

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 22 February 2019 at 9.00 a.m.

PRESENT

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

MEMBERS

Bawn, D.
Kennedy, D.

Robinson, M.
Swithenbank, I.C.F.

TRADE UNION REPRESENTATIVES

Storey, I.

OBSERVER REPRESENTATIVES

Dick, Ms. S.

Employees / Pensioner
Representative

PENSION FUND PANEL ADVISER MEMBER

Ms. S. Greenwood

Mercer Ltd.

OFFICERS IN ATTENDANCE

Mrs. C. Gorman

Principal Accountant (Pensions) -
Project Officer

Mr. C. Johnson

Senior Accountant (Pensions)

Mr. A. Lister

Principal Accountant (Pensions)

Ms. N. Turnbull

Democratic Services Officer

ALSO PRESENT AS OBSERVERS

G.F. Moore

Chair of NCC LGPS Local Pension
Board

C. Mellons, Senior Manager Governance & Public Sector (auditor) of EY attended for item 38 (1) on the agenda (External audit of Northumberland County Council Pension Fund 2018/2019 accounts – Audit Planning Report).

35. COUNCILLOR BERNARD PIDCOCK

A minute's silence was held in memory of Councillor Bernard Pidcock who had recently passed away.

Mr Moore, Independent Chair of the NCC LGPS Local Pension Board, expressed his deepest sympathy to Councillor Pidcock's family, friends and colleagues following his untimely passing.

He commented that Bernard had been a passionate man who had believed that he could make a difference to his constituents lives and had been concerned to ensure LGPS members received an excellent service.

36. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Dunn, A Culling (Trade Union Representative), J.H. Adams (Employer Representative) and J.P. Clark (LGPS LPB Observer).

37. MINUTES

RESOLVED that:

- (a) the minutes of the meeting of the Pension Fund Panel, held on Friday 23 November 2018, as circulated, be confirmed as a true record and signed by the Chair.
- (b) the minutes of the NCC LGPS Local Pension Board, held on Monday, 10 December 2018, as circulated, be received for information.

38. DISCLOSURE OF MEMBERS' INTERESTS

The Local Government Pension Scheme is a national pension scheme set by central Government and the terms and conditions apply equally to all Scheme members. Panel members and attendees cannot influence the terms and conditions of the Scheme that apply to them, and they do not set the regulatory framework which governs it.

Membership of the Scheme does not represent a personal interest for Panel members, observers or officers in attendance.

39. REPORTS OF THE SERVICE DIRECTOR - FINANCE

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

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

The Panel received the external auditors' Planning Report for the 2018/19 NCC Pension Fund audit.

Ms. C. Mellons gave an overview of EY's approach to the 2018/19 audit of the Fund and highlighted some of the key audit risks and areas of focus, including new risks identified in the 2018/19 CIPFA Code of Practice with regard to International Reporting Standards (IFRS) 9 and 15.

The materiality level for audit of the Fund's 2018/19 financial statements would be approximately £13 million, based on 1% of total net asset value as at 31 March 2018. This was a change from materiality based on 2% of total net assets value set in the previous year's audit and was an industry-wide decision based on market volatility around Brexit. The expectation was that this would return to 2% of total net asset value in future audits.

The Panel was requested to consider the reporting threshold for uncorrected misstatements, which EY methodology recommended to be set at £700,000. The Panel agreed to maintain the £250,000 threshold for uncorrected misstatements which had been in place for the previous two audits of the Fund.

The audit fee for 2018/19 would be lower than the fee in 2017/18 which had been set by the Public Sector Audit Appointments Ltd.

RESOLVED that the report be received and that uncorrected misstatements in the accounts greater than £250,000 be reported as part of the 2018/2019 audit findings.

(2) Northumberland County Council Pension Fund Annual Employers' Meeting

The Panel received information about the Northumberland County Council Pension Fund Annual Employers' Meeting held on 22 January 2019.

The meeting had been well attended and employers had welcomed the generally positive, albeit heavily caveated, message from the actuary ahead of the 31 March 2019 triennial valuation of the Fund.

RESOLVED that the report be accepted.

