

NORTHUMBERLAND COUNTY COUNCIL

LGPS LOCAL PENSION BOARD

At a meeting of the **LGPS Local Pension Board** held at County Hall, Morpeth on Thursday, 3 November 2016 at 10.00 a.m.

PRESENT

G. F. Moore
Independent Chair
(Non-voting member of the Board)

VOTING MEMBERS

Employer Representatives

Adams, Ms. J. H.

Pidcock, B.

Scheme Member Representatives

Clark, J. P.

Dick, Ms. S.

VICE CHAIRMAN OF PENSION FUND PANEL (AS OBSERVER)

Tebbutt, A. (up to 11.30 a.m.)

OFFICERS IN ATTENDANCE

M. Coleran	Pensions Team Leader
Mrs. C. Gorman	Board Secretary
C. Johnson	Senior Accountant (Pensions)
Mrs. L. Papaioannou	Democratic Services Officer

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Tony Reid (Chairman of Pension Fund Panel as observer).

2. CONSIDERATION (DECLARATION) OF CONFLICTS OF INTEREST

None were declared, although the Chair referred to a potential conflict which could arise should Board members' attendance at CIPFA events be discussed, due to his association with CIPFA.

3. MINUTES OF NCC'S LGPS LOCAL PENSION BOARD

A copy of the previously agreed and signed minutes of the meeting of the LGPS Local Pension Board ("the Board"), held on Friday 8 July 2016, were circulated at the meeting and received for information.

Following discussion of the minutes, members queried whether the monthly Local Government Association (LGA) bulletins, currently received by members of the Pensions Administration Team, could also be received by Board members as a further tool to keep updated of any developments in the LGPS and enhance knowledge. The Board Secretary suggested an alternative LGPS circular, distributed monthly by Aon Hewitt, which provides a high-level summary with less technical information may be more meaningful for Board members. Following the Board's agreement, she agreed to ask for the members of the Local Pension Board and Pension Fund Panel to be added to the Aon Hewitt circulation list.

With reference to the training need identified in the minutes by the Joint Acting Head of Pensions Administration, it was noted that the LGA had not yet provided dates for the training session on LGPS pensions tax issues, and there was no suitable alternative. LGA usually runs this course biennially and the Acting Head of Pensions Administration would book on the next available course.

4. ITEMS FOR AN IN DEPTH ANALYSIS

The Chair explained how the agenda for this meeting covered items for in-depth analysis and other items for noting. He reiterated his request for Board members to retain all Pension Fund Panel meeting papers to consider at each Board meeting.

4A Pension Fund 2015/2016 Annual Report and Accounts and External Audit

- Reports A1 and A2 of the Pension Fund Panel 16 September 2016 meeting papers, enclosed 2015/2016 EY Audit Report and tabled EY Audit Results Report.

Reference was made to the discussion at the Panel meeting on 16 September 2016, following which the Chair had submitted a number of questions to the Board Secretary prior to this meeting, in order for the Board to obtain a deeper understanding.

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In response to the questions of the Chair, the Board Secretary tabled the following documents (copies of which are filed with the signed minutes):

- Page 7 of the accounts: Statement of Investment Principles;
- Appendix 15 of the Pension Fund Panel meeting papers of 26 February 2016; and
- Legal and General paper entitled 'Index Intelligence' examining stock lending.

With reference to the query regarding securities lending, the Board Secretary drew attention to page 10 of the Annual Report and Accounts, and referred to NCC Pension Fund's current Statement of Investment Principles.

It was noted that the Panel had implemented a securities lending programme with the Fund's custodian in 2009, but had not used an investment manager with a segregated mandate since 2011, so the Fund's own securities lending programme had not been used since 2011. The Board Secretary confirmed that the Fund benefits from additional income earned on assets managed by the Fund's passive manager, Legal and General.

The Board Secretary explained that Legal and General's outperformance of its benchmark in 2015/2016, shown on page 67 of the Annual Report, was as a result of Legal and General's role in managing the Fund's central benchmark for all liquid assets. The Chair welcomed the explanation.

The Board Secretary responded to the query relating to the benchmark on page 67 of the Annual Report for private equity investments, explaining that the benchmark return shown of 0.0% in the year was the return earned on the FTSE All World Total Return on public equities.

The Chair thanked the Board Secretary for the detailed work and helpful explanations on this issue.

4B Actuarial Valuation as at 31 March 2016

Consideration was given to Report B1 confidential of 16 September 2016 Panel meeting papers and B1 confidential of 28 October 2016 Panel meeting papers, plus a discussion paper from the Board Chair.

Reference was made to the relevant extracts of the Pensions' Regulator's Code of Practice 14 including:

- Knowledge and understanding required by pension board members;
- Conflicts of interest;
- Evaluating risks and establishing adequate controls; and
- Records of member information.

Other issues considered were:

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- Responsibility for decision making and degree of involvement of Panel members; and
- Other checks and balances in the system.

