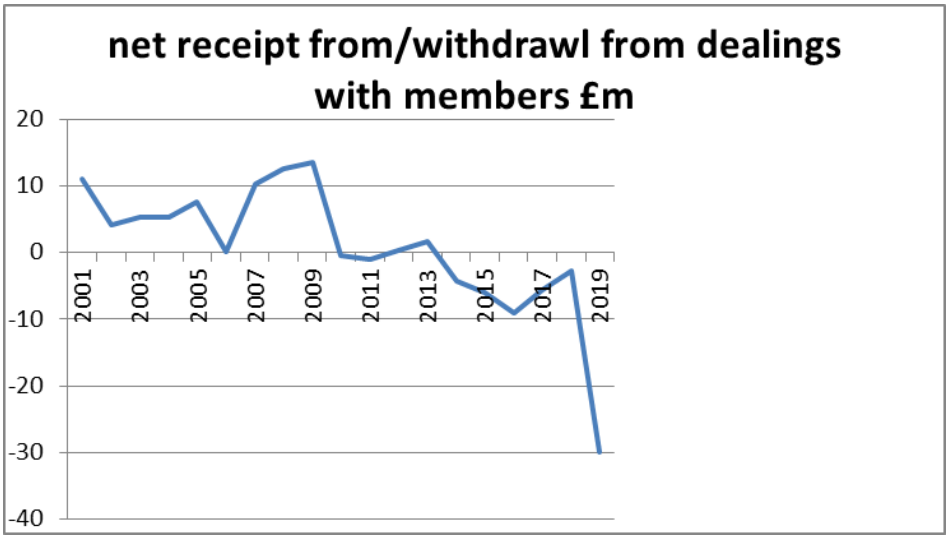
1.16 Northumberland College also represented approximately 2.6% of NCCPF's membership, so its removal from the LGPS membership (shown on page 89) has an impact on the Fund.

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

1.17 The broad indications from the 31 March 2019 LGPS membership shown in the Annual Report is that NCCPF continues to **mature**. In this context, fund maturity means the proportion of active to non-active liabilities, and the greater the proportion of non-active liabilities, the more mature is the Fund. From the actuarial valuations of the Fund, liabilities (valued on a low risk basis) have gone from:

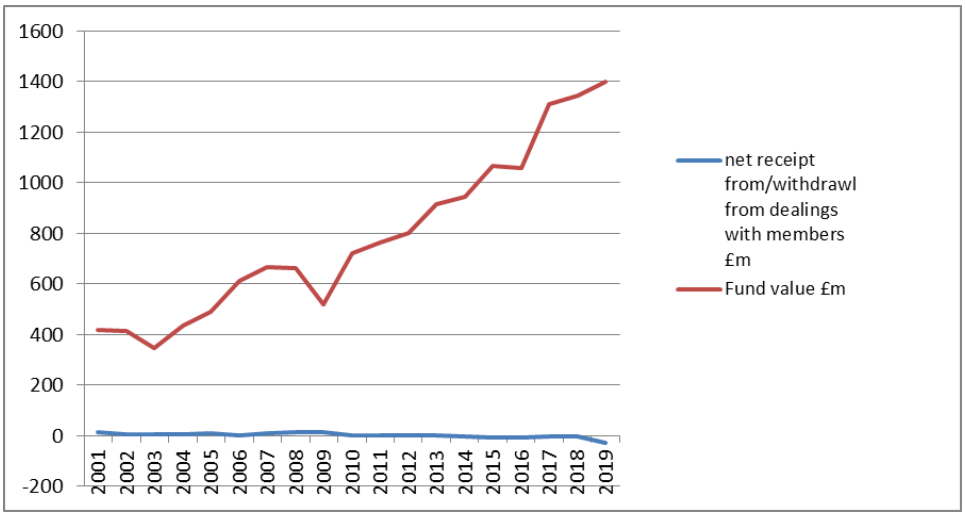
51% actives : 49% non-actives as at 31 March 2004; to
50% actives : 50% non-actives as at 31 March 2007; to
45% actives : 55% non-actives as at 31 March 2010; to
40% actives : 60% non-actives as at 31 March 2013; to
38% actives : 62% non-actives as at 31 March 2016.

1.18 One sign of Fund maturity which can be seen in the 2018/19 Fund Account is the Fund has a net **withdrawal** from its dealings with members (meaning that that the Fund is paying more out for pensions and transfers out than it is receiving from employee and employer contributions and transfers in). In 2018/19 the net withdrawal is exaggerated by the inclusion of the asset transfer of £26.0 million in relation to Northumberland College. Note that the net withdrawals from dealings with members does not allow for the costs incurred in administering the Scheme. The graph below shows the net withdrawals from or net receipt from members to the Fund since 2000/01.



{The dip in 2006 is due to a one-off £9.7 million group transfer re Northumberland Care Trust staff. The dip in 2019 includes a one-off £26.0 million asset transfer re Northumberland College.}

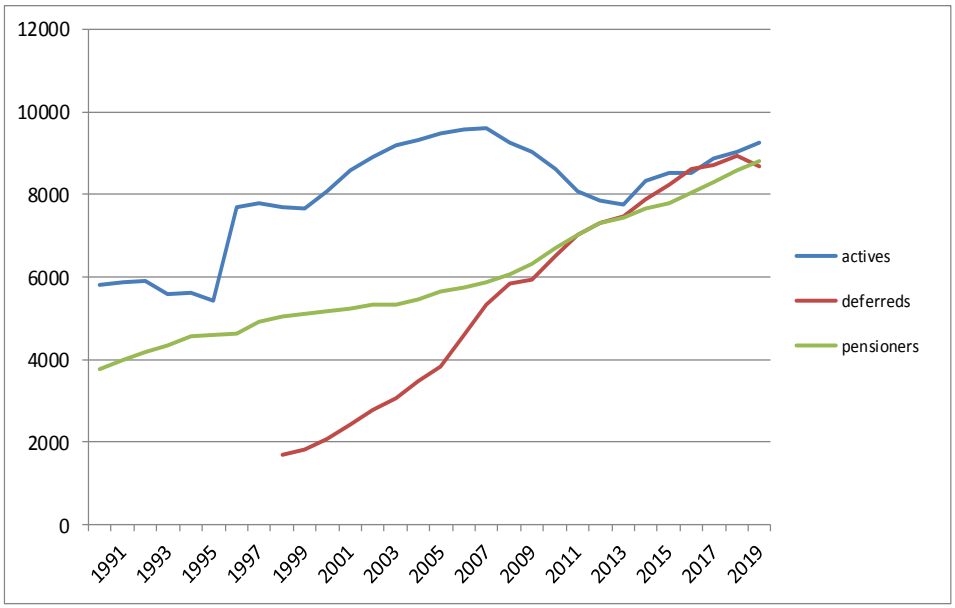
1.19 The switch from net receipt from members to net withdrawal from 2009 reflects the reduction in staffing numbers before and after local government reorganisation (LGR) in Northumberland. In the context of the increasing value of the Fund, cash outflows are not significant, as the graph below shows.



1.20 One other sign of the Fund maturing is the increase in the number of pensioners. The graph below shows the numbers of pensioner members, deferred pensioner members and active members at each year end since 1990 for the Fund as a whole. The upward trend in pensioner and deferred pensioner numbers is consistent since 1990. The upward trend in active member numbers **reversed in 2007** for the first time in the Fund's history, and the steady decline in the number of actives after that (until 2014) reflected reductions in payroll expenditure for Fund employers, particularly for NCC. The reduction in deferred pensioner numbers in 2018/19 is explained by:

- aggregations of 372 deferred pensioner member *records*; and
- removal of Northumberland College from NCCPF's membership in the year.

After adjusting for those two factors, the underlying trend in the number of deferred pensioners is upwards in 2018/19.



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

1.21 The "uptick" in active member numbers from 2014 was due to the **effect of auto-enrolment** legislation, which increased the *number* of active members in NCCPF. The increase in number of actives in 2013/14 was not accompanied by an increase in payroll *value* (and employee/employer contributions to the Fund) because auto-enrolment brought mainly low-paid staff into the Scheme; however, it has been accompanied by a modest increase in payroll since 2014/15.

1.22 Auto-enrolment applies to new employees taken on after the employer's staging date, and to those who cross the auto-enrolment thresholds, i.e. attain age 22, and/or start earning more than £10,000 (the earnings trigger of £10,000 applies in 2018/19 and has been frozen since 2014/15). All of the NCCPF employers that are now required to auto-enrol employees in the LGPS (i.e. they have passed their first staging dates).

1.23 All eligible employees that opt out of the LGPS must be re-enrolled after three years, and the indications are that most eligible employees do not opt out. Therefore, auto enrolment has been a very successful Government initiative to increase workplace pension scheme participation.

