

**NORTHUMBERLAND COUNTY COUNCIL**

**PENSION FUND PANEL**

At a meeting of the **Pension Fund Panel** held at County Hall, Morpeth on Friday, 27 January 2017 at 9.30 a.m.

**PRESENT**

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

**MEMBERS**

Bawn, D. L.  
Tyler, Mrs. V.

Tebbutt. A.  
Watson, J. G. (from 10.15 a.m.)

**TRADE UNION REPRESENTATIVES**

Culling, A.

**OBSERVER REPRESENTATIVES**

Adams, Mrs. J. H.  
Dick, Ms. S.

Employers Representative  
Employees / Pensioner  
Representative

**OFFICERS IN ATTENDANCE**

Mrs. A. Elsdon

Director of Corporate Resources for  
items 6 (5) and 6(6) on the agenda only

Ms. H. Chambers

Communications Manager, Tyne and  
Wear Pension Fund and seconded to  
provide assistance in pensions  
administration at NCC

Mrs. C. Gorman

Principal Accountant (Pensions)

Mrs. L. Papaioannou

Democratic Services Officer

**ALSO PRESENT AS OBSERVERS**

G. F. Moore

Chair of LGPS Local Pension Board

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#### **48. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor A. G. Sambrook and I. Storey (Trade Union representative) and also from LGPS Local Pension Board members J. P. Clark and Councillor B. Pidcock (as observers).

At this point, the Chairman paid tribute to the Clerk to the meeting who was taking early retirement/voluntary redundancy at the end of February, and members of the Panel also thanked her for her sterling work over many years.

#### **49. 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.

Mr. G. Moore disclosed an interest in agenda item 6 (6) as he is a paid member of the LGPS Local Pension Board, and he stated his intention to remain in the meeting to talk about the process only with regard to that item.

It was noted that all Board members could be viewed as having conflicts of interest in item 6 (6) because their roles have an allowance attached, but the Panel did not view this as prejudicial and Board members participate in the meeting as observers so there was no need to leave the room for the discussion.

#### **50. REPORTS OF THE CHIEF EXECUTIVE**

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

##### **(1) Local Authority Pension Fund Forum (LAPFF) Membership**

The report informed the Panel that NCC, as administering authority for the LGPS, is now a member of LAPFF.

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It was noted that Northumberland County Council had taken out a one year membership subscription to LAPFF for the year to April 2018. A one year rather than a three year subscription was taken out on the basis that the LAPFF fee structure may change to be more favourable for smaller funds such as NCC Pension Fund after April 2018.

**RESOLVED** that the report be received.

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

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

At this point, Heather Chambers, Communications Manager of Pensions at Tyne and Wear Pension Fund and seconded to provide assistance in pensions administration at NCC, was welcomed to the meeting.

It was noted that as there was already agreement in principle to pursue joint working between the two administering authorities, this quarterly regulatory report would feature as a standing agenda item for the Panel in future.

With reference to Appendix 2, page 5 of the report, Councillor Tebbutt asked that for future reports, details of file locations of background papers be given in relation to NCC's filing system, rather than Tyne and Wear Pension Fund's filing system.

**RESOLVED** that the report be received.

**51. 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:

Agenda Items	Paragraph of Part I of Schedule 12A
6-7	3
	Information relating to the financial or business affairs of a particular person

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(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.

**52. 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) FCA consultation on MiFID II and its likely impact**

The Panel received information about the recent FCA consultation on MiFID II and its likely impact on NCC Pension Fund.

The Principal Accountant (Pensions) outlined the national developments, effective from January 2018, proposing implementation of the requirements of MiFID II in UK legislation. Under the proposals, all local authorities including pension funds would be classified as “retail” clients, rather than continuing to be classified as “per se professional” clients. This change in classification would severely limit investment options available to the Pension Fund. It was noted that Northumberland (and other administering authorities) could opt up to “elective professional” status, although the tests likely to be imposed by the FCA made opting up difficult or impossible to satisfy. Responses to the FCA consultation, including NCC’s, highlighted the many serious difficulties for local authorities with the approach proposed by the FCA. It was hoped that the ongoing meetings between FCA, DCLG, HM Treasury, LGA and the LGPS Cross Pool Collaboration Group would discourage the FCA from introducing MiFID II as currently proposed, given its potential impact on NCC Pension Fund, among others.

**RESOLVED** that the report be received.

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## **(2) Currency hedging**

The report provided information to the Panel about implementing currency hedging on 50% of the Fund's US equity investment.