Board members discussed whether they were receiving the guidance and level of information necessary to meet the knowledge and understanding standard expected of them by the Pensions Regulator. The Chair expressed his appreciation of the “significant attendance” of both Board and Panel members at the Aon Hewitt training event held in Edinburgh in September 2016. Reference was also made to other relevant training sessions that had been received, with the Chair expressing the view that Board members had been sufficiently trained to fulfil their duties.

The Chair emphasised that the Board was observing the Panel on the processes followed to date in preparation for decisions (by the Panel) on the assumptions to be incorporated in the 2016 actuarial valuation.

4C Reporting and recording breaches: 2015/16 Annual Benefit Statements

Northumberland County Council’s Procedure for Reporting Breaches (re 2015/16 annual benefits statements) was received and considered. The Chair invited members to consider the process before looking in detail at the breaches in relation to the distribution of 2015/16 annual benefits statements (ABS).

It was noted that in 2014/15, only 7 of 89 LGPS funds had complied with the 31 August 2015 deadline for issuing ABSs. NCC’s failure to meet this deadline had been carefully considered at the time by the Panel and Board and was not judged to be reportable to the Pensions Regulator (tPR).

The Chair reported receipt of an email from tPR on 6 October 2016 enquiring if the deadline of 31 August 2016 for issuing the ABSs for 2015/16 had been met by NCC. If the ABSs had not been issued by this deadline, there was a reminder to record it as a breach of the law and, furthermore, to consider if it was of material significance to tPR. The Chair commented that this was the first significant challenge by tPR the Board had faced since its inception.

The Chair acknowledged that a very comprehensive analysis of the circumstances of each of the two breaches in relation to the 2015/16 ABSs had been provided to the Panel at the 28 October 2016 meeting. The Board members were reminded of the process and the need to understand the nature of the two breaches, and to analyse each separately.

Reference was made to the extract from tPR’s Code of Practice, in particular the four factors in paragraph 253, namely cause, effect, reaction and wider implications of the breach.

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The Board Secretary explained the process followed by NCC and set out the evidence she had used in consideration of the circumstances of these breaches including:

- information provided in an email from Karen McWilliam of Aon Hewitt dated 26 October 2016 and
- tPR's Public Service Toolkit (copies of which are filed with the signed minutes).

The attention of members was drawn to the "traffic light" system in the toolkit. The Board concluded that:

- Councillors' ABSs - an isolated incident had caused an administrative oversight in producing the councillors' ABSs. Corrective action had been taken very quickly and the councillors' ABSs had been issued on 13 September 2016. All four voting members of the LGPS Local Pension Board agreed with the assessment of the Scheme Manager that this was not of material significance to tPR; and
- Deferred members' ABSs - was a greater concern to the Board. It was noted that a judgement had been made (incorrectly) around March/April 2016 by the Joint Acting Head of Pensions Administration that it was not necessary to send out deferred members' ABSs. Given the Pensions Administration Team's busy workload due to year end closure and provision of information to the actuary for the triennial valuation, this was overlooked until it was highlighted as a result of other work being undertaken by Aon Hewitt around mid-August 2016. A concentration of effort was made to meet the deadline of 31 August 2016 for the active members' ABSs, and with the external printing service provider causing a further delay, the deferred members' ABSs were issued on 26 October 2016. All four voting members of the Board agreed with the grades of risk shown in the analysis provided (i.e. one red, one amber and two greens) and concluded that, taking all four together, the breach in relation to the distribution of deferred member ABSs should be recorded not reported. However, should a further breach occur in 2017, for whatever reason, then this would be a breach for the third consecutive year, which would likely be reportable to tPR.

The Board recommended that follow up action be taken over the external printing service provider issue.

Members suggested that the aim should be to get all ABSs issued (i.e. for actives and deferreds) by the same date.

To assist the Scheme Manager, the Board made a number of recommendations:

- Board members agreed that should Northumberland County Council fail to issue the 2016/17 Annual Benefit Statements by 31 August 2017, for whatever reason, this was likely to be reportable to tPR.

- The Board would like to see the annual timetable of one-off pension requirements (or a precis of it) being prepared for the Pensions Administration Team.
- Employers in the Fund should be made more aware of the stricter need for their timely information to be provided for inclusion in the ABSs.

The Board also requested an agenda item for the 6 July 2017 LGPS LPB meeting to consider Northumberland County Council's 'readiness' to meet the 2016/2017 ABS deadline. This issue is to be included in the Board's Work Programme for 2017.

The Board asked for more detail about the delay at the external printer and whether, if circumstances had been different and the deadline had only been breached as a result of the delay by the printer (i.e. if NCC had sent information to the printer in good time but the printer had failed to despatch, resulting in a breach), that could have led to a reportable breach. Board members were seeking assurance that any external printer used in the future will be made (contractually) aware and financially liable should its actions result in a breach of NCC's legal obligations.