1.24 Increasing fund maturity, for a funded scheme such as the LGPS, in theory should not *in itself* be a concern. NCCPF can trace its origins back to the 1937 Superannuation Act when it became mandatory to maintain a fund for full time officers, and at the outset it only had active member liabilities. In the years since then, the non-active members' liabilities have steadily and slowly increased as active members leave and retire. Therefore the Fund has matured, ***but*** because the Scheme is open to new members, maturing is very slow as departing active members are mainly replaced by new active members. Increasing maturity would be *expected* given the current "age" of the Scheme, and the whole purpose of having a fund is to have assets available to pay the pension promises that have already been made, as they fall due, irrespective of the number of active members contributing to the Scheme.

1.25 However, increasing maturity ***is*** a concern when a fund is significantly under-funded because the **shortfall** in assets compared to liabilities (i.e. the deficit) can ***only*** be **collected based on the active membership** of the fund. In other words, as a fund matures any deficit is collected from a shrinking payroll base, and the contributions to collect deficit expressed as a percentage of payroll, go up when payroll falls.

1.26 The LGPS has been in existence mainly in periods of increasing numbers of active members and increasing payroll. For NCCPF, the increasing payroll trend reversed in 2008 with the advent of LGR, though it has been restored since then. The trend of increasing maturity can be observed across the whole of the LGPS due to Government austerity, and anecdotal evidence at this stage suggests that NCCPF was just "*ahead of the curve*" in experiencing increased maturity earlier than other funds, and that others are catching up.

Other documents contained in the Annual Report

1.27 The Pension Fund Annual Report and Accounts includes **key documents**, as required by the LGPS Regulations, including:

- the Investment Strategy Statement [page 7];
- the Funding Strategy Statement [page 21];
- the Fund Account (i.e. the equivalent of an income and expenditure account) [page 70];
- the Net Assets Statement (i.e. the equivalent of a balance sheet, but without the pension liabilities) [page 71]; and
- a statement showing the actuarial value of the Fund at the last actuarial valuation of the Fund (31 March 2016) restated for accounts purposes i.e. "Whole of Pension Fund Disclosures under IAS26" [page 92].

Additional content to the Annual Report for 2018/19

1.28 Following the Chartered Institute of Public Finance and Accountancy (CIPFA) 2019 guidance "*Preparing the Annual Report – guidance for LGPS funds*", information has been provided in the 2018/19 Annual Report which was not required in previous years, including:

- new pensioners;
- late payments;
- employer contributions paid;
- employer contribution rates;
- value for money;
- long term performance by asset class;
- unit costs;
- administration performance;
- investment management costs;
- asset allocation and performance; and
- pool set up costs.

1.29 CIPFA gives guidance on content that **must** be included, **should** be included and **may** be included in the Annual Report. Where information has been available it has been included in the draft Annual Report. With the late publication of the guidance, not all of the suggested content was available.

1.30 The Administration Performance section of the draft Annual Report [pages 61 to 62] includes information on data quality and statistics on overpayments. The final published Annual Report and Accounts contain additional administration performance statistics, once formats and content are agreed with TWPF.

1.31 The Fund Performance section [pages 62-65] includes the new disclosures designed to capture the impact of pooling of assets. The table of investment management costs split between asset pool and non-asset pool costs will be more meaningful once NCCPF has transferred assets into Border to Coast Pensions Partnership (BCPP Ltd). The asset allocation and performance information shown is also split between asset pool and non-asset pool investments.

1.32 The pool set up costs would normally be set against analysis of savings from assets transferred into the pool. NCCPF has transferred assets to BCPP Ltd and therefore has no transition costs or savings to disclose. However, the benefit of pooling includes the lower fee rates offered to funds in 2016 when they were collaborating to form the nascent BCPP Ltd. Savings of £0.7 million in 2018/19 and £2.1 million since 2016 have therefore been disclosed in this section.

Other information

1.33 The draft Report shows [on page 95] total Pension Fund assets of £1,055.3 million and liabilities restated for accounts purposes of £1,421.4 million as at 31 March 2016, giving a **funding ratio of 74%** (71% as at 31 March 2013).

1.34 Northumberland County Council (as employer) participates in the NCCPF, together with 38 other employers. Northumberland County Council is the biggest participating employer, with **approximately 85%** (85% as at 31 March 2016) of the Fund's membership.

1.35 The approach taken by officers to the preparation of the NCCPF Financial Statements (i.e. pages 69 to end of the enclosed Annual Report) is, and has been in the past, to include the *minimum disclosure information* only, in an attempt to retain clarity for the reader of the accounts. The CIPFA/LASAAC Code of Practice on Local Authority Accounting requirements have tended to only increase disclosure requirements, year on year.

External audit of NCCPF's draft Annual Report and Accounts for 2018/19

1.36 At the time of finalising this report, EY's external audit work on the Fund's draft Annual Report and Accounts for 2018/19 had begun. EY's Audit Plan for the year ending 31 March 2019 for NCCPF was presented to the February 2019 Panel meeting, and EY's Final Report will be presented at the Panel meeting on 20 September 2019. EY will also present its Final Report on NCCPF's Annual Report and Accounts to the Audit Committee on 24 July 2019.

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REPORT OF THE SERVICE DIRECTOR - FINANCE

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2. LGPS Scheme Annual Report 2018

Purpose of the report

This report provides information about the LGPS Scheme Annual Report as at 31 March 2018, which was published by the LGPS Scheme Advisory Board (SAB) in May 2019.

Recommendation

The Panel is requested to accept the report.

Key issues

2.1 In May 2019, LGPS Scheme Advisory Board (SAB) issued the Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales, for the year ended 31 March 2018. The LGPS is one of the largest pension schemes in the world, with over 14,800 participating employers, 5.8 million members and investment assets of £275 billion as at 31 March 2018.

2.2 The 2018 Scheme Annual Report aggregates and analyses the 2017/18 Annual Reports of the 89 component LGPS funds (including NCC Pension Fund) in England and Wales. The data it is based on, therefore, is already over a year out of date.

2.3 The purpose of this report is to summarise the key issues identified in the 2018 Scheme Annual Report and compare NCC Pension Fund information with the LGPS as a whole. The key highlights, identified by the SAB, are set out in paragraph 2.11, and detail taken from the 2018 Scheme Annual Report is shown in **Appendix 1**.

2.4 Comparing NCCPF with the Scheme as a whole shows that in 2017/18 NCCPF's experience has been very much in line with that of other funds, with key features being increased membership and an increase in asset values, as well as increased contribution income due to higher employer contribution rates payable following the 31 March 2016 triennial valuation of LGPS funds.

2. LGPS Scheme Annual Report 2018

BACKGROUND

Purpose of the Scheme Annual Report

2.5 In May 2019, the LGPS Scheme Advisory Board (SAB) issued its sixth Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales, covering the year ended 31 March 2018. The 2018 Scheme Annual Report **aggregates information** supplied to SAB in the 2017/18 annual reports of the 89 LGPS funds.

2.6 The LGPS is one of the largest defined benefit (DB) schemes in the world and the largest DB scheme in the UK, with 14,800 participating employers, 5.8 million members and assets of £275 billion as at 31 March 2018. The Scheme Annual Report is one of the methods that the SAB uses to communicate with stakeholders of the LGPS, including the Government.

2.7 The aim of the Scheme Annual Report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. Continually improving key information about the Scheme as a whole is one of the priorities of the SAB.

2.8 It should be noted that the data the 2018 Scheme Annual Report is based on is already over a year out of date. LGPS pension funds are legally required to publish their 31 March 2018 annual reports by 1 December 2018, and the SAB must obtain all 89 before compiling the 2018 Scheme Annual Report to publish in May 2019.

2.9 The 2018 Scheme Annual Report contains sections on governance, funding, membership, investment, benefits, financial statements, auditor statements and adviser statements.

2.10 The full 2018 Scheme Annual Report can be accessed from the SAB website at: http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report. Detail taken from the 2018 Report is attached as **Appendix 1** to this report.

Key LGPS highlights for 2018

2.11 The SAB has identified the following highlights from the 2018 Scheme Annual Report:

- total membership of the LGPS grew by 197,000 (3.4%) to 5.8 million members in 2018 from 5.6 million in 2017;
- total assets of the LGPS increased to £275 billion (a change of 5%);
- assets were invested in pooled investment vehicles (54%), public equities (29%), bonds (7%), direct property (3%), and other asset classes (7%);
- net return on investments over 2017/18 was 4.4%, reflecting the reasonable market conditions during the year;
- the Scheme maintained a positive cash-flow position overall. Scheme income was higher than total Scheme outgoings by £500 million (including investment income; and
- over 1.7 million pensioners were paid over the year;

2.12 At the 31 March 2016 actuarial valuations, the total LGPS liabilities were estimated at £254 billion, indicating an overall funding level of about 85%. Members should note that each fund will have used different assumptions, and therefore funding levels (taken from the annual reports) are not fully comparable across funds.

