

1. MEMBERSHIP AND TERMS OF REFERENCE

The membership and terms of reference of the Pension Fund Panel were reported and the appointments of **Councillors J.G. Watson** and **D. Kennedy** as **Chair and Vice-Chair** respectively were noted, as agreed at the annual meeting of the County Council held on 1 May 2019.

6 County Councillors (3:2:1) (Voting) (1 Con place to Ind)

Quorum - 3

Conservative	Labour	Bedlington Independents	Liberal Democrat	Independents/ Non-grouped
D. Bawn	L. Dunn	M. Robinson		D. Kennedy
J.G. Watson	I.C.F. Swithenbank			

In addition:

Observers (Non-voting) -

Mrs. J. H. Adams (Employer Representative)

Ms. S. Dick (Employee/Pensioner Representative)

2 observer status places for Trades Union representatives (non-voting):

A. Culling and I. Storey

Terms of Reference

The Pension Fund Panel has the power to discharge all functions and responsibilities relating to the Council's role as administering authority for the Northumberland County Council Pension Fund as set out in The Local Government Pension Scheme Regulations 2013 (as amended), the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).

The Panel's functions include:

- (1) Ensuring the proper administration of the Local Government Pension Scheme;
- (2) Ensuring appropriate management of the investments of the Northumberland County Council Pension Fund, including keeping under review the Fund's investment strategy and management structure;

- (3) Approving and maintaining administering authority policy statements as required by the Local Government Pension Scheme Regulations including the Funding Strategy Statement, Statement of Investment Principles, Governance Compliance Statement and Communications Strategy;
- (4) Making suitable arrangements for the actuarial valuations of the Pension Fund taking into account the covenant risk posed by the participating employers;
- (5) Appointing and reviewing the appointments of investment managers, advisers and consultants; and
- (6) Nominating a representative (and substitute) to vote Northumberland County Council's shareholding in Border to Coast Pensions Partnership (BCPP) Ltd, nominating a representative (and substitute) to represent the Council on the BCPP Joint Committee, and keeping such nominations under review.

The Northumberland County Council Pension Fund's Governance Policy and Compliance Statement provide further detail of the administering authority's LGPS governance arrangements.

NCC LGPS Local Pension Board provides oversight of the governance and administration of the LGPS. Its Terms of Reference are set out in the Constitution.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Bawn, Kennedy and Hutchinson (NCC LGPS Local Pension Board Observer) and Ms. Adams (Employer Representative).

3. MINUTES

RESOLVED that:

- (a) the minutes of the meeting of the Pension Fund Panel, held on Friday 22 February 2019, 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 25 March 2019, as circulated, be received for information.

4. 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.

5. REPORTS OF THE SERVICE DIRECTOR - FINANCE

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

(1) Northumberland County Council Pension Fund draft Annual Report and Accounts for 2018/2019

The report presented the Northumberland County Council Pension Fund draft Annual Report and Accounts for the year to 31 March 2019.

It was noted that the NCC Pension Fund Accounts had to be 'consistent with' the NCC Statement of Accounts, which were required to be audited and published by 31 July 2019.

The Principal Accountant (Pensions) reported that there had been a significant increase in the net withdrawal from dealings with members in 2018/2019 which was largely due to the £26 million asset transfer estimate in relation to Northumberland College's merger with Sunderland College, and subsequent exit from the Fund in March 2019. A net withdrawal was also expected given the maturity of the Fund.

Changes had been made to the content of the Annual Report to include additional data to ensure compliance with 'Preparing the Annual Report - Guidance for LGPS Funds' issued by CIPFA in April 2019. All NCC LGPS Local Pension Board members had received early sight of the Draft Annual Report and Accounts for review, following a recommendation by the LGPS Scheme Advisory Board.

It was noted that the Government auto-enrolment policy had increased the number of active members participating in the LGPS.

Officers were thanked for their preparation of the Pension Fund Annual Report and Accounts.

