



Northumberland
County Council

MEETING OF THE PENSION FUND PANEL

23 NOVEMBER 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

1. Northumberland County Council Pension Fund's Procedure for Reporting Breaches of the Law

Purpose of the report

This report requests that the Panel adopts the updated "*Procedure for Reporting Breaches of the Law for the LGPS administered by Northumberland County Council*".

Recommendation

The Panel is requested to adopt the updated NCCPF's Procedure for Reporting Breaches of the Law, attached as Appendix 1 to this report.

Key issues

- 1.1 The Panel approved the Fund's first Procedure for Reporting Breaches of the Law for NCC, at its meeting held on 18 September 2015.
- 1.2 The Pensions Regulator's Code of Practice number 14 entitled "*Governance and administration of public service pension schemes*", effective from April 2015, includes a section on reporting breaches of the law. Breaches considered "**of material significance**" to the Regulator must be reported. There is no requirement to report all breaches to the Regulator; reporters must consider the cause and effect of the breach together with the reaction to the breach and the wider implications, and then form a judgement on the material significance and decide whether to report or (just) record the breach. Whether **reported** or not, a breach must be **recorded**.
- 1.3 All individuals with a role in the LGPS have a duty to report breaches of the law. This duty includes the scheme manager (and therefore, Pension Fund Panel members), officers, Local Pension Board members, the participating employers and the Fund's professional advisers such as the auditors and the actuary.
- 1.4 The Procedure adopted for NCCPF in 2015 included a provision that it must be updated, when appropriate. The updates made to the Procedure are minor "housekeeping" items and changes to reflect the move, in January 2018, to the shared administration service with Tyne and Wear Pension Fund. In particular, the Procedure has been changed to make clear that it applies to employees of South Tyneside Council who are involved in the administration of the LGPS on behalf of NCCPF.

1. NCC Pension Fund's Procedure for Reporting Breaches of the Law

BACKGROUND

The Regulator's code

- 1.5 Public service pension schemes, including the LGPS, have been overseen by the Pensions Regulator (tPR) from 1 April 2015. The Public Service Pensions Act 2013 required tPR to issue a Code of Practice containing guidance on administration and governance of pension schemes. TPR issued Code of Practice number 14 ("the code"): "*Governance and administration of public service pension schemes*" which **came into force** in **April 2015**. The code can be accessed from the following link: <http://www.thepensionsregulator.gov.uk/public-service-schemes/code-of-practice.aspx>.
- 1.6 This change for public service schemes increased the focus on governance and administration. The introduction of the Code meant some adaptation for LGPS fund administrators, for example, in areas such as reporting breaches of the law.
- 1.7 The Code is **not** a statement of the law itself, but it does carry great weight, and a court or tribunal must take its provisions into account. It is, in effect, similar to the Highway Code, in that some of its contents refer to legal requirements and others are advisory.

Reporting breaches of the law

- 1.8 The Regulator's Code has a specific section about reporting breaches of the law. This makes clear that certain people are required to report breaches of the law to tPR where they have reasonable cause to believe that:
- *"a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with in the exercise of any of its functions; and*
 - *the failure to comply is likely to be of material significance to the regulator."*
- 1.9 The people subject to the reporting requirements *include*:
- the Scheme Manager (i.e. NCC, acting in its capacity as administering authority for the LGPS and delegating to the S151 Officer for certain functions, and to the Pension Fund Panel for decision making, and Tyne and Wear Pension Fund for member services administration);
 - the members of the Local Pension Board; and
 - anyone involved in the administration of the Scheme as well as anyone involved in advising the scheme manager such as the auditors and the actuary.
- 1.10 Therefore, all individuals with a role in the LGPS have a duty to report breaches of the law. Reporters should have procedures in place to meet their reporting duty and there should be no reliance placed on waiting for others to report. After NCCPF entered into the shared service working arrangement with Tyne and Wear Pension Fund the duty to report extended to include certain staff employed by South Tyneside Council. The Appendix 1 update reflects this change.

1.11 The Code states (in paragraph 245):

“Identifying and assessing a breach of the law is important in reducing risk and to meet their legal obligations. Procedures should enable people to raise concerns and facilitate the objective consideration of those matters. It is important that procedures allow reporters to decide within an appropriate timescale whether they must report a breach. Reporters should not rely on waiting for others to report.”

1.12 NCCPF’s first adopted Procedure for Reporting Breaches of the Law, adopted in September 2015 by the Panel, was prepared with assistance from Aon.

Training

1.13 The Code states that schemes should be satisfied that those responsible for reporting breaches are made aware of the legal requirements and the Code. It makes clear that schemes should **provide training** for scheme managers and pension board members and ensure that others under the statutory duty to report have a sufficient level of knowledge and understanding to fulfil that duty. This means having sufficient familiarity with the legal requirements and procedures and processes for reporting.

1.14 Karen McWilliam of Aon, an acknowledged LGPS governance expert, delivered training at County Hall, Morpeth for officers, Panel and Board members, covering obligations for reporting breaches of the law to the Regulator. Training took place on:

- 10 December 2015, when the Procedure was first adopted; and
- 16 June 2017, when new Panel members were appointed following the May 2017 local election.

What counts as a breach?