(3) Investment Strategy Statement

The report sought approval to update the NCC LGPS Investment Strategy Statement (ISS).

The Principal Accountant (Pensions) - Project Officer highlighted the Fund's target asset allocation, allocation range and role within the strategy. The updates to the ISS included a reference to the Fund's recent infrastructure investment, removing reference to PIRC as the Fund's share voting service provider, and other minor changes.

The revised ISS would require a consultation exercise, and would be sent to all participating employers and relevant trade unions following this meeting.

RESOLVED that:

- (a) The draft NCC LGPS Investment Strategy Statement (ISS), attached as Appendix 2 to the report, be approved.
- (b) Delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice Chair of the Pension Fund Panel, to make any further changes required to the ISS as a result of the consultation with participating employers and trade unions.

(4) Governance Policy and Compliance Statement

The report sought approval to update the NCC LGPS Governance Policy and Compliance Statement (GPCS).

The Principal Accountant (Pensions) - Project Officer explained that it was necessary to update the GPCS to ensure that it was consistent with other content within the 2018/19 Annual Report and Accounts. Proposed changes included reference to Panel governance around pooling, the shared administration service with Tyne and Wear Pension Fund (TWPF) and other minor changes.

The revised GPCS would require a consultation exercise, and would be sent to all participating employers and relevant trade unions following this meeting.

RESOLVED that:

- (a) The draft NCC LGPS Governance Policy and Compliance Statement, attached as Appendix 4 to the report, be approved.
- (b) Delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice Chair of the Pension Fund Panel, to make any further changes required as a result of the consultation with the participating employers and trade unions.

(5) NCCPF's updated Funding Strategy Statement

The Panel received, for information, a copy of the recently updated NCC LGPS Funding Strategy Statement (FSS).

The Principal Accountant (Pensions) - Project Officer reminded Panel members that delegated authority had been given by the Panel at the 23 November 2018 meeting to update the FSS to ensure protection for the Fund, and its employers, against particular circumstances that could potentially arise following a change to the LGPS Regulations allowing a repayment of a surplus to an employer on exit.

RESOLVED that the report be accepted.

(6) Revised Training Policy for NCC Pension Fund

The Panel was requested to approve updates to NCCPF's Training Policy, which had been proposed as part of the three-year review of the Policy. The Policy applied to members of the Pension Fund Panel and the Local Pension Board, and key officers involved in administering the LGPS, and although substantial revision had not been deemed necessary, there were changes required to update officer contact details and include references to MiFID II training requirements.

RESOLVED that the revised NCCPF Training Policy, set out in Appendix 8 to the report, be approved.

(7) Training needs analysis

Information was received about the results of the annual formal training needs analysis (TNA) procedure.

The Senior Accountant (Pensions) thanked all Panel members for returning individual questionnaires and explained that both an 'average score' and an 'average top 3 score' for each area had been calculated and used to analyse results. It was noted that there had been a marginal increase in the average scores compared with the previous year's results, which had been expected given the turnover of Panel members one year previously following May 2017 county elections.

Two areas were highlighted where the 'top 3 average' scores were relatively low, one of which related to MiFID II awareness which would be presented later on in the meeting (at Item 12). The other area, around an awareness of investment limitations in regulations, was viewed as difficult to interpret for members as there were no such limitations to be aware of.

Following a suggestion by the Vice Chair, the Senior Accountant (Pensions) agreed to circulate information by email following the meeting which added a

comparison of the previous year's scores, providing members with more context around areas of improvement.

Ms. S. Greenwood of Mercer Ltd. commented that members of the Panel were very well prepared and engaged.

RESOLVED that the report be accepted.

(8) Training records

A report was submitted to enable the Panel to undertake an annual review of the training records of Pension Fund Panel members, Local Pension Board members and key officers, to assess the adequacy of knowledge and skills acquired.

Panel members were requested to review their individual records of meetings and events attended since May 2017 and inform the Senior Accountant (Pensions) of any inaccuracies or omissions.

RESOLVED that the report be accepted.

(9) Outcomes of the December 2018 meeting of the NCC LGPS Local Pension Board

The report provided information to the Panel about outcomes and proposals from the meeting of NCC's LGPS Local Pension Board held on 10 December 2018.