RESOLVED that the report be accepted.

(2) LGPS Scheme Annual Report 2018

The report provided 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.

The Senior Accountant (Pensions) highlighted the key findings which were contained in paragraph 2.11 of the report. It was noted that in respect of asset allocation, NCCPF was overweight in equities and bonds and underweight in property and alternatives, compared to the LGPS as a whole, although the Fund's investment strategy would be reviewed later in the meeting. NCCPF was also 'net new money negative' for the year, meaning it had paid out more in benefits than it received in income from contributions, in contrast to the Scheme as a whole which was 'cash flow positive'. This, in part, demonstrated the maturity of the Fund. With the exception of the two anomalies discussed, NCCPF's experience was in line with the experience of the rest of the LGPS.

RESOLVED that the report be accepted.

(3) Scheme Advisory Board's review of LGPS governance

Information was provided about the Scheme Advisory Board's recently launched review of LGPS governance, which was due to conclude later in the year.

The Principal Accountant (Pensions) - Project Officer explained the background of the review and the issue of potential separation of pension funds from their host authorities.

She outlined the four governance model options that had been identified by Hymans Robertson who had been employed to assist with the review. Options 1 or 2 (or a combination of these) had received the most support from industry commentators.

The Principal Accountant (Pensions) - Project Officer referred to the practice undertaken at NCCPF where, under its Conflicts Policy, a declaration of interests was renewed by members and officers on an annual basis, including (where relevant) text which acknowledged the conflict of interest inherent within their roles.

RESOLVED that the report be accepted.

(4) Proposed cap on exit payments of £95,000

The Panel received information about the recent Government consultation on HM Treasury regulations to implement the £95,000 exit payment cap policy set out in the Enterprise Act 2016.

The Principal Accountant (Pensions) - Project Officer explained that the proposed cap could potentially affect LGPS members aged 55 or over who were facing redundancy, and included pension strain costs. Depending on the individual's length of service, employees on annual salaries as low as £23,500 per annum could be affected by the proposals, according to recent LGPC calculations.

It was noted that no provision had been made for indexation of the exit cap within the draft regulations and that it would be preferable if LGPS regulations were amended before the HM Treasury regulations came into force.

A response to the consultation on behalf of NCCPF would be submitted prior to the 3 July 2019 deadline.

RESOLVED that the report be accepted.

(5) PLSA Local Authority Conference held in May 2019

Information was provided about the Pensions and Lifetime Savings Association (PLSA) Local Authority 2019 Annual Conference, held on 13-15 May 2019.

The Government's key priorities for the LGPS included:

- Keeping the momentum going on pooling.
- The move to a quadrennial actuarial valuation.

The Conference had made headlines after a protest by climate activist group, Extinction Rebellion, during a speech by the Minister for Local Government, Rishi Sunak, in relation to LGPS funds divesting from fossil fuels investments.

RESOLVED that the report be accepted.

(6) Consultation on changes to the LGPS actuarial valuation cycle

The Panel was provided with information about the Government's consultation to move the LGPS to a four yearly actuarial valuation cycle, and sought a delegation to finalise NCCPF's response before the consultation closed at the end of July.

The Principal Accountant (Pensions) - Project Officer explained that four yearly valuations were used in the cost cap mechanism and changing the LGPS cycle would align it with the other unfunded public sector schemes.

RESOLVED that delegated authority be given to the Service Director - Finance in consultation with the Chair and Vice-Chair of the Pension Fund Panel to finalise a response to the Consultation on changes to the LGPS actuarial valuation cycle, on behalf of NCCPF.

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

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

RESOLVED that the report be accepted.

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

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

The Panel received a report which informed members of the results of the 2018/2019 formal assessment of the performance of the Pension Fund Panel investment adviser, Mercer.

