

NORTHUMBERLAND COUNTY COUNCIL

PENSION FUND PANEL

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 25 November 2016 at 9.30 a.m.

PRESENT

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

MEMBERS

Bawn, D. L.	Tebbutt. A.
Sambrook, A. G.	Tyler, Mrs. V. (from 11.35 a.m.)
Watson, J. G.	

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

Mr. M. Coleran	Pensions Team Leader (for item 4(4))
Mrs. C. Gorman	Principal 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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39. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mrs. V. Tyler (who would arrive later following a medical appointment) and from LGPS Local Pension Board member Councillor B. Pidcock (as an observer). An apology for absence was also received from Mr. C. Johnson, Senior Accountant (Pensions).

40. MINUTES

RESOLVED that the minutes of the meeting of the Pension Fund Panel held on Friday 7 October 2016, as circulated, be confirmed as a true record and signed by the Chairman.

41. 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.

42. REPORTS OF THE CHIEF EXECUTIVE

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

(1) Training Records

The information in the report enabled the Panel to complete the 2015/16 annual review of the training records of Pension Fund Panel members, Local Pension Board members, and officers involved in administering the LGPS in Northumberland.

The Panel reviewed the 2015/2016 training records of the officers involved in administering the LGPS in Northumberland and assessed the adequacy of knowledge and skills acquired by officers to fulfil their duties. For the pensions administration staff, Panel members commented on their lack of attendance at any external training courses in the training records. It was also noted that

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relevant courses, such as LGA “Understanding” courses were held infrequently.

Members requested that the senior pensions administration staff be afforded the opportunity to attend appropriate externally held training courses.

RESOLVED that

(a) the report be received; and

(b) in assessing the adequacy of knowledge and skills acquired by officers to fulfil their duties in administering the LGPS in Northumberland, it was recommended that pensions administration staff be afforded the opportunity to attend appropriate externally held training courses.

(2) NCC Pension Fund’s Administration Strategy Statement

The report sought the approval of members of the Panel to update NCC’s LGPS Administration Strategy Statement.

The Principal Accountant (Pensions) outlined a number of minor changes made to the Statement at Appendix 2, pages 7 and 11, and confirmed that a number of typographical errors had also been amended.

It was noted that there is a legal requirement to consult on the Administration Strategy Statement with all participating Scheme employers and the relevant trade unions, which would be undertaken once the Statement had been approved.

RESOLVED that

(a) the NCC LGPS Administration Strategy Statement attached as Appendix 2 to the report, be approved; and

(b) authority be delegated to the Chief Executive in consultation with the Chairman and Vice-Chairman of the Panel to make any further changes required to the Statement as a result of the consultation with the participating employers and trade unions.

(3) Responsibility for resourcing the LGPS pensions administration function

The report set out where the responsibility lies, within NCC, for resourcing the LGPS pensions administration function.

Members appreciated the clarification provided in paragraphs 3.4 and 3.5 of the report confirming the service responsibilities of the Chief Executive, in his capacity as Section 151 Officer, for “the administration of the Local

Government Pension Scheme”, and the remit of the Panel referring to having “oversight of the administration of the Local Government Pension Scheme”.

RESOLVED that the report be received.

(4) Reporting breaches: progress and quarterly monitoring report

Mark Coleran was in attendance for this item.

The report provided information about breaches of the law which had occurred in the quarter to 30 September 2016.

Reference was made to the two enclosed A3 spreadsheets showing LGPS breaches recorded in the quarters

- April to June 2016 and
- July to September 2016.

Members expressed concern about the number of breaches listed in the current quarter and asked a number of questions about the delays in checking once calculations had been completed. In advance of the meeting, the Chairman and Vice Chairman had selected a sample of breaches for investigation. It was reported that breaches 10, 11, 12 and 13 were all of the same type, i.e. where information had not been received from the employer in order to complete and check the calculations. The Pensions Team Leader agreed to prioritise these breaches to rectify the situation at the earliest opportunity. It was also reported that a new procedure had recently been implemented in the Pensions Administration Team to ensure timely information was being sought from employers..

With reference to breaches 28 and 29, it was reported that information had been checked and sent out on 24 November 2016. The information required in breach 42 had been completed on 21 November. Only breach 38 had information outstanding and it was noted that the calculation had been carried out, but not been checked at the time of finalising the report.

Owing to staff absences in the Pensions Administration Team and the difficulties in recruiting suitably qualified staff to the vacant positions, overtime working at weekends had been authorised in order to help clear backlogs.

Councillor Watson recalled earlier assurances given to the members of the Pension Fund Panel that the Pensions Administration Team would be adequately staffed, and yet information today contradicted this. It was noted that the issue of addressing staffing resources would be discussed later in the meeting.

