

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 5 October 2018 at 9.30 a.m.

PRESENT

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

MEMBERS

Dunn, L. (no.s 12 - 22)	Robinson, M.
Kennedy, D. (no.s 18 - 24)	Swithenbank, I.C.F.

TRADE UNION REPRESENTATIVES

Culling, A.	Storey, I.
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OBSERVER REPRESENTATIVES

Adams, Ms. J.H.	Employer Representative
Dick, Ms. S.	Employees / Pensioner Representative

PENSION FUND PANEL ADVISER MEMBER

Ms. S. Greenwood	Mercer Ltd.
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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	LGPS Pension Board Member
G.F. Moore	Chair of LGPS Pension Board
Cllr B Pidcock (no.s 12 - 22)	LGPS Pension Board Member

C. Mellons, Senior Manager Governance & Public Sector (auditor) of EY attended for item 15 (1) on the agenda (External Audit of Northumberland County Council Pension Fund Panel 2017/2018 Accounts).

12. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Bawn.

13. MINUTES

RESOLVED that the minutes of the meeting of the Pension Fund Panel, held on Friday 22 June 2018, as circulated, be confirmed as a true record and signed by the Chair.

14. 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.

Councillor Kennedy, having previously disclosed a personal and prejudicial interest in item 17(1) to the Chair and Principal Accountant (Pensions) - Project Officer due to being employed by HMRC, confirmed that he would not arrive at the meeting until after the item had been considered.

15. REPORT OF THE SERVICE DIRECTOR - FINANCE

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

(1) Northumberland County Council Pension Fund: 2017/2018 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 publication of the Northumberland County Council Pension Fund Annual Report and Accounts for the year to 31 March 2018, and received the external auditor's "Audit Results Report" (a copy of which is filed with the signed minutes).

Ms. Mellons confirmed that the accounts had been finalised and signed on 30 July 2018 and an unqualified opinion had been issued. The information had been presented to the NCC Audit Committee on 25 July 2018.

It was explained that the accounts contained uncorrected misstatements of £2.226 million due to receipt of investment valuation information provided to the Fund by its private equity and infrastructure managers after the cut off point for finalising the draft accounts. Management had chosen not to adjust as it was not believed to be material to the financial statements.

The Panel also noted two control observations identified through the audit process;

- The ability of management to create and authorise their own journal entries. Audit testing had shown that there had been appropriate segregation of duties in this process and a system upgrade was expected in 2018/2019 which would prevent this control weakness in future; and
- Monthly bank reconciliations not undertaken. The Principal Accountant (Pensions) confirmed that cheques were paid from a different bank account, but added that officers were liaising with auditors around a bank reconciliation process for future years.

On behalf on the Panel, the Chair expressed his appreciation to the Pensions Team for their work which had resulted in a smooth audit and compliance with the new earlier reporting deadline.

RESOLVED that the report be accepted.

Ms. Mellons left the meeting at this point.

16. 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 Item	Paragraph of Part I of Schedule 12A
7(3)	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.

17. REPORT 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 and B1:-

(1) Migration balancing items: over or under payments

Councillor Kennedy, having previously disclosed a personal and prejudicial interest as he was employed by HMRC to the Chair and Principal Accountant (Pensions) - Project Officer prior to the meeting, delayed his arrival until after this item had been considered.

The Panel received a report which provided information about differences (i.e. “balancing items”) carried forward from NCCPF’s to TWPF’s pension administration system at inception of the shared service.

The Principal Accountant (Pensions) - Project Officer provided a detailed explanation on the differences between the NCCPF former administration system and the payroll records and how these had been treated at the commencement of the shared service. Whilst the majority of items were very small amounts, due to rounding differences between the two systems, the larger items required investigation to determine whether there were any over or under payments which would need to be corrected going forward. There could be tax implications for members and for the Fund unless any overpayments discovered were dealt with promptly.

The Panel agreed with the proposed approach to be adopted which was for the pensioner member records with notional balancing items of £2 or more per month to be investigated immediately to ascertain if these were under or over payments of pensions. It was noted that a procedure would need to be adopted as to how these be treated and this would be considered at a future meeting after the initial investigations had been undertaken.

RESOLVED that the actions set out in paragraph 3.35, be agreed.

Following conclusion of this item, the meeting returned to open session. Any member of the press and public were invited back into the meeting room.

Councillor Kennedy participated in the meeting from this point.

18. REPORTS OF THE SERVICE DIRECTOR - FINANCE

(1) IORP II: implications for LGPS administering authorities

The Panel was provided with information about the Directive on Institutions for Occupational Retirement Provision (IORP II), the EU Directive for pension schemes, which must be brought into UK legislation by 13 January 2019.