The Senior Accountant (Pensions) reported that an additional response had been received since the report had been circulated which had resulted in an increase in the average score, from the reported 3.3, to 3.4 out of a possible 4 (3.5 in 2017/18). The format of the scorecard summary had been amended following a suggestion from a Panel member at the June 2018 Panel meeting, and now included a comparison with the previous years results and the number of responses to each question to provide more context for members.

The strong average score, as well as the positive comments received, indicated a continued trust in the investment adviser, and the assessment had not produced any surprises.

RESOLVED that the report be accepted.

(9) Outcomes of the March 2019 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 25 March 2019.

Gerard Moore, Chair of the NCC LGPS Local Pension Board, outlined the contents of the report which included outcomes from the Board meeting, assurances gained and information to note.

RESOLVED that:

- (a) The report be accepted; and
- (b) Assurances gained by the Board at 25 March 2019 meeting, be noted.

(10) Annual Report of the NCC LGPS Local Pension Board

A copy of the Annual Report of the NCC LGPS Local Pension Board 2018/2019 was provided to the Panel, for information.

The Board Chair referred to the sad loss of Councillor Pidcock and was grateful that a replacement Board member had been appointed quickly.

The Report included information regarding Board members attendance, the setting of the work programme, Board outcomes and monitoring of critical dates, training and the work plan.

The Chair commented on the excellent working relationship between the Panel, Board and officers at NCC and STC, and expected to make reference to many examples of 'good practice' at NCCPF in future speaking engagements within the LGPS industry.

RESOLVED that the report be accepted.

(11) CIPFA's Guide to Administration in the LGPS

The Panel received a copy of CIPFA's recently published "Guide to Administration in the LGPS" to be retained as a useful reference document. The Guide had been written in an 'easy read' format to aid the understanding of committee members in particular.

RESOLVED that the report be accepted.

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

The report provided information about NCCPF's third assessment against the standards set out in the Pensions Regulator's Code of Practice number 14 (CoP14), which had been reviewed in detail by the NCC LGPS LPB following Aon's independent assessment based on conditions at November 2018.

RESOLVED that the report be accepted.

(13) Internal Audit Report

Members of the Panel were provided with the results of the recent internal audit work carried out by South Tyneside Council to review compliance with the General Data Protection Regulation (GDPR) within the shared LGPS administration service.

The Principal Accountant (Pensions) - Project Officer reported that the audit had concluded that 'there was a sound system of control in place but some controls were not consistently applied or fully effective'. Of the seven recommendations, one had been graded of medium priority and had been

implemented in February 2019. The remaining recommendations had been graded as low priority.

RESOLVED that the report be accepted.

(14) NCCPF's 2019/20 Cash Flow Forecast

The report provided NCCPF's 2019/20 Cash Flow Forecast, for information, and sought a delegation to update NCCPF's Cash Pooling Policy.

Minor changes were required to update information within the Cash Pooling Policy, including the details of the bank account where the Fund's cash balances were held. The monies were jointly invested with the County Council's own cash balance in line with the Council's Treasury Management Statement.

The Principal Accountant (Pensions) gave a brief outline of the forecast and identified some of the regular cash flows e.g. contribution income, as well as some of the more irregular payments e.g. capital calls from investment managers.

The asset transfer in relation to Northumberland College's exit from the Fund, estimated at £26 million, was included within the forecast. Excluding that item, projected cash flows forecast that there would be no requirement for the Fund to sell investments to pay pensions.

RESOLVED that delegated authority be given to the Service Director - Finance in consultation with the Chair and Vice-Chair of the Pension Fund Panel to update NCCPF's Cash Pooling Policy.

(15) Fair Deal

The report provided information about the recent Government consultation to extend the Fair Deal Guidance to the LGPS. The consultation proposed to strengthen protections that apply when an employee of an LGPS employer is compulsorily transferred to the employment of a service provider.

Concerns had been raised by Aon, the Fund's actuary, regarding the lack of detail and contradictions within the consultation. A response to MHCLG had been submitted by TWPF on behalf of both NCCPF and TWPF.