Gerard Moore, Independent Chair of the LGPS Local Pension Board, outlined the contents of the report which included recommendations by the Board, assurances gained and information to note. All items had been actioned by officers.

RESOLVED that:

- (a) The proposals from the LGPS Local Pension Board meeting held on 10 December 2018, as set out in Appendix 8, be accepted.
- (b) The assurances gained by the Board at 10 December 2018 meeting, be noted.

(10) Progress made against NCCPF's Action Plan 2018

The Panel received a report monitoring progress made during 2018/19 against the NCCPF Action Plan 2018.

The Principal Accountant (Pensions) - Project Officer reviewed the progress report and highlighted items that did not require follow up action or where a

proposed action had been superseded by an alternative action and was no longer necessary.

A small number of outstanding items would be carried forward to the 2019 Action Plan, which would be considered at the meeting in June 2019.

It was agreed that an additional column be included to make it more straight forward for the reader to identify completed items.

RESOLVED that the report be accepted.

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

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

The Senior Accountant (Pensions) confirmed that the reports had been reviewed by officers and no significant control weaknesses had been noted.

RESOLVED that the report be accepted.

(12) Review of MiFID II documentation and status

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

The Principal Accountant (Pensions) explained the background and process in order that the NCCPF could maintain access to the range of investments required to implement its investment strategy and access to professional client (as opposed to retail client) fee rates. He confirmed that, one year post-implementation, a review had been undertaken and there had been no change in circumstances which were required to be notified to financial institutions which could affect the opt up status already given by those institutions.

A report would be brought to the Panel at least annually to confirm whether there has been a material change in circumstances relevant to the financial institutions' assessment of NCCPF's elective professional client status.

RESOLVED that the report be accepted.

(13) Formal measurement of the performance of the investment adviser

The Panel was required to formally assess the performance of the Pension Fund Panel investment adviser, Mercer, in the year to 31 March 2019, as

recommended by CIPFA's guidance on investment decision making in the LGPS.

The 'scorecard' process would again be utilised as in previous years, with the deadline for submission of scorecards being 5 April 2019 to enable results to be reported to the Panel meeting on 21 June 2019.

RESOLVED that the report be accepted.

(14) Formal assessment of the effectiveness of the Pension Fund Panel

Information was received about the requirement to formally assess the effectiveness of the Pension Fund Panel annually as a decision making body, and approval sought for the draft formal assessment for 2018/19.

The Principal Accountant (Pensions) - Project Officer referred to the significant areas of work undertaken by the Panel in 2018/19 which were outlined at paragraph 14.3 of the report. The review had focussed on the control environment in which decisions had been made to prevent 'poor' decisions, as it was difficult to judge the success of long term decisions in the LGPS on an annual basis.

RESOLVED that the formal assessment of the Pension Fund Panel as a decision making body, as set out within Appendix 14, be approved.

(15) Recording breaches: progress and quarterly monitoring report

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

RESOLVED that:

- (a) The information be noted, and
- (b) The NCC LGPS Local Pension Board be requested to consider breaches of the law for the quarter to 31 December 2018 at its next meeting and report back to the Panel.

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

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

RESOLVED that:

- (a) The information be noted, and

- (b) The LGPS Local Pension Board be requested to consider key performance indicators for LGPS administration for the quarter to 31 December 2018 at its next meeting and report back to the Panel.

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

The Panel was informed that due to the timings of NCCPF's and TWPF's meeting dates, the usual regulatory report, which is provided to STC's Pensions Committee (the equivalent of the Panel) to keep members up to date with relevant LGPS regulatory changes, was not available to bring to this meeting.

However, the Principal Accountant (Pensions) - Project Officer highlighted the MHCLG consultation 'LGPS Fair Deal - strengthening pension protection' as an item of particular note that would be included on the next quarterly report from TWPF. A response to the consultation would be submitted by TWPF before the closing date on 4 April 2019, with NCCPF given the opportunity to comment before submission, and a report considered at the next meeting.

RESOLVED that the report be accepted.

(18) Fund performance and total Fund value

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

It was noted that performance for the Fund for the quarter was -5.9%. The Panel discussed the recent volatility of equity markets and it was confirmed that there had been some recovery of the falls in stock market valuations since the turn of the calendar year.