The Chairman of the LGPS Local Pension Board commented that he recognised the competing pressures in workload in the quarter under review given the key deadline for issuing ABSs and the information required for the

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2016 triennial valuation, as well as recording breaches. Furthermore, there was recognition that the LGPS schemes had become more complex over the last decade, requiring a lot more manual intervention in the calculations.

Panel members expressed their appreciation to the Pensions Team Leader for the work that had been undertaken to improve the process for the recording of breaches, particularly given the workload and staffing situation.

It was noted that from May 2017, the term of office for the twenty active Councillor members in the LGPS pension scheme would come to an end at the local elections, at which point, per the Regulations, they could no longer remain in the Scheme as active members.

RESOLVED that the report be received.

(5) Local Authority Pension Forum (LAPFF)

A brief update was provided on progress towards NCC becoming a member of LAPFF.

Members recalled the presentation by Keith Bray of LAPFF to the September Panel meeting, and noted that Northumberland's response was "minded to join LAPFF but sought clarification regarding the expected status of BCPP Pool and whether there was scope for a pool discount". The reply indicated that the LAPFF Executive was considering the issues. An update was to be provided to the next meeting of the Panel.

RESOLVED that the report be received.

(6) Fund Performance and total Fund value

Information was provided about the Fund performance in the quarter to 30 September 2016 and the total Fund value at that date.

RESOLVED that the report be received.

43. 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.

44. 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.

The Principal Accountant (Pensions) outlined the reasons for the actuary recommending a discount rate of 4.4% per annum for the subsumption group employers and a 21 year maximum recovery period (with one exception likely to be made for Northumberland College only).

The resulting employer contribution rate for NCC would form part of the recommendation to the County Council budget meeting in February 2017.

It was noted that the figures remained indicative only, as the Actuary would not finalise the valuation until nearer the deadline of 31 March 2017.

RESOLVED that a discount rate of 4.4% p.a. for the subsumption group employers and a 21 year maximum deficit recovery period be formally endorsed for use in the 31 March 2016 valuation of NCC Pension Fund.

(2) 2016/2017 strategy review for Northumberland County Council Pension Fund

The report provided information to the Panel to supplement phase one of the formal 2016/2017 strategy review, which had been undertaken by Mercer.

Reference was also made to the two enclosures:

- Mercer: Investment Strategy Review - Step 1
- State Street: UK Local Authority Annual Review

In addition, a graph was tabled at the meeting showing the risk and return characteristics of major asset classes at 31 March 2016, which was a graphical representation of the assumptions used by Mercer in the 2016/2017 strategy review (a copy of which is filed with the signed minutes).

Essentially, the graph showed that over a 10 year period, Mercer's assumption was that asset classes involving more risk would be rewarded by higher returns.

The Principal Accountant pointed out that Mercer's assumption tied in with traditional risk/return models, but over the most recent 10 year period, returns had been fairly consistent across asset classes (other than cash) irrespective of risk inherent in each asset class .

Further discussion on strategy would take place later in the meeting.

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 BCPP July 2016 joint submission on pooling to the Department for Communities and Local Government (DCLG).

The Principal Accountant (Pensions) provided an update of a recent meeting of the BCPP Officer Operations Group. There was an expectation that the BCPP pooling proposal would receive a letter of approval from DCLG very soon.

It was noted that with effect from 5 December 2016, Eversheds would be appointed as legal advisers to the proposed BCPP entity, and Squire Patton Boggs as adviser to the Funds.

The Vice Chairman pointed out that seven of the twelve authorities in the BCPP group would be holding local elections in May 2017 and therefore there

would be changes in representation on the BCPP Member Steering Group and individual pensions committees next year.

RESOLVED that the report be received.

(4) NCC Pension Fund's investment beliefs

The report provided information about formulating **investment beliefs** for NCC Pension Fund.

It was agreed to defer consideration of the Statement of Investment Beliefs to a future meeting.

RESOLVED that the Statement of Investment Beliefs be deferred for consideration at a future meeting of the Panel.

(5) The active versus passive management debate

The report provided information about the active versus passive debate, as requested at the 28 October 2016 Panel meeting.

The information provided by Legal & General, attached as Appendix 10 to the report, was welcomed.

RESOLVED that the report be received.

(6) Index change

Information was provided about a potential change to the index to be used for future inflation linkage in the LGPS, and the implications for the 31 March 2016 actuarial valuation of the Fund.

It was noted that the position regarding the Government's official measure of inflation switching from CPI to CPIH, with effect from March 2017, was unclear.

RESOLVED that the report be received.