2.13 The SAB has considered developing proposals to further tackle the estimated funding deficit as at 31 March 2016 of £37 billion (£47 billion as at 31 March 2013) to improve the sustainability of the LGPS and its future funding levels.

2.14 The 2018 Scheme Annual Report builds on the previous year's Report and considers (what may be) the beginning of a new trend i.e. a **slowdown** in the rate of improvement of life expectancy. **Appendix 1** contains the analysis of changes in observed longevity, taken from the SAB website. It is now clear that evidence of the slowdown is robust, and NCCPF's actuary, Aon, plans to take this into account at the next (31 March 2019) actuarial valuation.

Comparisons with NCCPF data

2.15 The total membership of the LGPS grew by 3.4% in the year to 31 March 2018, which compares with an increase of 2.7% for Northumberland County Council Pension Fund. For each membership category:

- active membership increased by 2.3% (for NCCPF it increased by 2.1%)
- deferred pensioner membership increased by 4.1% (for NCCPF it increased by 2.5%); and
- pensioner membership increased by 3.7% (for NCCPF it increased by 3.5%).

2.16 The Scheme strengthened its positive cash flow position in 2017/18. Contribution income increased by £2,094 million or 21.6% on prior year (for NCCPF it increased by £5.9 million or 12.5%). The sizeable increase in contribution income was largely due to higher employer contribution rates payable following the 31 March 2016 triennial valuation of LGPS funds. The Scheme overall increase is particularly high because a small number of employers opted to pay for three years' deficit contributions in a single upfront payment made in April 2017. Contribution income was £1,845 million higher than benefit outgoings (for NCCPF it was £2.7 million lower, reflecting NCCPF's higher than average fund maturity).

2.17 The total number of employers in the 2018 Scheme Annual Report was 14,785, compared with 14,019 for 2017. These totals include active and ceased employers, scheduled and admitted bodies, outsourcing companies and academies. The average number of employers in a County Council LGPS fund as at 31 March 2018 was 261. NCCPF had 44 employers at 31 March 2018, and 42 at 31 March 2017, reflecting the size of the Fund, single tier local government in Northumberland, and the relatively small number of separate academies in NCCPF.

2.18 The total Scheme assets of the LGPS increased to £275 billion (a change of 5%) during 2018. The net investment return on these assets (after fees) for the year to 31 March 2018 was 4.0% compared with 19.0% in 2017. This compares with 3.4% in 2018 and 24.2% in 2017 for NCCPF.

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

Allocation	31 March 2017	31 March 2018	NCCPF 31 March 2018
	%	%	%
Equities	62	55	62
Bonds	15	18	27
Alternatives	10	11	7
Property	8	9	4
Cash	2	3	-
Diversified growth	3	4	-

This confirms that, compared to other LGPS funds, NCCPF retains a relatively high weighting to bonds and a relatively low weighting to both property and alternatives. NCCPF's exposure to equities, one of the highest risk asset classes, was previously in line with the Scheme as a whole, however, as many LGPS funds sought to diversify out of publicly quoted equities to protect funding levels ahead of the 2019 actuarial valuation, NCCPF now holds a higher weighting in this asset class compared to other LGPS funds.

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

2.21 The thirty year annualised return of 8.9% per annum demonstrates the strength of investment returns and highlights that it is the increase in the value of liabilities rather than any failing on the asset side that has caused the deficit issues that administering authorities have been dealing with in recent years. Investment returns have also exceeded long term inflation over each of the periods shown below. NCCPF's results compare well with other LGPS funds.

Returns	3 years	5 years	10 years	20 years	30 years
	%	%	%	%	%
Average	8.3	8.8	7.7	6.5	8.9
Median	7.7	8.5	7.5	6.1	8.7
NCCPF	8.6	8.6	7.7	-	-
Inflation					
RPI	2.7	2.3	2.8	2.8	3.3
CPI	1.7	1.4	2.3	2.0	2.6

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

2.23 The UK Stewardship Code and global United Nations Principles of Responsible Investment (UNPRI) set out key principles of effective stewardship for asset owners to help funds exercise their stewardship responsibilities. As at 31 March 2018, 28 LGPS funds (31%) were signatories to the UK Stewardship Code and 8 funds (8%) were signatories to the UNPRI. NCCPF has an Action Plan item to sign up to the Stewardship Code in 2019/20.

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

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

This comparison (above) indicates that NCCPF's funding level is likely to be in line with that of most other funds. The Section 13 Report, published in July 2018, is a more reliable indicator of relative funding level, and supports the above comparison.

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

Conclusions

2.26 The Scheme Annual Report provides a source of analysis of data and a "health check" on the LGPS (in England and Wales). The 2018 Scheme Annual Report shows an increase in Scheme membership in 2018, and shows an increase in asset values as a result of reasonable investment performance in the year. Contribution income also increased significantly, largely due to higher employer contribution rates payable following the 31 March 2016 triennial valuation of LGPS funds.

2.27 Comparisons of NCCPF with the Scheme as a whole reveal no surprises. The experience of NCCPF in 2017/18 is similar to the Scheme as a whole, with NCCPF also experiencing increased membership, an increase in asset values and a significant increase in contribution income.

2.28 Two aspects in which NCCPF differs from the Scheme as a whole are:

- NCCPF's asset allocation is relatively high in publicly quoted equities and bonds and low in property and alternatives; and
- NCCPF's benefit payments exceeded contribution income in 2017/18, reflecting NCCPF's higher than average fund maturity.

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

MHCLG statistical release 2017/18

2.29 A report taken to the 23 November 2018 Panel meeting about the MHCLG statistical release, issued in October 2018, analysed information provided to MHCLG by all LGPS funds in England and Wales, for the year ended 31 March 2018. The 2017/18 statistical release covers the same period as the 2018 Scheme Annual Report, and (on the whole) uses the same information, i.e. information from the pension fund annual reports. The only difference is the statistical release is based on the "SF3" information which requires authorities to interpret and submit their own data, whereas the Scheme Annual Report is SAB's interpretation of the information contained in the 89 annual reports.

2.30 The main conclusions drawn from the 2017/18 statistical release in the report to the Panel in November 2018 were:

"*The statistical release shows that compared with prior year, in 2017/18 aggregate expenditure on LGPS benefits increased by 2.9%, income from employees' contributions increased by 1.9%, income from employers' contributions increased by 27.7%, with a 1.9% increase in the number of contributors. The sizeable increase in income from employer contributions was largely due to higher contribution rates payable following the 31 March 2016 triennial valuation of LGPS funds. This increase is particularly high because a small number of employers opted to pay for three years' deficit contributions in a single upfront payment made in April 2017.*

Comparing this information with NCCPF's data shows NCCPF's number of contributors has increased by more than the average fund, with income from employee contributions subsequently increasing more at NCCPF than the average. The income from employer contributions for NCCPF has also increased as expected given the higher rates payable following the 31 March 2016 valuation, however this increase is less than the average. This is due in part to NCCPF's employer contributions being higher than average in earlier years, and in part to the large upfront pension deficit contribution payments made by a number of employers at other funds. The upfront deficit contributions also (partially) explains why the increase in market value of the year to 31 March 2018 for NCCPF (2.8%) being lower than the national figure (4.7%)."

2.31 Whilst the overall messages from the 2017/18 statistical release and the 2018 Scheme Annual Report are similar, there are differences which call into question the validity of the information provided and the conclusions that can be drawn. For example, the statistical release shows an increase in the number of deferred LGPS members of 5.3% in the year, whereas the Scheme Annual Report shows an increase of 4.1% for the same year.

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3. Scheme Advisory Board's review of LGPS governance

Purpose of the report

This report provides information about the Scheme Advisory Board's recently launched review of LGPS governance, which is due to conclude later this year.

Recommendation

The Panel is requested to accept the report.

Key issues

3.1 In October 2018, the LGPS Scheme Advisory Board (SAB) launched the "***Good Governance Review***". This marked a return to the SAB's **Separation Project** from 2015, where the SAB had briefly considered separating the pension fund from its host authority but later shelved the project because of LGPS investment pooling. In 2018 the project was renamed "Good Governance" upon relaunch to clarify that separation of the pension fund from local authority control was *no longer* within its remit.

3.2 The **purpose** of the Good Governance Review is to consider ways of:

- raising **standards** of governance across the LGPS;
- ensuring **conflicts of interest** are identified and managed effectively; and
- ensuring the Scheme remains **appropriately resourced** to deliver its statutory functions and meet regulatory obligations.

3.3 In January 2019, the SAB procured assistance from Hymans Robertson to engage with LGPS stakeholders to explore potential LGPS governance options. Hymans Robertson started with a fact finding questionnaire issued to a sample of key stakeholders. Then on 17 April 2019 Hymans Robertson sent the Good Governance Review online **survey** to over 300 parties covering all LGPS administering authorities, with responses requested by 31 May 2019. The findings of the survey will be reported to the SAB in July 2019. Legal input on the models will then be obtained before the final SAB decisions in the autumn.

