

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 20 September 2019 at 9.30 a.m.

PRESENT

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

MEMBERS

Bawn, D.L.
Dunn, E.
Kennedy, D.

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

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

J.P. Clark

NCC LGPS Local Pension Board
Member

J.I. Hutchinson

NCC LGPS Local Pension Board
Member

G.F. Moore

Independent Chair of NCC LGPS
Local Pension Board

C. Mellons, Senior Manager Governance & Public Sector (auditor) of EY attended for item 21 (1) on the agenda (External Audit of Northumberland County Council Pension Fund Panel 2018/2019 Accounts)

18. APOLOGIES FOR ABSENCE

Apologies for absence were received from A. Culling and I. Storey (Trade Union Representatives) and H. Adams (Employer Representative).

19. 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.

20. MINUTES

RESOLVED that:

- (a) the minutes of the following meetings of the Pension Fund Panel , as circulated, be confirmed as a true record and signed by the Chair:-
 - (i) 21 June 2019
 - (ii) 12 July 2019
- (b) the minutes of the NCC LGPS Local Pension Board, held on Friday 12 July 2019, as circulated, be received for information.

21. 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: 2018/19 Annual Report and Accounts and external audit

Ms. Claire Mellons of EY (External auditor) was in attendance for this item.

The Panel received an update on the finalisation of the Northumberland County Council Pension Fund Annual Report and Accounts for the year to 31 March 2019, and received the external auditor's draft "Audit Results Report" (a copy of which is filed with the signed minutes).

Ms. Mellons confirmed that as a result of ongoing external audit investigations into NCC's main financial statements, EY had been unable to finalise and sign

the NCCPF accounts following consideration of the matter by the Audit Committee 24 July 2019. The NCC Pension Fund Annual Report and Accounts needed to be consistent with the NCC Statement of Accounts, and finalising both had been deferred pending the outcome of the investigation. Both the Pension Fund accounts and NCC's main financial statements were due to be signed at the next meeting of the Audit Committee on 25 September 2019.

In answer to a question, the Principal Accountant (Pensions) confirmed that Northumberland County Council, as administering authority, would not be in breach of the LGPS Regulations should the accounts remain unsigned following the September Audit Committee meeting, as the statutory requirement for publishing the 2018/19 pension fund annual report was 1 December 2019.

Ms. Mellons highlighted the following:

- Materiality had been increased to £14 million although the threshold for reporting misstatements remained at £250,000 as requested previously by the Pension Fund Panel.
- EY had accepted that the estimated asset transfer to Tyne and Wear Pension Fund (TWPF) in relation to the Northumberland College merger with Sunderland College in March 2019 was correctly recognised in NCCPF's accounts as a liability.
- Up to date investment valuations had been received following the preparation of the accounts, however management had not viewed the changes as material to the accounts, and therefore no adjustment had been made. This was a timing issue which occurred every year and, so long as it was within the level of materiality, was not of concern to EY.

Members discussed the valuation of assets and methodology used, which was consistent year on year. It was noted that private markets asset valuations were normally prudent and therefore the investment valuations shown in the published accounts were understated.

RESOLVED that the report be accepted.

Ms. Mellons left the meeting at this point.

Councillor Kennedy arrived at 9.45 a.m.

(2) Investment Strategy Statement update

The Panel was asked to approve an update to NCCPF's LGPS Investment Strategy Statement (ISS) to reflect changes agreed at the meeting on 12 July 2019 to the target benchmark allocations for NCCPF's publicly quoted equities. Any changes made to the ISS would be communicated with participating Fund employers and relevant trade unions as part of a

consultation exercise which would follow the Panel approval, as required by LGPS Regulations.

RESOLVED that:

- (a) The draft NCCPF LGPS Investment Strategy Statement (ISS), attached as Appendix 1 to the report, be approved; 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 make any further changes required as a result of consultation with the participating employers and trade unions.

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

Information was provided about the Scheme Advisory Board's (SAB) ongoing review of LGPS governance, which was due to be concluded later in the year.

The Principal Accountant (Pensions) - Project Officer explained the background of the review and referred to the recent online survey carried out independently by Hymans Robertson, the findings of which had been reported to the SAB in July 2019. Of the four outline LGPS governance model proposals from the initial survey, the second option i.e. "greater ring fencing of the LGPS within existing structures", had received the most support from respondents.

Two working groups had been established comprising a wide range of LGPS stakeholders to explore options and would report back to the SAB in November 2019. A further report would be considered by the Panel in due course.

RESOLVED that the report be accepted.

(4) CMA proposed changes to the investment consultancy market

Members received information about reforms to the investment consultancy market following publication of the Competition and Markets Authority (CMA) Order in June 2019, and the implications for NCCPF.