(7) Shared pensions administration service with Tyne and Wear Pension Fund

The report provided details of the proposal for NCC to explore the potential to develop a shared pensions administration service and collaborative working with Tyne and Wear Pension Fund (TWPF).

Members of the Panel understood that recruiting appropriately qualified and experienced pensions administration staff had been and continued to be a

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major issue for NCC Pension Fund. Concerns were expressed about losing the pensions administration function from Northumberland County Council altogether and the Chairman commented that he had received assurances from the Director of Corporate Resources that no redundancies would result from shared services. Overall, the Panel was supportive of the proposal and requested that a progress report be submitted to the February 2017 Panel meeting.

RESOLVED that

- (a) the report be received and a progress report be submitted to the February 2017 Panel meeting;
- (b) a detailed cost benefit analysis be submitted to a future Panel meeting; and
- (c) information be provided about how the Panel will be able to fulfil its constitutional oversight role and how the proposals would impact on work such as the ongoing GMP reconciliation work.

(8) Mercer’s paper on currency hedging

Information was provided in the report about the Mercer paper entitled “*currency hedging - November 2016*”.

RESOLVED that the report be received and that due consideration be given to the Panel taking forward the opportunity of currency hedging later in the meeting.

(9) Report prepared for NCC’s LGPS Local Pension Board regarding unauthorised payments

The report provided information to Panel members about unauthorised payments, a report on which was prepared at the request of the NCC Board Chair and taken to the Board meeting on 8 July 2016.

RESOLVED that the report be received.

(10) Transaction costs

Information was provided about the transaction costs incurred by the fund managers in the quarter to 30 September 2016.

RESOLVED that the report be received.

(11) Mercer’s ratings of NCC Pension Fund’s investment managers

The Panel members received Mercer’s ratings of all of the Fund’s investment managers.

RESOLVED that the report be received.

45. RESPONSIBLE INVESTING

The Panel received a presentation from Jane Firth, of South Yorkshire Pensions Authority. (A copy of the slides is filed with the signed minutes).

Jane Firth made the point that responsible investing was not to be confused with ethical investment. The concept of responsible investing was about changing the behaviour of companies to obtain stronger returns, sustainable over the longer term, by incorporating the environmental, social and governance (ESG) factors into financial analysis and investment decision-making.

If done in an effective way, responsible investment could, potentially, enhance long term share value.

RESOLVED that the presentation be received.

46. MERCER'S REPORT ON NCCPF INVESTMENT MANAGERS AND CURRENCY HEDGING

The Panel received a report from Joanne Holden from Mercer.

Joanne Holden of Mercer provided advice to the Panel which she summarised as follows:

“The Fund does not currently hedge its overseas equity investments and, as a result, it has benefitted from the fall in Sterling over recent months. As such, now is an opportune time to consider whether to implement a hedge. Passively hedging 50% of currency exposure is expected to reduce short term volatility arising from movements in currency, and we would recommend that 50% of the Fund's overseas exposure is hedged via the passively managed US, Europe, Asia Pacific and Japan equity funds held at Legal & General. Sterling may, of course, fall further; in which case, implementing a hedge will represent an opportunity cost. However, if the Panel wishes to mitigate against a loss of value that Sterling rising again would infer, whilst also reducing the level of short term volatility due to currency movements within its equity investments, then a 50% hedge should be implemented”.

RESOLVED that

- (a) the report be received; and
- (b) authority be delegated to the Chief Executive in consultation with the Chairman and Vice-Chairman of the Panel to consider introducing passive

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currency hedging in the NCC Pension Fund, as recommended by the investment adviser at this meeting, in relation to 50% of the Fund's passively managed equity investments with exposure to each of the US Dollar, Japanese Yen and the Euro. Currency hedging would be implemented by switching 50% of the Fund's investments managed by Legal & General in each of the US, European (ex UK) and Japanese regional equity index funds to the equivalent currency hedged index funds. Before finalising the decision, further information would be obtained from:

- (the investment adviser, Mercer) on long term currency movements against sterling for each of the US Dollar, Japanese Yen and Euro and predictions of the impact of implementing currency hedging on future returns and volatility under alternative scenarios; and
- (the Fund's passive manager, Legal & General) on the cost of switching between unhedged and hedged funds, and the additional annual investment management charge for the hedged funds compared with unhedged funds.

47. MERCER'S FURTHER REPORT ON STRATEGY REVIEW

The Panel received a further report from Joanne Holden of Mercer.

Consideration was given to the Mercer report on Initial Alternative Strategies - Focus on Cash Flows.

RESOLVED that the report be received.

CHAIRMAN _____

DATE _____

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