

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 28 October 2016 at 9.30 a.m.

PRESENT

Councillor A. W. Reid
(Chairman, in the Chair)

MEMBERS

Sambrook, A. G.	Tebbutt. A.
Watson, J. G.	Tyler, Mrs. V. (up to 10.30 a.m.)

TRADE UNION REPRESENTATIVES

Culling, A.

OBSERVER REPRESENTATIVES

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

PENSION FUND PANEL ADVISER

Mrs. J. Holden	Mercer Ltd
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OFFICERS IN ATTENDANCE

Mrs. C. Gorman	Principal Accountant (Pensions)
Mr. C. Johnson	Senior Accountant (Pensions)
Mrs. L. Papaioannou	Democratic Services Officer

ALSO PRESENT AS OBSERVERS

G. F. Moore	Chair of LGPS Pension Board
J. P. Clark	LGPS Pension Board member
B. Pidcock	LGPS Pension Board member

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31. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor D. L. Bawn and Mr. I. Storey (UNISON Trade Union representative).

32. MINUTES

RESOLVED that

- (a) the minutes of the meeting of the Pension Fund Panel held on Friday 16 September 2016, as circulated, be confirmed as a true record and signed by the Chairman;

Arising from discussion of the minutes, the Chairman drew the attention of members to Minute No. 20(2) *Employer covenant risk*, and anticipated a potential problem arising from Northumberland College. It was reported that Northumberland College had been given a 30-year deficit recovery and remained in the orphan funding group, however, the College continued to make representations to the Chief Executive about the 2016 valuation.

- (b) the minutes of the meeting of the Pension Fund Panel held on Friday 7 October 2016, had been circulated, but were withdrawn and not confirmed as a true record as they were not the final version. The corrected minutes would be submitted to the next meeting of the Pension Fund Panel.

33. 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.

34. REPORTS OF THE CHIEF EXECUTIVE

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

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(1) LGPS Management and Investment of Funds Regulations 2016 and Investment Strategy Statement Guidance

The Panel received information about the newly issued 2016 LGPS Investment Regulations and related DCLG Guidance, effective from 1 November 2016.

The attention of members was drawn to Appendix 3, DCLG published Guidance on Preparing and Maintaining an Investment Strategy Statement. This requires asset managers and asset owners (Pension Funds) to express a view on stewardship - which has not been required before. A report on stewardship will be brought to a future meeting of the Panel.

RESOLVED that

(a) the report be received; and

(b) the actions in paragraph 1.29 be approved, i.e. to comply with the new requirement to become a signatory to the UK Stewardship Code, officers will work with Mercer and other officers in the BCPP Offer Operations Groups to draft a Code Compliance Statement for the Fund, and report back to the Panel.

(2) Government consultation on implementing the New Fair Deal for the LGPS

Members of the Panel received information about the recent DCLG proposals to introduce Regulations to implement New Fair Deal guidance in the LGPS.

It was noted that DCLG had consulted on changes to the LGPS Regulations, primarily to implement the New Fair Deal guidance for pensions on outsourcings. The proposal is that New Fair Deal will apply to all LGPS employers (except further education colleges) and not just local authorities.

RESOLVED that the report be received.

(3) Reforms to public sector exit payments

The report provided Panel members with an update on Government plans to introduce an exit payment cap in the LGPS and recovery of termination payments made to re-employed high earners.

The report was noted for information.

RESOLVED that the report be received.

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35. URGENT BUSINESS

RESOLVED that one item of urgent business was tabled at the meeting (a copy of which is filed with the signed minutes). Members were notified that as the Independent Chair of the LGPS Local Pension Board had raised the issue of NCC's breach in relation to issuing 2015/16 ABSs for some LGPS members by the 31 August 2016 deadline, detailed information had been prepared for the NCC LGPS Local Pension Board meeting on 3 November 2016, and it was appropriate to first report this information to the Panel.

The Principal Accountant (Pensions) reported that the breach related to issuing Councillors' ABSs and Deferred Pensioner members' ABSs. It was noted that every breach is reported to the Pension Fund Panel, but the Chair of the Local Pension Board was questioning whether this particular breach (re 2015/16 ABSs) should also be reported to the Pensions' Regulator.

The Panel considered both breaches in detail and concluded they were not reportable to tPR. Councillor Tebbutt expressed his concern that these breaches had occurred.

The Chair of the LGPS Board commented that he had been directly contacted by tPR about meeting the ABSs deadline. In terms of the process followed by NCC, he was content that the report was being considered by both the Pension Fund Panel and the LGPS Local Pension Board.

In summary, it was acknowledged that the breach had occurred due to human error and swift action had been taken to correct it. It was noted that the Panel would continue to see the log of breaches at each quarterly meeting.