3.4 The Hymans Robertson survey included **four** outline LGPS governance models on which it sought the views of the respondents. The four models are summarised in paragraph 3.16 of this report and described in more detail, with examples, at **Appendix 2**. At NCCPF, the survey was received by the Chair and Vice Chair of the Pension Fund Panel, the Chair of the NCC LGPS Local Pension Board, the Section 151 Officer and three pensions officers. Responses to the survey were submitted by NCCPF.

3. Scheme Advisory Board's review of LGPS governance

BACKGROUND

Scheme Advisory Board's Separation Project launched in 2015

3.5 In 2015, the newly formed LGPS Scheme Advisory Board (SAB) launched a review, called the "***Operations for separation of host authority and pension fund***". This review was later put on hold while LGPS investment pooling was in its initial stages.

3.6 This 2015 project, although not completed, had reached the conclusion that only by maintaining the strong link to local democratic accountability provided by the involvement of elected members could the LGPS's statutory nature be effectively maintained.

3.7 In October 2018, the LGPS SAB relaunched the project naming it the "***Good Governance Review***" in order to clarify that separation of the pension fund from local authority control was no longer within its remit.

The SAB's 2018 Good Governance Review

3.8 In January 2019, the SAB procured assistance from Hymans Robertson to engage with stakeholders to investigate **two** potential governance options which were to:

- increase the regulatory framework within the existing structure; or
- explore the potential benefits of moving to a joint committee model.

3.9 The **purpose** of the review is to consider means of **raising standards** of governance across the LGPS such that **conflicts of interest** are identified and managed effectively and that the Scheme remains **appropriately resourced** and able to deliver its statutory functions and meet regulatory obligations.

Good Governance Review survey launched in April 2019

3.10 Hymans Robertson's initial work for the SAB was a fact finding questionnaire, which was issued to a sample of key stakeholders. Following analysis of the information obtained and with the agreement of the SAB, Hymans Robertson sent an online survey to over 300 parties covering all the LGPS administering authorities in England and Wales. **Appendix 2** provides detail of the work undertaken by Hymans Robertson to date.

3.11 The Good Governance Review survey was sent out by Hymans Robertson on 17 April 2019, with responses requested by **31 May 2019**.

3.12 At NCCPF, the survey was received by the Chair and Vice Chair of the Pension Fund Panel, the Chair of the NCC LGPS Local Pension Board, the Section 151 Officer and three pensions officers. Hymans Robertson also sent it to other stakeholders across the LGPS, including monitoring officers, employer and member representatives, and other (non-Hymans Robertson) advisers. The survey has been widely promoted and was **open to anyone** to participate in.

3.13 The SAB and Hymans Robertson facilitated a discussion about the Good Governance Project as part of a plenary session held at the Pensions and Lifetime Savings Association (PLSA) LGPS Conference 2019 in May.

3.14 Survey responses have been submitted before the deadline by representatives of NCCPF. The survey will also be supplemented with interviews, workshops, conferences, webinars and conversations with professional bodies such as CIPFA. Gerard Moore (Chair of the NCC LGPS Local pension Board) and Clare Gorman (officer) have provided further information for this Project via an interview.

Results of the survey

3.15 The findings of the survey will be reported to the SAB in July 2019. Legal input on the models will then be obtained before the final SAB decisions in the autumn.

Governance models

3.16 The Hymans Robertson survey included four outline LGPS governance models on which it sought the views of the respondents. The four models are précised below and described in more detail, with examples and some press commentary, in **Appendix 2**.

3.16.1 **Option 1: Improved practice**
Under this model there would be guidance issued and/or amendments made to the LGPS Regulations to enhance existing LGPS governance arrangements, for example, SAB guidance could be given on a minimum expected level of staffing.

3.16.2 **Option 2: Greater ring fencing of the LGPS within existing structures**
Under this model there would be greater separation of the pension fund management from the host authority, for example, the pensions committee could be required to set the budget for fund expenditure.

3.16.3 **Option 3: Use of a Joint Committee (JC)**
Under this model the Scheme Manager function and all decision making would be delegated to a Section 102 JC comprising all the local authorities currently participating in the fund, but with the assets and liabilities remaining the responsibility of the existing administering authority.

3.16.4 **Option 4: Use of a Combined Authority (CA)**
Under this model, each fund would be established under an independent structure (a CA) which would be a local authority in its own right and a separate legal entity. The CA's sole purpose would be to administer the fund and it would have no other responsibilities. South Yorkshire Pensions Authority (SYPA) is set up as a CA and is the only example of this in the LGPS in England and Wales.

Why was this SAB project considered necessary?

3.17 Jeff Houston, secretary of the SAB, when launching the Good Governance Project explained in a blog, published in Room 151, that the LGPS is a unique defined benefit pension scheme in that:

"*There are no trustees, no separate executive and no pot of money belonging to the employers and members of the scheme.*

In the LGPS (England & Wales) the responsibility for the management of the scheme resides within 88 administering authorities who are also scheme employers.

Each has a 'pension fund' which is actually a ***heavily ring-fenced revenue reserve of that authority****, from which only pension benefit payments and administration costs relating to the funds can be paid.*

There is, moreover, a silence in regulation with regard to whether a specific 'fiduciary duty' exists in relation to the pension fund and if so to whom such a duty applies.

This contrasts with the clear duty of trustees in the private sector to comply with statute, follow scheme rules and otherwise act in the best interests of scheme beneficiaries.

The duties of an administering authority are set out in regulation, which although comprehensive, do not clearly define in whose interests decisions should be made."

3.18 Members should note that whilst there is no *regulatory* reference to fiduciary duty, in 2014 the LGPS (Shadow) SAB obtained a legal opinion on fiduciary duty for investment of LGPS funds, which can be accessed at: https://www.lgpsboard.org/index.php/board-publications/legal-opinions. This legal opinion sets out that "*In managing an LGPS fund, the administering authority has both* ***fiduciary*** *duties and public law duties"* which, (per Nigel Giffin, QC) are owed to both the scheme employers and the scheme members. So the fiduciary responsibility of administering authorities is real, despite specific reference to it being absent from LGPS Regulations.

3.19 The SAB Good Governance Review was established because of concern that the current legal and regulatory framework can lead to poor standards and **conflicts of interest** which may not always be appropriately managed. The examples of conflicts often given are:

- administering authorities may reduce staff numbers in the pensions team to tie in with cuts across the whole authority, without having regard to the LGPS risk or workload, and (apparently) ignoring the fact that such staff costs are charged to the pension fund and the impact of those staff costs could be felt by other employers participating in the fund; and
- at the actuarial valuation, members and/or officers may take an ***im***prudent view in setting the future employer contribution rates, thereby putting the *short term* budget considerations of the administering authority (in its capacity as an **employer** participating in the fund) ahead of the *long term* interests of the fund and all participating employers; and
- administering authorities may prefer their own interests over other scheme employers' interests in ways such as approving fund investment in local social housing as a means of subsidising the project at the expense of the pension fund returns.

3.20 Following on from the quote shown in paragraph 3.17, Jeff Houston states:

"The fact that such a construct does not lead to problematic examples of conflicts of interest is testament to the professionalism and expertise of officers and the non-partisan, scheme focused approach of elected members."

3.21 The current statutory guidance on governance, published in 2008, is attached as **Appendix 3**. The guidance says very little about conflicts of interest, but pre-dates the requirements introduced in 2015 for all public sector schemes to comply with Code of Practice Number 14 which does cover conflicts.

3.22 The SAB's view is that some more guidance or regulation may be needed in the LGPS to reduce the likelihood of conflicts being mismanaged in the future.

NCCPF's approach to managing conflicts

3.23 NCCPF has a Conflicts Policy, which was last updated in October 2018, and can be found at: https://www.northumberland.gov.uk/NorthumberlandCountyCouncil/media/About-the-Council/pensions/Northumberland-PF-Conflicts-Policy-2018.pdf. This policy applies to all members and officers involved in the administration and management of the pension fund.

3.24 The NCCPF Policy requires all relevant members and officers to complete a declaration and renew it annually. The six Panel members have all signed a declaration which acknowledges the conflict inherent in their role, including the text:

"*As a Pension Fund Panel member I have responsibility for decision making including (per Regulation 62 of the 2013 Regulations) in relation to the funding objectives "to ensure the Fund's solvency while taking account of the desirability of maintaining as nearly a constant contribution rate as possible and the long-term cost efficiency of the Fund". However, as an elected member of NCC I also have an interest in NCC's financial position, including its expenditure in its capacity as an* ***employer*** *participating in the NCC LGPS Pension Fund. I recognise that my interest in controlling NCC's expenditure as a contributing employer to the Fund may, on occasions, appear to conflict somewhat with the funding objectives. However, in Pension Fund Panel decisions (particularly setting NCC's employer contributions at the triennial valuation and setting the funding strategy and asset allocation), I will always endeavour to act with integrity and to put my Pension Fund Panel responsibilities first."*

3.25 Conflicts of interest cannot always be avoided so they must be appropriately managed. NCCPF's approach was adopted to comply with the Pensions Regulator's Code of Practice Number 14, and is intended to ensure that members and officers **recognise and understand** the conflicts that are **inherent** in their various roles they fulfil, to help them manage conflicts when they arise.

