

Pension Fund Annual Report and Accounts 2017-18



Contents

Introduction

Page 1

Management and Financial Performance and Policy Statements

Management

Page 4

Investment Strategy Statement

Page 7

Funding Strategy Statement

Page 21

Communication Strategy Statement

Page 35

Governance Policy and Compliance Statement

Page 41

Pension Fund Panel training

Page 48

Assessment of the effectiveness of the Pension Fund Panel decisions made in 2017-18

Page 48

Annual Report of Northumberland County Council's LGPS Local Pension Board for 2017-18

Page 51

Administration

Page 57

Scheme Members

Page 58

Fund Performance

Page 58

Market Commentary

Page 61

Independent Auditor's Opinion

Page 63

Pension Fund Accounts

Page 65

Notes Supporting the Pension Fund Accounts

Page 68

Appendix 1 – Fund membership with employer summary

Page 84

Appendix 2 – Statement of the Actuary for the year ended 31 March 2018

Page 85

Appendix 3 – Whole of Pension Fund IAS 26 Disclosure

Page 87

Introduction

Introduction

The purpose of this report is to account for the income, expenditure and net assets of the Northumberland County Council Pension Fund (“the Fund”) for the financial year to 31 March 2018. Northumberland County Council is an administering authority for the Local Government Pension Scheme (LGPS), required by the LGPS Regulations to maintain a pension fund for the Scheme.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement, which summarises the net assets of the Fund, on the basis of current market values.

Information about the additions to, withdrawals from, and changes in value of the Fund during the year to 31 March 2018 is shown in the Fund Account.

In the year to 31 March 2018 the total market value of the Fund, net of liabilities, has increased from £1,308.32 million to £1,344.26 million as the annual return on the Fund (comprising income and realised/unrealised gains/losses on investments) together with receipts to the Fund have exceeded the payments made from the Fund.

The Fund Account shows a net withdrawal from dealings with members of £2.69 million in 2017-18 (£5.74 million in 2016-17) as payments to pensioners and leavers exceed contributions from members, reflecting the Fund’s maturity. The net return on investments experienced during 2017-18 of £45.06 million reflects the positive returns experienced by funds generally over that period

and follows the high positive returns experienced during 2016-17.

The overall annual return on the Fund was 3.4% for the year (24.2% in 2016-17), which compares favourably with the Fund specific benchmark annual return of 3.3%.

The long term growth of the Pension Fund is seen as the most reliable indicator of performance, as short term fluctuations are evened out. In this context, the overall annualised return on the Fund for the ten years to 31 March 2018 was 7.7% per annum, which compares with the benchmark annualised return of 7.8%. Fund returns for the ten year period were higher than the growth in average earnings and inflation increases.

The significant changes made to Fund investments in 2017-18 were:

- the Fund committed £50.00 million to a Private Equity investment with Pantheon;
- currency hedging against half of the Fund’s investments in North American publicly quoted equities was introduced; and,
- currency hedging against half of the Fund’s investments in European publicly quoted equities was introduced.

LGPS regulations were introduced in 2016-17 to facilitate pooling of investments, and Northumberland County Council made a commitment to join Border to Coast Pensions Partnership (BCPP) pooling arrangement. It is anticipated that BCPP will commence operation in July 2018.

A fully integrated shared pension administration service with South Tyneside Council commenced in January 2018.

Management and Financial Performance and Policy Statements

Management and Financial Performance and Policy Statement

Management

Statutory Authority

Under the Local Government Pension Scheme Regulations the statutory administering authority responsible for the Fund is:

Northumberland County Council
County Hall
Morpeth
Northumberland
NE61 2EF

Pension Fund Panel

The above authority has delegated its responsibility for determining investment policy and monitoring investment performance to the Pension Fund Panel which meets at least quarterly. The Panel sets guidelines for and assesses the investment decisions of the Fund's investment managers.

At 31 March 2018, the membership of the Pension Fund Panel was as follows:

Voting members

Representing Northumberland County Council

Councillor J. G. Watson (Chair)
Councillor D. Kennedy (Vice-Chair)
Councillor D. L. Bawn
Councillor M. Robinson
Councillor E. Dunn
Councillor I. C. F. Swithenbank

Non-voting members

Representing employers

Mrs Helene Adams (Northumberland National Park Authority)

Representing employees and pensioners

Ms Sue Dick (Pensioner member of Northumberland County Council)

Representing employees

Mr Alan Culling (UNISON)
Mr Ian Storey (UNISON)

The Panel is advised by Ms J Holden of Mercer Limited, who is an independent adviser, rather than a member of the Panel.

Management and Financial Performance and Policy Statement

Investment Management

The day to day management of the Fund's investments at 31 March 2018 was carried out by the following four external managers:

Passive balanced	Legal and General Investment Management Ltd One Coleman Street London EC2R 5AA
Corporate bonds	Wellington Management International Ltd Cardinal Place 80 Victoria Street London SW1E 5JL
Property	Schroder Investment Management Ltd 31 Gresham Street London EC2V 7QA
Property	BlackRock Investment Management (UK) Ltd 12 Throgmorton Avenue London EC2N 2DL

Private equity

The Panel selected Morgan Stanley of 25 Cabot Square, Canary Wharf, London E14 4QA, as private equity fund of funds investment provider to the Fund in November 2005. At 31 March 2018, the Fund had commitments to three of Morgan Stanley's private equity funds of funds. The Panel selected NB Alternatives, an affiliate of Neuberger Berman Europe Ltd, Lansdowne House, 57 Berkeley Square, London W1J 6ER, as a further private equity fund of funds investment provider in January 2007 and at 31 March 2018 had a commitment to two NB Crossroads private equity funds of funds. The Panel subsequently selected Pantheon Ventures (UK) LLP of 10 Finsbury Square, 4th Floor, London EC2A 1AF, as a third private equity fund of funds investment provider in September 2017 and at 31 March 2018 had a commitment to one of Pantheon's private equity fund of funds.

Infrastructure

The Panel selected Global Infrastructure Partners of 1345 Avenue of the Americas 30th Floor, New York, New York 10105, USA, as an infrastructure fund investment provider to the Fund in July 2011. At 31 March 2018 the Fund had a commitment to Global Infrastructure Partners Fund II. The Panel subsequently selected Antin of 2-8 Avenue Charles de Gaulle, L-1653 Luxembourg, Grand Duchy of Luxembourg, as a second infrastructure fund in September 2013 and at 31 March 2018 had a commitment to Antin Infrastructure Partners II LP.

Management and Financial Performance and Policy Statement

Fund assets at 31 March 2018 can be analysed as follows:

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	324.28	392.44	109.72	826.44
Bonds	255.52	-	103.25	358.77
Alternatives	53.43	-	101.58	155.01
Cash and cash equivalents	4.04	-	-	4.04
Total	637.27	392.44	314.55	1,344.26

Custody

Custody services for the funds managed by the external managers are provided by:

The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Banking

Banking services for the cash managed in-house are provided by:

Barclays Bank p.l.c.
38 Bridge Street
Morpeth
Northumberland NE61 1NL

Actuary

Actuarial services for the Fund and the participating employers are provided by:

Aon Hewitt Limited
The Aon Centre
The Leadenhall Building
122 Leadenhall Street
London EC3V 4AN

Solicitors

Legal services are provided by Northumberland County Council's in-house Legal Team. When specialist legal advice is required and the expertise is not available in-house legal services are provided by South Tyneside Council's Pension Fund Team through the shared pension administration service.

Pension Fund Team
Legal Services
South Tyneside Council
Town Hall and Civic Offices
Westoe Road, South Shields, Tyne and Wear
NE33 2RL

AVC Fund provider

Scheme members can make additional voluntary contributions (AVCs) to the Fund's nominated AVC provider. These contributions are not included in the Fund's assets. During 2017-18 members were able to take out AVC plans with:

The Prudential Assurance Company Limited
5 Laurence Pountney Hill
London EC4R 0HH

Investment Strategy Statement

23 February 2018

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the Northumberland County Council Pension Fund (“the Fund”), which is administered by Northumberland County Council (“the administering authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Investment Regulations”), in accordance with the Secretary of State’s Guidance dated September 2016.

The ISS has been approved by the Fund’s Pension Fund Panel (“the Panel”) having taken advice from the Fund’s investment adviser, Mercer. The Panel acts on the delegated authority of the administering authority.

The ISS, which was approved by the Panel on 23 February 2018, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Panel has consulted on the contents of the Fund’s investment strategy with such persons as it considers appropriate.

The administering authority seeks to invest in accordance with the ISS any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated March 2017).

The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that administering authorities attach a Compliance Statement to the ISS, setting out compliance, or reasons for non-compliance, with the six principles of investment practice set out in the December 2009 CIPFA publication *Investment Decision-Making in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles*. The Fund’s Compliance Statement is attached as Appendix A.

The Panel’s remit includes:

- ensuring appropriate management of the investments of the Fund, including keeping under review the Fund’s investment strategy and management structure; and,
- appointing and reviewing the appointments of investment managers, advisers and consultants.

External investment managers have been appointed by the Panel to make the day-to-day investment decisions. Details of the investment managers employed by the Fund and the nature of their mandates are included in Appendix B.

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members upon their retirement and/or benefits on death for their dependants, on a defined benefits basis. This funding position is reviewed at each triennial actuarial valuation, or more frequently as required. The Fund is currently assessed to have a deficit in terms of the reserves needed and so the investment strategy is focused on achieving returns in excess of inflation, without taking undue risk.

The Panel aims to hold sufficient assets in the Fund such that, in normal market conditions, all accrued pension benefits are fully covered by the value of the Fund’s assets and that appropriate employer contributions are set (by the Fund’s actuary) to meet the cost of future benefits accruing. For active members of the LGPS, benefits will be based on service completed, salary and inflation.

The **Fund’s investment objective** is to achieve a long term return on the assets which:

- ensures that, together with employer and member contributions, the Fund can meet its long term liabilities; and,
- aims to maximise returns within acceptable risk parameters.

The Panel has translated the objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Panel’s views on the appropriate balance between generating a satisfactory

Management and Financial Performance and Policy Statement

long term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Fund's investment strategy is reviewed by the Panel at least every three years.

The Fund's most recent full strategy review, taking into account the results of the 2016 actuarial valuation, took place in October 2016. All Fund strategy reviews have been undertaken with advice from the Panel's investment adviser.

The strategy review considers the implications for the future evolution of the Fund of adopting a range of alternative investment strategies. At the 2016-17 strategy review, the Panel assessed the likelihood of achieving the long term funding target, which was defined as "*achieving a fully funded position within the next 21 years*". The Panel also considered the level of downside risk associated with different strategies by identifying the low funding levels which might emerge in the event of adverse experience. The approach helps ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit at the most recent valuation of the Fund.

A summary of the expected returns and volatility for each asset class assumed in the 2016-17 strategy review is included in Appendix C.

The formal monitoring of the Fund's investments is undertaken by the Panel on a quarterly basis, with advice and input from the Panel's investment adviser.

In addition, the Panel monitors the strategy on an ongoing basis, focusing on factors including, but not limited to:

- suitability given the funding level and liability profile;
- level of expected risk; and,
- outlook for asset returns.

The Panel monitors the Fund's actual allocation on a regular basis to ensure it does not deviate significantly from the target allocation, but acknowledges that

a long term approach must be adopted to building up or reducing allocations to the illiquid investments held in property, private equity and infrastructure.

The performance of the total Fund and the individual managers is measured independently by Portfolio Evaluation.

Investment of money in a wide variety of investments

Asset classes

The Fund invests in UK and overseas markets including equities, fixed interest, index linked bonds and property through pooled funds. The Fund also invests in private equity and infrastructure as a partner in pooled funds.

The Panel reviews the nature of the Fund's investments and considers new (to the Fund) asset classes on a regular basis, with particular reference to suitability and diversification, taking advice from a suitably qualified person.

The Fund's target investment strategy is set out below. In line with the Regulations, the investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Panel has implemented a mechanism that requires Legal and General, the Fund's passive manager, to maintain the overall asset allocation of the Fund's public equities and bonds, rebalanced on a weekly basis to the target allocations within prescribed control ranges. This ensures that the Fund's liquid assets (i.e. equities and bonds) remain close to the asset allocation set by the Panel, within control ranges which have been set to minimise the number of transactions involved in rebalancing, whilst ensuring that the Fund benefits from systematic rebalancing from overvalued to undervalued assets.

The Fund's investments in private equity, property and infrastructure are not rebalanced due to the high costs of transacting in these asset classes.

Fund asset allocation

Asset class and target asset allocation			Allocation range	Role within strategy
Equities	24% in UK equities	60%	56% to 64%	- return seeking
	28% in overseas equities			- diversification
	7.0% in US			- liquidity
	7.0% in Europe			- inflation protection
	3.5% in Japan			- participation in
	3.5% in Asia Pacific (Ex Japan)			economic growth
	7.0% in Emerging Markets			
	8% in RAFI 3000			
Bonds	15% in index linked securities	25%	21% to 29%	- liability matching
	10% in corporate bond securities			- diversification
				- liquidity
				- inflation protection
Illiquids	5% in property	5%	3% to 7%	- return seeking
	5% in private equity investments	5%		- diversification
	5% in infrastructure investments	5%		- inflation protection
				- participation in
				economic growth
				and illiquidity
				premium
Total	100%	100%		

Restrictions on investment

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 have removed the previous restrictions that applied to the 2009 Regulations. The Panel's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a regular rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

Managers

The Panel has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Panel, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's active investment managers hold a mix of investments which reflect their views relative to their respective benchmarks. Legal and General, the Fund's passive manager, holds investments within each pooled fund that reflects the benchmark indices tracked.

Following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market, the Panel has determined that a proportion of the Fund should be managed on a passive basis.

Management and Financial Performance and Policy Statement

Type of mandate	Investment manager(s)	
One index tracking (passive) manager	Legal and General	75%
One corporate bond (active) manager	Wellington	10%
Two property unit trust (active) managers	BlackRock and Schroder	5%
Private equity fund of funds investment vehicles	Morgan Stanley, NB Crossroads and Pantheon	5%
Infrastructure investment vehicles	Antin and Global Infrastructure Partners	5%
Total		100%

75% of the total Fund value is managed by Legal and General and this splits into 15% index linked gilts; c 24% UK equities; and c 36% overseas equities (the split of UK and overseas equities is not exact because part of the equities track the RAFI 3000 index which is a global equity fund).

The Fund's current allocation to passively managed investments is higher than in the past and will be reviewed in light of the BCPP Ltd sub-funds to be made available under pooling.

The Panel's expectations in respect of returns from the Fund's investments are expressed through achievable and prudent objectives and restrictions that have been set for each mandate.

When the appointment of investment managers is under consideration, the Fund requests and considers fees quotations on a range of structures, for example ad valorem, performance based and flat fees. The fees that have been accepted are those that the Fund considers will be the most economically advantageous to it over the life of the mandate.

Details of the investment managers employed by the Fund and the nature of their mandates are included in Appendix B.

Risk measurement and management

The Panel accepts that the Fund must take investment risk in order to obtain returns to help achieve its funding objectives. There is an active risk management programme in place that aims to help the Panel identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate those risks.

The principal risks affecting the Fund are:

- **financial mismatch**, meaning the risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities;
- **changing demographics/regulations**, meaning the risk that longevity improves and other demographic factors change, or the Scheme itself changes, increasing the cost of Fund benefits; and,
- **systemic risk**, meaning the possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

Management and Financial Performance and Policy Statement

The Panel seeks to mitigate financial mismatch and systemic risk through a well-diversified portfolio capable of participating in economic growth. The Panel also seeks to understand the assumptions used in any strategy review and compares these to its own views.

The Panel assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. All three of the principal risks are measured as part of the Fund's triennial actuarial valuation.

The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Pension Fund Panel is aware of the Fund's increasing maturity. The more mature a pension fund, the more likely it is that disinvestments will be needed to pay benefits, and the less investment risk likely to be taken. Maturity is considered as part of the investment strategy review.

The Fund is subject to risk of Scheme and guidance changes which may increase the cost of administering the Scheme or the value of the Fund's liabilities.

Asset risks

The principal asset risks affecting the Fund are:

- **concentration**, meaning the risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives;

- **illiquidity**, meaning the risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets;
- **currency**, meaning the risk that the currency of the Fund's assets underperforms relative to sterling (i.e. the currency of the liabilities);
- **environmental, social and governance** ("ESG"), meaning the risk that ESG related factors reduce the Fund's ability to generate the long term returns; and,
- **manager underperformance**, meaning the failure by the investment managers to achieve the rate of investment return assumed in setting their mandates.