Members recalled the presentation from the Fund's investment adviser at the November 2016 Panel meeting about implementing currency hedging for NCC Pension Fund's overseas equity investments. At the November meeting, there had only been discussions in relation to hedging for the Fund's US dollar equity exposure.

Following detailed discussion, Panel members endorsed the decision made following the November meeting by the Chief Executive in consultation with the Chairman and Vice-Chairman of the Panel to implement currency hedging on 50% of the Fund's US equity investment. The Panel noted that the transfer from unhedged to hedged funds (of the Pension Fund's US equity investments, managed by Legal & General) was likely to take place in February 2017.

**RESOLVED** that

- (a) the report be received;
- (b) a further report be brought to a future meeting of the Panel to consider implementing currency hedging for the Fund's euro and Japanese yen equity denominated equity exposure; and
- (c) a further report be brought to a future meeting of the Panel to consider a trigger point for the US dollar to sterling exchange rate at which the hedge should be removed or reconsidered.

## **(3) Northumberland College: NCC Pension Fund's 2016 actuarial valuation**

The Panel received information about the funding strategy to be adopted for Northumberland College at the 2016 actuarial valuation.

The Panel noted that it had already been agreed that the maximum deficit recovery period of 21 years would be applied to all Fund employers following the 2016 valuation. Members were asked to agree that an exception be made for Northumberland College, because this employer had been moved from the subsumption to the orphan funding group at the 2013 valuation, and its employer contributions payable to the Fund had increased substantially following that change, and would increase further following the 2016 valuation. A longer deficit recovery period would help mitigate the effect of the higher contributions as a result of the earlier change to orphan categorisation.

**RESOLVED** that the proposal to retain a 30-year deficit recovery period for Northumberland College at the 2016 valuation be endorsed.

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#### **(4) GMP reconciliation work**

The report provided information about Guaranteed Minimum Pension (GMP) reconciliation work undertaken to date, and sought authority from the Panel to set a tolerance level to be used in this work.

**RESOLVED** that the level of tolerance to be used within the GMP reconciliation project, as set out in paragraph 4.17 of the report, be agreed.

#### **(5) LGPS Pooling**

The Director of Corporate Resources was in attendance for this item.

The Panel received an update on progress made by the Border to Coast Pensions Partnership (BCPP) collaboration of funds in establishing the BCPP Pool entity and governance arrangements, following receipt in December 2016 of the approval letter from DCLG.

Agenda papers for the forthcoming meeting of the BCPP Members Steering Group being held on 31 January 2017 in York were tabled at the meeting, for information.

Members reaffirmed their earlier “in principle” commitment to join the BCPP pooling arrangement and agreed that a further allocation of £300,000 should be made by the Fund for the cost of establishing BCPP Company and the associated governance arrangements, to bring the total allocation to £350,000.

The Principal Accountant (Pensions) pointed out that a number of important aspects of the terms of the legal agreements to establish BCPP Company, such as the methodology to allocate operating costs to funds, had not yet been agreed.

**RESOLVED** that

- (a) it be recommended to NCC’s Cabinet and full Council that NCC, acting in its capacity as administering authority for the LGPS, provides the necessary authorities to enter into the governance arrangements, as summarised in Appendix 20, to become an investor and shareholder in BCPP Company; and
- (b) £300,000 be allocated as NCC’s further contribution towards expenditure in establishing BCPP Company.

#### **(6) Aon Hewitt’s report on potential joint working with Tyne and Wear Pension Fund**

The Director of Corporate Resources was in attendance for the first part of this item.

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Information was provided about potential joint working arrangements with Tyne and Wear Pension Fund.

Following a lengthy debate on the advantages and disadvantages of alternative joint working arrangements with Tyne and Wear Pension Fund, members of the Panel agreed that closer joint working should be pursued.

As part of this agenda item, Aon Hewitt was asked to give a presentation and Aon Hewitt's report, dated 23 January 2017, on the actuarial and administrative implications of joint working was tabled (a copy of which is filed with the signed minutes).

**RESOLVED** that the report be received.

**53. PRESENTATION BY AON HEWITT**

The Panel received a presentation from Alison Murray of Aon Hewitt on options for potential joint working with Tyne and Wear Pension Fund.

**RESOLVED** that the Panel was minded to pursue future joint working with Tyne and Wear Pension Fund.

**CHAIRMAN** \_\_\_\_\_

**DATE** \_\_\_\_\_

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