1.15 A breach of the law is *“an act of breaking or failing to observe a law, agreement, or code of conduct.”* In the context of the LGPS it would encompass a failure to do anything required under the LGPS Regulations, overriding legislation or applicable statutory guidance or codes of practice. So, for example, this could *include* (but not be limited to):

- failure of an employer to pay over member and employer contributions on time;
- failure to pay member benefits either accurately or in a timely manner;
- failure to maintain accurate records;
- failure to issue annual benefit statements on time; or
- non-compliance with the Regulator’s Code of Practice No 14.

What counts as “material significance”?

1.16 It can be difficult to judge what would be of *material significance to the Regulator*. On the one hand a breach may not be considered material where it has arisen as a result of a **one off incident**, for example teething issues around a new procedure. On the other hand, however, consideration needs to be given to the **effect** of any breach.

- 1.17 Reporters need to consider:
- does the breach suggest an underlying issue which might recur, such as inadequate internal controls, a lack of accurate data from a scheme employer or poor record keeping? and
 - to what extent can perceived teething problems mask more deep rooted issues that still need to be considered?
- 1.18 TPR sets out in the Code of Practice that scheme managers must ensure member data is complete and accurate, and require participating employers to provide timely and accurate data. Schemes should also monitor data on an ongoing basis, adopting a **proportionate and risk based approach** to monitoring, based on historical issues which may have occurred in relation to the scheme's administration. In other words, tPR is not expecting all data to be error free at all times; instead, he is looking for **reasonable controls** to be in place to prevent and detect errors, so they can be rectified.

When to report to the Regulator?

- 1.19 NCC's Procedure for Reporting Breaches (attached as Appendix 1) includes a decision tree (on page 5 of Appendix 1) and appendices (**Appendix A** and **Appendix B** to the Procedure) to help reporters make the decision as to whether reporting to tPR is necessary. In relation to each breach, reporters must consider the:
- **cause** (e.g. is it due to poor administration, or employers failing in their duties?);
 - **effect** (e.g. could it lead to reputational impact, or incorrect payment of benefits?);
 - **reaction** (e.g. is there a plan in place to minimise the chance of recurrence, or was action taken to investigate and correct it?); and
 - **wider implications** (e.g. does the breach indicate systematic problems?).
- 1.20 When deciding whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice, where appropriate, when deciding whether the breach is of material significance to the Regulator.
- 1.21 If there is uncertainty, or there are issues suggesting deep rooted problems, then it would be prudent to consider reporting the breach anyway.

Recording a breach

- 1.22 Whether reported to the Regulator or not, all breaches should be **recorded**. **Appendix C** to the Procedure sets out the information to be recorded for any breach.
- 1.23 In August 2015, NCC's Monitoring Officer gave advice that the **record** of all breaches should be public information though care should be taken to anonymise the data provided in the breaches log.

Consequences of reporting a breach to the Regulator

1.24 TPR can issue improvement notices and has the power to levy fines. In an email to Clare Gorman from Karen McWilliam of Aon dated 26 August 2015, Karen comments:

*“ ... the consequences of a breach occurring that comes to the Regulator’s attention (including a direct report by you or the employer) ... outlined in the Pensions Act and regulation 93 gives a summary overview of all the Regulator’s powers. In reality, in relation to any breach, we suspect the process will commence with an element of investigation and engagement, in particular looking at whether there is **an improvement plan in place** and whether there is evidence of it being **actioned**. Thereafter the Regulator could issue an improvement notice (which could be to a third party) and they can also issue a civil penalty if the statutory notice is not complied with (as above).”*

1.25 The Regulators’ powers, as set out in regulation 93 of the Pensions Act 2004 (referred to in paragraph 1.24 above) are shown in **Appendix 2** to this report. The Regulator’s “*Compliance and enforcement policy for public service pension schemes*”, dated June 2015, is attached as **Appendix 3** to this report. An extract from tPR’s policy is as follows:

“We expect scheme managers, assisted by pension boards as appropriate, to:

- identify and understand the root causes of an issue which is resulting in poor standards of governance and administration and non-compliance with legal requirements*
- develop an improvement plan which will address the root causes of that issue within a reasonable time period, and*
- demonstrate implementation of their plan.”*

1.26 An extract from tPR’s compliance and enforcement policy (Appendix 3), which sums up tPR’s approach is as follows:

“Where scheme managers or pension board members fail to address poor standards resulting in non-compliance with the law, we may consider escalating our activities and taking enforcement action. In considering whether to use our regulatory powers, including any enforcement action, we will take into account all of the circumstances and will act fairly and proportionately.”

Changing approach of tPR

1.27 TPR made clear, in the early stages of the new regulatory regime, as schemes adapted to meet the new legal requirements, that most of its activities would be focused on **educating and enabling** public service schemes to improve standards of governance and administration.

1.28 In July 2017, tPR took stock of its approach, and published “**TPR Future - a review of the way we work**” which is **enclosed** with these papers.

1.29 On 10 May 2018, tPR launched its corporate plan for 2018 to 2021, which set out that it planned a “**clearer, quicker and tougher approach to regulating pensions.**”

Update of NCCPF's Breaches Procedure

- 1.30 As the Code of Practice has not changed since the Procedure was first adopted by NCCPF, the revisions needed to update the Procedure are minor.
- 1.31 Apart from changing the names of the people referred to in the Procedure, the only other changes made were to make it clear that the Procedure applies to all employees of South Tyneside Council who are involved in the administration of the LGPS as part of the shared administration service with NCCPF.
- 1.32 The updated Breaches Procedure, attached as Appendix 1 to this report, has been brought to this meeting of the Panel to be adopted.