In answer to a question, the Principal Accountant (Pensions) - Project Officer confirmed that a monthly rebalancing exercise was undertaken by LGIM if the specified tolerances around asset allocations were breached. In many recent quarters there had been no transactions.

RESOLVED that the report be accepted.

40. EXCLUSION OF PRESS AND PUBLIC

RESOLVED that

- (a) under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the Agenda as they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act and as indicated below:

Agenda Items

Paragraph of Part I of Schedule 12A

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Information relating to the financial or business affairs of a particular person (including the Authority holding that information).

AND

- (b) the public interest in seeking this exemption outweighs the public interest in disclosure because:-
 - (i) it contains information that, if in the public domain, could affect the preferential rates the Fund is charged;
 - (ii) because the information would not be provided at future meetings if it were considered in public; and
 - (iii) because the industry standard is to keep this information confidential.

41. REPORTS OF THE SERVICE DIRECTOR - FINANCE

The Panel considered the following reports, which were not reproduced, were coloured pink and marked "Not For Publication", a copy of which is filed with the signed minutes as Appendix B:-

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

The latest quarterly update on the actuarial funding position for the Pension Fund as a whole from Aon was circulated at the meeting.

Members noted the change in estimated funding level from the previous quarter and, although the information was caveated that the landscape could change before the valuation date, it was hoped that the 31 March 2019 funding level would be an improvement on the funding level calculated at the 31 March 2016 actuarial valuation.

Following a question, the Principal Accountant (Pensions) - Project Officer explained that the actuary could use a smoothing mechanism to correct for a fall in the market value of assets around 31 March 2019, should it become apparent, by September 2019, that the year end value was out of line with the underlying trend. The actuary would not be finalising the 2019 valuation until close to 31 March 2020.

The Fund's actuary would be in attendance at the next Panel meeting on 21 June 2019 to explain the process for setting assumptions for the 2019

valuation. A joint training event was also in the process of being planned with TWPF, which would be held in September 2019.

RESOLVED that the report be accepted.

(2) Cost cap mechanism

The Panel received information about the LGPS cost cap mechanism, which had been due to be implemented from April 2019, but paused by Government at the end of January 2019 following the McCloud judgement, which was handed down in late December 2018.

The Principal Accountant (Pensions) - Project Officer explained the background of the two cost cap processes in place for the LGPS and the potential impact of the McCloud judgement, involving the judges and firefighters' pension schemes, which had been found to be age discriminatory. The Government was in the process of seeking leave to appeal the McCloud judgement. Following the McCloud judgement, doubt had been raised about the validity of the Government's valuations of all public service pension schemes and therefore the cost cap process had been halted for all schemes.

RESOLVED that the report be accepted.

(3) Panel decision to allocate 5% of Fund value to cash

The Panel received an update on the decision to allocate 5% of Fund value to cash.

It was noted that the FTSE All-World index threshold set by the Panel for which to make the short term cash allocation, at the meeting on 23 November 2018, had not been reached by the end of January, and therefore the decision had not been implemented by officers.

RESOLVED that the report be accepted.

(4) Potential further joint working between NCCPF with TWPF

The report provided information about potential further joint working between NCCPF and TWPF.

It was agreed that an informal Panel training session be held on 8 March 2019 to discuss the options further.

RESOLVED that the report be accepted.

Councillor Bawn left the meeting.

(5) Draft MHCLG guidance on LGPS asset pooling

Information was provided about the new draft MHCLG guidance on pooling issued in January 2019, and a delegation sought to finalise a NCCPF response to the consultation for submission before the closing date in March 2019.

The proposals amended the original guidance on pooling issued in November 2015.

RESOLVED that:

- (a) the report be noted, and
- (b) Delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice Chair of the Pension Fund Panel, to agree a NCCPF response to the consultation.

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

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

The Principal Accountant (Pensions) - Project Officer confirmed that BCPP Ltd's Responsible Investment Policy and Corporate Governance and Voting Guidelines was consistent with the NCCPF policy and had been considered in detail by LGIM and also reviewed by the NCC LGPS Local Pension Board.