The Principal Accountant (Pensions) - Project Officer confirmed that the legislation would need to be in place prior to Brexit and that information was awaited on how 'proportionality' would be interpreted. Although it was likely that there would be increased focus on governance and risk, it was expected that the Department for Work and Pensions would introduce the legislation in such a way as to minimise the impact on pension schemes.

A further report would be submitted to the Panel when more information was available.

RESOLVED that the report be accepted.

(2) CMA proposed changes to the investment consultancy market

The Panel received information about reforms to the investment consultancy market proposed by the Competition and Markets Authority (CMA) in its provisional decision report, published in July 2018.

The Principal Accountant (Pensions) - Project Officer commented that whilst the provisional report had concluded there was strong competition in the market, it nevertheless indicated that there was scope to improve in investment consultancy and fiduciary management markets.

It was proposed that, for transparency, information be provided to the Panel in future about the cost of any work that was commissioned from the Fund's investment adviser, although it was acknowledged that:

- i) There was a LGPS regulatory requirement to take advice, and it was important that Mercer were present at all relevant Panel meetings, and
- ii) If advice was required, fees should not be the primary factor.

Ms. Greenwood added that, whilst Mercer has fiduciary clients, she does not.

RESOLVED that the report be accepted.

(3) Conflicts of Interest Policy for NCC Pension Fund and individual declarations of interests

The Panel received a report which requested that the Fund's Conflicts of Interest Policy, which applied to Pension Fund Panel and Local Pension Board members and key officers involved in administering the LGPS, be updated.

The Senior Accountant (Pensions) introduced the report, an updated copy of the policy had been circulated as Appendix A1. The Policy had first been adopted by the Pension Fund Panel in May 2015 and was subject to three yearly reviews, to comply with the Pensions Regulator and Scheme Advisory Board guidance. Whilst no major changes were necessary, amendments to the Policy were required to reflect both the shared pensions administration with South Tyneside Council, and investment pooling with Border to Coast Pensions Partnership (BCPP).

All Panel and Board members present signed an updated individual declaration of conflicts at the meeting.

RESOLVED that

- (a) the Fund's adopted Conflicts of Interest Policy, (attached as Appendix 2 within Appendix A), be noted.
- (b) the updates to the Policy set out in paragraph 11 of the report (and included within Appendix A1), be agreed.
- (c) Each Panel and Board member was requested to:
 - i) Review their own declarations and update as necessary and
 - ii) Review the Fund's Register of Conflicts of Interest.

(4) Pensions Ombudsman's ruling against Northumbria Police

The Panel received information about the Pensions Ombudsman's recent ruling against Northumbria Police in a pension liberation fraud, as well as details of the procedures in place at Tyne and Wear Pension Fund (TWPF), as part of the shared pensions administration service, to prevent a similar occurrence at NCCPF or TWPF.

The Principal Accountant (Pensions) - Project Officer confirmed that if a NCCPF member requested a transfer value to a non public sector scheme, a copy of the 'scorpion' leaflet would be provided to the member. She also reported that TWPF had a robust legal due diligence procedure in place to check on the receiving pension schemes. This was an improved position for NCCPF members as prior to the shared administration service, NCC staff had limited resources to undertake these checks.

RESOLVED that the report be accepted.

(5) Outcomes of the July 2018 meeting of the NCC LGPS Local Pension Board

The Panel was provided with information about outcomes and proposals from the meeting of NCC's LGPS Local Pension Board held on 26 July 2018.

Mr. Moore, the Independent Chair of the NCC LGPS Local Pension Board, outlined the contents of the report which included recommendations by the Board, assurances gained and information to note.

Following a comment by Mr. Moore on the Board's concern around insurance cover for Board members, the Principal Accountant (Pensions) - Project Officer confirmed that progress had been made on this following the last Board meeting and an update would be provided at the next meeting of the Board in November 2018.

RESOLVED that

- (a) The proposals from the Local Pension Board meeting held on 26 July 2018, as set out in Appendix 5 of the report, be noted; and
- (b) The assurances gained by the Board at that meeting be noted.

(6) Action Plan 2018 for NCC Pension Fund: quarterly monitoring

The Panel received a report which monitored progress against the NCCPF Action Plan 2018.

The Principal Accountant (Pensions) - Project Officer confirmed that progress to date was satisfactory and in line with the Plan.

RESOLVED that the report be accepted.

(7) 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 30 June 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 30 June 2018 at its next meeting and report back to the Panel.

RESOLVED that the report be accepted.

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

Information was provided about the Fund's KPIs in the quarter to 30 June 2018.