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2. The Pensions Regulator's annual return and survey

Purpose of the report

This report provides information about the Pensions Regulator's 2018 annual Scheme Return, and the 2018 annual Governance and Administration Survey.

Recommendation

The Panel is requested to accept the report.

Key issues

- 2.1 Since 2015, the Pensions Regulator (tPR) has issued an annual scheme return and an annual governance and administration survey to all LGPS scheme managers, including NCCPF. Completion of the annual return is a statutory requirement, and the survey is voluntary. NCCPF has completed and submitted both by the relevant deadline in prior years.

Scheme Return 2018

- 2.2 The 2018 Scheme Return for NCCPF was submitted before the 6 November 2018 deadline. This return gathered basic data on NCCPF, including current contact details for the participating employers with active members. For the first time, in 2018 the Scheme Return asked for common and scheme specific data scores. These data scores were calculated by Tyne and Wear Pension Fund (as part of the shared service) on NCCPF's behalf. There is no guidance for a standardised scoring basis across the LGPS and all administering authorities have decided their own measures, which will lead to inconsistencies of approach and scores.
- 2.3 Tyne and Wear Pension Fund is in the process of developing a data improvement plan (DIP) for NCCPF to address the issues which came out of the calculation of data scores. The DIP will be reported to the NCC LGPS Board for review and for the Board to provide feedback to the Panel, if necessary.

Governance and Administration Survey 2018

- 2.4 The 2018 Governance and Administration Survey was issued to administering authorities in early November. The deadline for submission is the end of November 2018. Officers of NCCPF and Tyne and Wear Pension Fund will work together to complete the survey. As specified in the guide for completion, the Scheme Manager will work with the pension board chair to complete it.
- 2.5 The 2018 Return and Survey will be reported to the NCC LGPS Board.

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3. Training needs analysis

Purpose of the report

The purpose of this report is to inform Panel members of the requirement to complete a formal training needs analysis annually, and to enclose a questionnaire for use in this process.

Recommendation

The Panel is requested to accept the report, and each member of the Panel and Board is asked to complete the questionnaire, enclosed with the report.

Key issues

- 3.1 NCCPF adopted a formal Training Policy in 2015 which was last updated in February 2016. This Policy applies to Panel and Local Pension Board members, as well as senior officers involved in the management of the Fund and administration of the LGPS. The Policy aims to comply with CIPFA's Knowledge and Skills Framework, and states that a training needs analysis procedure will be developed.
- 3.2 At its 4 September 2017 meeting, the Panel noted the introduction of a formal training needs analysis procedure, which also allowed NCCPF to positively respond to self-assessment criteria included within its 'opt up' to elective professional status under the Markets in Financial Instruments Directive II (MiFID II). All Panel members responded to the first training needs analysis questionnaire issued, and the results were reported at the 24 November 2017 Panel meeting.
- 3.3 Each Panel and Board member is asked to complete the **enclosed** annual training needs analysis questionnaire and return it to Craig Johnson by 7 December 2018. The results will be analysed and taken into account when developing the Fund's Training Plan, to be delivered in the next twelve months.

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4. October 2018 Budget

Purpose of the report

This report provides information about the 29 October 2018 Budget, and proposed changes of relevance to LGPS administering authorities.

Recommendation

The Panel is requested to accept the report.

Key issues

- 4.1 On 29 October 2018, the Chancellor of the Exchequer, Philip Hammond, presented the 2018 Budget setting out the government's plans for the economy and public finances. The widely held expectation that it would contain changes to the pension tax regime proved to be unfounded.
- 4.2 The Budget confirmed the expected reduction of the SCAPE discount rate from 3.0% to 2.4% plus CPI, indicating an increased cost to employers of providing pensions in the long-term. This will have a significant impact on the employer cost of the **unfunded** public service schemes and is further explained in paragraphs 1.38 to 1.43 of the confidential report to this meeting. The impact on the LGPS of this change is minimal.
- 4.3 The government also announced that the provisional valuation results of all public service schemes indicated the need for an **improvement to member benefits** from 2019/20. No detail has been provided, but it is likely that the LGPS is one of the schemes where member benefits will be improved, with a change in the Regulations expected in the next few months.
- 4.4 The government's response to its consultation on pensions cold calling was published alongside the Budget. The government will "*shortly be implementing legislation to make pensions cold calling illegal*".
- 4.5 The government has committed £5 million extra funding for the **Pensions Dashboard**, which will allow individuals to see all of their pension pots, including State Pension, in one place. The Budget report confirms that DWP will consult on the project later in the year.
- 4.6 The Budget confirmed that the government would adopt the measure of inflation known as CPI-H which incorporates housing costs for public sector pensions and index linked gilts "*as and when practical*".
- 4.7 Hyman's Robertson's commentary on the Budget is attached as **Appendix 4**.

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5. Recent news stories about LGPS administering authorities

Purpose of the report

This report provides information and comment on recent news stories regarding three LGPS administering authorities.

Recommendation

The Panel is requested to accept the report.