Comment

3.26 The Hymans Robertson survey has been purposefully designed and conducted to obtain a variety of views from each administering authority, so that, for example, should the S151 Officer's view differ from the Pensions Manager's view, *both* will be captured and considered. Nevertheless, there is some consensus among industry commentators that:

- Option 3 (a JC) would be neither workable nor desirable, as the decision making function is **not aligned** with the responsibility for the fund;
- Options 1 and 2 would both be workable, and since they are not mutually exclusive, the best parts of both options could be combined, with a **comply or explain** type of model adopted; and
- Option 4 is workable but would not be value for money unless there was some consolidation of smaller funds, and, consolidation of funds as a government policy may not sit well with the pooling agenda at this time.

CIPFA's response to the Good Governance Review

3.27 CIPFA's response to the Hymans Robertson survey, in the form of an open letter, can be found on its website at: www.cipfa.org/policy-and-guidance/technical-panels-and-boards/pensions-panel. CIPFA provides much of the guidance which applies for governance of the LGPS, and has unique insight, through the CIPFA Pensions Network (of which NCCPF is a member), into governance practices in place across the whole Scheme.

3.28 Shown below are **extracts** from the CIPFA response, showing key points made:

"*Overall the governance of the Scheme has been strong for many years as demonstrated by excellent investment returns (PIRC Local Authority Universe figures show average returns of 7.7% over 10 years to March 2018) and improved solvency levels (as shown by improvements in Section 13 Reports between 2013 and 2016). Hence, we would have concerns that any potential benefits of significant fundamental changes to the management of the Scheme such as Joint Committees and Combined Authorities could be insufficient to justify any risk of increased costs, both on transition and in operation.*

…CIPFA believes that through existing guidance and the wider governance and regulatory framework including the Scheme Advisory Board, MHCLG and The Pension Regulator there is a huge amount of support, and a sound framework, to promote good governance arrangements across the LGPS. Where there is existing good practice this should be shared and used to assist those whose arrangements require improvement.

…In addition to our specific response to the survey we have some strategic thoughts which provide the context to our views:

- *We believe CFOs are operating effectively in managing their LGPS responsibilities but would support and promote further clarification on managing conflicts of interest in this area. We would be very happy to support the development of training and guidance for all CFOs to improve their ability to offer challenge and deliver more transparency.*

- *Greater compulsion around the training requirements for Pension Committees to bring them in line with Local Pension Boards would be welcome. This would strengthen the requirements and support the use of the CIPFA Knowledge & Skills Frameworks for Elected Members, Board Members and Officers.*

- *DCLG surveys at the time of introducing the Governance Compliance Statement in 2009 indicated overall high governance standards, however, there may be local issues which lead to some Funds having sub-optimal arrangements. If the objective is to address and support specific funds which may give rise to concerns regarding their governance and performance, then there should be a means of identifying such Funds through a process of governance assessment against best practice which could be used highlight any areas of weakness. This could be applied to all Funds as a means of providing assurance to Local Pension Boards and Committees and could even be shared publically with all stakeholders to demonstrate transparency and accountability.*

- *The role of the Local Pension Board could be clarified/strengthened to require a governance assessment of their Fund and the ability to challenge management on the outcomes of this assessment. The ability of Local Pension Boards to scrutinise local governance arrangements should be a key part of the governance process.*

- *External opinions on the governance arrangements from bodies such as TPR and External Audit should be part of the assurance framework which could be part of the LPB responsibilities. The focus of such reports would be much clearer in the event that, as suggested, LGPS annual accounts are separated from those of the administering authority."*

3.29 Though CIPFA's response does not explicitly say so, it is providing support for Options 1 or 2, or a combination of both.

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4. Proposed cap on exit payments of £95,000

Purpose of the report

This report provides information about the recent Government consultation on HMT regulations to implement the £95,000 exit payment cap policy set out in the Enterprise Act 2016.

Recommendation

The Panel is requested to accept the report.

Key issues

4.1 In 2015, the Government announced plans to introduce a cap on exit payments in the public sector in a redundancy or severance situation. The cap was legislated for in the Enterprise Act 2016 but required secondary legislation to be introduced to become effective in each of the separate public sector schemes.

4.2 On 10 April 2019, HM Treasury opened a twelve week consultation, closing on 3 July 2019, on draft regulations and guidance to implement the exit cap. The consultation can be found at: https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector. **Appendices 4** and **5** contain information prepared by the Local Government Association and the Local Government Pensions Committee (respectively) and show further detail and analysis of the proposals.

4.3 In local government, those most likely to be affected by the cap are active LGPS members aged 55 or over, facing redundancy. An exit cap has implications for LGPS members, employers and administering authorities, so the consultation was passed on to all NCCPF employers to provide the opportunity to respond.

4.4 The purposed exit payment cap is set at £95,000 and the draft regulations include no provision for indexation. Redundancy payments including statutory redundancy, severance and pension strain costs made as a consequence of termination of employment are included in the cap. Payments relating to death in service or ill-health retirement are not exit payments for the purposes of these regulations. The statutory redundancy element of an exit payment cannot be reduced, therefore, if the cap is exceeded, other elements of the total exit payment must be reduced to achieve an exit payment of £95,000.

4.5 The draft regulations and guidance contain contradictions and the precise impact on the LGPS is unclear. It would be helpful if the LGPS regulations can be amended **before** the proposed HMT regulations come into force. MHCLG must determine how the cost of paying pension benefits early (i.e. “the strain cost”) will be calculated given the fact that strain in the LGPS is currently calculated using locally set factors, and whether pensions paid on redundancy will be reduced or deferred. Further details of the next steps in the regulatory process are included in **Appendix 19**, attached to this report.

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5. PLSA Local Authority Conference held in May 2019

Purpose of the report

This report provides information about the Pensions and Lifetime Savings Association (PLSA) Local Authority 2019 Annual Conference, held on 13 to 15 May 2019.

Recommendation

The Panel is requested to accept the report.

Key issues

5.1 The 2019 PLSA Local Authority Annual Conference held in the Cotswolds in May had over 350 attendees, including Gerard Moore (Chair of the Board) and Clare Gorman (officer) representing NCCPF. The Hymans Robertson summary of the Conference highlights is attached as **Appendix 6**.

5.2 Unlike many other LGPS events, the PLSA Local Authority Conference does not just focus on investments but also covers LGPS administration and governance. This conference is generally well attended by the LGPS community, deals with topical issues and attracts the top speakers. This year, the speakers included Rishi Sunak MP (Minister for Local Government), Jeff Houston (Head of Pensions, Local Government Association) and Councillor Roger Phillips (Chair of the LGPS Advisory Board).

5.3 The Conference usually gets pensions press coverage but the 2019 Conference made the headlines mainly because climate activists, Extinction Rebellion, interrupted Rishi Sunak's speech, calling for LGPS funds to disinvest from fossil fuels. Rishi responded that individual administering authorities, not Government, make the investment decisions in the LGPS. Press articles on the Conference are shown in **Appendix 7**.

5.4 Rishi Sunak's "*View from Whitehall*" speech set out the Government's key priorities for the LGPS including:

- keeping the momentum going on pooling;
- consulting on fair deal proposals to strengthen protection for outsourced staff; and
- moving to a quadrennial actuarial valuation format.

5.5 During his speech, Rishi Sunak also stated that Government now planned to ***formally*** consult on proposed new guidance on LGPS pooling. Report 5 on the confidential report of the Service Director – Finance at this meeting explains the stage reached in the previous MHCLG *informal* consultation on pooling which has led to the Government decision to consult again. The minister finished his speech noting that the **McCloud** ruling could have wide ranging ramifications in the future for the LGPS.

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6. Consultation on changes to the LGPS actuarial valuation cycle

Purpose of the report

This report provides information about the Government's consultation to move the LGPS to a four yearly actuarial valuation cycle, and seeks a delegation from the Panel to finalise NCCPF's response before the consultation closes at the end of July.

Recommendation

The Panel is requested to delegate authority to the Service Director – Finance in consultation with the Chair and Vice Chair of the Panel to finalise a response to the consultation on behalf of NCCPF.

Key issues

6.1 On 8 May 2019, MHCLG issued a consultation, attached as **Appendix 8**, on changing the actuarial valuation cycle in the LGPS in England and Wales from the current three yearly (triennial) valuations to a four yearly (quadrennial) cycle. The purpose of the change is to move the LGPS to four yearly revaluations which is required for the cost cap mechanism, and is already in place for the unfunded public service schemes.

6.2 The consultation also proposes to give LGPS administering authorities:

- the power to conduct **interim valuations** between formal valuations; and
- more flexibility in managing employer exits.