It was noted that BCPP Ltd's private equity sub fund was due to be launched in the next couple of months, however the final prospectus and first year costs of the sub fund had not yet been established. It was therefore agreed that delegated authority be given to enable a commitment to be made, if appropriate, before the next meeting of the Panel.

RESOLVED that:

- (a) Border to Coast Pensions Partnership Ltd's Responsible Investment Policy and Corporate Governance and Voting Guidelines, attached as Appendix 12 to the report, be endorsed.
- (b) Delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice Chair of the Pension Fund Panel, to make a commitment, if appropriate, to Border to Coast Pensions Partnership Ltd's soon to be launched private equity sub fund.

(7) Progress made on migration balancing items

The Panel received a report which provided an update on the outcome of investigations to resolve and correct the migration balancing items of £2 or

more per month which had been carried forward from NCCPF's to TWPF's pension administration system at inception of the shared service.

Members were pleased to note that the results of the investigations so far were positive and much better than earlier expectations. The over and under payments of pensions arose due to errors in recording the separate elements (for indexation purposes) of guaranteed minimum pension (GMP) amounts, which had resulted in small differences which had accumulated over a long period of time. It was explained that none of the members ought reasonably to have known about overpayments, therefore previous overpayments would not be recovered. Letters to affected members had been issued in mid-February 2019 with payments being corrected from March 2019, ensuring that the data was accurate for the 2019 valuation. Refunds would be issued to those members who had been underpaid with a small number also receiving interest.

RESOLVED that the report be accepted.

(8) Review of AVC provision for NCCPF

Information was provided about ongoing work by Hymans Robertson to formally review NCCPF's current Additional Voluntary Contribution (AVC) provision. The review would be completed and brought to the meeting of the Panel on 21 June 2019.

RESOLVED that the report be accepted.

(9) 2019/2020 to 2021/2022 budget for shared administration service

The report provided information about NCCPF's proportion of the budget for the shared service with TWPF for the next three years.

The Principal Accountant (Pensions) - Project Officer highlighted the costs set out in paragraph 9.3 of the report which indicated that the costs pre-shared service had been more than the costs post-shared service.

The Chair commented that the shared administration service also provided a better service for members of the scheme.

RESOLVED that:

- a). The report be noted; and
- b). The LGPS shared administration service budget for 2019/2020 to 2021/2022, attached as Appendix 16 to the report, be approved.

(10) Wellington: changes to Multi Sector Credit fund benchmark

The Panel received information on the change to the benchmark, effective from 1 October 2018, for the investment in the Wellington Multi Sector Credit fund.

RESOLVED that the report be accepted.

(11) Northumberland College

Information was provided about the LGPS implications of the proposed merger, on 1 March 2019, of Northumberland College and Sunderland College.

The Principal Accountant (Pensions) - Project Officer explained that the expectation was that the merger would strengthen the financial position of both colleges. TWPF would subsume the assets and liabilities of Northumberland College from NCCPF.

RESOLVED that the report be accepted.

(12) Age UK Northumberland

The Panel was provided with information about Age UK Northumberland's planned exit from NCCPF on 31 March 2019.

RESOLVED that the report be accepted.

(13) Updating the risk register

The Panel was provided with information about the recently updated draft NCCPF risk register.

RESOLVED that:

- (a) the draft NCCPF risk register be noted, and
- (b) The NCC LGPS Local Pension Board be requested to review the risk register in detail at its meeting on 25 March 2019 and report and report back to the Panel.

(14) Transaction costs

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

RESOLVED that the report be accepted.

(15) Mercer's ratings of NCCPF's investment managers and currency hedging update

The report provided Panel members with Mercer's ratings of all of the Fund's investment managers and a quarterly update on currency hedging.

RESOLVED that the report be accepted.

42. MERCER'S REPORTS ON INVESTMENT MANAGERS AND CURRENCY HEDGING UPDATE

Susan Greenwood gave a brief presentation on the Fund's investment managers and a currency hedging update. It was reiterated that Mercer's view was to retain the currency hedged investments for the time being.

RESOLVED that the presentation be received.

CHAIR _____

DATE _____