The Panel measures and manages asset risks as follows:

- the strategic asset allocation benchmark invests in a diversified range of asset classes, and automatic rebalancing arrangements ensure the Fund's actual allocation does not deviate substantially from its target;
- the Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk;
- the majority of the Fund's assets are managed by a passive manager in funds that can be realised, with minimal transactions costs, on a weekly basis at short notice (the Fund's shortfall of income from contributions over

benefits paid to members represented 0.4% in 2016-17, 0.9% in 2015-16 and 0.6% in 2014-15 of the Fund's net assets, and the Fund returned 11.8% per annum over the three years 2014-17);

- the Fund invests in a range of overseas markets which provides a diversified approach to currency markets and the Panel considers the Fund's currency risk during its risk analysis;
- the Fund hedges the foreign currency exposure on 50% of the North American equity holdings and the European (ex UK) equity holdings with Legal and General;
- the Fund's allocation to index linked gilts provides explicit inflation protection and to real assets such as property, infrastructure and equities provides the expectation of achieving returns in excess of inflation over time;
- the Panel has considered the risk of underperformance by any single investment manager and has reduced this risk by appointing more than one manager and having a proportion of the Fund's assets managed on a passive basis;
- the Panel assesses the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more manager(s), if it has concerns over future performance prospects; and,
- the Panel recognises the importance of obtaining timely and appropriate training and

Management and Financial Performance and Policy Statement

advice from a suitably qualified adviser, to minimise the Fund's governance risk.

The Fund's approach to managing ESG risks is set out later in this document.

Other provider risk

- **transition risk**, meaning the risk of incurring unexpected costs in relation to the transition of assets between managers;
- **custody risk**, meaning the risk of losing economic rights to Fund assets, when held in custody or when being traded;
- **credit default**, meaning the possibility of default of a counterparty in meeting its obligations; and,
- **stock lending**, meaning the possibility of default and loss of economic rights to Fund assets.

The Panel measures and manages other provider risks as follows:

- when carrying out transitions, the Panel seeks suitable professional advice;
- the Panel monitors and manages risks in these areas through a process of regular scrutiny of its providers (including obtaining the relevant assurance reports on internal controls for investment managers and the custodian), and via advice from the Fund's investment adviser, Mercer, who carries out ongoing manager/custodian research and assessments;
- custody risk is controlled through the restrictions set out in the custodian's

agreement and through the ongoing monitoring of the custodial arrangements;

- monitoring and management of custody risk in relation to pooled funds has been delegated to the appointed investment managers; and,
- the Fund participates in low risk stock lending programmes run by Legal and General, its passive manager, where the exposure is through lending programmes in certain of the pooled investment vehicles, and delegates the monitoring and management of stock lending risk to the manager.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

Pooling investments, use of collective investment vehicles and shared services

The administering authority is a participant in the Border to Coast Pensions Partnership (BCPP) Pool.

In December 2016, the Department for Communities and Local Government's Secretary of State confirmed that the BCPP pooling proposal met the investment reform and criteria published in November 2015, which required authorities to submit proposals describing pooling arrangements, having regard to each of four criteria:

- A. Asset pool(s) that achieve the benefits of scale;
- B. Strong governance and decision making;
- C. Reduced costs and excellent value for money; and,
- D. An improved capacity to invest in infrastructure.

Structure and governance of BCPP Ltd

In June 2017, the administering authority, together with the eleven other LGPS administering authorities named below, entered into the Inter Authority Agreement and Shareholders Agreement to become the sole shareholders in Border to Coast Pensions Partnership Limited (BCPP Ltd) and to establish the Joint Committee to oversee its investment performance.

BCPP Ltd has been established as an entity to act as a FCA regulated alternative investment fund manager ("AIFM") to run and operate collective investment vehicles to allow the administering authorities to pool their respective investments. It will become operational after June 2018.

The twelve administering authorities that have agreed to share legal ownership, control and decisive influence over BCPP Ltd are:

- Bedfordshire;
- Cumbria;
- Durham;
- East Riding;
- Lincolnshire;
- North Yorkshire;
- Northumberland;
- South Yorkshire ;
- Surrey;
- Teesside;
- Tyne and Wear; and,

Management and Financial Performance and Policy Statement

- Warwickshire.

The administering authority is not delegating its key strategic asset allocation or other investment decision making powers or investor rights to the BCPP Pool. Instead, these will be retained by the Panel, subject to consideration of any recommendations the BCPP Joint Committee may make.

Assets to be invested in BCPP Ltd

The Fund's intention is to invest its assets via BCPP Ltd as and when suitable sub-funds become available.

The key criteria for the Fund's assessment of BCPP Ltd sub-funds will be as follows:

- that the sub-fund enables access to an appropriate investment that meets the objectives and benchmark criteria set by the Fund; and,
- that there is financial benefit to the Fund in investing in the sub-fund offered by BCPP Ltd.

At the time of preparing this statement, the detailed parameters and objectives of the BCPP sub-fund range, and timetable were not finalised.

The Fund has determined that the following assets will be held outside of BCPP Ltd:

- passive investments with Legal and General held in life policies, though these investments would be transferred to BCPP Ltd should suitable, value for money passively managed sub-funds be established;
- investments in closed end private equity and infrastructure funds, though new allocations to

these asset classes will be made through BCPP Ltd once suitable sub-funds have been established; and,

- investments in pooled property funds, though new allocations to property will be made through BCPP Ltd once suitable sub-funds have been established and existing pooled investments will be transferred to BCPP Ltd once a cost effective way of transferring is established.

The Fund's passively managed investments will remain outside of BCPP Ltd because the legal structure in which they are held (i.e. life policies) is the most cost effective structure currently available, and effectively prevents transfer to BCPP Ltd. However, since April 2016, the Fund has benefited from joint procurement arrangements which Legal and General entered into with the administering authorities collaborating to establish BCPP Ltd.

The Fund's investments in closed end funds (i.e. private equity and infrastructure) will remain with the Fund for the remaining fixed life of these investment vehicles, until all assets have been returned to the Fund. There is no liquid secondary market for these types of investment and there is a risk that sales would only be possible at material discounts to net asset value. Therefore, the Panel is of the view that it is in the best interests of the Fund to retain these investments.

Any assets not invested in BCPP Ltd will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for

money. The next such review will take place no later than 2020.

Other use of collective investment vehicles

Since 2011, the Fund has only invested via pooled investment vehicles. The biggest provider of investment management services to the Fund, Legal and General, is one of Europe's largest asset managers and a major global investor, and the Fund has benefited from economies of scale achievable from such a provider.

The authority's approach to shared services

The authority undertakes LGPS administration in a shared service with Tyne and Wear Pension Fund, from January 2018.

Social, environmental or corporate governance policy

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Panel considers the Fund's approach to responsible investment in two key areas:

- **sustainable investment/ESG factors**, by considering the financial impact of environmental, social and governance (ESG) factors on its investments; and,
- **stewardship and governance**, by acting as responsible and active investors, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Panel's view can be summarised as follows:

- the Panel believes that good corporate governance and the informed use of voting

Management and Financial Performance and Policy Statement

rights are an integral part of the investment process that can improve the performance of the companies in which the Fund invests;

- the Fund's public equity investment manager's policy on corporate governance and use of voting rights is reviewed by the Panel periodically;
- the Fund's UK equity investment manager must be a signatory to the UK Stewardship Code issued by the Financial Reporting Council;
- the Fund's public equity investment manager should apply the principles of the UK Stewardship Code to overseas holdings;
- the Fund reviews ESG ratings for each manager provided quarterly by Mercer;
- the Panel requires its UK equity investment manager to vote the Fund's effective shareholdings in the FTSE 350 in accordance with Pensions & Investment Research Consultants (PIRC) Limited's PIRC's Shareowner Voting Guidelines, and reviews PIRC's policy periodically;
- it is important that use of voting rights is carried out in an informed manner, and the investment manager(s) or a specialist share voting adviser are best placed to undertake it; and,
- the process through which the Fund appoints a manager includes an assessment of each candidate's approach to corporate governance.

To date, the Panel has not taken into account non-financial factors when selecting, retaining, or realising its investments. The Panel understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

The Fund does not hold any assets which it deems to be social investments.

To date, the Panel's approach to social investments has largely been to delegate this to the Fund's investment managers as part of their overall ESG duties.

Scheme members have the option of paying additional voluntary contributions. When doing so, scheme members must choose between a number of different types of investments, one of which is an ethically screened portfolio.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Panel has delegated the exercise of voting rights to Legal and General with a requirement to:

- follow Legal and General's own share voting policy for all public equities except the FTSE 350 companies; and,
- follow PIRC's share voting advice for the Fund's effective shareholding in the FTSE 350 companies.

The Panel reviews PIRC's and Legal and General's share voting policies periodically. The Panel

considers that the Fund's and Legal and General's interests are aligned, as both seek to enhance long term shareholder value.

The Fund encourages Legal and General to vote shares in all markets, where practical.

Stewardship

In 2018-19, the Panel will consider the Fund becoming a signatory to the UK Stewardship Code. The Panel also requires Legal and General to comply with the Code.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) through which it collectively exercises a voice across a range of corporate governance issues.

Management and Financial Performance and Policy Statement

Appendices

- | | |
|------------|---|
| Appendix A | Compliance with CIPFA's <i>Investment Decision-Making in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles</i> . |
| Appendix B | The Fund's investment manager arrangements and benchmarks. |
| Appendix C | Long term expected returns. |

Appendix A Compliance Statement

Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 effectively required administering authorities to state the extent to which they complied with the six principles of investment practice set out in the document published in December 2009 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called *Investment Decision-Making in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles* and give the reasons for not complying where they do not do so. The 2016 Investment Regulations are silent on this requirement, but CIPFA nevertheless recommends that a Compliance Statement be appended to the ISS.

Statement of Compliance with Myners Principles

Details of the Fund's **compliance** are described below.

Principle 1: Effective decision making

Administering authorities should ensure that:

- *decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation; and,*
- *those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*

Northumberland County Council Pension Fund has a dedicated pensions committee, known as the Pension Fund Panel, which is supported by suitably experienced and qualified officers, the Fund actuary and an independent investment adviser. Other specialist advisers are employed to provide advice on specific issues such as performance measurement. External advice is obtained as required when appropriate in-house expertise is not available.

The Fund's Training Strategy provides the opportunity for members to attend externally run courses such as the tailored three-day training course run by the Employers' Organisation for Local Government. This is in addition to the information provided in Pension Fund Panel papers, and by investment managers and advisers at the meetings. Tailored training is organised, for example on infrastructure as an asset class, when

a decision on a particular issue is planned. This provides Panel members with sufficient knowledge to be able to evaluate and challenge the advice they receive.

The investment adviser (who was selected and appointed by the Pension Fund Panel) attends all meetings to provide advice other than those meetings where attendance would result in conflict of interests.

The Panel focuses on setting the strategy for the pension fund and monitoring performance. The Panel delegates the day-to-day investment decisions to external fund managers.

The Panel and the administering authority review the Panel's structure and composition when necessary.

The Fund maintains a Governance Policy and Compliance Statement in accordance with regulation 55 of the Local Government Pension Scheme Regulations 2013. This contains further details of the decision making processes.

Panel papers are despatched to members to be received at least 5 days in advance of each meeting to allow members sufficient time to read the papers.

Conflicts of interests are managed actively. At each Panel meeting, elected members are asked to highlight conflicts of interests.

Management and Financial Performance and Policy Statement

Principle 2: Clear objectives

An overall investment objective(s) should be set out for the fund that take account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

The Investment Strategy Statement and the Funding Strategy Statement define the Fund's primary funding objectives. A long term view is taken in setting those objectives.

Asset-liability modelling is undertaken by the investment adviser to aid the setting of investment strategy and to ensure that the Panel understand the risks. The Fund has a scheme-specific investment strategy (i.e. a customised benchmark).

The Pension Fund Panel's attitude to risk is taken into account in setting the investment strategy.

Reviews of investment strategy focus on the split between broad asset classes, i.e. equities, bonds and alternative investments.

Investment management agreements set clear benchmarks and risk parameters and include the requirement to comply with the Fund's Investment Strategy Statement (formerly the Statement of Investment Principles).

The appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contracts.

The Funding Strategy requires specific consideration of the covenants of the Fund's

participating employers when setting the employer contribution rates and the need to maintain stability in employer contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The Fund takes advice from the actuary regarding the nature of its liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength when assessing risk tolerance. Asset-liability modelling is undertaken by the investment adviser who obtains information from the actuary regarding liabilities to use in the model. All risk measurement in this context is performed with reference to the liabilities.

The funding strategy for the Fund is expressed in relation to the solvency of the Fund. Consideration is given to the affordability of employer contributions at the actuarial valuation.

The Pension Fund operates within the internal control arrangements administered by the County Council which are subject to internal and external audit. The external auditors report annually to the Pension Fund Panel and the County Council's Audit Committee.

The County Council maintains a risk register which includes risks relating to the Pension Fund. The risk register is reported to the Risk Appraisal Panel.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

The performance of the Fund and of the individual fund managers is monitored quarterly by officers, the investment adviser and the Pension Fund Panel. Investment managers are given specific performance and risk targets and these are assessed as part of the monitoring process.

The Pension Fund Panel monitors performance against planned activities shown in the Northumberland County Council Pension Fund annual Action Plan and reviews the appointment of advisers when appropriate.

Training and attendance of Pension Fund Panel members are monitored and reported on a regular basis.

Principle 5: Responsible ownership

Administering authorities should:

- *adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents;*

Management and Financial Performance and Policy Statement

- *include a statement of their policy on responsible ownership in the statement of investment principles; and,*
- *report periodically to members on the discharge of such responsibilities.*

The Fund instructs its UK equity manager to vote in line with PIRC's recommendations on the FTSE 350. For other equity holdings the Fund delegates its voting to the relevant manager i.e. Legal and General.

The Fund's policy on responsible ownership is included in the Investment Strategy Statement.

The Fund's annual report and accounts reproduces the Investment Strategy Statement in full. The annual report and accounts and the Investment Strategy Statement is available on the website, and is sent to members on request.

Principle 6: Transparency and reporting

Administering authorities should:

- *act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and,*
- *provide regular communication to scheme members in the form they consider most appropriate.*

The Fund's policy statements, including its Governance Compliance Statement, Investment Strategy Statement, Statement of Policy Concerning Communication, annual Business Plan and Funding Strategy Statement are maintained

regularly. Stakeholders are consulted on changes. Documents are available on the Northumberland County Council website.

The Fund produces an annual report and accounts in which the key documents (listed above) are reproduced in full. A copy of the annual report is sent to all participating employers and it is published on the website.

There is a regular (usually annual) meeting held for employers, and a representative of the (non-County Council) employers sits on the Pension Fund Panel.

The Fund produces regular newsletters for pensioner members and for active members and briefings for employers. The website is updated regularly.

Agenda papers for the Pension Fund Panel are published on the website.