Key issues

- 5.1 A number of news stories have been reported in the press in recent months which may be of interest to Panel members.
- 5.2 The Westminster City Council Pension Fund was the victim of a fraud, perpetrated by the (then) Interim Head of Pensions and Investments. Ian Woodall was convicted of fraud by abuse of position, after taking nearly £1 million from the Pension Fund. This is the first known fraud of this type within LGPS. Press articles giving details of the case are shown in **Appendix 5**.
- 5.3 The London Borough of Barnet is considering its options for moving assets into its chosen pool, the London Collective Investment Vehicle (L-CIV) in what it's calling a "test case". Barnet is asking its adviser, Hymans Robertson, to examine the L-CIV selection processes to help inform a decision (in January 2019) between moving money into L-CIV and retaining it at the Fund and renewing the incumbent manager's contract. Further details are attached as **Appendix 6**. On the face of it, this appears to suggest that Barnet is considering continuing to make its own manager selection decisions in spite of being a member of L-CIV.
- 5.4 The London Borough of Barnet and Nottinghamshire County Council have both recently self-reported to the Pensions Regulator for failure to issue all annual benefit statements on time in 2018. Press articles are attached as **Appendices 7 and 8** to this report. These articles appear to suggest that these administering authorities are using the reporting procedure to help put pressure on their participating employers to provide timely and accurate data.

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6. MHCLG statistical release 2017/18

Purpose of the report

The purpose of this report is to provide information to the Panel about the MHCLG statistical release on LGPS funds in England and Wales in 2017/18, and compare Northumberland County Council Pension Fund information with that of other funds.

Recommendation

The Panel is requested to accept the report.

Key issues

- 6.1 The Ministry of Housing, Communities and Local Government (MHCLG) has analysed LGPS fund “SF3” information submitted by all 88 administering authorities in England and Wales for **2017/18**. MHCLG issued a statistical release in October 2018 which is attached as **Appendix 9** to this report. This is the second year that data from England and Wales has been combined.
- 6.2 The statistical release shows that compared with prior year, in 2017/18 aggregate expenditure on LGPS benefits increased by 2.9%, income from employees' contributions increased by 1.9%, income from employers' contributions increased by 27.7%, with a 1.9% increase in the number of contributors. The sizeable increase in income from employer contributions was largely due to higher contribution rates payable following the 31 March 2016 triennial valuation of LGPS funds. This increase is particularly high because a small number of employers opted to pay for three years' deficit contributions in a single upfront payment made in April 2017.
- 6.3 Comparing this information with NCCPF's data shows NCCPF's number of contributors has increased by more than the average fund, with income from employee contributions subsequently increasing more at NCCPF than the average. The income from employer contributions for NCCPF has also increased as expected given the higher rates payable following the 31 March 2016 valuation, however this increase is less than the average. This is due in part to NCCPF's employer contributions being higher than average in earlier years, and in part to the large upfront pension deficit contribution payments being made by a number of employers at other funds. The upfront deficit contributions also (partially) explains why the increase in market value of the year to 31 March 2018 for NCCPF (2.8%) being lower than the national figure (4.7%).

6. MHCLG statistical release 2017/18

BACKGROUND

- 6.4 All LGPS administering authorities in England and Wales, including Northumberland County Council, are required by the Ministry of Housing, Communities and Local Government (MHCLG) to complete form “SF3” each year, following completion and external audit of the pension fund annual reports.
- 6.5 Form SF3 is completed mainly from the information in the annual accounts, with some further detailed information required, for example, a breakdown of the employer contributions into the “primary” and “secondary” contributions where primary and secondary are terms defined in the LGPS Regulations.
- 6.6 MHCLG has aggregated and analysed the SF3s submitted by all 88 administering authorities in England and Wales for 2017/18 in a statistical release issued in October 2018. This is attached as **Appendix 9** to this report. It shows **aggregate amounts for all English and Welsh LGPS funds**. This is the second year that data from England and Wales has been combined.
- 6.7 The key points from the 2017/18 statistical release are:
- 6.7.1 Overall LGPS expenditure in 2017/18 was £12.7 billion, a like-for-like increase of 7.4% on the equivalent 2016/17 figure. LGPS expenditure on benefits in 2017/18 was £9.8 billion, an increase on the previous year of 2.9%.
- 6.7.2 Overall income to the LGPS in 2017/18 was £17.4 billion, an increase on 2016/17 (on a like for like basis) of 21.4%. Income from employees' and employers' contributions for the same period increased by 1.9% and 27.7% respectively, largely due to higher contribution rates payable following the 31 March 2016 triennial valuation.
- 6.7.3 Income from investments increased by 11.7% in 2017/18 to £4.4 billion.
- 6.7.4 The market value of the funds at the end of March 2018 was £270.9 billion. This represents an increase of 4.7% on March 2017.
- 6.7.5 There were just over 2.0 million employees contributing to the LGPS at the end of March 2018, a 38,000 (or 1.9%) *increase* over the figure for March 2017. The number of LGPS members, as at 31 March 2018, is the highest ever, which is perhaps unsurprising given the impact of auto-enrolment.
- 6.7.6 The number of people leaving the LGPS in 2017/18 because of redundancy decreased by 19.9%, although a number of funds reported large restructuring exercises in 2016/17 and that this large reduction in 2017/18 was a consequence of that.
- 6.7.7 The number of former employees entitled to deferred benefits rose to 2.1 million in 2017/18, an increase of 5.3% over 2016/17.
- 6.7.8 The number of employers increased by 6.8% over 2016/17, largely as a consequence of academy formation.