RESOLVED that

- (a) The information be noted, and
- (b) The NCC LGPS Local Pension Board be requested to consider key performance indicators for LGPS administration for the quarter to 30 June 2018 at its next meeting and report back to the Panel.

(9) Fund performance and total Fund value

Information was provided to the Panel about the Fund performance in the quarter to 30 June 2018 and the total Fund value at that date, which had increased from the previous quarter to £1,392 million, reflecting the positive investment returns in the quarter.

It was noted that a presentation would be received from Portfolio Evaluation, the Fund's performance measurement service provider, later in the meeting.

RESOLVED that the report be accepted.

19. 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:

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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.

20. 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 and B1:-

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

The report presented the latest quarterly update on the estimated actuarial funding position for the Pension Fund as a whole. Members noted that the funding ratio remained higher than at the 2016 actuarial valuation of the Fund.

The Principal Accountant (Pensions) - Project Officer made reference to the recently published results of the Government Actuary’s Department (GAD) Section 13 review of the 31 March 2016 valuations of LGPS funds in England and Wales. This had not resulted in any amber or red warning flags for NCCPF and seen an improvement in NCCPF’s percentile ranking, when compared with all other LGPS fund in England and Wales on a like-for-like basis, from 64th to 42nd.

It was reported that HM Treasury was considering requesting a change to the LGPS Regulations to move the LGPS from the current three yearly actuarial valuation cycle to a four yearly actuarial valuation cycle, to bring it in line with other unfunded public sector schemes.

RESOLVED that the report be accepted.

(2) GMP reconciliation: progress report

The Panel received an update on Guaranteed Minimum Pension (GMP) reconciliation work undertaken to date.

The Principal Accountant (Pensions) - Project Officer had received confirmation from officers at TWPF that GMP information had been sent, on NCC’s behalf, to HMRC in advance of the 31 October 2018 deadline. Notification had since been received from HMRC (to TWPF) that some of the information submitted had been rejected due to formatting issues. Officers at TWPF were confident that the information would be re-submitted prior to the deadline in the appropriate format.

Further updates would be brought to Panel when national guidance was available.

RESOLVED that the report be accepted.

(3) Legal and General: FT article on compliance failures

Information was provided about a July 2018 press report containing allegations of compliance failures at Legal and General Investment Management (LGIM), together with Mercer's view on the implications and LGIM's response to the allegations.

Susan Greenwood confirmed that Mercer had no major concerns regarding LGIM or its processes.

RESOLVED that the report be accepted.

(4) Existing commitment to infrastructure fund managed by Pantheon

The Panel received an update on the change in fee rate payable on the £40 million commitment made by NCCPF in May 2018 to Pantheon's Global Infrastructure Fund III (PGIF III) following an additional investment by another member of BCPP which, when aggregated with other BCPP commitments, had taken the total committed to PGIF III into a more favourable fee threshold. This ensured that NCCPF would benefit from the lowest fee rate offered by Pantheon and represented a significant saving for NCCPF over the estimated twelve year commitment to PGIF III.

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. A further update was included within Appendix B1.

The Principal Accountant (Pensions) - Project Officer confirmed that BCPP Ltd had gone live on 2 July 2018 with assets and investment staff transferred in from the three internally managed funds within BCPP.

It was noted that an informal meeting of the Pension Fund Panel would be held on 6 December 2018 to consider actively managed equities, with the first externally managed sub fund to be launched by BCPP Ltd in November 2018.

RESOLVED that the report be accepted.

(6) Assessment of newly forming academies

The Panel received information about the proposed rebrokerage of two academies and their categorisation and applicable deficit recovery periods within the NCC Pension Fund, namely Blyth Quays Trust and Haltwhistle

Community Campus, which would join WISE Academies, a multi-academy trust.

RESOLVED that the report be accepted.

(7) NCCPF potential allocation to cash

The background to this agenda item was discussed by members. This item had been requested by Panel members following the informal Panel meeting held on 26 July 2018 at which an equity protection strategy for the Fund had been considered and ruled out. Implementing an equity protection strategy was seen by the Panel as too expensive and complex, as well as being contrary to the principles of long term investing which anticipates superior returns from equities and accepts volatility as part of this. Nevertheless, the Panel was interested in exploring simpler options that could protect the current (near 100%) funding level against any potential significant falls in equity markets before the next Fund actuarial valuation at 31 March 2019.

At this meeting the Panel considered allocating Fund assets to cash to reduce the Fund's current target allocation of 60% in publicly quoted equities, with the specific purpose of mitigating against short term equity volatility risk. With advice from Susan Greenwood of Mercer, the Panel considered the potential impact of holding 5% or 10% in cash on the expectations for the Fund's overall risk and returns. The Panel recognised that whilst holding cash would protect the Fund's capital in the event of market falls, it was not risk free, and in particular cash would not provide protection against inflation and could be a drag on Fund performance.