Management and Financial Performance and Policy Statement

Appendix B

The Fund's investment manager arrangements and benchmarks

Legal & General Investment Management	UK Equities	To track the sterling total return of the FTSE All Share Index to within +/- 0.25% per annum for two years in three.
Legal & General Investment Management	North American Equities	To track the sterling total return of the FTSE World North America Index (less withholding tax if applicable) to within +/-0.5% per annum for two years in three.
Legal & General Investment Management	North American Equities GBP currency hedged	To track the sterling total return of the FTSE World North America Index (less withholding tax if applicable) hedged to within +/-0.5% per annum for two years in three.
Legal & General Investment Management	Europe ex UK Equities	To track the sterling total return of the FTSE Developed Europe (ex UK) Index (less withholding tax if applicable) to within +/- 0.5% per annum for two years in three.
Legal & General Investment Management	Europe ex UK Equities GBP currency hedged	To track the sterling total return of the FTSE Developed Europe (ex UK) Index (less withholding tax if applicable) hedged to within +/- 0.5% per annum for two years in three.
Legal & General Investment Management	Japanese Equities	To track the sterling total return of the FTSE Japan Index to within +/- 0.5% per annum for two years in three.
Legal & General Investment Management	Asia Pacific ex Japan Equities	To track the sterling total return of the FTSE Developed Asia Pacific (ex Japan) Index (less withholding tax if applicable) to within +/- 0.75% per annum for two years in three.
Legal & General Investment Management	Emerging Market Equities	To track the sterling total return of the FTSE Emerging Index (less withholding tax if applicable) to within +/- 1.5% per annum for two years in three.
Legal & General Investment Management	Global Equities	To track the total return of the FTSE RAFI All World 3000 Index Fund to within +/- 1.0% per annum for two years in three.
Legal & General Investment Management	Index-Linked Gilts	To track the sterling total return on the FTSE Actuaries Index-Linked Over Five Year Index to within +/-0.25% per annum for two years in three.
Wellington Management	Global Total Return Fund	To outperform the Bank of America Merrill Lynch 3 Month T-Bill Hedged to GBP by 4.0 to 6.0% p.a.
Wellington Management	Multi-Asset Credit Fund	To outperform a composite of the Bank of America Merrill Lynch 3 Month T-Bill Hedged to GBP by 2.0% p.a.
BlackRock	UK property	To outperform the IPD UK All Balanced Funds Index by 0.5% p.a.
Schroder	UK property	To outperform the IPD UK All Balanced Funds Index by 0.5% p.a.
Rockspring	UK property	To outperform the IPD UK All Balanced Funds Index by 0.5% p.a.
Morgan Stanley	Private Equity Fund of Funds (Private Markets III, IV and GDO Fund)	To outperform the FTSE All World Index
Neuberger Berman	Private Equity Fund of Funds (Crossroads Fund XVIII and XX)	To outperform the FTSE All World Index
Pantheon	Private Equity Fund of Funds (Global Select 2017)	To outperform the FTSE All World Index
Global Infrastructure Partners	Infrastructure - GIP Fund II	To achieve and internal rate of return of 8% p.a. net of fees
Antin Infrastructure Partners	Infrastructure - Antin Fund II	To achieve and internal rate of return of 8% p.a. net of fees

Appendix C

Long term expected returns

Asset class	Return (% p.a.)	Absolute volatility (% p.a.)
Developed global equities	4.5	19.7
Emerging market equities	4.4	30.2
Long dated index-linked gilts	0.8	9
All stocks corporate bonds	2.2	5.8
Conventional property	3.6	14.5
Private equity	5.5	25.9
Infrastructure unlisted equity	4.7	15.7

The table above shows the absolute expected returns (10 year geometric averages), net of fees, and the absolute volatilities (first year's standard deviations) at 30 September 2017.

Funding Strategy Statement

March 2017

1. Introduction

Overview

This Statement, originally prepared in accordance with Regulation 76A of the Local Government Regulations 1997, has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. The Statement describes Northumberland County Council's strategy, in its capacity as administering authority ("the administering authority"), for the funding of the Northumberland County Council Pension Fund ("the Fund").

As required by Regulation 58(4)(a) (as amended) of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), this Statement has been prepared having regard to the guidance set out in the document published in September 2016 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the LGPS" (2016 edition).

Consultation

In accordance with Regulation 58(3) of the 2013 Regulations, all appropriate persons (including employers participating within the Northumberland County Council Pension Fund and the principal trade unions representing the contributors) have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the administering authority has had regard to the Fund's Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

The Fund Actuary, Aon Hewitt Limited, has also been consulted on the contents of this Statement.

Purpose of this Statement

The main purpose of this Funding Strategy Statement is to set out the processes by which the administering authority:

- establishes a clear and transparent funding strategy, specific to the Fund, which will identify how employers' pension liabilities are best met going forward;
- supports the desirability of maintaining as nearly constant a primary rate of contributions as possible, as defined in Regulation 62(5) of the 2013 Regulations;
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met;
- takes a prudent longer-term view of funding the Fund's liabilities; and,
- noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the Funding Strategy Statement, its focus should at all times be on those actions which are in the best long term interests of the Fund.

Links to investment policy set out in the Statement of Investment Principles

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles / Investment Strategy Statement and the funding strategy set out in this Statement.

The assets that most closely match the liabilities of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the Investment Strategy Statement invests a significant proportion of the Fund in assets such as equities which are expected, but not guaranteed, to produce higher returns than Government bonds in the long term. The administering authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the administering authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected return on the investments held by the Fund, and by including measures that can be used to smooth out the impact of such volatility.

The administering authority will continue to review both documents to ensure that the overall risk

Management and Financial Performance and Policy Statement

profile remains appropriate including, where necessary, commissioning asset liability modelling or other analysis techniques.

Review of Statement

The administering authority undertook its latest substantive review of this Statement between February and March 2017.

The administering authority will formally review this Statement as part of each triennial valuation of the Fund unless circumstances arise which require earlier action.

The administering authority will monitor the funding position of the Fund on an approximate basis at regular intervals between actuarial valuations and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

2. Aims and Purpose of the Fund

Purpose of the Fund

The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay Scheme benefits over the long term and to pay out monies in respect of the Scheme benefits, transfer values, costs, charges and expenses.

Aims of the Fund

The aims of the Fund are set out under a) to e) below. Aims a), c), d) and e) reflect requirements of the Scheme legislation and associated CIPFA guidance. b) is specific to the Fund.

- a) To comply with Regulation 62 of the 2013 Regulations and specifically to adequately fund benefits to secure the Fund's solvency while taking account of the desirability of maintaining

as nearly a constant primary contribution rate as possible.

- b) To maintain as nearly constant an overall contribution rate as possible.

The administering authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency and long term cost efficiency which should be assessed in light of the risk profile of the Fund and risk appetite of the administering authority and employers;
- the requirement that the costs should be reasonable to Scheduled and Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks); and,
- maximising returns from investments within reasonable risk parameters (see (e) below).

Producing low volatility in employer contribution rates requires material investment in assets which 'match' the employers' liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

Other classes of assets, such as stocks and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments within reasonable risk parameters, the

administering authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods, and a failure to deliver the anticipated returns in the long term.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects to employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The administering authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The administering authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts, where utilisation of smoothing mechanisms is less appropriate.

- c) To ensure that sufficient resources are available to meet all liabilities as they fall due.

The administering authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the administering authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The

Management and Financial Performance and Policy Statement

administering authority monitors the position to ensure that all cash requirements can be met.

d) To manage employers' liabilities effectively.

The administering authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers are kept informed and consulted, and through regular monitoring of the funding position and the outlook for employers' contributions.

e) To maximise the returns from investments within reasonable risk parameters.

The administering authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government bonds are sought through investment in other asset classes, such as stocks and property. The administering authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations;
- restricting investment to asset classes generally recognised as appropriate for UK pension funds;
- analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Fund's actuary, investment advisers and fund managers and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy;

- limiting concentration of risk by developing a diversified investment strategy; and,
- monitoring the mis-matching risk, i.e. the risk that the investments do not move in line with the Fund's liabilities.

3. Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the administering authority, the individual employers and the Fund Actuary.

Their key responsibilities are as follows:

The administering authority will:

- a) Administer the Fund.
- b) Collect investment income and other amounts due to the Fund as set out in the Regulations including employer and employee contributions and, as far as it is able, ensure these contributions are paid by the due date.

Individual employers must pay contributions in accordance with Regulations 67 to 70 of the 2013 Regulations. The administering authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. The administering authority may charge interest on late contributions in accordance with Regulation 71 of the 2013 Regulations.

The administering authority will ensure that action is taken to recover assets from Admission Bodies whose admission agreement has ceased (and from

other employers whose participation in the Fund has ceased) by:

- requesting that the Fund Actuary calculates any deficiency at the date of the exit; and,
 - notifying the body that it must meet any deficiency at exit.
- c) Pay from the Fund the relevant entitlements as set out by Regulations 22 to 52 of the 2013 Regulations.
 - d) Invest surplus monies in accordance with the Regulations.

The administering authority will comply with Regulation 7 of the Investment Regulations, which states that surplus fund money, not needed immediately, must be invested in a wide variety of suitable investments, after taking proper advice.

- e) Ensure that cash is available to meet liabilities as and when they fall due.

The administering authority recognises this duty and discharges it in the manner set out in section 2(c) above.

- f) Manage the valuation process in consultation with the Fund Actuary.
- The administering authority ensures it communicates effectively with the Fund Actuary to;
 - agree timescales for the supply of information and provision of valuation results;
 - ensure provision of data of suitable accuracy;

Management and Financial Performance and Policy Statement

- ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement;
 - ensure that participating employers receive appropriate communication throughout the process; and,
 - ensure that reports are made available as required by guidance and regulation.
- g) Prepare and maintain an Investment Strategy Statement and a Funding Strategy Statement after due consultation with interested parties.

The administering authority will ensure that both documents are prepared and maintained in the required manner.

- h) Monitor all aspects of the Fund's performance and funding and amend these two documents if required.

In order to monitor developments, the administering authority may from time to time request informal valuations or other calculations. Generally, these are undertaken quarterly and the calculations will be based on an approximate roll forward of asset and liability values, with liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review, as occurs at formal triennial valuations.

The administering authority monitors investment performance of the Fund on a quarterly basis.

The Investment Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

The administering authority will formally review this Statement as part of each triennial valuation process, unless circumstances arise which require earlier action.

- i) Take measures as set out in the 2013 Regulations to safeguard the Fund against the consequences of employer default.
- j) Effectively manage any potential conflicts of interest arising from its dual role as both administering authority and as a Scheme Employer.
- k) Enable the Local Pension Board to review the valuation process as set out in their terms of reference.

Individual employers will:

- deduct contributions from employees' pay correctly;
- pay all ongoing contributions, including their employer contribution as determined by the Fund Actuary, promptly by the due date;
- develop a policy on certain discretions and exercise those discretions within the regulatory framework, ensuring that the administering authority has copies of current policies covering those discretions;
- pay for additional benefits awarded to members, early release of benefits or other one off strain costs in accordance with agreed arrangements;

- notify the administering authority promptly of all changes to membership, or other changes which affect future funding;
- pay any exit payments required in the event of their ceasing participation in the Fund; and,
- note and if desired respond to any consultation regarding the Funding Strategy Statement, the Investment Strategy Statement or other policies.

The Fund Actuary will:

- a) Prepare triennial actuarial valuations including the setting of employers' contribution rates at a level to ensure solvency and long term cost efficiency and issuing a Rates and Adjustments Certificate, after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.

Valuations will be prepared in accordance with generally accepted actuarial methods and reported on in accordance with current actuarial reporting Standards issued by the Financial Reporting Council, to the extent that the Standards are relevant to the Fund.

- b) Prepare advice and calculations in connection with;
 - bulk transfers and individual benefit-related matters;
 - valuations on the termination of admission agreements or when an employer ceases to employ any active members; and,

Management and Financial Performance and Policy Statement

- bonds and other forms of security against the financial effect on the Fund of employer's default.
- c) Assist the administering authority in assessing whether employer contributions need to be revised between actuarial valuations as required or permitted by the 2013 Regulations.
- d) Ensure that the administering authority is aware of any professional guidance requirements which may be of relevance to the Fund Actuary's role in advising the administering authority.

Such advice will, where appropriate, take account of the funding position and funding and investment strategy of the Fund, along with other relevant matters.

4. Funding Strategy Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk based approach:

- the Solvency Target (the value of assets the administering authority requires the Fund to hold to meet the Fund's liabilities);
- the Trajectory Period (how quickly the administering authority requires the Fund to get there); and,

- the Probability of Funding Success (the current likelihood as required by the administering authority that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by risk modelling carried out by the Fund Actuary, define the discount rate and, by extension, the appropriate levels of contribution payable. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency Target

The administering authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions. The Solvency Target is the value of assets which the administering authority wishes the Fund to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate actuarial methods and assumptions. The administering authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For employers:

- regarded by the administering authority as being of sound covenant with an indefinite period to expected exit; or,
- with guarantors of sound covenant agreeing to subsume the employer's assets and liabilities following exit;

appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if:

- the Fund had reached the Solvency Target; and;
- its financial position continued to be assessed by use of such methods and assumptions; and,
- contributions were paid in accordance with those methods and assumptions;

then there would be a chance of at least 80% that the Fund would continue to be 100% funded after a reasonable timeframe. The level of funding implied by this is the Solvency Target. For the purpose of this Statement, the required level of chance is defined as the Probability of Maintaining Solvency.

For all other employers, including bodies with limited duration in the Fund or whose liabilities are expected to be orphaned following exit, the required Probability of Maintaining Solvency will be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate

Management and Financial Performance and Policy Statement

portfolio of Government index linked and fixed interest bonds after exit.

Probability of Funding Success

The administering authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers.

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

Following a valuation, the administering authority will not permit contributions to be set that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

Funding Target

In order to satisfy the legislative requirement to secure long term cost efficiency, the administering authority's aim is for employer contributions to be set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficiency. This is achieved through the setting of a Funding Target.

The Funding Target is the value of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date, as indicated by the chosen valuation method and assumptions. It is a product of the triennial actuarial valuation exercise

and is not necessarily the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method, including the components of Funding Target, future service contributions and any adjustment for surplus or deficiency to set the level of contributions payable, in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

Consistent with the aim of enabling employers' primary contribution rates to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service (primary) contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period; and,
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service (primary) contribution rate is derived as the average cost of benefits accruing to

members over the period until they die, leave the Fund or retire.

Application to different types of body

Some comments on the principles used to derive the Funding Target for different bodies in the Fund are set out below.

For employers:

- regarded by the administering authority as being of sound covenant with an indefinite period to expected exit; or
- with guarantors of sound covenant agreeing to subsume the employer's assets and liabilities following exit;

the administering authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than risk free assets. With regard to guarantors, they must have been judged to be of suitable covenant by the administering authority (see section on Guarantors in section 5).

For all other employers, including bodies with limited duration in the Fund or whose liabilities are expected to be orphaned following exit, the administering authority will have regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or a guarantor exists to subsume the notional assets and liabilities).

Management and Financial Performance and Policy Statement

Full funding

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target where the funding target is assessed based on the sum of the appropriate funding targets across all the employers / groups of employers. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

Smoothing adjustments

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the administering authority may also agree with the Fund Actuary the use of explicit smoothing adjustments in the calculation of the Funding Target. It is unlikely that use of these smoothing adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example, an employer admitted by virtue of having been awarded a best value outsourcing contract).

Trajectory and Recovery Periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

Where an actuarial valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contribution rates will be adjusted to target restoration of the Funding Target over a period of years (the Recovery Period). The Recovery Period in relation to an employer or group of employers is therefore a period over which

any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.

The Recovery Period applicable for each participating employer is set by the administering authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The administering authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the administering authority is prepared to agree to Recovery Periods which are longer than the average future working lifetime of the membership of that employer (i.e. the estimated period of time until the last active member leaves or retires). The administering authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the administering authority also recognises the risk in relying on long Recovery Periods and has agreed with the Fund Actuary a limit of 21 years, for employers which are assessed by the administering authority as being long term secure employers at the triennial valuation at 31 March 2016.

The administering authority's policy is generally to set Recovery Periods for each employer which are as short as possible within this framework (although a different policy applies for academies –

see below). In general, for employers that are closed to new entrants and the participation is of sufficient term, the Recovery Period is set to be the estimated future working lifetime of the active membership.

The exception to this limit is Northumberland College, for whom the administering authority has agreed to use a Recovery Period of 30 years to assist in smoothing contribution rates as the employer transitions to an alternative Funding Target.

For employers whose participation in the Fund is for a fixed period, it is unlikely that the administering authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation.

The administering authority obtains the opinion of Northumberland County Council's Service Director Education and Skills to categorise each academy in Northumberland into one of three groups: A meaning robustly viable; B meaning viability less certain; or C meaning concerns over viability. Each academy is categorised at inception and at each valuation date. For category A academies, a 21 year Recovery Period is applied; for category B a 14 year Recovery Period is applied; and, for category C a Recovery Period of up to 7 years is applied unless the administering authority receives an instruction from the Department for Education to lengthen the Recovery Period of a specified academy, in which case, a Recovery Period of up to 21 years may be applied for category B and C academies.

Management and Financial Performance and Policy Statement

A period of 21 years has been used for Northumberland County Council, the largest employer in the Fund. Recovery Periods for other employers or employer groups may be shorter, and may not necessarily be the same as each other, in order to suitably balance risk to the Fund and cost to the employer.

Long term cost efficiency

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund, the administering authority has assessed the actual contributions payable by considering:

- the implied average deficit recovery period, allowing for the stepping of employer contribution changes;
- the investment return required to achieve full funding over the recovery period; and,
- how the investment return compares to the administering authority's view of the expected future return being targeted by the Fund's investment strategy.

Stepping

The administering authority will also consider at each valuation whether new contribution rates should be payable immediately or reached by being stepped over a number of years. Stepping is a generally accepted method of smoothing the impact of rate changes for local authority pension funds. In consultation with the Actuary, the administering authority accepts that long term

employers may step up to the new rates in annual steps. This is in line with the aim of having contribution rates as nearly constant as possible. The administering authority usually allows a maximum of three steps, however in exceptional circumstances up to six steps may be used.