6.3 Members were aware that proposals to change the valuation cycle were due, though the consultation goes further than expected in proposing to amend the status within the LGPS of further education, higher education and sixth form college corporations in England, such that they will no longer required to offer LGPS access to new employees. This has no immediate relevance to NCCPF, because it has no participating colleges or universities.

6.4 All public service pension schemes were valued at 31 March 2016 at the start of the cost cap process, and the unfunded schemes will be revalued in 2020, in 2024, and so on. Aligning the LGPS valuation cycle after the 2019 valuation could be achieved in a number of ways, but having a one year inter-valuation period (to 2020) was seen as unworkable by the funds and their actuaries. The consultation therefore provides options for the transitional period from 2019 to 2024, with a preferred option for a valuation in 2022. Under this option, the 2019 valuation would set contributions for **three** years from April 2020 to March 2023, and the 2022 valuation would set contributions for **two** years from April 2023 to March 2025.

6.5 The consultation ends on 31 July 2019. Officers are in formulating a response, and this report seeks a delegation to finalise that response.

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

Purpose of the report

The purpose of this report is to provide information about individual Panel members' Local Government Pension Scheme membership.

Recommendation

The Panel is requested to accept the report.

Key issues

7.1 At the 25 November 2011 Panel meeting, members considered whether it was necessary to declare a personal interest in the business of the Pension Fund Panel *as a result of their own membership* of the LGPS. Advice obtained from NCC's Legal Services Department was that Scheme membership does not represent a personal interest to be declared at meetings because members cannot influence the terms of the Scheme which apply to them (individually) through participation in the business of the Panel.

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

7.3 As at June 2019, the following voting Panel members were LGPS members:

- Councillor D L Bawn deferred member;
- Councillor Mrs E Dunn pensioner member;
- Councillor D Kennedy deferred member;
- Councillor I C F Swithenbank pensioner member.

(Councillors M Robinson and J Watson were not members of the Scheme.)

7.4 In June 2018 *all* observers and officers regularly involved in the work of the Pension Fund Panel were members of the Scheme (i.e. **observers**: S L Dick, J H Adams, I Storey, and A Culling; **officers**: A Scholes, A Elsdon, A Stewart, C Gorman, A F Lister, C S Johnson, A D Scott, and N J Turnbull; **administration**: South Tyneside Council's officers including H Chambers and I Bainbridge). Of the Local Pension Board members not already mentioned in this paragraph, J P Clark, G F Moore and Councillor J I Hutchinson are LGPS members. Note that A Scholes replaced A Elsdon as NCC's Section 151 Officer on an interim basis, from 1 April 2019.

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8. Formal assessment of the performance of the investment adviser

Purpose of the report

The purpose of this report is to inform Panel members of the results of the 2018/19 annual formal assessment of the performance of the Pension Fund Panel adviser, Mercer.

Recommendation

The Panel is requested to accept the report.

Key issues

8.1 CIPFA guidance (in 2009) introduced a requirement for pension committees such as the Northumberland County Council Pension Fund Panel to have arrangements in place to formally measure the performance of the investment adviser.

8.2 The Panel approved a "scorecard" for use in this formal assessment at the February 2011 meeting. Given the long-term nature of the relationship between the adviser and the Panel, **annual** assessment is appropriate. A formal annual assessment has been undertaken by the Panel since 2011.

8.3 Members of the Panel and observers were asked to complete the scorecards anonymously and return them to Craig Johnson before the end of April 2019. Eight out of a potential ten responses were returned.

8.4 A **summary** of the responses is attached as **Appendix 9**. The tone of the responses was very positive, with an overall rating of 3.3 given (3.5 in 2017/18), where 4 was the highest score possible. As expected, all responses included the answer "not applicable" to at least some of the questions. Officers have shared the results of the 2018/19 assessment with Mercer in advance of this meeting, to ensure that the individual comments made have been conveyed.

8.5 In April 2018, **Susan Greenwood** of Mercer took over from **Joanne Holden** as NCCPF's primary contact, following Joanne's promotion to Head of UK Investment. Since then, Susan has attended every NCCPF Panel meeting where the investment adviser was required.

8. Formal assessment of the performance of the investment adviser

BACKGROUND

CIPFA guidance

8.6 CIPFA (The Chartered Institute of Public Finance and Accountancy) issued a publication on 11 December 2009 called *Investment Decision-Making in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*. This guidance states:

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers.

8.7 A "scorecard" for assessing the adviser was approved by the Pension Fund Panel at the February 2011 meeting and it was agreed that each Panel member would be asked to complete the scorecard once a year so that the views of Panel members could be summarised by officers and fed back to the adviser (Mercer). The first assessment covered the work by the adviser during the twelve months to 31 March 2011.

8.8 In February 2019, each Panel member (including each Panel observer) was asked to complete and return a scorecard covering the work undertaken by Mercer in 2018/19 to Craig Johnson by 5 April 2019. The scorecards were completed anonymously. Eight out of a potential ten responses were received (seven out of ten responses received in 2017/18).

8.9 Prior to the introduction of the scorecard, the Panel did not have a formal process in place to measure the performance of its adviser, though informal continuous assessment has always been an implicit part of the dealings between officers, members and the adviser.

Formal assessment of the adviser - summary

8.10 A **summary** of the 2018/19 responses received from Panel members and observers is attached as **Appendix 9** to this report. Members were asked to give a score for each question on the scorecard within the range 1 to 4 inclusive, where:

1 means	Poor/area for improvement
2 means	Satisfactory
3 means	Good
4 means	Very good
N/A	Not applicable

8.11 In the (Appendix 9) summary, an average score from all of the responses received has been calculated and shown against each question.

8.12 The **overall** average score given was 3.3, and as a general conclusion of the responses received, the highest scoring questions were the ones relating to the accessibility and knowledge of the regular consultant(s). Comments made were mainly positive or very positive. The number of scorecards completed was slightly more than in prior years.

8.13 When comparing the 2018/19 scorecards with prior years, it can be noted that, in some areas average scores have increased, while other areas decreased. The overall average score for 2018/19 (3.3) was a decrease on the 2017/18 equivalent (3.5), although this could be due to the fact that more responses were received from Panel members, coupled with the subjective nature of the scoring. The positive comments received indicate continued trust in the investment adviser.

8.14 To set the overall score in context, scores for the last five years have been:

Year	**Overall score**	**Number of responses out of ten**
2014/15	3.7	nine
2015/16	3.5	six
2016/17	3.7	four
2017/18	3.5	seven
2018/19	3.3	eight

Feedback to Mercer

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

8.16 When conducting a formal assessment of this type, it is to be hoped that there will be no surprises from the results as surprises would indicate poor communication between the adviser and the Panel or officers during the year. This formal assessment did not contain any surprises.

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9. Outcomes of the March 2019 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 ("***the Board***") held on 25 March 2019.

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 From its first meeting in July 2015, the Board has made recommendations to the Scheme Manager (i.e. Northumberland County Council as administering authority for the LGPS) for changes to the LGPS administration and governance arrangements. Since September 2017, Board proposals and outcomes from each meeting have been formally reported to the next quarterly Panel meeting via a Report of the Board Chair, to ensure all relevant Board outcomes are captured and considered by the Panel as a separate agenda item.

9.3 The most recent Board meeting was held on 25 March 2019 and the Report of the Board Chair is attached as **Appendix 10**.

9.4 Members should note the 25 March 2019 Board meeting outcomes and the work done in relation to:

- the Regulator's Code 14 compliance checklist for NCCPF;
- NCCPF's data improvement plan (in conjunction with the administrator);
- monitoring recorded breaches and KPIs; and
- review of the risk register.

9.5 To fill the vacancy left following Councillor Pidcock's death, Councillor Hutchinson was formally appointed to the Board by the Board's **Appointment Panel** (as defined in the Board's Terms of Reference) on 8 March 2019. This enabled his training to begin with induction information provided by officers, attendance at the informal Panel meeting held on 8 March, and attendance at the 25 March Board meeting. His appointment in March also ensured quorum was achieved at the 25 March Board meeting.

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10. Annual Report of the NCC LGPS Local Pension Board

Purpose of the report

The purpose of this report is to provide the 2018/19 Annual Report of the NCC LGPS Local Pension Board ("***the Board***") to the Panel, for information.

Recommendation

The Panel is requested to accept the report.

Key issues

10.1 The NCC LGPS Board's Terms of Reference require that:
"*…. an annual report of the LGPS Local Pension Board (as prepared by the Chair of the LGPS Local Pension Board), must be provided to the Chief Financial Officer, the Monitoring Officer and the Pension Fund Panel, and be published in the Northumberland County Council Pension Fund's Annual Report and Accounts.*"

10.2 There is no specific guidance available from the LGPS Scheme Advisory Board, CIPFA or MHCLG on the required content of a Board's annual report.