- 6.8 NCCPF's increase in market value in 2017/18 of 2.8% is lower than the national average (4.7%) which reflects, in part, the increased income received at other LGPS funds in relation to employer deficit contributions, following large upfront pension contribution payments being made by a number of employers.
- 6.9 Over the last decade since austerity began, notwithstanding the increase in contributor numbers between 2012/13 and 2017/18, the position for the LGPS in England can be summarised: the trend has been for **LGPS workforces to shrink and funds to mature**. Auto-enrolment has *masked* that trend, but it is difficult to see the underlying trend truly changing in the next few years. The average contribution rate per employee has reduced over the period both nationally and for Northumberland, indicating an increase in the numbers of lower paid and/or part time staff in the Scheme, another consequence of auto-enrolment.

Comparing the Northumberland Fund with the other LGPS funds

- 6.10 Comparing Northumberland with the 88 funds in England and Wales, from the information shown in the statistical release:

	<u>all 88 administering authorities</u>	<u>NCC Pension Fund</u>
(a) Expenditure on benefits comparing 17/18 with 16/17	increase of 2.9%	decrease of 0.7%
(b) Employees' contributions comparing 17/18 with 16/17	increase of 1.9%	increase of 4.3%
(c) Employers' contributions comparing 17/18 with 16/17	increase of 27.7%	increase of 9.6%
(d) Total expenditure as a proportion of income in 17/18	73%	102% *
(e) Total expenditure as a proportion of income in 16/17	81%	109% *
(f) Income from investments comparing 17/18 with 16/17	increase of 11.7%	increase of 11.6%
(g) Market value of funds comparing 31/3/18 with 31/3/17	increase of 4.7%	increase of 2.8%
(h) Market value of funds comparing 31/3/18 with 31/3/14	increase of 43.6%	increase of 46.8%
(i) Number of LGPS employees comparing 31/3/18 with 31/3/17	increase of 1.9%	increase of 2.1%
(j) Number of LGPS employers comparing 31/3/18 with 31/3/17	increase of 6.8%	increase of 4.8%
(k) Active membership as a proportion of total membership as at 31/3/2018	34.6%	33.8%
(l) Active membership as a proportion of total membership as at 31/3/2017	35.2%	34.2%

* see explanation in paragraph 6.11 below.

The statistics are collated from the SF3 forms completed by LGPS funds each year and after removing the effect of mergers and large transfers during 2016/17 and 2017/18.

- 6.11 Items (d) and (e) in paragraph 6.10 appear to show that NCCPF is very much out of step with other funds. However, this is not the case, and these comparators are anomalies caused by Northumberland's investment management structure, particularly the large proportion of investments held in pooled vehicles where income is "rolled in" with the value of the units. Unlike other investments, these pooled vehicles do not pay income to the Fund, instead the income is reinvested so is reflected in the realised or unrealised gains on investments. The Northumberland County Council Pension Fund does not gain or lose as a result of this structure, but its income disclosed in its accounts does appear low when compared with other funds.
- 6.12 NCC's increase in the number of LGPS employers (item (j) above) appears to be out of step with other funds, as it has only increased by 4.8% compared to other funds' increase of 6.8%. This apparent anomaly is largely because NCC has had fewer schools converting to Academy status than has been the experience of other authorities.

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7. PIRC Local Authority Performance Analytics

Purpose of the report

This report provides the PIRC Local Authority Performance Analytics annual reports for 2016/17 and 2017/18, which are enclosed with these papers.

Recommendation

The Panel is requested to accept the report.

Key issues

- 7.1 The “**PIRC Local Authority Performance Analytics**” Annual Report 2016/17 and the Annual Report 2017/18 (two separate documents) are **enclosed** with these papers. These reports are the equivalent of the annual publication which longer standing members of the Panel may recall receiving in the past, called the “WM Local Authority Annual Review”.
- 7.2 The enclosed PIRC annual reports analyse a universe of 61 LGPS funds, and as such, provide the most authoritative analysis available of returns and trends in strategic asset allocation across the LGPS as a whole. The total number of LGPS funds, including in Scotland and Northern Ireland is 101.
- 7.3 The PIRC reports are succinct, clear and objective. PIRC’s role is performance data analyst, with no element of investment or actuarial advice being provided to LGPS funds. The reports provide an excellent source of background information for Panel members which will be helpful when the Panel carries out the next strategy review of NCCPF. The reports can help decision makers view their own fund’s performance in a long-term peer group context, to gain a perspective on how other funds execute their fiduciary responsibilities.
- 7.4 The reports analyse the data gathered and identify themes, such as the features of the best and worst performing funds, and the impact of pooling. One cautionary comment on pooling and the consequential asset transitions from the funds to the pools is:

“One of the key drags on performance over the last twenty years has been the effect of fund change.”

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

Purpose of the report

This report provides information about NCCPF's third assessment against the standards set out in the Pensions Regulator's Code of Practice number 14.

Recommendation

The Panel is requested to note the information in this report and delegate to the NCC LGPS Local Pension Board to review this information in detail at its meeting on 10 December 2018, and report back to the Panel.