Grouping

In some circumstances it is desirable to group employers within the Fund together for funding purposes to calculate employer contribution rates. Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The administering authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The administering authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, which other employers it is grouped with, and details of the grouping method used. If the employer objects to this grouping, it will be offered its own contribution rate.

Following commencement in the Fund, non-academy Scheduled Bodies with less than 20 contributing members will be included within the 'Small Scheduled Bodies' group by default. All risks are shared and these employers have a common

contribution rate set as a percentage of pay (although some adjustment has been made for those employers who have selected a shorter recovery period in the past).

All employers in the Fund are grouped together in respect of the risks associated with payment of benefits on death in service and ill-health retirement. In other words, the cost of such benefits is shared across all the employers in the Fund. Such benefits at no fault of the employer can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Asset shares notionally allocated to employers

In order to establish contribution rates for individual employers or groups of employers, it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own notional asset share within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll forward of notional asset shares

The notional asset share allocated to each employer will be rolled forward, allowing for all cash flows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income. In

Management and Financial Performance and Policy Statement

general, no allowance is made for the timing of contributions and cash flows for each year are assumed to be made half way through the year, with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer contributions have been paid, allowance is made for the timing of such contributions.

Further adjustments are made for:

- a notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation;
- allowance for any known material internal transfers in the Fund (cash flows will not exist for these transfers). The Fund actuary will assume an estimated cash flow equal to the value of the liabilities transferred from one employer to the other, unless some other approach has been agreed between the two employers;
- allowance for death in service and other benefits shared across all employers in the Fund (see earlier); and,
- an overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cash flow calculations. In such a circumstance:

- where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is of low materiality, estimated cash flows will be used; and,
- where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is material, or the results of the cash flow approach appears to give unreliable results perhaps because of unknown internal transfers, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub fund. Analysis of gains and losses methods are less precise than use of cash flows and involve calculation of gains and losses to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at the current valuation, comparison of this with the liabilities evaluated at the current valuation leads to an implied notional asset holding.

Fund maturity

To protect the Fund and individual employers from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay, the administering authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

In certain circumstances, for example for secure employers considered by the administering authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the

employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the administering authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the administering authority will consider requiring defined streams of capital contributions rather than percentages of payroll.

5. Special circumstances related to certain employers

Interim reviews for Admission Bodies

Regulation 64 of the 2013 Regulations provides the administering authority with a power to carry out valuations in respect of employers which are expected to cease at some point in the future, and for the Fund Actuary to certify revised contribution rates between triennial valuation dates.

The administering authority's overriding objective at all times is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible, as any date of exit of participation may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The administering authority's general approach in this area is as follows:

- where the date of exit is known, and is more than three years after the most recent preceding triennial actuarial valuation, or is unknown and assumed to be indefinite, interim

Management and Financial Performance and Policy Statement

valuations will generally not be carried out at the behest of the administering authority;

- for Admission Bodies admitted under paragraph 1(d) of Part 3, Schedule 2 of the Regulations (1(d) Admission Bodies) (formerly known as Transferee Admission Bodies) falling into the above category, the administering authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the Relevant Scheme Employer unless otherwise agreed;
- a material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light, may cause the administering authority to informally review the situation and subsequently formally request an interim valuation; and,
- for an employer whose participation is due to cease within three years of the most recent preceding triennial valuation, the administering authority will monitor developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the administering authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) of the 2013 Regulations applies.

Guarantors

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The administering authority maintains a list of

employers and their associated Guarantors. The administering authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- if an employer ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon; and,
- if the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the administering authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of an employer, a Guarantor can at any time agree to the future subsumption of any residual liabilities of the employer. The effect of that action may be to reduce the Funding and Solvency Targets for this employer, which would probably lead to reduced contribution requirements.

Bonds and other securitisation

Part 3 of Schedule 2 of the 2013 Regulations creates a requirement for a new Admission Body to carry out, to the satisfaction of the administering authority (and the Scheme Employer in the case of an Admission Body falling under paragraph 1(d) (i) of Part 3 of Schedule 2 of the 2013 Regulations), an assessment taking account of actuarial advice

of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an Admission Body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the administering authority from an organisation that either funds, owns or controls the functions of the Admission Body.

The administering authority's approach in this area is as follows:

- In the case of 1(d) Admission Bodies and other Admission Bodies with a Guarantor, and so long as the administering authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The administering authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer or Guarantor, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter.

In the case of:

- Admission bodies admitted under paragraph 1(e);

Management and Financial Performance and Policy Statement

- Admission bodies admitted under paragraph 1(d) where the administering authority does not judge the Scheme Employer to be of sufficiently strong covenant; and,
- other Admission bodies with no Guarantor or where the administering authority does not judge the Guarantor to be of sufficiently strong covenant;

the administering authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the administering authority has agreed the level of bond cover. The administering authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The administering authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.

- The administering authority notes that levels of required bond cover can fluctuate and it will review, or it recommends that the relevant Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities

Where an employer is exiting the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund (the 'accepting employer') has agreed to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances, the liabilities are known as subsumed liabilities (in that responsibility for them is taken on by the accepting employer). For such liabilities the administering authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally, this will mean assuming continued investment in more risky investments than Government bonds.

Orphan liabilities

Where an employer is exiting the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the administering authority may act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64 of the 2013 Regulations, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The administering authority will seek to minimise the risk to other employers in the Fund that any deficiency arising on the orphan liabilities creates a cost for those other employers to make good such deficiency. To give effect to this, the administering authority may seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

However, if these liabilities are deemed to be small compared to the liabilities of the whole Fund (and

therefore the risk related to these liabilities is small) then the administering authority may decide to use the Funding Target used for Scheduled Bodies for practical reasons.

Any excess or deficient returns on the notional or actual assets attributable to these liabilities relative to the Funding Target, will be added to or deducted from the investment return to be attributed to the notional assets of all employers in the Fund.

Exit valuations

Where an employer exits the Fund, an exit valuation will be carried out (in accordance with Regulation 64 of the 2013 Regulations). That valuation will take account of any activity as a consequence of exit regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation may distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed (see above) by other employers.

For subsumed liabilities, the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments, such as Government bonds, or be calculated in the same way as subsumed liabilities as considered appropriate.

For the avoidance of doubt, if an academy were to cease participation in the Fund, in the absence of

Management and Financial Performance and Policy Statement

another employer of sound covenant taking responsibility for future funding of residual liabilities, the resulting exit valuation would be carried out on a Funding Target consistent with orphan liabilities as detailed above.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required.

The administering authority's policy is that in the normal course of events, any deficiency that exists at the exit of an employer from the Fund, will be payable immediately as a single payment. In extreme cases, the administering authority may be prepared to agree payment over a period of years. However, this period is very unlikely to exceed five years and any decision will be at the administering authority's discretion.

6. Identification of risks and counter measures

The administering authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The administering authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these, both before and after they emerge, wherever possible. The administering authority will ensure that funding risks are included within the overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and including a defined role for the

Local Pension Board within this framework. The main risks to the Fund are:

Liability

The main risks include interest rates, pay and price inflation, changing retirement patterns and other demographic risks. The administering authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The administering authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency, to allow for observed or anticipated changes.

If significant liability changes become apparent between valuations, the administering authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation, and consider whether to require the review of bonds that are in place for Admission Bodies.

Regulatory and compliance

These risks relate to changes to general and LGPS regulations, national pension requirements or HM Revenue and Customs rules. The administering authority will keep abreast of proposed changes to the LGPS and, where possible, express its opinion during consultation periods after careful consideration. The administering authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the administering authority will notify employers of this likely impact and the timing of any change.

Liquidity and maturity

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the LGPS;
- transfers of responsibilities between different public sector bodies;
- scheme changes which might lead to increased opt-outs; and/or,
- spending cuts and their implications.

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken into account in previous forecasts.

The administering authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the administering authority not being made aware of such changes in a timely manner.

Management and Financial Performance and Policy Statement

The administering authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Particular examples are set out below:

Early retirement strain payments

No allowance is made in the triennial valuation and consequent employer rates for the additional value of the benefits when a member is made redundant or leaves on the grounds of efficiency.

To counter the potential increase in Funding Target emerging at the next valuation, a payment is calculated (using methods and assumptions agreed with the Fund Actuary) and made by the Scheme Employer to the Fund to meet this additional cost at the date the member is made redundant or leaves on the grounds of efficiency.

Body ceasing to exist with unpaid deficiency

Some employers can cease to exist and/or become insolvent, leaving the employers in the Fund open to the risk of an unpaid deficiency. Any such deficiency will be met by the relevant Scheme Employer with regard to a 1(d) Admission Body and there is therefore no risk to other employers in the Fund (provided of course that the relevant Scheme Employer is itself of good covenant). Any unpaid deficiency in relation to other employers falls on all employers in the Fund, and the administering authority will ensure that risks are reduced by use of bond arrangements or ensuring there is a Guarantor to back the liabilities of the body.

Employers with a small and declining number of contributing members

A recent legal judgement indicates that under the current LGPS regulations, employers with no contributing members cannot be charged contributions under Regulation 62 of the 2013 Regulations. This ruling, however, does not affect the ability to collect contributions following an exit valuation under Regulation 64 of the 2013 Regulations. The regulations may alter in the future, but there is a risk of a body ceasing to pay contributions with a deficiency in the Fund.

The administering authority will monitor Scheme Employers with declining membership to ensure that funding is close to 100% by the time the last member leaves service, and may alter the funding strategy accordingly. It will also ensure that an exit valuation is carried out for employers once it is clear there will be no contributing members relating to that employer in the future.

Investment

This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast.

Examples of specific risks are:

- assets not delivering the required return (for whatever reason, including manager underperformance);
- systemic risk with the possibility of interlinked and simultaneous financial market volatility;

- insufficient funds to meet liabilities as they fall due;
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon; and,
- counterparty failure.

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks;
- fixed income – yield curve, credit, duration and market risks;
- alternative assets – liquidity, property and alpha risks;
- money market – credit and liquidity risks;
- currency risks; and,
- macroeconomic risks.

The administering authority reviews each investment manager's performance quarterly, and at least annually considers the asset allocation of the Fund by carrying out a review with its Investment Adviser. The administering authority also annually reviews the effect of market movements on the Fund's overall funding position.

Employer

These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

Management and Financial Performance and Policy Statement

The administering authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. Scheduled and Admission Bodies) and other pension fund stakeholders.

The administering authority maintains a knowledge base on its employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the choice of funding strategy for each employer.

Choice of Solvency and Funding Targets

The administering authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie within that range.

The more optimistic the assumptions made in determining the Solvency and Funding Targets, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Solvency and Funding Targets calculated by reference to those assumptions.

The administering authority will not adopt assumptions for bodies regarded by the administering authority as being of sound covenant which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success. Where the probability of funding success

is less than 65% the administering authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

Smoothing

The administering authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. If such an adjustment is used, the administering authority's policy is to review the impact of any adjustment made at each valuation to ensure that it does not alter the disclosed solvency level by more than 5%.

Recovery Period

The administering authority recognises that permitting surpluses or deficiencies to be eliminated over a Recovery Period, rather than immediately, introduces a risk that action to restore solvency is insufficient between successive measurements. The administering authority's policy with regard to Recovery Periods is set out in section 4 of this Statement.

Communication Strategy Statement

This is the Statement of Policy concerning Communication of the Northumberland County Council LGPS Pension Fund ("**the Fund**") and has been developed following consultation with South Tyneside Council (the shared administration service provider), employers in the Fund, Scheme member representatives and other interested stakeholders.

Northumberland County Council ("**NCC**") is the administering authority responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("**the LGPS**") and ("**the Scheme**"). The Fund comprises over 40 employers with active members, and around 27,000 Scheme members (including active members, deferred and pensioner members).

South Tyneside Council ("**STC**") provides LGPS administration services for:

- Tyne and Wear Pension Fund; and,
- Northumberland County Council Pension Fund.

Most communications with the Fund's members and Scheme employers are provided by STC as part of the shared administration service, but NCC will continue to provide communications that relate to collection of contributions, and actuarial, investment and governance matters.

NCC retains overall responsibility for communications issued to members of the Fund and Scheme employers by STC.

The Local Government Pension Scheme Regulations 2013 require all LGPS funds in England and Wales to publish a statement of policy concerning communication with members and Scheme employers. This Statement sets out with whom NCC and STC will communicate, how this will be done and how the effectiveness of that communication will be monitored.

Purpose and objectives

The aim of the Communication Strategy is to ensure that Scheme members understand the benefits of the Scheme, and all stakeholders are kept informed of relevant developments within the Fund. NCC also believes that effective communications will help to maintain the efficient running of the Fund.

In communication with stakeholders NCC will:

- provide user friendly, relevant and informative communications in a clear, concise manner with well-presented information;
- provide communications that are valued by stakeholders;
- provide access to the appropriate means of communication for stakeholders with alternative needs; and,
- look for efficiencies in delivering communications.

Regulatory basis

The LGPS is a statutory scheme, established by an Act of Parliament. The LGPS Regulations 2013 provide the conditions and regulatory guidance surrounding the production and implementation of communications strategies.

In carrying out their roles and responsibilities in relation to the communication of the LGPS, NCC and employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations;
- Pensions Acts 2004 and 2011 and associated disclosure legislation;
- Public Service Pensions Act 2013 and associated record keeping legislation;
- Freedom of Information Act 2000;
- Equality Act 2010; and,
- Data Protection Act 2003 and the General Data Protection Regulation 2016/679.

Regulation 61 of the Local Government Pension Scheme Regulations 2013 sets out the requirements of the communications policy for LGPS funds as follows:

"Statements of policy concerning communications with members and Scheme employers"

61 (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —

- (a) members;*
- (b) representatives of members;*
- (c) prospective members; and,*
- (d) Scheme employers.*

Management and Financial Performance and Policy Statement

(2) In particular the statement must set out its policy on —

(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;

(b) the format, frequency and method of distributing such information or publicity; and,

(c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

Delivery of communications

NCC has delegated responsibility for the management of the Pension Fund to the Pension Fund Panel, taking into consideration advice from the LGPS Local Pension Board. The Pension Fund Panel will monitor the implementation of this Strategy on a regular basis as outlined later in this Statement.

Operationally, the delivery of the majority of member communications for the Fund is undertaken by STC as part of the shared administration service. However, NCC undertakes communications with employers that relate to collection of contributions, and actuarial, investment and governance matters.

How NCC communicates

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance, and NCC recognises that communicating in a clear, informative style is vital in achieving this aim so that employers and members can understand the value of the Scheme as part of the employment package.

Who NCC communicates with

NCC recognises that there are several distinct stakeholder groups, such as:

- Scheme members (active, deferred, pensioner and dependant members) and prospective Scheme members;
- Scheme employers and prospective Scheme employers;
- Pension Fund Panel and LGPS Local Pension Board members;
- Fund staff;
- STC staff; and,
- other interested organisations including Government departments, the LGPS Scheme Advisory Board and advisers to the Fund.

The main means of communication with these key stakeholders are outlined in Annex A.

Diversity of communication

The Fund's information is available in alternative formats, for example, Braille, large print, British Sign Language, on request. NCC and STC aim to use the most appropriate communication medium for the audience receiving that information. This may involve using more than one method of

communication. All of the Fund's generic Scheme member communication material is produced in English but may be requested in alternative languages. The principles of Plain English have been adopted in all communications.

Online services

STC continues to develop and enhance the secure online web services for **employers** available via the www.twpf.info (shared administration) website.

STC is currently developing web services for **members** and during 2018 expects to offer:

- membership details and payslips to view;
- delivery of annual benefit statements;
- pension increase updates;
- amendment of personal details; and,
- calculation of "what if" scenarios.

Management and Financial Performance and Policy Statement

Measuring whether the communication objectives are met

NCC monitors success against its communication objectives in the following ways:

Communication objectives	Measurement
Provide user friendly, relevant and informative communications in a clear, concise manner with well-presented information	Satisfaction surveys of employers and a sample of Scheme members achieving 90% of scores in positive responses in these areas Provision of an (at least) annual mailing to all active and pensioner members detailing Scheme changes and other relevant developments
Provide communications that are valued by stakeholders	Active members having the opportunity to attend a meeting when significant Scheme changes occur Satisfaction surveys of employers and a sample of Scheme members achieving 90% of scores in positive responses in these areas
Provide access to the appropriate means of communication for stakeholders with alternative needs	Satisfaction surveys of employers and a sample of Scheme members achieving 90% of scores in positive responses in these areas
Look for efficiencies in delivering communications	Evidence of utilising communications produced nationally or in partnership with other administering authorities

An overview of NCC's and STC's performance against these objectives will be reported within the Fund's Annual Report and Accounts and reported to the Pension Fund Panel and LGPS Local Pension Board.