The Board asked for an update on the staffing issues in the Pensions Administration Team and the Board Secretary explained that this would be provided through an update to the Panel, in due course.

The Board requested information about who was responsible for making decisions on staffing and where ultimate responsibility for administering the LGPS lies, i.e. is it the Panel or the Section 151 Officer? The Board Secretary agreed to check the exact wording in the Constitution and report back to the next Panel meeting.

The Board recommended that a regular meeting be held between the Board Secretary and the Pensions Administration Team.

4D Government requirement to pool LGPS investments

Consideration was given to Report B3 confidential of 16 September 2016 Panel meeting and B3 confidential of 28 October 2016 Panel meeting.

The Board Secretary updated Members of the Board on progress made to date by the Border to Coast Pensions Partnership (BCPP) with regard to the pooling of LGPS investments. The view was expressed by Board members that Northumberland was well represented at both officer and member level on the BCPP groups.

Mr. Clark queried whether the constitution of BCPP should have an oversight group, similar to the Local Pension Board. The Board Secretary explained that oversight of BCPP Ltd (once formed) would be provided by the BCPP Joint Committee (once

formed), and other oversight of BCPP Ltd would be from sources including its own external auditors and the Financial Conduct Authority.

4E To consider whether, in the light of experience, the Board's Terms of Reference remain fully fit for purpose and if materially lacking, make appropriate recommendations

The Chair referred to the Board's Terms of Reference and requested members to consider whether they remained fit for purpose. The attention of members was drawn to the sentence at the top of page 3 of the Terms of Reference:

"In the exceptional circumstances that the Board considers that a matter brought to the attention of the Pension Fund Panel has not been acted upon or resolved to its satisfaction by the Pension Fund Panel, the LGPS Local Pension Board will provide a report to the Monitoring Officer and Head of Audit who will provide a separate view on the matter, taking expert advice as considered appropriate."

Board members were requested to bring to each meeting a copy of the Terms of Reference and the Breaches Policy to prevent the need for recopying. Members were reminded that, should they have any concerns about potential breaches, then there was a process to be followed.

It was concluded that the Terms of Reference remained appropriate.

4F Training and training records: Chair to table a potential Training Needs Analysis for discussion and verbal update from Board Secretary

A training needs analysis should be aligned to the work programme and would feature on the agenda for the next meeting for discussion. Being conscious of the need to have in place a training needs analysis, the Chair proposed to circulate a proposal to members by email before the next meeting in March 2017.

The Board Secretary reported that she would continue to capture the attendance of members at training events to update the training records kept for each individual Panel and Board member. Councillor Pidcock registered his interest in any appropriate training.

4G NCC Insurance for members of the Board: update from Board Secretary

The Board Secretary advised that, since the last meeting of the Board, she had held a productive meeting with the Regional Manager at Zurich Insurance to explain the features of the Local Pension Board to Zurich, and express the need for clarity on insurance for members of the Board. Zurich Insurance had agreed to assess the risk and report back in due course.

The Chair asked that the matter remain on the agenda for the next meeting and requested an update to be given.

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4H Employer covenant risk (Report B2 confidential of 16 September 2016 Panel meeting papers)

The Chair commented on the approach being taken by the administering authority to employer covenant risk. The Board Secretary briefly explained the Fund's covenant risk policy in relation to academies in Northumberland. The Board Secretary further explained that it may be necessary to obtain delegated authority from the Panel to finalise the Funding Strategy Statement before the legal deadline (i.e. 31 March 2017) for the 2016 valuation.

Reference was made to the Pension Fund Panel papers of 16 September 2016 and members of the Board noted the focus on covenant risk.

4I Board Work Programme 2016/2017: open discussion with a focus on communication with scheme members

It was agreed to defer discussion on the work programme until the Chair had circulated a Training Needs Analysis to members of the Board.

5. ITEMS FOR AWARENESS AND ANY RELEVANT OBSERVATIONS

5A Investment costs: code of transparency (Report A8 of 16 September 2016 Panel meeting papers)

This was not discussed at the meeting due to time constraints.

5B LGPS Management and Investment of Funds Regulations 2016 and Investment Strategy Statement Guidance (Report A1 of 28 October 2016 Panel meeting papers plus Appendices 1, 2, 3 and 4)

The Board Chair asked that Board members look further at the LGPS Management and Investment of Funds Regulations 2016 and Investment Strategy Statement Guidance and note the additional flexibility given to administering authorities in these replacement Regulations, as compared to the previous (2008) Regulations.

6. REVIEW OF MEETING: OPEN DISCUSSION

Board members confirmed that they were happy to continue the current arrangement for retaining papers from Panel meetings for consideration at Board meetings.

7. FUTURE MEETING DATES

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Members noted that the Board's next meeting would take place on 16 March 2017.
The Panel's next meeting would take place on 25 November 2016.

(The meeting closed at 1 p.m.)

CHAIR _____

DATE _____

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