RESOLVED that

- (a) the report be received and the corrective action taken be noted, and
- (b) the issue be recorded but not officially reported to tPR.

36. 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 items 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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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.

37. REPORTS OF THE CHIEF EXECUTIVE

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

(1) Actuarial valuation as at 31 March 2016

The Panel received information about the 2016 actuarial valuation of the NCC Pension Fund which is currently underway, and the implications for the 2016/2017 strategy review, the first stage of which is being undertaken at the meeting.

It was reported that, with the actuary's advice, the discount rate for the 2016 valuation would be set at 4.4%, which would retain the same level of prudence in the 2016 valuation as in the 2013 valuation.

Paragraph 1.3 of the report related to the need for a strategy review of the Fund; the first stage of which was being undertaken at this meeting. There was a need to start the Asset Modelling Study in phase 1 of the strategy review in order to utilise the knowledge and experience of the current Panel members ahead of the County Council elections in May 2017. Phase 2 of the review would be undertaken about pooling and asset allocations, once it was known what BCPP were offering and of the options available.

RESOLVED that the report be received.

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(2) Phase one of the 2016/2017 strategy review for Northumberland County Council Pension Fund

The report provided information about phase one of the formal 2016/2017 strategy review which has been undertaken by Mercer Ltd.

A report of Example Investment Beliefs for NCC Pension Fund was tabled at the meeting (a copy of which is also filed with the signed minutes). It was agreed to give consideration concise investment beliefs during the formulation of phase one of the 2016/17 strategy review.

In connection with paragraph 2.25 of the report, the current investment strategy proportions were outlined and, in broad terms, it amounted to 25% in maturing investments and 75% return seeking investments. The trends from 2001 to date were considered and it was believed that the Fund was currently overweight in bonds. Consideration was also to be given to the theory and rationale behind the overseas asset allocations

RESOLVED that the report be received and consideration be given to the findings of Mercer's strategy review.

(3) LGPS Pooling

The Panel received an update on progress by the Border to Coast Pensions Partnership (BCPP) collaboration of funds as the participating funds began work to establish the Pool entity following the 15 July 2016 joint submissions on pooling to the Department for Communities and Local Government (DCLG).

Reference was made to the CIPFA published guidance; "*Investment Pooling Governance Principles*" dated October 2016, which was welcomed.

A report of the BCPP Member Steering Group (MSG) dated 10 October 2016 was tabled at the meeting (a copy of which is filed with the signed minutes). This informed that 7 out of the 12 administering authorities in BCPP were likely to have changes in their membership owing to elections being held in May 2017.

The Principal Accountant reported that, with reference to paragraph 3.26 of the report, Mark Lyon of East Riding Pension Fund was planning to hold a meeting in London on Wednesday 16 November 2016 for all of the investment advisers of the thirteen funds, so that they can discuss the proposed BCPP asset allocations.

RESOLVED that the report be received.

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(4) Mercer’s papers on investment beliefs and currency hedging

The Panel received information about the enclosed Mercer papers: “*investment beliefs and strategy review planning*” and “*currency hedging proposition*” which were discussed at the meeting.

RESOLVED that the report be received.

(5) Active global equity portfolio transfer from M&G to Legal & General

The report updated Panel members with information about the stage reached in transferring the Fund’s assets currently (and previously) managed by M&G from M&G to be passively managed by Legal & General.

RESOLVED that the report be received.

(6) Announcement - LGC Investment Awards 2016

The Principal Accountant (Pensions) informed Panel members that Councillor A. W. Reid, as Chair of the NCC Pension Fund, had been selected for the elected member of the year award by the LGC at an event being held in London on 9 November 2016. Owing to a pre-booked engagement, Councillor Reid was unable to attend, and it was reported that the Chair of the LGPS Local Pension Board and the Principal Accountant (Pensions) were delighted to attend on his behalf.

RESOLVED that the report be received.

38. MERCER’S REPORT ON PHASE ONE OF THE STRATEGY REVIEW FOR NORTHUMBERLAND COUNTY COUNCIL PENSION FUND

The Panel considered a report and received a presentation from Joanne Holden of Mercer Ltd.

Consideration was given to the Mercer report: “*Investment Strategy Review - Step 1*” which graphically set the scene as a form of training session for the Panel. It was noted that the main issues to be addressed related to:

- Asset allocation
- Cash flow
- The Fund becoming more mature, and
- Risk management.

Members asked questions regarding the uncertainty following Brexit and about hedging. It was agreed to defer consideration of currency hedging to the

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November meeting of the Panel. Furthermore, it was agreed to receive updates of the strategy review and information about the active passive management debate at the November and February quarterly meetings of the Panel.

It was noted that, over the last 10 year period, the current investment strategy had served the Fund well, and it only required refinements for the future, not a major overhaul.

RESOLVED that the report be received.

CHAIRMAN _____

DATE _____

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