Key issues

- 8.1 The Pensions Regulator (tPR) has made it clear that it expects all LGPS administering authorities to assess themselves against the legal requirements contained in the LGPS Regulations and supporting law/guidance and the standards set out in tPR's Code of Practice number 14.
- 8.2 NCC first carried out a code compliance checklist in 2015/16 and reported it to the 26 February 2016 Panel meeting, with the second carried out in 2016/17 and reported to the 31 March 2017 Panel meeting. As annual review is appropriate, the next assessment should have been carried out in late 2017/early 2018, but this was not a suitable time as the shared administration service was about to begin. Therefore, it was deferred until later in 2018, to be carried out after the shared service had "bedded in".
- 8.3 Officers at NCCPF and TWPF have worked with Aon to complete the third compliance checklist for NCCPF which is **enclosed** with these papers. As Aon is one of the recognised LGPS specialists, it was viewed as important to bring the objectivity, expertise and independence of Aon's involvement into the checklist process *particularly* in the first year of the shared service.
- 8.4 The format of the enclosed checklist is a model created by Aon for use by clients. It is laid out clearly and uses red, amber and green to help the user identify the areas needing more work. Further actions are set out in the final column. Areas for development will be included in the Fund's 2019 Action Plan.
- 8.5 The Code compliance checklist can be updated at any time, and should be updated every time there is a material change, and reviewed at least annually. It will be brought to the Panel, for review, **at least annually**.
- 8.6 As Code compliance is an area of particular interest to local pension boards due to their statutory "ensuring compliance" role, this report proposes that the Panel delegates to the NCC LGPS Board to review the enclosed checklist in detail at its next meeting in December and feedback any recommendations.

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9. Outcomes of the November 2018 meeting of the NCC LGPS Local Pension Board

Purpose of the report

This report provides information to the Panel about outcomes and proposals from the meeting of NCC's LGPS Local Pension Board held on 8 November 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

- 9.1 Under the NCC LGPS Local Pension Board's Terms of Reference, the Board is required to meet at least twice a year, and current practice is to meet four times a year. As set out in the remit of the Pension Fund Panel, the Panel's functions include ensuring the proper administration of the Local Government Pension Scheme and the "*Board provides oversight of the governance and administration of the LGPS.*"
- 9.2 Since its first meeting in July 2015, the Board has made a number of recommendations to the Scheme Manager (i.e. Northumberland County Council as administering authority for the LGPS) for changes to the LGPS administration arrangements. A formal mechanism for communicating Board proposals to the next Panel meeting via a Report of the Board Chair was adopted in September 2017, to ensure all relevant Board meeting outcomes are captured and considered by the Panel as a separate agenda item.
- 9.3 The current pattern is for the previous Board meeting outcomes to be captured by the Board Chair in a report which is brought to the next meeting of the Panel. The previous Board meeting was held on 8 November 2018 and it was not practical to include a written report to the Panel in these papers.
- 9.4 Therefore, the Board Chair will provide a **verbal summary** of the outcomes of the 8 November 2018 Board meeting at this Panel meeting with the written report being taken to the 22 February 2018 Panel meeting.

MEETING OF THE PENSION FUND PANEL

23 NOVEMBER 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

10. Action Plan 2018 for NCC Pension Fund: quarterly monitoring

Purpose of the report

The purpose of this report is to monitor progress against the NCCPF Action Plan 2018.

Recommendation

The Panel is requested to accept the report.

Key issues

- 10.1 At the 23 February 2018 meeting of the Pension Fund Panel members approved the Action Plan 2018 for NCCPF and requested that quarterly monitoring against the Plan be brought to future meetings. This is the second of the quarterly monitoring reports.
- 10.2 The Action Plan 2018, attached as **Appendix 10**, should be viewed as a checklist of actions expected in the year, rather than a rigid framework to be followed.
- 10.3 Progress made in the period since the previous quarterly meeting of the Panel, on 23 February 2018, is set out in **Appendix 11** to this report. Reasonable progress has been made in this period, in line with expectations.

MEETING OF THE PENSION FUND PANEL

23 NOVEMBER 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

11. Recording breaches: progress and quarterly monitoring report

Purpose of the report

This report provides information about breaches of the law which have occurred in and before the quarter to 30 September 2018.

Recommendation

The Panel is requested to note the information in this report and delegate to the NCC LGPS Local Pension Board to review this information in detail at its meeting on 10 December 2018, and report back to the Panel.

Key issues

- 11.1 Oversight of the LGPS by the Pensions Regulator (tPR) from 1 April 2015 brought with it the requirement for administering authorities to enforce the LGPS Regulations and supporting law and guidance more assiduously than before due to the requirement to record and (potentially) report breaches to tPR.
- 11.2 Following implementation of the shared administration service with Tyne and Wear Pension Fund (TWPF) in January 2018, information about breaches occurring within the **member administration services** function are reported by TWPF. However, breaches within the functions retained by NCC, including collection of contributions, are reported by NCC officers.

Breaches within functions retained by NCC

- 11.3 In the quarter to 30 September 2018 there was one employer that breached the requirement to pay contributions within 19 days of the month end. Details are attached as **Appendix 12**.