Where performance is substantially below standard, NCC will formulate an improvement plan. This will be reported to the Pension Fund Panel and LGPS Local Pension Board together with an ongoing update on progress against the improvement plan.

Key risks

The key risks to the delivery of this Strategy are outlined below. The Principal Accountant (Pensions) and other officers will work with the Pension Fund Panel and LGPS Local Pension Board in monitoring and responding to these and other key risks. Where the risk must be managed by South Tyneside Council, NCC will monitor it through regular shared administration service reports and meetings.

Key risks are:

- lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and/or absence due to sickness;
- significant increase in workloads causing strain on day to day service delivery and therefore less focus on communications;
- issues in production of annual benefit statements, e.g. incorrect addresses held;
- inability to deliver a service to members due to system downtime or failure;
- issuing incorrect or inaccurate communications; and,
- lack of clear communication to employers or Scheme members.

Costs

All costs relating to the operation and implementation of this Strategy will be met by the Fund.

Approval, review and consultation

This Communication Strategy Statement was approved under a delegation given by the Pension Fund Panel on 23 February 2018. It is effective from April 2018.

It will be formally reviewed and updated at least every three years, or sooner if the administration management arrangements or other matters included within it merit reconsideration, including any changes to the LGPS or other relevant Regulations or guidance.

In preparing this Strategy, NCC has consulted with STC, the employers in the Fund, the Scheme member and employer representatives on the LGPS Local Pension Board, and other persons considered appropriate.

Annex A

Communication with all Scheme members, i.e. pensioner members, deferred pensioner members and active members

STC publishes a range of Scheme information for employees eligible to join the Local Government Pension Scheme. All information is available to view and download from www.twpf.info but can also be provided in paper format on request.

STC provides a members' telephone helpline, which is a "one stop shop" for all pension enquiries, and available Monday to Friday (8:30 to 5:00 (4:30 on Friday)) on **0191 424 4141**.

Members are also welcome to visit the team to discuss queries, at STC's office, The Pensions Office, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL.

Presentations can be provided for employers. Presentations and promotional material can be provided for active Scheme members at the request of an employer and can be tailored to a specific request.

Communication with pensioner members

STC sends an annual mailing to pensioner members in April to show, among other things, the pension increase applied in the year. A sample of the annual mailing is also available via www.twpf.info.

At the time of retirement, specific information is made available to each individual pensioner which includes:

- a statement summarising the calculation of his/her pension and lump sum;
- a letter explaining the arrangements for paying his/her pension;
- a fact sheet directing to leaflet on line explaining his/her appeal rights; and,
- a fact sheet summarising the provisions of the Pension Increase legislation.

A sample of pensioner members is surveyed annually to ask their views on the quality and range of services provided by the STC Pensions Office.

A combined payslip and P60 is issued in April each year to each pensioner member, and a payslip is issued when there is a change in an individual's pension of £10 or more in a month. Regular payslips are provided on request.

Communication with deferred pensioner members

STC sends annual benefit statements to deferred pensioner members, which keeps Scheme members informed of their future pension benefit entitlement. STC surveys members to obtain their views on the service and information provided. These are typically sent with the annual benefit statement.

At the time of leaving employment, specific information is made available to each individual deferred beneficiary which includes:

- a statement summarising the calculation of his/her pension and lump sum entitlement and information regarding when the benefits are due for payment together with any early release provisions;
- a leaflet explaining his/her appeal rights; and,
- a fact sheet setting out his/her options with regard to LGPS rights, e.g. explaining how to transfer LGPS rights to a new employer's pension scheme.

Management and Financial Performance and Policy Statement

Communication with active members

On joining the LGPS, each member is provided with a welcome pack by STC that includes information about Scheme benefits, and a form which enables him/her to request further information regarding the transfer of earlier pension rights into the LGPS, and to make a death benefit nomination. Subsequently, STC provides the Scheme member with a notice confirming his/her admission to the Scheme and detailing his/her rights to count previous service, if appropriate.

STC sends annual benefit statements to active members, and an annual newsletter to update members on any relevant changes. The newsletter is also available via the website. STC surveys members to obtain their views on the service and information provided. These surveys are typically sent with the annual benefit statement.

At an employer's request, STC will provide additional information for active members, to explain Scheme benefits and offer an opportunity to deal with members' questions.

NCC facilitates regular presentations provided by Prudential (the Fund's AVC provider) for active Scheme members to make them aware of their AVC options.

Communication with representatives of members

Two trade union representatives and one employee/pensioner representative have observer status seats on the Pension Fund Panel. The seats on the Panel entitle those representatives to all of the reports, policy documents, presentations and some of the training made available to the voting members of the Panel.

Two Scheme member representatives also have seats on the LGPS Local Pension Board (one of whom is also an observer on the Pension Fund Panel). The Board's role is to assist the administering authority (NCC) as Scheme Manager to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator; and to ensure the effective and efficient governance and administration of the LGPS.

Communication with prospective members

Prospective members can obtain an information booklet about joining the Scheme from STC. It has been designed to answer the frequently asked questions about joining the Scheme. This is made available to all employers for them to include in their recruitment and appointment packs. The booklet may also be downloaded from the shared administration website at www.twpf.info.

STC has a prospective member area on the shared administration website that can be found at <http://www.twpf.info/article/13021/Joining-the-Scheme> which has further information on how to join the Scheme.

At an employer's request, STC will work with that employer to encourage membership of the Fund and to identify initiatives that could be undertaken to increase active membership for that employer.

Automatic enrolment has and will continue to play a part in promoting the Scheme to prospective members. Most employers who are required to provide access to eligible employees will have met their staging date by now. Providing information to prospective members about the Scheme is part of the employers' statutory obligation in respect of automatic enrolment.

Management and Financial Performance and Policy Statement

Communication with Scheme employers

Following the amalgamation of the district councils in Northumberland with Northumberland County Council on 1 April 2009, one non-voting seat on the NCC Pension Fund Panel was allocated to an employer representative and one to an employee/pensioner representative. The purpose of the employer representative seat is to give representation on the Panel to all of the other employers (i.e. other than Northumberland County Council) participating in the Fund.

Two employer representatives also have seats on the LGPS Local Pension Board (one of whom is also an observer on the Pension Fund Panel). The Board's role is:

- to assist the administering authority (NCC) as Scheme Manager to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator; and,
- to ensure the effective and efficient governance and administration of the LGPS.

STC holds an annual employers' meeting to assist employers in fulfilling their legal obligations to provide year end information about their membership, and to explain any Scheme changes.

NCC holds an annual employers' meeting at which relevant topics such as the move to the shared administration service, the Fund's investment strategy and the actuarial position are discussed.

STC provides a detailed and prescriptive Scheme Guide with relevant updates, which sets out the responsibilities, processes, procedures, forms for completion and other requirements of the employers. This Guide is available via the secure area of www.twpf.info.

NCC and STC issue employer alerts by bulk email when it is necessary to give details of Scheme changes.

Employers are emailed the Fund's Annual Report and Accounts each year by NCC, which includes key policy statements for the Fund.

Employers were consulted on the initial Investment Strategy Statement (ISS) for the Northumberland County Council Pension Fund, and are consulted on all changes to the ISS.

Employers were consulted on the initial Funding Strategy Statement (FSS) for the Northumberland County Council Pension Fund, and are consulted on all changes to the FSS.

Employers are consulted on other ad hoc policy statements, such as the Fund's Governance Policy, as the need arises.

Each employer is assigned a client manager at STC who is a first point of contact for any queries on LGPS pensions administration matters that arise.

Participating employers are asked to complete a questionnaire giving their views on the quality and range of services periodically by STC.

Governance Policy and Compliance Statement

Part 1: Governance arrangements

Northumberland County Council (“NCC”) is the administering authority for the Local Government Pension Scheme (“LGPS”) fund known as Northumberland County Council Pension Fund (“the Fund”). The functions of an administering authority are set out in the LGPS Regulations 2013 (as amended).

Objectives

NCC has put governance arrangements in place to administer the LGPS with the objectives of:

- ensuring robust governance arrangements are in place to facilitate informed decision making supported by appropriate advice, policies and strategies, which do not unreasonably favour one group of stakeholders over another;
- ensuring the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise; and,
- complying with all appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance.

The identification and management of potential and actual conflicts of interest is integral to NCC achieving its governance objectives, therefore the NCC Pension Fund Panel approved a Conflicts of Interest Policy on 22 May 2015, which will be formally reviewed and updated at least every three years.

Delegation of administering authority functions

The day-to-day administration of the LGPS

The day to day administration is carried out by officers reporting to the Section 151 Officer of NCC.

Part 4 of the NCC Constitution (Delegations to Officers) delegates to the Section 151 Officer and the Deputy Section 151 Officer in the Section 151 Officer’s absence the following service responsibilities:

“The exercise of corporate Council functions in relation to finance services, revenues and benefits, including benefits fraud, the Council’s fraud strategy and associated arrangements, debt recovery, treasury management, insurance and associated corporate risk management, internal audit and liaison with external audit, administration of the Local Government Pension Scheme and procurement.”

Decision making

The NCC **Pension Fund Panel**, a committee of NCC, makes the decisions in relation to the administering authority functions.

Part 3 of the NCC Constitution (Matters Reserved to Elected Members and Committee Terms of Reference) sets out:

*“The **Pension Fund Panel** is a committee of NCC with a membership of six elected members which reports to the County Council.*

Terms of Reference and Powers of the Pension Fund Panel

The Pension Fund Panel has the power to discharge all functions and responsibilities relating to the Council’s role as administering authority for the Northumberland County Council Pension Fund as set out in The Local Government Pension Scheme Regulations 2013 (as amended), the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).

The Panel’s functions include:

- *Ensuring the proper administration of the Local Government Pension Scheme;*
- *Ensuring appropriate management of the investments of the Northumberland County Council Pension Fund, including keeping under review the Fund’s investment strategy and management structure;*
- *Approving and maintaining administering authority policy statements as required by the Local Government Pension Scheme Regulations including the Funding Strategy Statement, Statement of Investment Principles, Governance Compliance Statement and Communications Strategy;*
- *Making suitable arrangements for the actuarial valuations of the Pension Fund taking into account the covenant risk posed by the participating employers; and,*
- *Appointing and reviewing the appointments of investment managers, advisers and consultants.*

Management and Financial Performance and Policy Statement

The Northumberland County Council Pension Fund's Governance Policy and Compliance Statement provides further detail of the administering authority's LGPS governance arrangements.

NCC LGPS Pension Board provides oversight of the governance and administration of the LGPS. Its Terms of Reference are set out in the Constitution."

Membership of the Pension Fund Panel

Panel membership is as follows:

- six *elected* members of NCC;
- four *non-voting* observer status/co-opted members comprising:
 - one representative of the Fund's other participating employers appointed by the NCC LGPS Pension Board Appointments Panel (for membership of the Appointments Panel see below);
 - two scheme member representatives, determined by the local trade unions chosen by and from amongst the unions concerned; and,
 - one scheme member representative appointed by the NCC LGPS Pension Board Appointments Panel.

The three scheme member representatives are deemed to be representative of all scheme members (active members, deferred pensioners, pensioners and dependents).

The employer representative is deemed to represent all "non-NCC" participating employers.

Member substitutions will not normally be permitted unless the substitute member(s) can demonstrate the appropriate knowledge and skills for the role.

The NCC LGPS Pension Board **Appointments Panel** LGPS consists of:

- the Lead Member for Finance;
- the Chairperson of the Pension Fund Panel;
- the Monitoring Officer; and,
- the Chief Financial Officer.

Duration of appointments to the Panel

Elected member appointments:

- in accordance with NCC's Rules of Procedure, NCC councillors will be appointed annually and may be reappointed for further terms. In considering these appointments, NCC will be mindful of the Pension Fund's Training Policy and the potential benefit from continuity of membership.

Non-voting observer status appointments:

- the two representatives appointed by the Appointments Panel were appointed in 2015 and reviewed/appointed every four calendar years thereafter. Representatives may be reappointed for further terms, and the Appointments Panel will be mindful of the Pension Fund's Training Policy and the potential benefit from continuity of membership; and,

- the two local trade unions representatives are selected, appointed and reappointed by the Secretary of the Joint Trade Union Group at NCC who is mindful of the Pension Fund's Training Policy and the potential benefit from continuity of membership.

Frequency and pattern of Panel meetings

The Panel shall meet a minimum of five times in a Council year, on dates and times determined by the County Council, with four quarterly meetings to (among other things) monitor the performance of the Fund's investment managers, and a fifth meeting to receive presentations from investment managers. Additional meetings will be held when considered necessary by the Chair of the Pension Fund Panel to consider agenda items requiring more time, such as the asset allocation strategy review.

Quorum

A meeting of the Pension Fund Panel will only be quorate when at least three voting Panel members are present.

Chair/Vice Chair

Only elected members of NCC may be the Chair and Vice Chair of the Pension Fund Panel.

Duration of meeting

Any limit on the duration of a Panel meeting in the Council's Rules of Procedure will exclude any training provided to the Panel as part of the meeting. When considered necessary by the Chair, a meeting of the Pension Fund Panel can last up to seven hours, including breaks.

Management and Financial Performance and Policy Statement

Code of Conduct

Part 1 of the NCC Code of Conduct for Elected Members shall apply in relation to the standards of conduct of non-voting observer status members as if they were voting co-opted members of the Council.

NCC LGPS Local Pension Board

To comply with Regulation 106 of the LGPS (Amendment) (Governance) Regulations 2015, terms of reference to establish the NCC LGPS Local Pension Board were approved at the full Council meeting on 25 February 2015.

The NCC LGPS Local Pension Board (“the LPB”) is responsible for **assisting** NCC as administering authority in securing compliance with legislation and regulations, and to ensure the efficient and effective governance and administration of the LGPS. The LPB will have an oversight role in the governance of the Fund.

The key points from the LPB terms of reference are:

- there are four members of the LPB, or five if an independent chair is deemed necessary;
- only the four members of the LPB (i.e. not the independent chair, if there is one) have voting rights;
- the two employer representatives are (i) a NCC councillor (who does not already sit as a voting member of the Pension Fund Panel), and (ii) the non-voting employer representative who already sits as observer on the Pension Fund Panel;

- the two Scheme member representatives are (i) one of the three non-voting member representatives who already sit as observers on the Pension Fund Panel, and (ii) a pensioner, to be sourced by seeking interest via the annual Pensioner Newsletter; and,
- there will be a minimum of two meetings per year, with the option for the Chair of the LPB to call more.

The Fund’s Training Policy and Conflicts of Interest Policy apply to Pension Fund Panel members, LPB members and the key officers involved in the governance and administration of the LGPS.

Other governance arrangements

NCC is committed to inclusion of the Fund’s stakeholders. Therefore, in addition to consulting with the participating employers as required by LGPS regulations, employers are invited to attend employer meetings held (usually) annually to communicate Scheme changes and the actuarial position of the Fund. Employers also receive a copy of the Fund’s Annual Report and Accounts each year, which reproduces certain key documents in full, such as the Investment Strategy Statement and the Governance Compliance Statement.

The LGPS administration service for NCC will be undertaken from January 2018 by South Tyneside Council as part of a shared administration service on behalf of Tyne and Wear Pension Fund and NCC Pension Fund. The LGPS shared administration service holds regular road shows for employees to provide information about the Scheme.

NCC’s responsibilities as an employer

This Governance Policy and Compliance Statement relates *only* to the governance arrangements established by NCC in its capacity as the **administering authority** for the LGPS. NCC also has responsibilities as a **Scheme employer** participating in the Fund which are not covered by this Statement, for example, to have employer discretion policies in place.