10.3 The first annual report of the Board covered the 2015/16 financial year, was published in the 2015/16 NCCPF Annual Report and Accounts and reported to the May 2016 Panel and July 2016 Audit Committee meetings. The same reporting pattern has been followed each year since then.

10.4 In March/April 2019, the Independent Chair of the Board, Gerard Moore, prepared the 2018/19 Annual Report on the work of the Board in that year. The Report was taken as an initial draft to the 25 March 2019 Board meeting for discussion, with the final draft emailed to Board members for input on 30 April 2019.

10.5 The final 2018/19 Annual Report of the Board is attached as **Appendix 11** to this report. It is included in the enclosed 2018/19 NCCPF (draft) Annual Report and Accounts and published on NCC's website. Together with the minutes of the five meetings of the Board held during 2018/19 (held on 17 April 2018, 27 July 2018, 8 November 2018, 10 December 2018 and 25 March 2019), it will be reported to the 24 July 2019 meeting of the Audit Committee.

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11. CIPFA's Guide to Administration in the LGPS

Purpose of the report

This report provides information to the Panel about CIPFA's recently published "*Guide to Administration in the LGPS"*.

Recommendation

The Panel is requested to accept the report.

Key issues

11.1 CIPFA has recently issued its "*Guide to Administration in the LGPS*" which is intended to provide an insight into the administration function for Pensions Committee members, Local Pension Board members and those new to the LGPS.

11.2 The Guide is **enclosed** with these papers. It was developed with input from Aon, and CIPFA is encouraging wide circulation to support the discussions around the widely recognised administrative challenges. The foreword to the Guide provides a useful synopsis of why CIPFA has, for the first time, provided guidance to administering authorities on the governance in relation to administering the LGPS.

11.3 Aon identifies challenges for the administration function which are unprecedented in the Scheme's history, arising from:

- complexities of the Scheme and tax regime legislation;
- pensions administration software that cannot keep up with the legislative changes;
- an increasing number of participating employers; and
- difficulties in recruiting experienced pensions professionals.

11.4 On several occasions in the past, CIPFA has taken steps to raise the profile of LGPS administration among Section 151 Officers, pointing out that managing assets and the introduction of investment pools has taken resource and attention away from administration. This CIPFA Guide is also attempting to raise the profile of LGPS administration with Committee and Board members, and points out that scrutiny, from the Pensions Ombudsman, the Pensions Regulator and Local Pension Boards has never been higher.

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12. NCC LGPS: the Pensions Regulator's Code compliance checklist

Purpose of the report

This report provides information about NCCPF's third assessment against the standards set out in the Pensions Regulator's Code of Practice number 14, which has been reviewed in detail by the NCC LGPS Board.

Recommendation

The Panel is requested to accept the report

Key issues

12.1 It is good practice for LGPS administering authorities to self-assess against the standards set out in the Pensions Regulator's (tPR's) Code of Practice 14 ("***CoP14***").

12.2 NCCPF's first CoP14 compliance checklist was undertaken in 2015/16 and reported to the 26 February 2016 Panel meeting. Annual review is appropriate, and the most recent assessment (i.e. NCCPF's third) was carried out in autumn 2018, after the shared pensions administration service had "bedded in".

12.3 Officers at NCCPF and TWPF worked with Aon to complete the **third** compliance checklist for NCCPF during October and November 2018. As Aon is one of the recognised LGPS administration specialists, its involvement was particularly relevant in the first year of the shared service, to bring objectivity, expertise and independence to the checklist process.

12.4 NCCPF's third CoP14 compliance checklist was originally reported to the Panel in November 2018, then reviewed in detail by the NCC LGPS Board in December. Following the Board's December 2018 review, changes were made and the checklist was reported back to the Board at its 25 March 2019 meeting.

12.5 The final version of NCCPF's third compliance checklist, entitled "*The Pensions Regulator's and Scheme Advisory Board's Compliance Checklist*" (completed 13 March 2019) is **enclosed** with these papers. It is based on **conditions as at November 2018**.

12.6 The checklist uses red, amber and green to help the user identify the areas needing more work, with further actions set out in the final column. Some of the further actions shown have already been carried out, and the progress will be reflected in NCCPF's next (i.e. the fourth) CoP14 compliance checklist.

12.7 The next CoP14 review will be carried out based on conditions as at November 2019, and brought to the 6 December 2019 Panel meeting.

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13. Internal Audit Report

Purpose of the report

This report provides the results of the recent internal audit work carried out by South Tyneside Council to review compliance with GDPR within the shared LGPS administration service.

Recommendation

The Panel is requested to accept the report.

Key issues

13.1 Work was undertaken by South Tyneside Council's (STC) Internal Audit Partnership in October and November 2018 to review the arrangements in place within the shared administration service to comply with the new General Data Protection Regulation (GDPR).

13.2 The LGPS administration service for NCC is undertaken by STC as part of a shared administration service on behalf of Tyne and Wear Pension Fund (TWPF) and NCCPF. The work done by STC's Internal Audit Partnership tested the controls in place within STC's pensions administration service, and therefore covered GDPR compliance within NCCPF as well as TWPF.

13.3 The Internal Audit Report is attached as **Appendix 12**. An earlier version of the Internal Audit Report was considered by the NCC LGPS Local Pension Board at its meeting in December 2018. The attached version has been changed (at the top of page 6 of Appendix 12) to make clear that the work undertaken covered the controls applied by STC for **both** the NCCPF and TWPF data held and processed by STC.

13.4 The Internal Audit Report concludes that "*There is a sound system of control in place but some controls are not consistently applied or fully effective*." The Report makes seven recommendations, one of which is graded as medium priority and the rest as low priority. The medium priority recommendation was implemented in February 2019.

13.5 On page 7 of Appendix 12, the Report refers to cybersecurity controls in place at STC and confirms that STC follows the Government's Public Security Network (PSN) Standard and is PSN compliant. NCC's cybersecurity expert in the Information Services (IS) Department has reviewed the Internal Audit Report and confirmed that NCC follows the PSN Standard and can gain assurance from Internal Audit's confirmation of STC's PSN compliance.

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14. NCCPF's 2019/20 Cash Flow Forecast

Purpose of the report

This report provides NCCPF's 2019/20 Cash Flow Forecast, for information, and seeks a delegation to update NCCPF's Cash Pooling Policy.

Recommendation

The Panel is requested to delegate authority to the Service Director – Finance in consultation with the Chair and Vice Chair of the Panel to update NCCPF's Cash Pooling Policy.

Key issues

14.1 NCCPF has **no strategic allocation** to cash, but some cash is held in-house to meet the day to day cash needs and pay pensions when they fall due. Holding cash is a drag on investment performance, so the amount held is kept low but balanced against the practicalities and cost of investing in and disinvesting from long term investments.

14.2 NCCPF's private equity and infrastructure funds drawdown and payback in either US dollars or Euros. When paybacks can be matched with drawdowns, foreign currency is held for a short period by the Fund's custodian, Northern Trust. Otherwise, cash held by the custodian is "swept" into the in-house cash each month. When there is insufficient in-house cash available to meet immediate needs, units in the Fund's holdings with Legal and General can be realised at relatively short notice and minimal cost. Similarly, surplus cash can be invested with Legal and General, in strategic benchmark proportions.

14.3 NCCPF's cash holdings are either held by Northern Trust or held in-house in a separate NCCPF bank account within NCC's pooled cash balances. NCC's pooled balances are managed in accordance with NCC's Treasury Management Policy. All NCCPF cash is held in short term, low risk, liquid, interest bearing investments. NCCPF earns interest on the in-house cash in accordance with its **Cash Pooling Policy**, which is attached as **Appendix 13**. The Policy was agreed by the Panel in 2010. An update is now required, and this report seeks a delegation from the Panel to update the Policy.

14.4 NCCPF's 2019/20 Cash Flow Forecast (CFF) is attached as **Appendix 14**. The requirement to pay out c. £26 million as a result of the merger (and exit) of Northumberland College will be met by the redemption of units held with Legal and General. The 2019/20 CFF estimates nil cash requirement because capital receipts are projected to exceed capital payments in the year. This is in line with NCCPF's net withdrawal from capital in 2018/19 and earlier years. The CFF is a "working" document, to be updated throughout the year and used to help manage the cash requirement and minimise any transaction costs incurred.

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15. Fair Deal

Purpose of the report

This report provides information about the recent Government consultation to extend the Fair Deal Guidance to the LGPS.

Recommendation

The Panel is requested to accept the report.

Key issues

15.1 In January 2019, MHCLG issued a consultation: "***Local Government Pension Scheme: Fair Deal – Strengthening pension protection***" which closed on 4 April 2019, and is attached as **Appendix 15**. This consultation proposes to strengthen protections that apply when an employee of a LGPS employer is compulsorily transferred to the employment of a service provider. The changes would bring the LGPS in line with the government's October 2013 Fair Deal Guidance, which already applies in relation to transfers from central government.