RESOLVED that the report be accepted.

(16) Recording breaches and data processing: quarterly monitoring

The report provided information about breaches of the law which had occurred in and before the quarter to 31 March 2019.

Members of the Panel were reminded of the opportunity to attend meetings of the Board to enable them to observe discussions whilst referred matters and other issues were discussed.

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 March 2019 at its next meeting and report back to the Panel.

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

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

Items of note were identified within paragraph 17.2 of the report, and the Panel gained assurance that the main topics included in TWPF's reports had all been included in NCCPF Panel reports.

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 March 2019 and the total Fund value at that date.

The Panel noted the performance for the previous four quarters which gave returns for the year to 31 March 2019 of 6.9% and an annualised return over the three years to 31 March 2019 (i.e. the inter-valuation period) of 11.2% p.a.

RESOLVED that the report be accepted.

6. 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
8 - 12	3

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

AND

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

7. REPORTS OF THE SERVICE DIRECTOR - FINANCE

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

(1) Process for the 2019 valuation and current estimated funding position

The report presented information about the process to be followed over the next few months to undertake the 2019 actuarial valuation of NCCPF, together with the most recent estimated funding position for the Fund as a whole.

The Panel noted that there had been a further positive change in the estimated funding level from the previous meeting. The Panel would be considering the level of prudence to be adopted in the valuation at a special joint training event with TWPF, delivered by Aon, in Edinburgh in September 2019.

The Principal Accountant (Pensions) - Project Officer referred to the expense loading element of the employer contribution rates and the discount rate likely to be used and what that implied about the probability of funding success. Reference was made to Aon’s Assumptions Advice contained within Appendix 1 and changes in future inflation assumptions. Further information was to be presented by Aon later in the meeting.

RESOLVED that the report be accepted.

(2) Cost cap mechanism, McCloud judgement and GMP indexation

The Panel was provided with information about the areas of significant uncertainty likely to affect the 2019 actuarial valuation, in relation to the LGPS cost cap mechanism, the McCloud judgement and GMP indexation.

The Principal Accountant (Pensions) - Project Officer gave a brief background of the McCloud and Sargent cases, in relation to the firefighters' and judges' schemes, which had found the scheme to be age discriminatory. The Government was in the process of seeking leave to appeal the judgement. She outlined the implications of the Government losing and the estimated cost of remedies to be put in place across all public sector pension schemes.

It was therefore necessary to consider the approach to risk and the potential extra benefits liabilities and make appropriate provision for these if there was no formal notification of the result before the end of August 2019.

The uncertainty of these issues impacted on the 2019 valuation and audit of the LGPS employer accounts as at 31 March 2019. The Executive Director of Finance added that as this was a national issue and guidance had been requested from auditors to provide clarity.

RESOLVED that the report be accepted.

(3) Potential further joint working between NCCPF with TWPF

The report provided information about potential further joint working between NCCPF and Tyne and Wear Pension Fund (TWPF), and a "minded to pursue" decision was sought from the Panel.

Members discussed the information contained in the report including the advantages of alternative joint working arrangements with Tyne and Wear Pension Fund and agreed that closer joint working should be pursued.

RESOLVED that the Panel was minded to pursue further joint working with Tyne and Wear Pension Fund.

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

The Panel received an update on progress made by BCPP Ltd to date, and the implications for NCCPF.

The Principal Accountant (Pensions) - Project Officer reported that due to the charging structure for BCPP sub funds for alternatives it would likely be more beneficial to the Fund to make larger, less frequent commitments when investing with BCPP than had originally been anticipated. Therefore, NCCPF would not make commitments to alternatives managed by BCPP Ltd in 2019/20.

RESOLVED that the report be accepted.

(5) NCCPF's response to MHCLG's consultation on new guidance for LGPS asset pooling

Information was provided about the draft guidance on pooling issued in January 2019, NCCPF's response submitted in March 2019, and MHCLG's intention to issue a formal consultation on revised new draft guidance on pooling, shortly.