Approval, review and consultation

This Governance Policy and Compliance Statement was approved at the NCC Pension Fund Panel meeting on 3 November 2017. It will be formally reviewed and updated following any material change to the matters covered in the Statement

Part 2: Governance Compliance Statement

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
Structure			
<i>The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</i>	The terms of reference for the Pension Fund Panel, as set out in the Northumberland County Council Constitution include the term: "ensuring the proper administration of the LGPS and ensuring proper management of the investments of the Fund."	Yes	
<i>That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</i>	The Pension Fund Panel comprises six Northumberland County Council councillors. Participating employers are also represented on the Pension Fund Panel by one representative who has observer status. Scheme members (i.e. contributors and pensioners) are represented by two trade union representatives and one employee/pensioner representative, all three of whom have observer status on the Pension Fund Panel.	Yes	
<i>That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i>	There is no secondary committee or panel.	Yes	
<i>That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i>	There is no secondary committee or panel.	Yes	
Representation			
<i>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-</i>			
<i>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</i>	Employing authorities are represented by the six Pension Fund Panel members. The six members are all councillors of Northumberland County Council, a unitary council which represents the majority of the contributors to the Northumberland County Council Pension Fund. Other participating employers are represented by one non-voting employer representative. Other employers are also represented by the Pension Fund Panel members, some of whom have representative links with other participating employers.	Yes	
<i>ii) scheme members (including deferred and pensioner scheme members);</i>	Scheme members are represented by two non-voting trade union observers. Employees and pensioners are also represented by one non-voting employee/pensioner representative.	Yes	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
<i>iii) independent professional observers; and,</i>	There are no independent professional observers on the Pension Fund Panel, however the Fund's investment adviser attends all meetings where investments are discussed. The Fund actuary, the external auditor and the performance measurement service provider attend meetings as required.	Partial	An independent professional observer has not been considered necessary in the past. There is a cost associated with having an independent professional observer on the Panel and it is not clear that any benefits would outweigh the cost.
<i>iv) expert advisors (on an ad-hoc basis). That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</i>	The Pension Fund Panel investment adviser attends all meetings. All Panel members and observers are treated equally in terms of access to papers, training, and participation in the decision making process.	Yes Yes	
Selection and Role of Lay Members			
<i>That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</i>	New Panel members are offered induction training and copies of key documents, such as the Statement of Investment Principles. They are required to agree to the Northumberland County Council Code of Conduct for Elected Members as applied to voting co-opted members of the Council.	Yes	
<i>That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</i>	Declaration of interests is a standard procedure at the start of all Pension Fund Panel meetings. Declarations are noted in the minutes.	Yes	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
Voting			
<p><i>The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</i></p>	<p>The six Pension Fund Panel members have voting rights; the two trade union representatives, the one employer representative and the one employee/pensioner representative have observer status only, though they participate in the decision making. Voting rights have not been extended to the trade union and employee/pensioner representative observers on the Panel because they represent Scheme members whose pension rights are guaranteed in law and are not dependent on Fund performance and therefore bear none of the investment risk. Voting rights have not been extended to the employer representative who has observer status on the Panel because doing so would merely duplicate the representation provided by the Panel members themselves. Also section 102(3) of the Local Government Act 1972 effectively precludes conferring voting rights on Panel members who are not elected members of Northumberland County Council.</p>	Yes	
Training/Facility Time/Expenses			
<p><i>That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</i></p>	<p>All new members of the Pension Fund Panel are offered induction training by an officer. The Fund's Training Policy applies to all Pension Fund Panel members. Facilities time is provided by the member's employer. Expenses are reimbursed in accordance with Northumberland County Council's expenses scheme.</p>	Yes	
<p><i>That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i></p>	<p>The policy applies equally to all members of the Pension Fund Panel. There is no secondary committee or panel.</p>	Yes	
Meetings (frequency/quorum)			
<p><i>That an administering authority's main committee or committees meet at least quarterly.</i></p>	<p>The Pension Fund Panel meets at least quarterly.</p>	Yes	
<p><i>That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</i></p>	<p>There is no secondary committee or panel.</p>	Yes	
<p><i>That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i></p>	<p>Trade union observers and the employee/pensioner representative on the Pension Fund Panel represent lay members.</p>	Yes	

Management and Financial Performance and Policy Statement

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
Access			
<i>That subject to any rules in the councils constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</i>	All Panel members and observers are treated equally in terms of access to papers and advice.	Yes	
Scope			
<i>That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	The terms of reference for the Pension Fund Panel, includes all administering authority responsibilities, and therefore the Panel considers wider scheme issues and not just investments. The one exception to this principle is that the Northumberland County Council Constitution provides that, prior to January 2018 its Staff Committee should, where necessary, exercise administering authority discretion over the payment of death grants. From 29 January 2018, this discretion was delegated to the Head of Pensions at Tyne and Wear Pension Fund.	Yes	
Publicity			
<i>That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</i>	Each revision of the Governance Compliance Statement will be consulted upon. The Governance Policy and Compliance Statement is published on the Northumberland County Council website. The Governance Compliance Statement is reproduced in full within the Northumberland County Council Pension Fund Annual Report and Accounts, a copy of which is distributed to all participating employers with active Scheme members.	Yes	

Pension Fund Panel Training

The Pension Fund Panel recognises the importance of ensuring that the members charged with the financial management and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

Most members of the Panel have attended at least part of the series of three training days organised by the Local Government Association (Local Government Pensions Committee), which are specifically targeted at elected members with responsibility for the investment of local authority pension funds. All new and existing Panel members are actively encouraged to attend.

All new members of the Panel receive/are offered an induction seminar given by an officer.

Members are offered the opportunity to attend relevant courses and conferences as they arise, particularly those organised by the LGA and PLSA. Members are invited to attend meetings for employers which may include a presentation by the Fund's actuary depending on the stage of the triennial actuarial valuation cycle.

Members receive briefings from fund managers each quarter on the managers' processes and topics of interest such as risk and control.

Members receive training and advice, both verbal and written, from the Pension Fund Panel adviser and officers at Panel meetings and as part of the Pension Fund Panel papers distributed in advance of the meetings.

The Pension Fund Panel adopted a Training Policy in 2015-16.

Assessment of the Effectiveness of the Pension Fund Panel Decisions made in 2017-18

Overall assessment

In response to the Government's requirement for LGPS asset pooling, the Pension Fund Panel (**"the Panel"**) has continued to take an active part in the development and establishment of the pool operator, Border to Coast Pensions Partnership (BCPP Ltd). The Chair and Vice Chair of the Panel have been fully engaged during this process, attending all BCPP Joint Committee meetings to provide a voice for Northumberland County Council Pension Fund (**"the Fund"**). The Panel has been mindful of **both** the *opportunity* for the Fund afforded by improved collaborative working with other LGPS administering authorities in the period prior to BCPP Ltd's "go live" to obtain better investment management fee rates, and the *threat* faced by the Fund of incurring (and sharing others') transition costs in the near future when moving investments to BCPP Ltd.

The Panel has overseen the implementation of a shared administration service with South Tyneside Council, adopting revised policy statements for the Fund to facilitate the delivery of a cost effective and efficient service.

The Panel faced a major challenge as a result of membership changes following the May 2017 Northumberland County Council elections, when four out of the six voting Panel members were replaced. With two of the four new members from

2017 having previously served on the Panel, this membership change has been very well managed, and the Panel has continued to implement decisions through the year. All members have shown commitment to training, and continuity has been achieved in all other aspects of the operation of the Panel, such as the advisers to the Fund.

The Panel would particularly draw attention to the following achievements in the year:

- it has actively participated in the development of BCPP Ltd and worked collaboratively in other ways with pooling partners;
- it has overseen the implementation of the shared pensions administration service with South Tyneside Council;
- it has continued to work collaboratively with NCC's LGPS Local Pension Board;
- it has approved NCC Pension Fund's revised Investment Strategy, Administration Strategy, Communications Policy, and Governance Policy and Compliance Statements, and first Administering Authority Discretions Policy;
- it has given approval to enable the Fund to opt up to professional client status with relevant financial institutions prior to implementation of MiFID II;
- it has supported the introduction of a formal Training Needs Analysis for all Panel and Board members;
- it has reviewed quarterly fund manager performance and the impact of currency hedging; and,

Management and Financial Performance and Policy Statement

- it has considered GDPR and the potential implications for the Fund.

Governance arrangements in 2017-18

Administrative arrangements

The Panel met seven times in the 2017-18 Council year:

- four meetings for the normal quarterly business including the review of investments and monitoring the appointed fund managers, plus one further meeting which has been added to the standard quarterly timetable;
- one further extraordinary meeting to discuss and consider NCC's policies with a view to aligning with South Tyneside Council's policies before implementation of the shared pensions administration service from January 2018; and,
- one further extraordinary meeting to appoint NCC Pension Fund's representative on the BCPP Joint Committee.

The number of meetings held has been appropriate to allow sufficient time to consider all agenda items and ensure sufficient training and experience have been gained by the members before making the decisions required.

The length of the meetings (i.e. usually a full day) has been appropriate to enable members to consider complex subject matter, and time has been allowed in the meetings for effective challenge of the external fund managers and other advisers.

The Panel has allocated sufficient time at each meeting to consider each decision fully and to understand the inherent risks involved in pension

fund investment and the Local Government Pension Scheme.

The Panel has organised additional meetings where necessary to further consider an issue when focus on a single issue is required, for example, pooling or shared services.

The Panel has delegated authority to the Director of Corporate Resources, in consultation with the Chair and Vice Chair, where necessary, to ensure that matters could be progressed on a timely basis without the need to revert to the committee.

The minutes of meetings and reports presented to the Panel were of adequate detail for members to ensure that officers had acted on and implemented the decisions taken.

The papers for the meetings were circulated well in advance to allow adequate time for Panel members to read and consider the issues. The papers were prepared to an adequate standard and included a short summary of each agenda item to aid the reader in understanding the key points. Urgent items, to be tabled at meetings, have been kept to a minimum although at certain times this has been unavoidable due to ever changing circumstances especially regarding pooling.

The papers have been presented at the meetings by officers and advisers with sufficient technical knowledge, experience and skill to assist members in understanding the key areas.

The meetings have been conducted in a format which has allowed for decisions to be reached promptly but after appropriate consideration. Suitably qualified officers and advisers have been

in attendance at all meetings and have been allowed the opportunity to provide advice during meetings to ensure that decisions made comply with the regulations and best practice.

Panel members have ensured that the views of the observer status participants have been fully considered.

The Chair has conducted the meetings to ensure that all members have been encouraged to express their views. All Panel members have contributed to effective and efficient meetings. NCC's LGPS Local Pension Board members have been invited to attend all formal meetings of the Panel, as well as all training and working group meetings of the Panel to observe the decision making process.

The Panel has considered and approved a programme of future meetings for the investment managers who will be requested to attend meetings, and added an additional regular annual meeting to the programme. The programme takes a risk based approach to allocating time for the Panel to interview and question the managers, and allows for flexibility so managers can be requested to attend more frequently should the Panel deem it appropriate. The programme of meetings allows sufficient time for the Panel to understand the fund managers' philosophy and processes and time for effective challenge. The Chair of the Panel has been pro-active in determining the frequency of the fund managers' attendances at the meetings.

The Panel monitors the cost of transitions of assets from one fund manager to another.

Management and Financial Performance and Policy Statement

Meetings have been conducted following the protocols as set out in the Northumberland County Council Constitution.

Access to advice

The Panel recognises the importance of understanding its responsibilities to the employers participating in the Fund and, in particular, the need to understand and manage investment (asset allocation) risk. The Panel has had access to appropriate advice and has obtained advice in the year from suitably qualified specialists including:

- investment advice from Mercer;
- actuarial advice from Aon Hewitt; and,
- legal advice on contracts entered into from Squire Patton Boggs, Eversheds as well as the legal specialists at South Tyneside Council.

The Panel has taken advice from Mercer on all investment decisions made and obtained Mercer's research information and ratings each quarter for all of the Fund's external investment managers.

Senior officers of the Council, such as the Director of Corporate Resources have attended Panel meetings when necessary.

The Panel has an assessment process to formally measure the performance of the investment adviser on an annual basis.

Audit

The Panel has the opportunity to question and engage with the external auditor to discuss the accounting and administration arrangements for the Pension Fund and the Scheme. NCC's internal audit programme covers Pension Fund accounting

functions. Internal and external audit provide independent checks on the work of the officers and the Pension Team.

Performance measurement adviser

The Panel has the opportunity to question and engage with the independent performance measurement adviser, Portfolio Evaluation, to discuss the performance of the external investment managers. This provides an independent check on the investment managers, the information provided in the Panel papers, and, to some extent, the advice provided by the investment adviser (Mercer).

Continuity

Pension Fund investment is long term in nature and expertise takes time to build up. Continuity is vitally important for effective decision making, with some decisions, such as the decisions about asset allocation, being made over the course of several meetings. During 2017-18, the Panel has had continuity in the three most important areas for its effectiveness as a decision-making body, namely:

- its own membership including observers (with two members from pre-2013, including the former Chairman, returning to the Panel as members following the May 2017 elections) ;
- its investment adviser; and,
- the officers who support the work of the Panel.

Training

The Panel recognises that pension fund investment is a technical area and the importance of spending time on training. The Panel has received adequate training for the decisions taken in the year, for

example, for interviewing current external managers, where the Panel was supported by Mercer's advice and research information throughout the process. Panel members have devoted time to attend relevant and tailored training events, and supported the introduction of a formal Training Needs Analysis to be completed annually by all Panel and Board members.

Communication with stakeholders

The Panel has promoted effective communication with the stakeholders of the Scheme and Fund, such as road-shows and newsletters for the contributors (employees). Panel members have attended the annual employers' meeting which has provided them with valuable feedback.

Annual Report of Northumberland County Council's LGPS Local Pension Pension Board for 2017-18

1 Constitution, Representation and Attendance

1.1 The Northumberland County Council LGPS Local Pension Board (“**the Board**”) was constituted under the Public Service Pensions Act 2013. It consists of two representatives of the Scheme employers, and two representatives of the Scheme members. In addition it has a non-voting independent Chair. The Board met on four occasions during the year, and now meets shortly after each quarterly meeting of the Northumberland County Council (NCC) Pension Fund Panel (“**the Panel**”)

In 2017-18, all meetings of the Board were quorate. Membership and attendance at the Board meetings held in the year was as follows:

	24 April 2017	17 July 2017	6 October 2017	11 December 2017
Gerard Moore - Independent Chair (Non-voting)	✓	✓	✓	✓
Councillor Bernard Pidcock - Employer Representative, Northumberland County Council	✓	x	✓	✓
Mrs Helene Adams - Employer Representative, Northumberland National Park Authority	✓	✓	x	✓
Ms Sue Dick - Scheme Member Representative, pensioner member	✓	✓	✓	✓
John Clark - Scheme Member Representative, pensioner member	✓	✓	✓	✓

This represents an overall attendance record of 90%.

1.3 The Board operates under Terms of Reference which were agreed by Northumberland County Council on 25 February 2015.

http://committeedocs.northumberland.gov.uk/MeetingDocs/8857_M1029.pdf

1.4 The Board is not a Committee of the Council, but is established under the Public Service Pensions Act 2013. It is supported by a Board Secretary.

1.5 Under the current Terms of Reference, Board meetings are not open to the public, although agendas and minutes can be found at the following web link:

<http://committee.northumberland.gov.uk/Committee.aspx?BodyID=173>

2 Functions and Operation of the Board

2.1 The two primary functions of a Local Pension Board are to assist the Administering Authority to:

- ensure effective and efficient governance and administration of the LGPS; and,
- ensure compliance with relevant laws and regulation.

2.2 It therefore has a monitor/assist/review purpose, rather than being a decision making body. It could be seen as being a critical and supportive friend. As such, the general approach of the Board is to seek assurances, with evidence from Northumberland County Council Pension Fund (“**the Fund**”), that it is meeting its objectives (as set out in the Statement of the Fund’s Objectives approved by the Panel on 26 February 2016 and 7 July 2017), producing its required statements, managing its risks, etc. so as to achieve the overall Board’s objectives as set out in paragraph 2.1 above.

2.3 In so doing, the Board is helping manage the reputational risk of the Fund, and of the Administering Authority, which is more critical now that the LGPS in England and Wales has both the Ministry of Housing, Communities and Local Government (MHCLG) and the Pensions Regulator (tPR) as its regulators.

2.4 To facilitate the operations of the Board, its members are invited as observers to meetings of the Panel. This arrangement is reciprocated,

with the Chair and Vice Chair of the Panel being invited to attend Board meetings, also in an observer capacity. With both arrangements, there is a strong record of cross-observing, resulting in transparency, improved understanding and mutual trust and respect.

2.5 This healthy relationship between Panel and Board has enabled the Panel to better manage its own agenda by requesting that the Board give prior consideration and scrutiny to certain activities, such as new risks, progress chasing on key implementation dates and reviewing recorded breaches of the law or of Scheme regulations. However, all breaches information is initially reported to the Panel and any breach viewed by the Scheme Manager as potentially reportable to the Pensions Regulator would be brought to the attention of and considered by the Panel.

2.6 To reflect this evolving role, a sharper feedback mechanism has been implemented during the year, whereby, as Board Chair, I present a written executive summary report to the Panel following each meeting of the Board. This sets out the recommendations from the Board, the assurances it has gained, and any other information deemed of relevance to the Panel.