15.2 In summary, the Fair Deal consultation 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.

15.3 Aon's views on the proposals are provided in its "***Spotlight: Fair Deal Consultation***" which is attached as **Appendix 16**. Aon raises concerns over the deemed employer proposals, in particular "*the proposed draft regulations are too light on detail and may lead to unintended consequences that defeat the stated aim of reducing the administration burden*." Aon adds: "*We have long advocated training on, and guidance for, letting authorities on pension outsourcing matters*" and points out that the complexity in outsourcing, in its experience "*exposes letting authorities (and ultimately taxpayers) to unquantifiable risks / costs*"

15.4 The response on behalf of NCCPF was submitted to MHCLG by Tyne and Wear Pension Fund (TWPF) and is shown on pages 15 to 23 of **Appendix 19**.

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16. Recording breaches and data processing: quarterly monitoring

Purpose of the report

This report provides information about breaches of the law and data processing in and before the quarter to 31 March 2019.

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 12 July 2019, and report back to the Panel.

Key issues

16.1 Oversight of the LGPS by the Pensions Regulator (tPR) from 1 April 2015 brought with it the requirement for administering authorities to demonstrate their commitment to data maintenance and improvement, and to record and (potentially) report breaches of the law to tPR.

16.2 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), and breaches within the functions retained by NCC, including collection of contributions, are reported by NCC officers.

<u>Breaches within functions retained by NCC</u>

16.3 In the quarter to 31 March 2019, one employer breached the requirement to pay contributions due to NCCPF within 19 (or 22) days of the end of month in which they were deducted. Details of the resulting breach are shown in **Appendix 17**.

<u>Breaches and data improvement within member administration services</u>

16.4 Breaches information within member administration services for the quarter and year to March 2019 is included in the **enclosed** "***NCC Pension Fund process details***" (on A3 paper). 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. The enclosed information is the equivalent of the KPIs which were provided to the Panel prior to implementation of the shared service, but much enhanced because it covers all administration processes, rather than just five of them.

16.5 The current **Data Improvement Plan** (on A3) is **enclosed** with these papers.

16.6 This report proposes that the Board be requested to review the attached and enclosed information in detail at its next meeting on 12 July 2019.

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17. Tyne and Wear Pension Fund's quarterly regulatory reports

Purpose of the report

This report provides 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, and due to the timing of NCCPF's and TWPF's committee meeting dates there are two TWPF regulatory reports to bring to this meeting, attached as **Appendices 18** and **19** to this report.

17.2 Items of particular note in the regulatory reports:

Appendix 18 5 March 2019	• MHCLG's consultation on Fair Deal • Updates on HMT's Guaranteed Minimum Pension (GMP) consultation • The Scheme Advisory Board's (SAB) Good Governance review • Updates on the SAB's ongoing reviews of academies in the LGPS and "tier 3" employers • Public Sector Exit Payment Reforms (the £95,000 cap) • Updates on the cost cap mechanism and the McCloud judgement
Appendix 19 11 June 2019	• Updates on matters referred to in the 5 March 2019 regulatory report • TWPF's response to MHCLG's consultation on Fair Deal • MHCLG's consultation changes to the local valuation cycle

17.3 Many of the items noted in 17.2 above are covered elsewhere on these papers (report 3 for the Good Governance review; report 4 for the Exit Cap; report 6 for the change to the valuation cycle; and report 15 for Fair Deal).

<u>Scheme Advisory Board's October meeting summary</u>

17.6 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 most recent summary, for the SAB Board meeting held on 8 April 2019, is attached as **Appendix 20**.

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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 March 2019 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 **£1,428** million as at 31 March 2019, compared to £1,329 million as at 31 December 2018, reflecting the positive investment returns over the quarter.

18.2 Performance for the Fund as a whole was **7.2%** for the quarter and 6.9% for the year to 31 March 2019, underperforming the Fund's benchmark returns for the quarter of **7.3**% and outperforming the Fund's benchmark return for the year to 31 March 2019 of 6.2%.

18.3 Outperformance from Wellington (the Fund's active bonds manager), Schroder (property manager), and GIP (infrastructure manager) was offset by underperformance by all private equity investments and BlackRock (property manager) during the quarter. The overweight position in UK index-linked gilts has also been a positive contribution in the quarter.

18.4 Further detail of annual and quarterly performance by manager and asset class for the period ending 31 March 2019 (i.e. the "*Quarterly Risk and Return Analysis*" provided by Portfolio Evaluation Ltd, the Fund's performance measurement service provider) is **enclosed** with these papers. Nick Kent of Portfolio Evaluation will attend the meeting of the Pension Fund Panel on 20 September 2019 to present analysis of the Fund's returns for the year to 31 March 2019.

18. Fund performance and total Fund value

BACKGROUND

Total Fund value

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

	as at 30 June 2018 £m	as at 30 September 2018 £m	as at 31 December 2018 £m	as at 31 March 2019 £m
Legal and General *Index tracker*	**1,126.41**	**1,139.99**	**1,056.37**	**1,139.10**
Wellington *Active corporate bonds*	**103.46**	**104.64**	**102.85**	**106.41**
Schroder	28.56	28.89	28.95	28.84
BlackRock	26.95	27.26	27.39	27.19
Property **subtotal**	**55.51**	**56.15**	**56.34**	**56.03**
Morgan Stanley	21.25	20.55	20.14	20.14
NB Crossroads	20.54	21.46	21.40	21.41
Pantheon	8.00	7.72	8.46	9.80
Private equity **subtotal**	**49.79**	**49.73**	**50.00**	**51.35**
GIP	36.53	36.53	38.94	41.16
Antin	19.82	23.09	24.30	24.30
Pantheon	-	-	-	9.23
Infrastructure **subtotal**	**56.35**	**59.62**	**63.24**	**74.69**
Total	**1,391.52**	**1,410.13**	**1,328.80**	**1,427.58**

Note that capital calls and capital repayments have been made during the year to 31 March 2019 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. In addition there has been a withdrawal of capital of £8 million from Legal and General during the last quarter. Capital repayments have been transferred to Legal and General to invest, or when timing can be matched, used to pay other capital calls.

18.6 Further detail of annual and quarterly performance by manager and asset class for the period ending 31 March 2019 (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

18.7 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 2019 and for the latest four quarters. Also shown are the annualised returns achieved by the Fund for the five years to 31 March 2019.

18.8 **Annual returns**

	Financial year to 31 March				
	2015	2016	2017	2018	2019
	%	%	%	%	%
Fund	13.2	-0.7	24.2	3.4	6.9
Benchmark	13.1	-1.2	24.1	3.3	6.2

18.9 **Quarterly returns**

	- - - - - 2018/19 - - - - -			
	Quarter 2 2018 to 30 Jun 2018	Quarter 3 2018 to 30 Sep 2018	Quarter 4 2018 to 31 Dec 2018	Quarter 1 2019 to 31 Mar 2019
	%	%	%	%
Fund	4.0	1.6	-5.9	7.2
Benchmark	3.8	1.3	-5.9	7.3

18.10 **Annualised returns**

	All Financial Years Ended 31 March		
	2014/19	2016/19	2019
	%	%	%
Fund	9.1	11.2	6.9
Benchmark	8.8	10.8	6.2
	5 years	3 years	1 year

18.11 **Asset allocation**

	Target allocation	Quarter 4 2018 at 31 Dec 2018		Quarter 1 2019 at 31 Mar 2019	
	%	**£m**	**%**	**£m**	**%**
Equities					
UK	24.0	328.1	24.7	349.2	24.4
US	7.0	99.6	7.5	103.6	7.3
Europe	7.0	94.7	7.1	102.6	7.2
Japan	3.5	47.6	3.6	49.7	3.5
Asia Pacific ex Japan	3.5	48.0	3.6	51.1	3.6
Emerging Markets	7.0	98.6	7.4	102.9	7.2
RAFI 3000	8.0	111.7	8.4	116.4	8.1
	60.0		**62.3**		**61.3**
Bonds					
Index linked	15.0	228.2	17.2	263.6	18.5
Corporate bonds	10.0	102.8	7.7	106.4	7.5
	25.0		**24.9**		**26.0**
Illiquids					
Property	5.0	56.3	4.2	56.0	3.9
Private Equity	5.0	50.0	3.8	51.4	3.6
Infrastructure	5.0	63.2	4.8	74.7	5.2
	15.0		**12.8**		**12.7**
Cash		**0.0**	**0.0**	**0.0**	**0.0**
Total	**100.0**	**1,328.8**	**100.0**	**1,427.6**	**100.0**

18.12 The Fund remains overweight in long dated index bonds with 18.5% of Fund value invested at 31 March 2019, against a target weight of 15.0%. Investment returns on these bonds were:

- 6.3% in the quarter ended 31 March 2019;
- 5.7% in the year ended 31 March 2019; and,
- 9.2% (annualised) in the three years ending 31 March 2019.

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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