The Principal Accountant (Pensions) explained that initially it had not been expected that the LGPS would come within the remit of the Order. Informal confirmation had recently been received from the CMA that BCPP Ltd and other similarly structured LGPS pools would not need to tender for fiduciary management services. However, there was now a requirement to set strategic objectives for providers of investment consultancy services i.e. Mercer for NCCPF, by 10 December 2019.

It was understood that investment consultancy firms such as Mercer and Hymans Robertson intended to offer a model set of strategic objectives to

LGPS clients to be used as a starting point, if required. The Pensions Regulator had also issued guidance around the setting of objectives for investment consultants following the Order.

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 set formal strategic objectives for Mercer before the CMA Order comes into effect on 10 December 2019.

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

A further update was provided on the Government consultation to move the LGPS to a four yearly actuarial valuation cycle.

The Principal Accountant (Pensions) - Project Officer confirmed that a consultation response had been submitted on behalf of NCCPF, which endorsed Aon's response. An additional point had been made regarding the relevance of the proposed changes in relation to the cost cap process.

It was not anticipated that there would be any savings from a four year valuation cycle as it was expected that more interim valuations would be required.

RESOLVED that the report be accepted.

(6) Outcomes of the July 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 12 July 2019.

Gerard Moore, Chair of the NCC LGPS Local Pension Board, gave a brief summary of the contents of the report which included a conclusion on the items referred to the Board by the Panel and other 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 12 July 2019 meeting, be noted.

(7) 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 30 June 2019.

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

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

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

Items of particular note were highlighted within paragraph 8.2 of the report, and the Panel gained assurance that the main topics included in TWPF's report had all been included in NCCPF Panel reports at this or the previous meeting.

RESOLVED that the report be accepted.

(9) Fund performance and total Fund value

Information was provided to the Panel about the Fund performance in the quarter to 30 June 2019 and the total Fund value at that date. The Panel noted the positive investment returns generated over the quarter.

RESOLVED that the report be accepted.

22. 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.

23. MINUTES

RESOLVED that the confidential minutes of the meeting of the Pension Fund Panel held on Friday 21 June 2019, as circulated, be confirmed as a true record, and signed by the Chair.

24. REPORTS OF THE SERVICE DIRECTOR - FINANCE

The Panel considered the following report, 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

Information was presented about the process to be followed over the next few months to undertake the 2019 actuarial valuation of NCCPF.

RESOLVED that the report be accepted.

(2) 31 March 2019 valuation: first cut results

The Chair agreed that this report be considered as a matter of urgency.

The Panel was provided with a summary of the initial estimated results of the 31 March 2019 actuarial valuation of NCCPF, which had been presented to Panel and Board members and officers by the fund actuary, Aon, at the training event held on 17 September 2019 in Edinburgh.

The tabled report also included information regarding the actuary’s initial advice for changes to the maximum deficit recovery period, amortisation of surplus and a suitable allowance for McCloud compensation.

Members discussed the advice from the actuary and agreed with the proposal. It was noted that the Fund was in an unprecedented position with regard to its funding level.

RESOLVED that:

- (a) The report be accepted, and
- (b) The actuary should adopt a discount rate for the subsumption group employers at the 31 March 2019 valuation commensurate with 80% probability of funding success.

(3) Cost cap mechanism, McCloud remedy and GMP indexation

The Panel was provided with information about areas of significant uncertainty likely to affect the 2019 actuarial valuation.

The Principal Accountant (Pensions) - Project Officer provided a brief summary of the above issues and how these impacted on the 2019 actuarial valuation, which built on the information received by members at the training event held by Aon on 17 September 2019 in Edinburgh. Issues outlined included:

- The recommended provision to be made at the 31 March 2019 actuarial valuation in relation to the McCloud remedy, based on the age profile of NCCPF's active members.
- The Cost cap mechanism had been paused by the Government in December 2018 due to the uncertainty as a result of the McCloud judgement.
- At this stage it would not be necessary to build in additional prudence regarding GMP Indexation.

RESOLVED that the report be accepted.

A short break was held at 10.45 a.m.

(4) 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 the stage reached in NCC's governance process to pursue merger.

The Principal Accountant (Pensions) - Project Officer reported that a letter had recently been sent to the Minister for Housing, Communities and Local Government (MHCLG) by the leaders of both Northumberland County Council and South Tyneside Council, requesting MHCLG's assistance with the merger process.

She provided a summary of the background and due diligence work that had been undertaken previously and outlined the additional independent reports that had recently been commissioned from Aon, Mercer and Hymans Robertson.

A brief summary was given of the governance process which still needed to be followed which included consideration of reports by NCC's Cabinet, Scrutiny and full Council.

RESOLVED that the report be accepted.