Breaches within member administration services

- 11.4 One technical breach in relation to a transfer payment made, notified to NCCPF by Tyne and Wear Pension Fund's Legal Team, is described in **Appendix 13**.
- 11.5 Breaches information within member administration services for the period April to September 2018 is attached as **Appendix 14**.

MEETING OF THE PENSION FUND PANEL

23 NOVEMBER 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

12. Key Performance Indicators (KPIs) for LGPS administration

Purpose of the report

The purpose of this report is to provide information to the Panel about the Fund's KPIs in the quarter to 30 September 2018.

Recommendation

The Panel is requested to note the information in this report and delegate to the NCC LGPS Local Pension Board to review this information in detail at its meeting on 10 December 2018, and report back to the Panel.

Key issues

- 12.1 The NCC LGPS Administration Strategy before 29 January 2018 included Key Performance Indicators (KPIs) which were reported quarterly to the Panel. The NCC LGPS Administration Strategy **from 29 January 2018** was purposefully drafted to align with Tyne and Wear Pension Fund's (TWPF) Strategy, for the efficient operation of the shared service, and it does **not** specify KPIs.
- 12.2 From January 2018, quarterly **performance information** in relation to the **member administration services** function has been provided by TWPF (and the equivalent information for TWPF is reported quarterly to South Tyneside Council's Pensions Committee). KPIs relating to the functions retained by NCC, including collection of contributions, are reported by NCC officers.

KPIs for functions retained by NCC

- 12.3 **Appendix 15** sets out the KPIs for the quarter ended 30 June 2018 compared with the previous two quarters.

KPIs for member administration services

- 12.4 Employer monitoring performance information within member administration services after 29 January 2018 (when the shared service began) is attached as **Appendix 16**. Heather Chambers, Principal Pensions Manager at TWPF, will attend this meeting to provide further information about this performance monitoring.

Ongoing development work for KPIs and recording of breaches

- 12.5 Officers of TWPF and NCCPF are working together to develop KPIs and breaches recording for both funds. The starting point is the quarterly performance information previously reported for TWPF, with all enhancements applied to the quarterly reporting for both TWPF and NCCPF.

MEETING OF THE PENSION FUND PANEL

23 NOVEMBER 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

13. Tyne and Wear Pension Fund's quarterly regulatory report

Purpose of the report

This report provides information to the Panel about Tyne and Wear Pension Fund's quarterly regulatory reports, which are provided to South Tyneside Council's Pensions Committee to keep members up to date with relevant LGPS regulatory changes.

Recommendation

The Panel is requested to accept the report.

Key issues

13.1 Tyne and Wear Pension Fund (TWPF) takes a report ("the regulatory report"), each quarter, to update its Pensions Committee on relevant LGPS regulatory changes and other related matters. The most recent regulatory reports taken are attached as **Appendices 17** and **18** to this report.

13.2 Items of particular note in the regulatory reports:

Appendix 17
14 September 2018

- An update of HMT's response, issued January 2018, to an earlier Guaranteed Minimum Pension (GMP) consultation which extends the existing interim solution to those reaching state pension age on or before 5 April 2021
- Updates on the Scheme Advisory Board's (SAB) ongoing reviews of academies in the LGPS and "tier 3" employers
- Comments on the Pensions Regulator's 2018 Scheme Return and Survey
- Reintroduction of SAB's review of options for separation of the host authority from the pension fund

Appendix 18
23 November 2018

- MHCLG's consultation on LGPS Technical Amendments to Benefits focussing on:
 - Survivor benefits, to include treating civil partnerships and same sex marriages the same as widows of male members
 - Introducing a general power for MHCLG to issue statutory guidance
 - Correcting earlier unintended error in the Regulations

Scheme Advisory Board's October meeting summary

13.3 SAB has recently implemented an improvement to communications with LGPS administering authorities by distributing a brief summary of the most recent SAB Board meeting. The first such summary, for the SAB Board meeting held on 10 October 2018, is attached as **Appendix 19**.

MEETING OF THE PENSION FUND PANEL

23 NOVEMBER 2018

REPORT OF THE SERVICE DIRECTOR - FINANCE

14. Fund performance and total Fund value

Purpose of the report

The purpose of this report is to provide information to the Panel about NCC Pension Fund's performance in the quarter to 30 September 2018 and the total Fund value at that date.

Recommendation

The Panel is requested to accept the report.

Key issues

14.1 The total Fund value (externally managed) was **£1,410** million as at 30 September 2018, compared to £1,392 million as at 30 June 2018, reflecting the positive investment returns over the quarter.

14.2 Performance for the Fund as a whole was **1.6%** for the quarter outperforming the Fund's benchmark return of **1.3%**.

The largest contribution to the outperformance of the Fund benchmark this quarter came from Wellington (active bond manager), Antin (infrastructure manager) and Pantheon (private equity manager). Morgan Stanley (private equity manager) underperformed its benchmark.

14.3 Further detail of annual and quarterly performance by manager and asset class for the period ending 30 September 2018 (i.e. the "*Quarterly Risk and Return Analysis*" provided by Portfolio Evaluation Ltd, the Fund's performance measurement service provider) is **enclosed** with these papers.