2.7 With this additional level of transparency now in place, the Board had not formally adopted a set of key performance indicators (KPI’s). Some measurements of inputs are readily available and positive, such as attendance

records at Board meeting and as observers at Panel meetings and training events. However, regarding the more important dimension of outputs, the Board believes that the ultimate test of its effectiveness is that the Panel is satisfied with the work of the Board.

2.8 The direct costs of operating the Board in 2017-18, covering travel and training expenses relating to Board members as well as the fees and expenses of the Independent Chair, amounted to £14,425 and were met by the Fund. These costs do not include any indirect costs relating to officer time nor apportioned costs for the use of the Council’s premises, systems and services which are recharged to the Fund by the Council. This represents an increase of £2,050 on the direct costs for the previous year. This reflects both the additional roles as described in paragraphs 2.5 and 2.6, plus the Panel decision to increase the number of Board meetings to reflect the number of quarterly meetings of the Panel itself (whereas in 2016-17 there were only two physical meetings of the Board, plus one virtual meeting). The Board is now expected to meet four times a year. Nevertheless, the Board is mindful of delivering value for money, and has adopted various means of working in a cost effective manner.

3 Work Programme of the Board

- 3.1 In devising its work programme, the Board needs to take into account guidance, expectations and requests from a number of different sources. Mindful of the sheer range of issues and papers which it could consider within its governance budget and its Terms of Reference, the Board recognises the need to prioritise and continues to differentiate in its agenda between items for detailed discussion, and those for awareness or noting. The Board sets its own agenda and prioritises its time accordingly.
- 3.2 The Board agenda needs to reflect the expectations as set out in its Terms of Reference, supplemented by specific requests from the Panel, as reflected in paragraph 2.5 above. In addition, Board members may request consideration of specific issues.
- 3.3 In managing its agenda, the NCC Local Pensions Board is mindful of the role of the LGPS Scheme Advisory Board for England and Wales (SAB). The SAB has two roles: giving advice both upwards to MHCLG and downwards to individual funds. A two way flow of information between the SAB and individual funds is expected, and it is the aim of the NCC Board to be seen as an example of good practice.
- 3.4 Members of the Board are also accountable to the Pensions Regulator (tPR) for their performance. The Regulator can issue fines to Board members, or, more likely, to administering authorities. At 31 March 2018,

the issue of providing insurance cover for Board members was still unresolved, although informal discussions with tPR have clarified the type of exceptional circumstances which could lead to fines on Board members. In 2017-18, tPR levied its first fine on an administering authority for the failure to submit its Annual Scheme Return. Whilst it was a nominal fine on this London authority, it was more, perhaps, to serve as a warning to others. As stated in paragraph 2.3, the Board is keen to protect the reputational risk of the Fund.

- 3.5 The Regulator has issued Code of Practice 14, and expects administering authorities both to measure themselves against and comply with the detailed elements of the Code. The main focus of the Code is administration and benefits, rather than investment issues, and this, generally but not exclusively, is reflected in the composition of the Board agendas. As such the Board endeavoured to incorporate into its work programme for 2017-18 the Regulator's priorities of basic compliance, focussing on the top three risks of record keeping, internal controls and poor and inefficient communications. In addition, the Board was instrumental in arranging a training and discussion event for Panel and Board members and officers, attended by the Regulator, held in Durham in December 2017, which was also attended by three neighbouring LGPS funds.
- 3.6 Whilst investment activity is, generally, outside the consideration by the Pensions Regulator, nevertheless, the Board is expected to ensure

compliance with relevant legislation, and thus does seek assurances that due process has been followed regarding investment strategies, statements and decisions, and that LGPS regulations have been complied with.

- 3.7 Board agendas are also determined by any changes in processes and procedures, and by requirements to comply with both existing annual statutory deadlines and deadlines resulting from new legislative and regulatory requirements. For the Fund, two key local developments were the continuing progress towards the establishment of Border to Coast Pensions Partnership pooling arrangement for investments, and the move to a shared administration service with the Tyne and Wear Pension Fund (TWPF) from January 2018. In addition, 2018 particularly has brought a raft of compliance dates for new legislation, which has required inclusion in the Board's agendas.

4 Outcomes from the Board 2017-18

4.1 As indicated in paragraph 2.6, a summary report is made to the Panel covering the Board's recommendations, assurances gained and the provision of other information for the awareness of the Panel. The Board is pleased that all its recommendations in 2017-18 were accepted. Some of the recommendations were implemented routinely by the Board Secretary, whilst others were accepted by the Panel. Indeed, this new process for succinct feedback to the Panel was itself a recommendation from the Board meeting on 6 October 2017.

4.2 As indicated in paragraph 3.7, the Fund had to meet a number of deadlines during the year, some of which were critical from a risk perspective, and fell in between scheduled meetings of the Panel. The Board recommended that Panel and Board members were kept informed of progress towards successful completion of the following deadlines:

- 31 August 2017 for issuing the 2017 Annual Benefit Statements;
- 31 December 2017 for submission of the Annual Scheme Return to the Pensions Regulator; and,
- 3 January 2018 for the opting up process with regards to the Markets in Financial Instruments Directive (MiFID II).

A similar approach is being taken in 2018-19 regarding the 25 May 2018 implementation date of the General Data Protection

Regulation, the December 2018 deadline for the Guaranteed Minimum Pension reconciliation exercise, and annual deadlines for issuing the 2018 Annual Benefit Statements and submission of the Annual Scheme Return. It is now clear that the Regulator's Annual Scheme Return for 2018 will be more complex and this will need to be factored into the Board's work programme for 2018-19.

4.3 Also mentioned in paragraph 3.7, one of the key events of the year was the move to sharing administration services with TWPF. Effective and timely communications with Scheme members is an important element of the Regulator's Code of Practice 14 (paragraph 196 et al). Fund officers actively engaged with Panel and Board members to help ensure that Scheme member anxiety regarding the implications of this change would be minimised and appropriately responded to. The immediate post-transfer evidence indicates that these desired outcomes were achieved. Likewise, early communications with Scheme employers, as recommended by the Board, helped with the smooth transition. The Board also gained assurances that there would be no adverse impact on the access to advice for members of the Scheme.

4.4 Other areas of the "communication with Scheme members" agenda which the Board considered were the 50:50 option and the opportunity to participate in the additional voluntary contributions (AVCs) and additional years' options. In both cases, the Board

examined the documents made available to Scheme members.

4.5 Paragraphs 4.2 and 4.3 indicate the pace of change facing the Fund, which is not likely to reduce. To help mitigate and manage the associated increased risks, the Panel accepted the recommendation from the Board that the Board meet at the same frequency as the quarterly meetings of the Panel, which implies four meetings a year. In so doing, the Panel asked the Board to make observations and recommendations regarding any new risks which are identified. The Board gained assurances that each new risk was being managed by key personnel at a high level.

4.6 The Board was involved in the completion of the annual survey by the Scheme Advisory Board and discussed in detail the annual survey by the Pensions Regulator. Both surveys were completed within the requested deadlines.

4.7 A standing item on each Board agenda is a review of recorded breaches, and reporting back to the Panel on its findings. For the more significant breaches, the Board and its members, together with other individuals (Panel members, officers, Scheme employers) all have a responsibility to report a breach of law to the Pensions Regulator should they believe it to be of material significance to the Regulator (Code of Practice 14 paragraphs 241 to 275). The Board did examine in detail a breach caused by the Fund reissuing a small minority of 2017 Annual Benefit Statements to

Management and Financial Performance and Policy Statement

correct the Statements originally provided to members (Code of Practice 14 paragraphs 187 to 193), and concurred that this was not a reportable breach. Internal procedures allow any differing opinions to be independently considered and a conclusion reached, and this may involve seeking a specialist external perspective. Training has been provided in this area, and recording and reporting procedures are in place. **During 2017-18, to the best of the Board's knowledge, there were no breaches reported to the Regulator.**

- 4.8 For 2018-19, following the implementation of the shared administration service, the Panel and Board will receive information about breaches from TWPF. The Board has received examples of the breaches reporting TWPF provides to South Tyneside Council's Pensions Committee and Local Pension Board, and noted Aon Hewitt's advice that the Fund should adopt TWPF's breaches reporting then work with TWPF to develop it further. Following discussions with TWPF officers, the Board was satisfied that appropriate explanations will be provided when future breaches information is reviewed.
- 4.9 A further standing item is to review the Key Performance Indicators (KPIs) for the Fund. During the year, the Board made recommendations regarding the format of the information to ensure that the significance and materiality of underperforming categories were better understood. Whilst some individual indicators were below target in particular quarters, the Board was satisfied with the

explanations given, such as an exodus of Scheme members on 31 March, the volume of queries resulting from the issuing of Annual Benefit Statements, and the impact of planning for the commencement of the shared administration service which is expected to make services for members of the Fund more robust. The Board was satisfied with its conclusion that cases of retirements and deaths were always prioritised.

- 4.10 The Board considered the process for reviewing the strength of employer covenants, and learned that there were currently no charges on property in the Fund's favour.
- 4.11 The Board examined a number of investment issues in the year. It made recommendations regarding the implementation of MiFID II. It also recommended that when asset managers and investment advisers present investment performance statistics to the Panel, such statistics are always shown net of investment management fees, so that valid comparisons can be made with the underlying assumptions within the investment strategy. The Board noted the receipt of ISAE 3402 reports which review the internal controls used by the Fund's asset managers and custodian. A fourth investment issue considered was the cash flow arrangements in place. The Board gained the necessary assurances from the information and explanations provided that the cash flow arrangements, including any necessary realisation of assets, were sufficiently robust and flexible to ensure the payment of pensions and lump sums every month as due. Finally,

the Board was kept updated on the developments of the Border to Coast Pensions Partnership pooling arrangement, and endeavoured to monitor progress from the perspective of process.

4.12 Other duties I performed on behalf of the Board included:

- reviewing the draft Pension Fund Annual Report and Accounts for 2016-17 and recommending some minor changes;
- holding my annual review with the Fund's Section 151 Officer and gaining assurances from her degree of involvement on pension fund matters;
- as 2017 was an election year for NCC, contacting NCC's party leaders to request that, as far as possible, where previously serving Panel and Board members had been re-elected to NCC, they continue to serve in those key roles to retain knowledge, understanding and experience in the light of the significant turnover of the Panel membership;
- attending industry conferences, and peer group meetings of Local Pension Board members, and giving verbal and written feedback for the information of the Panel and Board; and,
- making a presentation to the newly-elected Panel on the role, purpose and achievements of the Board.

5 Training

5.1 Each Board member individually has to be conversant with the details of the Scheme, which translates as having a good working knowledge. Specific external training has previously been provided for Board and Panel members on the role and purpose of Board, and on the reporting and recording of breaches.

5.2 The assessment of training needs, and how they are met, is a standing item and examined on an ongoing basis. Both formal (group) and informal (by discussion, cascade or one to one) training is provided to reflect individual training needs.

- The Board was represented at the June 2017 annual LGA/LGPS Trustees Conference and will be represented at the equivalent event in 2018, which provides a good high level perspective to supplement the greater level of detail in training in individual areas;
- The Board was well represented at a regional training event in Durham in December 2017 to hear a presentation from the Pensions Regulator;
- Fund-specific training was provided at every Panel meeting held in the year, covering subjects including the requirements and potential impact on the Fund of MiFID II and the General Data Protection Regulation, and the characteristics of infrastructure as an asset class and whether the 5% Fund

allocation to infrastructure remained appropriate; and,

- All Board members have attended at least one of the joint training and networking peer events facilitated by CIPFA and Barnett Waddingham which enabled them to meet Local Pension Board members from other funds and compare practices and experience.

6 Work plan

6.1 The adjusted work plan for 2017-18 took account of the following areas:

- Accounts;
- Administration and record keeping including breaches;
- Audit and risk management including the risk register;
- Communications with Scheme members;
- Compliance with the regulations;
- Governance;
- Developments in pooling;
- Investments including MiFID II and investment performance monitoring;
- Shared administration services; and,
- Training.

6.2 There will be a degree of flexibility in future work plans to allow for any additional reviews by the Scheme Advisory Board or the Pensions Regulator, or any other developments. For 2018-19, the Regulator's

21st Century Trusteeship and its "Quicker, Clearer, Tougher" approach will influence the Work plan, including its expanded Annual Scheme Return.

7 Thanks

As Chair of Northumberland County Council's LGPS Local Pension Board I wish to thank my fellow Board members who have volunteered their time and energies for their roles, and for their ongoing support, as reflected in their excellent attendance record. As a non-voting Chair, it is pleasing that votes are very rarely required, and that, when called, have all been unanimous. Sincere thanks are also expressed to the Board Secretary, Chair and Vice Chair of the Pension Fund Panel, to the Democratic Services Officers and to officers of the Tyne and Wear Pension Fund who have attended to help the Board's understanding of the implications of the shared administration service.



Gerard Moore

Independent Chair

Northumberland County Council LGPS Local Pension Board

17 April 2018

Administration

Until 31 May 2017, the Fund's accounts were the responsibility of:

Steven Mason (S151 Officer)

Chief Executive

Assisted by:

Alison Elsdon (Deputy S151 Officer)

Director of Corporate Resources

From 1 June 2017, the Fund's accounts are the responsibility of:

Alison Elsdon (Interim S151 Officer)

Service Director - Finance

Staff members within the Pensions' Administration Team of the Corporate Resources Directorate were responsible for administering the Scheme, including the calculation and administration of benefit payments and transfer values, as well as recording employee and employer contributions and the maintenance of employees' pension records, and pensioners' and deferred pensioners' records. From 29 January 2018 Pensions Administration was undertaken through a shared service with Tyne and Wear Pension Fund from offices in South Tyneside.

Staff members within the Pension Fund Accounting Team of the Corporate Resources Directorate maintain the Fund's accounts and investment records, prepare quarterly reports to the Pension Fund Panel, produce the Annual Report and Accounts and act as a point of contact with the Fund's investment managers, advisers and auditors.

External Audit

The Northumberland County Council Pension Fund financial statements are audited by:

Ernst & Young LLP

Citygate

St James' Boulevard

Newcastle upon Tyne

NE1 4JD

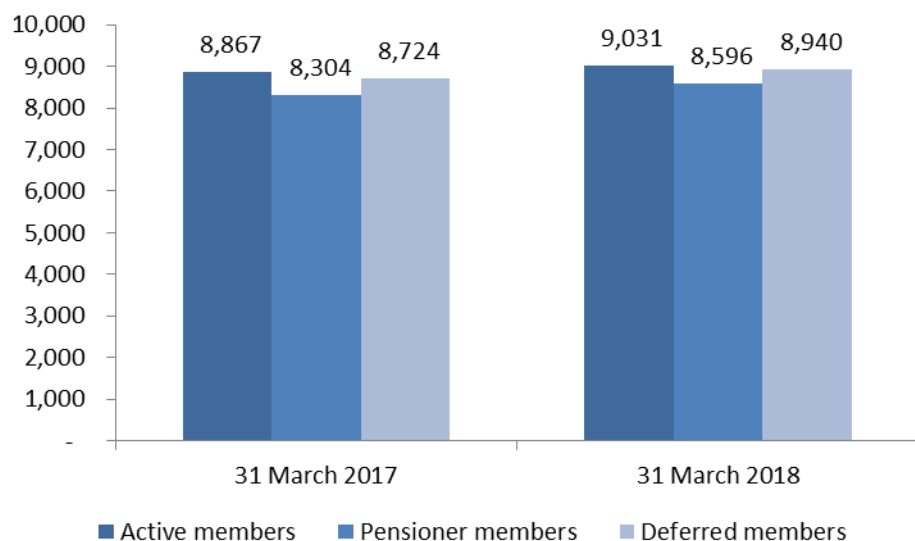
Scheme Members

The Fund's members are current employees (active members), retired employees and councillors (pensioner members) and deferred pensioner members of the County Council and a number of other scheduled and admitted bodies. At 31 March 2018, the Fund had 9,031 active members and 8,596 pensioner members.

Firefighters and teachers have separate pension arrangements and do not therefore participate in the Fund.

The following graph is an analysis of the Fund members at 31 March 2018

Fund members at 31 March 2018



Further details of the membership are given in Appendix 1.