(5) 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 stated that the first investment by NCCPF was likely to be in the Multi Asset Credit sub fund, which is due to be launched for investment in the summer of 2020.

It was also reported that Councillor Watson, the Chair of the Panel, was considering applying for a post of Non-Executive Director on the Board of BCPP Ltd. If successful, it would have implications for NCCPF with regard to nominations to the BCPP Joint Committee, as Councillor Watson would no longer be able to represent NCCPF in this role.

RESOLVED that:

- (a) The report be accepted; and
- (b) If Councillor Watson is successful in his application to become a Non-Executive Director of BCPP Ltd, then the Vice-Chair and another member of the Pension Fund Panel subject to availability (as substitute) be nominated to represent NCC on the BCPP Joint Committee; or
- (c) If Councillor Watson is not successful in his application to become a Non-Executive Director of BCPP Ltd, then the current arrangements be continued, i.e. the Chair and Vice-Chair (as substitute) be nominated to represent NCC on the newly established BCPP Joint Committee.

(6) Change to NCCPF's investment strategy

The Panel received an update on progress made to implement the new target asset allocation for NCCPF, which had been agreed by the Panel at its meeting held on 12 July 2019. The Panel had agreed to transition assets with Legal and General (LGIM) in three separate tranches, with two tranches already complete and the final tranche due to be transitioned on 1 October 2019. A report on the transaction costs incurred would be brought to the Panel meeting in December 2019.

The Investment Strategy Statement had been updated to reflect the new target asset allocation, following consideration of a separate report earlier in the meeting.

RESOLVED that the report be accepted.

(7) NCC's declaration of climate emergency

Information was provided about the compatibility of NCCPF investing in companies involved in fossil fuel extraction with NCC's climate emergency declaration, made in June 2019.

It was noted that, following NCC's declaration, officers had received one query in relation to the Fund's investment in fossil fuels. Members of the Panel received a copy of the letter that had been issued in response to the query.

RESOLVED that the report be accepted.

(8) Action Plan 2019

Members received an update regarding the formulation of NCCPF's Action Plan 2019 which had been delayed for the reasons outlined in the report. It was noted that a delegation to agree the Action Plan had been agreed at the meeting on 21 June 2019.

The Principal Accountant (Pensions) - Project Officer confirmed that once finalised, a copy of the Action Plan 2019 would be circulated electronically to Panel and Board members following the meeting.

RESOLVED that it be noted that delegated authority was given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Pension Fund Panel at the meeting on 21 June 2019, to finalise the Action Plan 2019 following the meeting.

(9) NCCPF's Risk Register

The Panel received information about the recently updated draft NCCPF risk register which had been reviewed in detail by the LGPS Local Pension Board.

The Principal Accountant (Pensions) confirmed that officers had liaised with NCC's Group Assurance Manager to ensure full compliance with NCC's corporate style, and followed the recommendations made as part of the discussion.

The Risk Register was now included as a standing item on the agenda for the Local Pension Board to enable consideration of the register and new risks on a regular basis.

RESOLVED that the report be accepted.

(10) Assessment of newly forming academies

The Panel received information about the categorisations and applicable deficit recovery periods for nine academy conversions of NCC schools, namely Prudhoe High School, Highfield Middle School, Ovingham Middle School, Broomley First School, Mickley First School, Ovingham CE First School, Prudhoe Castle First School, Whittonstall First School and Wylam First School, which had converted to academy status forming the Tynedale Community Learning Trust on 1 September 2019.

RESOLVED that the report be received.

(11) Transaction costs

Information was provided about the transaction costs incurred by the fund managers in the quarter to 30 June 2019.

RESOLVED that the report be accepted.

(12) Mercer's ratings of NCCPF's investment managers, currency hedging 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 an estimate of potential merger transaction costs. A detailed presentation on the reports was considered under the next item on the agenda.

RESOLVED that the report be accepted.

25. MERCER'S REPORTS ON INVESTMENT MANAGERS, CURRENCY HEDGING REVIEW AND TRANSITION COSTS OF JOINT WORKING

Susan Greenwood presented Mercer's papers on NCCPF's investment managers, currency hedging review and the potential transition costs of merger.

Reference was also made to a Government consultation on changes to the rate of return on index linked gilts and potential future impact on the value of NCCPF's holdings.

The Panel discussed the performance of fund managers and it was agreed that officers would liaise with one fund manager on management fees.

RESOLVED that the presentation be received.

Councillor Bawn left the meeting.

26. PORTFOLIO EVALUATION

The Panel received a presentation from Nick Kent and Deborah Barlow of Portfolio Evaluation. (A copy of the presentation is enclosed with the signed minutes).

RESOLVED that the presentation be received.

CHAIR _____

DATE _____