A single response had been submitted by NCCPF on behalf of the administering authority and LGPS Local Pension Board prior to the March 2019 deadline.

The Principal Accountant (Pensions) outlined the comments and concerns that had been raised in response to the informal consultation. At the PLSA Conference in May, the Minister had announced the intention to issue a new, formal consultation on revised new draft guidance on pooling.

RESOLVED that the report be accepted.

(6) Action Plan 2019

The Panel received an update on progress made in formulating NCCPF's Action Plan 2019.

The Principal Accountant (Pensions) - Project Officer provided an explanation for the delay in finalising the Action Plan 2019 as the content depended on a number of factors which had not yet been determined. It was agreed that the Plan would be finalised before the next meeting and delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Panel, to finalise the Plan.

RESOLVED that delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel, to finalise the Action Plan 2019 following the meeting.

(7) Review of AVC provision for NCCPF

The report provided information about Hymans Robertson's formal review of NCCPF's current Additional Voluntary Contribution (AVC) provision.

The Principal Accountant (Pensions) - Project Officer explained that Hymans Robertson had been engaged late in 2018 to conduct a review of NCCPF's AVC provision. Hymans had concluded that Prudential should be retained as the Fund's current AVC provider for the time being and made a number of recommendations on NCCPF's AVC fund range which were summarised in paragraph 7.31 of the report.

RESOLVED that:

- (a) The information be noted, and
- (b) The recommendations for changes to the AVC fund range offered by Prudential, as detailed in the Hymans Robertson 'Review of AVC arrangements' report (at Appendix 16) and summarised in paragraph 7.31 of the report, be agreed.

(8) Northumberland College merger

Information was provided about the merger of Northumberland College with Sunderland College which took effect on 22 March 2019.

The Principal Accountant (Pensions) - Project Officer commented that the merger with Sunderland College had improved the financial stability of Northumberland College and had reduced the risk within NCCPF. The merged entity was now a Scheme employer in TWPF.

RESOLVED that the report be accepted.

(9) Age UK Northumberland

The report provided information about Age UK Northumberland's exit from NCCPF on 31 March 2019.

RESOLVED that the report be accepted.

(10) Transaction costs

Information was provided about the transaction costs incurred by the fund managers in the quarter to 31 March 2019.

RESOLVED that the report be accepted.

(11) Mercer's ratings of NCCPF's investment managers, currency hedging update and strategy review

The report provided Panel members with Mercer's ratings of all of the Fund's investment managers, a currency hedging update and a paper which commenced the NCCPF investment strategy review for 2019.

RESOLVED that the report be accepted.

8. MERCER'S REPORTS ON INVESTMENT MANAGERS

Susan Greenwood gave a brief presentation on the Fund's investment managers.

RESOLVED that the presentation be received.

9. TYNE AND WEAR PENSION FUND'S PROPOSED ASSET ALLOCATION STRATEGY

Ian Bainbridge, Head of Pensions at TWPF, gave a presentation on TWPF's asset allocation strategy, which was due to be formally ratified by TWPF's Pensions Committee in September 2019. A copy of Tyne and Wear Pension Fund's Proposed Investment Strategy Changes was circulated at the meeting (a copy is enclosed with the signed minutes).

RESOLVED that the presentation be received.

10. MERCER'S REPORTS ON NCCPF'S ASSET ALLOCATION STRATEGY

Susan Greenwood gave a brief update on the Fund's asset allocation strategy.

It was agreed that further time would be required to consider the matter in more detail and therefore one or more additional meetings of the Pension Fund Panel would be arranged as soon as possible.

RESOLVED that the presentation be received.

11. ACTUARIAL VALUATION PROSPECTS 31 MARCH 2019

Jonathan Teasdale of Aon gave a presentation on actuarial valuation prospects at 31 March 2019.

RESOLVED that the presentation be received.

CHAIR _____

DATE _____