The Panel noted that the current equity allocation weightings to geographical regions would be considered at a later Panel meeting as part of the Fund's overall strategy review.

RESOLVED that

- (a) up to 5% of Fund assets be allocated to cash with a corresponding reduction in target asset allocation from 60% to 55% in equities;
- (b) the cash allocation be a short term tactical measure until 31 March 2019;
- (c) the cash be held in Legal and General's Sterling Liquidity cash fund or similar; and
- (d) delegated authority be given to the Service Director - Finance, in consultation with the Chair and Vice-Chair of the Panel, to determine, with advice from Mercer:
 - Phasing and timing of the disinvestment from public equities to fund the 5% cash allocation;

- The specific geographical regions and amounts of equities to disinvest from to fund the 5% cash allocation;
- The trigger point(s) for any fall in equity markets to start using the cash to reinvest in equities and the phasing of such reinvestment; and
- Action to be taken following 31 March 2019 should the 5% allocated to cash, or any part of it, remain in cash at that date.

(8) NCCPF's overweight position in index linked gilts

Information was provided about NCCPF's current overweight position in index linked gilts.

The Principal Accountant (Pensions) - Project Officer explained that the Fund's asset allocation of 25% to 'liability matching' bonds was split between actively managed corporate bonds (10%) and passively managed index linked gilts (15%), but that an overweight position on index linked gilts had materialised over time due to relatively low returns earned on the Fund's corporate bond portfolio.

Ms. Greenwood highlighted reasons for holding index linked gilts which included generating returns, diversification of the strategy, and inflation risk protection, albeit at the expense of expected returns relative to corporate bonds. There was therefore an argument to maintain the current overweight provision given the current relatively high funding level.

The Panel discussed the likely impact of Brexit and impact on the sterling currency exchange rate and it was agreed that the current overweight position in index linked bonds be maintained, in the short term at least, with regular monitoring.

RESOLVED that

- (a) The information be noted, and
- (b) The current overweight position in passively managed index linked gilts be maintained with a review at a future Panel meeting.

(9) Value of NCCPF's bond portfolio following the increase in bank rate

The Panel received information about the impact of the bank base rate interest rise, which was announced on 3 August 2018, on the value of NCCPF's holding of index linked gilts.

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 30 June 2018.

RESOLVED that the report be accepted.

(11) Presentations at the meeting by Portfolio Evaluation

The Panel received information about Portfolio Evaluation, the Fund's performance measurement service provider, representatives from which (Nick Kent and Deborah Barlow) would give a presentation to the Panel later in the meeting.

RESOLVED that the report be accepted.

(12) Mercer's ratings of NCCPF's investment managers

The report provided Panel members with Mercer's ratings of all of the Fund's investment managers.

RESOLVED that the report be accepted.

21. MERCER'S REPORTS ON INVESTMENT MANAGERS AND POTENTIAL ALLOCATION TO CASH

The Panel noted the report from Mercer Ltd, on the fund's investment managers.

Susan Greenwood gave a detailed presentation on the Fund's potential allocation to cash highlighting the benefits and risks of such an allocation.

RESOLVED that the presentation be received.

22. PORTFOLIO EVALUATION

The Panel received a presentation from Nick Kent and Deborah Barlow of Portfolio Evaluation, the Fund's performance measurement service provider, on NCCPF performance for the year to 31 March 2018.

RESOLVED that the presentation be received.

23. REPORT OF THE SERVICE DIRECTOR - FINANCE

The Panel is invited to consider the following report, enclosed as Appendix B2:-

(1) NCC Pension Fund's investment in private equity

The Panel received Mercer reports on private equity as an asset class, ahead of a presentation later in the meeting by Pantheon, one of the Fund's three private equity investment managers. The reports detailed the characteristics of private equity as an asset class, NCC Pension Fund's incumbent private equity fund of funds managers, and how future private equity commitments would likely be made by NCC Pension Fund.

Information provided by Portfolio Evaluation was tabled at the meeting. This showed that the Fund's more mature private equity holdings managed by Morgan Stanley and NB Alternatives had performed well since inception, with the sterling return in excess of the benchmark return for all investments with vintage years in 2007 or earlier.

RESOLVED that the report be accepted.

24. PANTHEON

The Panel received a presentation from Alex Scott and Andy Bush of Pantheon. (A copy of the presentation is enclosed with the signed minutes).

RESOLVED that the presentation be received.

CHAIR _____

DATE _____