14. Fund performance and total Fund value

BACKGROUND

Total Fund value

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

	as at <u>31 December</u> <u>2017</u> £m	as at <u>31 March</u> <u>2018</u> £m	as at <u>30 June</u> <u>2018</u> £m	as at <u>30 September</u> <u>2018</u> £m
Legal and General <i>Index tracker</i>	1,125.48	1,082.86	1,126.41	1,139.99
Wellington <i>Active corporate bonds</i>	103.36	103.25	103.46	104.64
Schroder	27.47	28.17	28.56	28.89
BlackRock	26.44	26.74	26.95	27.26
<i>Property</i> subtotal	53.91	54.91	55.51	56.15
Morgan Stanley	26.48	26.93	21.25	20.55
NB Crossroads	21.10	21.69	20.54	21.46
Pantheon	4.55	6.62	8.00	7.72
<i>Private equity</i> subtotal	52.13	55.24	49.79	49.73
GIP	32.52	32.72	36.53	36.53
Antin	19.04	19.73	19.82	23.09
<i>Infrastructure</i> subtotal	51.56	52.45	56.35	59.62
Total	1,386.44	1,348.71	1,391.52	1,410.13

Note that capital calls and capital repayments have been made during the year to 30 September 2018 for private equity and infrastructure investments. Extra funding, when needed, came out of cash held by the Pension Fund for the day-to-day expenditure incurred in administering the Scheme. Capital repayments have been transferred to Legal and General to invest, or when timing can be matched, used to pay other capital calls.

14.5 Further detail of annual and quarterly performance by manager and asset class for the period ending 30 September 2018 (i.e. the “*Quarterly Risk and Return Analysis*” provided by Portfolio Evaluation Ltd, the Fund’s performance measurement service provider) is **enclosed** with these papers.

Fund performance

14.6 The Fund’s performance is measured by Portfolio Evaluation Ltd (formerly, until 31 March 2016 by the WM Company, later known as State Street/GS Performance Services). Shown below are the annual returns achieved by the Fund for the five years to 30 September 2018 and for the latest four quarters. Also shown are the annualised returns achieved by the Fund for the five years to 30 June 2018.

14.7 Annual returns

	Financial year to 31 March				
	2014	2015	2016	2017	2018
	%	%	%	%	%
Fund	3.8	13.2	-0.7	24.2	3.4
Benchmark	3.7	13.1	-1.2	24.1	3.3

14.8 Quarterly returns

	--- 2017/18 ---		--- 2018/19 ---	
	Quarter 4 2017 to 31 Dec 17	Quarter 1 2018 to 31 Mar 18	Quarter 2 2018 to 30 Jun 18	Quarter 3 2018 to 30 Sep 18
	%	%	%	%
Fund	4.1	-2.8	4.0	1.6
Benchmark	4.3	-3.1	3.8	1.3

14.9 Annualised returns

	All Financial Years Ended 31 March		
	2013/18	2015/18	2018
	%	%	%
Fund	9.8	11.0	6.6
Benchmark	9.7	10.6	6.8
	5 years	3 years	1 year

14.10 Asset allocation

	Target allocation	Quarter 2 2018 at 30 Jun 18		Quarter 3 2018 at 30 Sep 18	
	%	£m	%	£m	%
Equities					
UK	24.0	354.4	25.5	351.7	24.9
US	7.0	106.6	7.7	105.5	7.5
Europe	7.0	97.5	7.0	103.4	7.3
Japan	3.5	51.5	3.7	54.3	3.9
Asia Pacific ex Japan	3.5	50.1	3.6	51.9	3.7
Emerging Markets	7.0	98.0	7.0	102.6	7.3
RAFI 3000	<u>8.0</u>	115.8	<u>8.3</u>	121.5	<u>8.6</u>
	60.0		62.8		63.2
Bonds					
Index linked	15.0	252.5	18.2	249.1	17.7
Corporate bonds	<u>10.0</u>	103.5	<u>7.4</u>	104.6	<u>7.4</u>
	25.0		25.6		25.1
Illiquids					
Property	5.0	55.5	4.0	56.2	4.0
Private Equity	5.0	49.8	3.6	49.7	3.5
Infrastructure	<u>5.0</u>	56.3	<u>4.0</u>	59.6	<u>4.2</u>
	15.0		11.6		11.7
Cash		0.0	0.0	0.0	0.0
Total	100.0	1,391.5	100.0	1410.1	100.0

14.11 The Fund remains overweight in long dated index bonds with 17.7% of Fund value invested at 30 September 2018, against a target weight of 15.0%.

IMPLICATIONS ARISING OUT OF THE REPORT

This applies to items 1. to 14. (inclusive) in this report

Policy:	None
Finance and value for money:	All investment decisions and funding strategy decisions could have an implication for the future employer contribution rates payable by employers participating in the Pension Fund. There are no investment decisions arising directly from these reports.
Human Resources:	None
Property:	None
Equalities:	None
Risk Assessment:	A risk assessment is performed as part of the asset liability modelling study undertaken periodically (usually every three years) to set the Fund's asset allocation strategy. There is no change to investment strategy contained within these reports.
Sustainability:	None
Crime & Disorder:	None
Customer considerations:	None
Consultation:	None
Electoral divisions:	All

Report sign off

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Service Director - Finance	AE
Portfolio Holder(s)	N/A

Report authors Clare Gorman
01670 623579
clare.gorman@northumberland.gov.uk

Andrew Lister
01670 620146
andrew.lister@northumberland.gov.uk