Participating Employers

The employers that participate in the Fund are listed in Appendix 1. A summary of the number of participating employers is as follows:

	Active	Ceased	Total
Scheme Employers (known as "Scheduled Bodies")	27	2	29
Admitted Bodies	14	1	15
Total	41	3	44

There are also pension payments made from the Fund to former employees of Northumberland County Council, who retired prior to local government reorganisation of Northumberland in 1974, for whom the pension increase element (or part thereof) is recharged to councils outside the current geographical boundaries of Northumberland County Council

Fund Performance

Annual returns

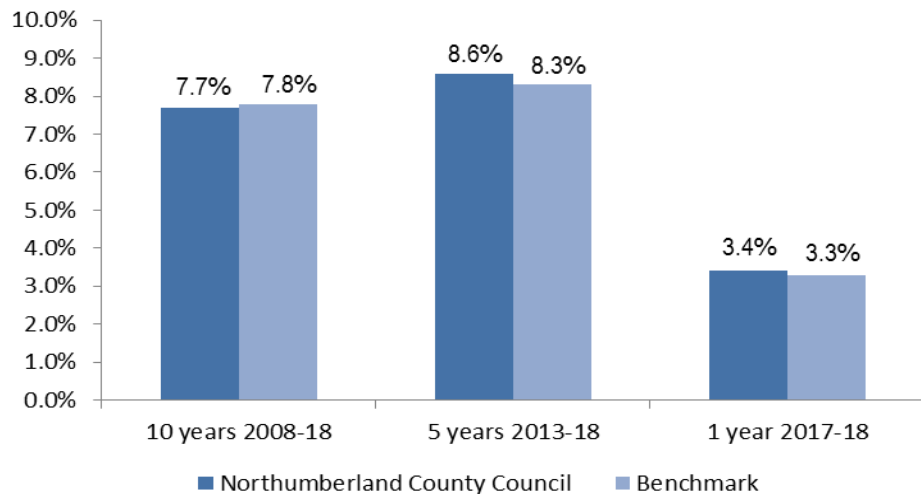
Over the year to 31 March 2018 the Northumberland County Council Pension Fund's return was 3.4%, outperforming its benchmark of 3.3%.

Year ending 31 March	2014	2015	2016	2017	2018
	%	%	%	%	%
Fund performance	4.00	13.40	-0.70	24.20	3.40
Benchmark	3.70	13.40	-1.20	24.10	3.30

Fund Performance

Annualised returns

The following shows the Northumberland County Council Pension Fund's longer-term returns compared with the Fund specific benchmark.



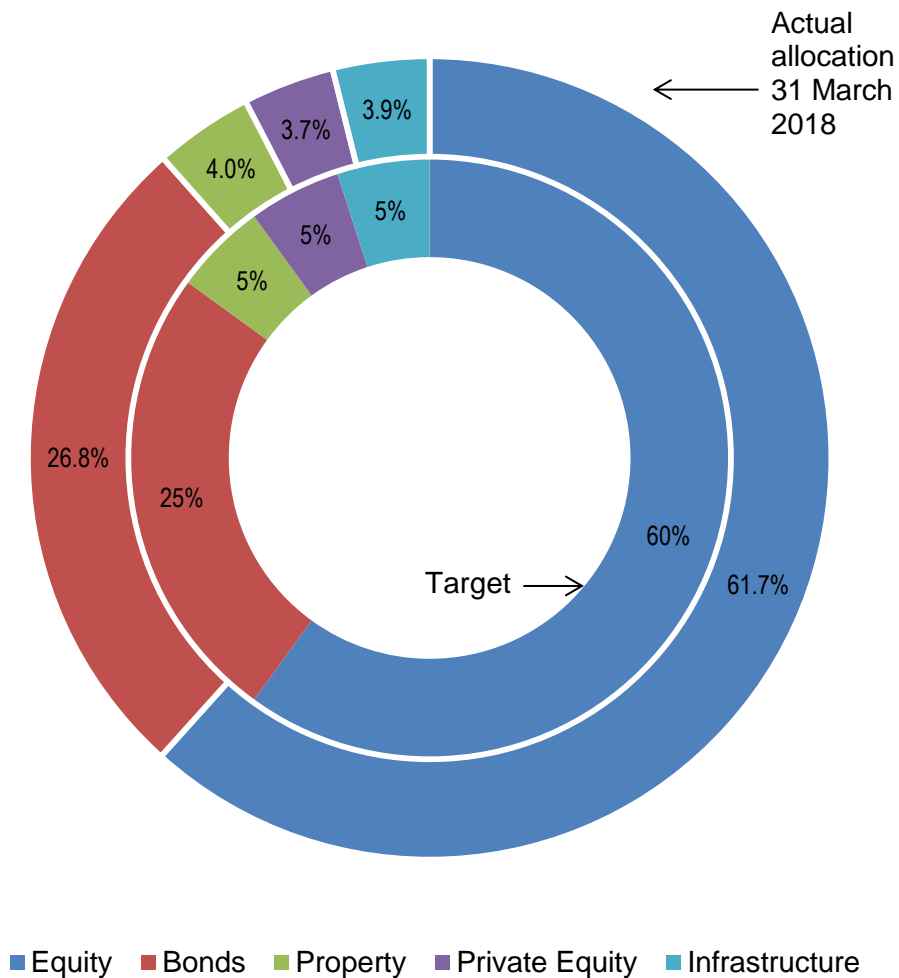
Analysis of returns

Investment category	Fund %	Benchmark %
Antin (infrastructure)	6.9	8.0
BlackRock (Property)	10.1	10.1
G.I.P (infrastructure)	(2.3)	8.0
Legal and General (Index tracker)	3.1	3.0
Morgan Stanley (private equity)	1.3	2.6
NB Alternatives (private equity)	15.0	2.6
Pantheon (private equity)	-	-
Schroder (Property)	10.5	10.1
Wellington (Bonds)	3.3	1.5
Combined Fund	3.4	3.3

All returns are shown net of fees

The Fund's returns are measured by the independent performance measurement advisor, Portfolio Evaluation.

Asset allocation



Fund Performance

Management costs

Certain investments in pooled vehicles have investment costs met within the vehicle rather than an explicit charge paid by Northumberland County Council Pension Fund. Thus costs are not charged directly to the Fund Account but are shown gross in management expenses and investment income. They are included in the fair value adjustments applied to assets concerned within the Fund Account and corresponding notes. The performance is reported on a net basis.

The table below shows adjustments made for these costs during the current and previous financial year using information supplied by investment managers.

2016-17		2017-18
£000		£000
1,482	Investment management costs charged	1,215
	Costs deducted from investment income:	
1,384	Pooled investment vehicles	1,000
2,251	Ventures and partnerships	2,637
5,117	Total gross investment management costs	4,852

Fund Performance

Market commentary

2017-18 was a year of low returns for local authority pension funds with the average being approximately 3.0%.

Over the year all primary asset classes had a positive performance. The highest returns were achieved by property assets (approximately 10%), equity markets were the next highest performer with the UK having a return of approximately 2% and global equities a return of almost 5%. Fixed income and Private Equity assets only achieved small positive returns whilst the return on cash was negligible.

Some individual holdings of alternative assets such as private equity had a return of 20% and in many cases absolute return funds and infrastructure funds exceeded 15%.

Over the year ended March 2018 equity markets rose with Emerging Markets being the best performer. From a UK investor's perspective sterling once again had an impact on market returns as it appreciated significantly against the dollar (reversing some of the currency depreciation that occurred in 2016 because of Brexit) impacting negatively on returns from non UK markets. Global growth remains the primary driver behind equity performance as markets move from a recovery to expansionary phase. Bond yields remained 'soft' for much of the year and finally increased in Q1, resulting in low returns for this asset class. Within the UK and globally the Basic Materials, Industrials, Consumer Services and Financial sectors have had good returns whilst the Consumer Goods, Utilities and Healthcare sectors have underperformed the broad market. Generally small and mid-capitalisation stocks have outperformed large capitalisation stocks.

The Fund's returns

The Northumberland County Council Pension Fund produced a return of 3.4% in 2017-18.

The Fund return was 0.1% above its benchmark in 2017-18. Asset allocation had a positive impact due to being overweight in equities (a high performing asset class) and underweight in bonds (a low performing asset class). Manager performance was a positive generator of Fund excess return due to the positive contributions from the Wellington Corporate Bond portfolio and Private Equities via NB Alternatives. Infrastructure portfolios underperformed. Index funds, as expected, have performed in line with their benchmarks.

Relative to Portfolio Evaluation's database of local authority pension funds the Fund has returned a higher than average return for the one year, five year and ten year periods.

Over five years the Fund returned 8.6% p.a. which was 0.3% p.a. above the benchmark return of 8.3% p.a. The return has been significantly above returns from cash, salary and retail inflation.

Over ten years the Fund achieved a return of 7.7% p.a. The return has been significantly above returns from cash, salary and retail inflation.

Independent Auditor's Opinion

Independent Auditor's Report to the Members of Northumberland County Council on the Pension Fund Financial Statements

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2018, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Northumberland County Council for the year ended 31 March 2018 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

Respective responsibilities of the Section 151 Officer and the auditor

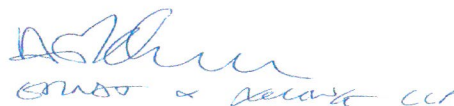
As explained more fully in the Statement of the Section 151 Officer's Responsibilities, the Section 151 Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Northumberland County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local

Authority Accounting in the United Kingdom 2017-18.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only the Northumberland County Council Pension Fund Annual Report and Accounts.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.



Hassan Rohimun
Ernst & Young LLP

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
30 July 2018

Pension Fund Accounts

Pension Fund Accounts

Fund Account

For the year ended 31 March 2018

2016-17 £000	Note	2017-18 £000
Dealings with members, employees and others directly involved with the Fund		
44,535	Contributions 5	48,364
3,004	Transfers in from other pension funds 6	5,100
47,539		53,464
(50,696)	Benefits 7	(50,321)
(2,581)	Payments to and on account of leavers 8	(5,833)
(53,277)		(56,154)
(5,738)	Net withdrawals from dealings with members	(2,690)
(6,261)	Management expenses 9	(6,425)
(11,999)	Net withdrawals after Fund management expenses	(9,115)
Returns on investments		
7,241	Investment income 10	8,082
-	Taxes on income	-
257,818	Profit and losses on disposal of investments and changes in the market value of investments 11	36,974
265,059	Net returns on investments	45,056
253,060	Net increase in net assets available for benefits during the year	35,941
1,055,262	Net assets of the Fund at 1 April	1,308,322
1,308,322	At 31 March	1,344,263

B. Scarr

Barry Scarr

Executive Director of Finance & Deputy Chief Executive

July 2018

Pension Fund Accounts

Net Assets Statement

31 March 2017		Note	31 March 2018
£000			£000
	UK Investments		
	Pooled Investment Vehicles:		
50,031	Property		53,430
330,347	Equity		324,274
228,645	Index Linked		255,522
	Overseas Investments		
	Pooled Investment Vehicles:		
491,294	Equity		502,166
99,911	Other Fixed Interest		103,253
105,653	Ventures and Partnerships		101,580
1,305,881		11	1,340,225
993	Other Investment Balances	11	893
1,306,874		11	1,341,118
3,442	Cash Deposits		1,473
708	Current Assets	12	4,596
(2,702)	Current Liabilities	13	(2,924)
1,308,322	Net Assets of the Fund at 31 March	14	1,344,263

The Fund Account and Net Assets Statement do not take account of obligations to pay pensions and benefits which fall due after 31 March 2018. The actuarial position of the Fund is shown in the “Statement of the Actuary” and the “Whole of Pension Fund Disclosures under IAS 26” shown in Appendices 2 and 3 respectively of the Annual Report and these Financial Statements should be read in conjunction with that.

1. Basis of preparation

The accounts have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017-18, which is based on International Financial Reporting Standards as amended for the UK public sector, and incorporate the provisions of Financial Reports of Pension Schemes: A Statement of Recommended Practice (2015).

The accounts summarise the Fund's transactions for the year to 31 March 2018 and the net assets available to pay LGPS pension benefits at 31 March 2018. They do not take account of obligations to pay pensions and benefits which fall due after 31 March 2018. However the actuarial present value of the promised retirement benefits as set out in "Option C" of IAS 26 (calculated on assumptions set in accordance with IAS 19) is disclosed in Appendix 3 to the Annual Report and these Financial Statements should be read in conjunction with that.

2. Accounting Policies

The accounts have been prepared on an accruals basis, except for transfers of benefits to and from other schemes which are accounted for on a receipts and payments basis, and except that the Net Assets Statement does not include liabilities to pay pensions after the end of the Fund year.

The principal accounting policies are as follows:

Investments

Valuation of investments

Investments are shown at their fair value which has been determined as follows:

- (1) Quoted securities are valued at the bid price quotations at close of business on 31 March 2018;
- (2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2018;
- (3) Other unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships; and,
- (4) Overseas securities and cash are translated into sterling at the rate ruling at the Net Assets Statement date.

Investment income

Dividends and interest on stocks are credited to the Fund in the year in which they become ex-dividend. Interest receivable on loans and deposits is accounted for on an accruals basis. Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable at 31 March 2018 where amounts were still outstanding at the year end.

Investment gains and losses

Realised and unrealised gains and losses on investments arising in the year to 31 March 2018 are credited to the Fund.

Investment transactions

Investment transactions arising up to 31 March 2018 but not settled until later are accrued in the accounts.

Cash and cash equivalents

Cash comprises cash at bank and amounts held by the Fund's custodian. Cash equivalents are short term, highly liquid investments that are readily convertible to cash and subject to minimal risk of changes in value.

Contributions

Contributions represent the total amounts receivable from the employers participating in the Fund in respect of their own contributions and those of their pensionable employees. The employers' contributions are made at rates determined by the Fund's actuary which include deficit funding contributions for some employers.

Employers' contributions for strain on the Fund following early retirements are accounted for in the period in which the liability arises.

Contributions due at 31 March 2018 are accrued in the accounts but no provision is made for employees' and employers' contributions relating to sums due on pay awards not yet settled.

Amounts due in year but unpaid are classed as a current financial asset.

Pension Accounts

Notes Supporting the Pension Fund Accounts

Benefits and refunds

Benefits and refunds are accounted for in the year in which they become due for payment. Amounts due in year but unpaid are classed as a current financial liability.

Transfer values

Transfer values are those sums paid to or received from other pension schemes for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administrative expenses

Direct and indirect staff costs for the pension team, together with apportioned costs for the use of Northumberland County Council's premises, systems and services are charged to the Fund. A share of the cost of the shared administration service with South Tyneside Council is charged to the Fund.

Investment management expenses

Investment management expenses are accounted for in the year in which they become due for payment. Amounts due in year but unpaid are classed as a current financial liability.

Events after the reporting period

Events that occurred after 31 March 2018 which provide evidence of conditions that existed at 31 March 2018 are included in the accounts. Events that are indicative of conditions that arose after 31 March 2018 are not included, except for events with material effect which are disclosed in the notes to the accounts.

Financial instruments

All of the Fund's assets and liabilities, as shown in the Net Assets Statement, are classified as financial instruments, and the principal accounting policies applied in accounting for them are described elsewhere in this note.

Obligations to pay promised retirement benefits

The actuarial present value of promised retirement benefits is shown in a separate actuarial report accompanying the accounts, entitled "Whole of Pension Fund Disclosures under IAS 26" and shown as Appendix 3 to the Annual Report. This treatment follows "Option C", as set out in IAS 26 Accounting and Reporting by Retirement Benefit Plans.

3. Critical judgements in applying accounting policies

The most significant judgements in applying accounting policies are as follows:

- Unquoted private equity and infrastructure investments
- Actuarial present value of promised retirement benefits

Private equity and infrastructure investments are valued based on forward looking estimates and judgements made by the general partners (i.e. those controlling the partnerships) to the funds invested in.

The actuarial present value of promised retirement benefits, as disclosed in Appendix 3, is prepared by the Fund actuary adopting "Option C" of IAS 26. Option C requires actuarial valuation of the liabilities on an IAS 19 basis to be prepared at formal triennial valuations only, the most recent being at 31 March 2016. The liability disclosed in Appendix 3 is subject to significant variances depending on the assumptions adopted.

4. Assumptions made about the future and other major sources of estimation uncertainty

The items in the Net Assets Statement at 31 March 2018 and Appendix 3 involving assumptions about the future and major sources of estimation uncertainty for which there is a significant risk of material adjustment to the value disclosed within the next financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Unquoted private equity and infrastructure investments	There are no publicly listed prices for the Fund's investments in private equity and infrastructure and therefore there is a degree of estimation and judgement involved in the valuations used.	Total private equity and infrastructure investments disclosed in the accounts amount to £102 million. The Fund's performance measurement service provider, Portfolio Evaluation, estimates potential volatility consistent with one standard deviation movement in the change in value of private equity as an asset class over the latest three years of 8.4%. This equates to a tolerance of +/- £9 million.
Actuarial present value of promised retirement benefits	Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. The Fund actuary provides advice about the assumptions used in calculating the deficit. The effects of changes in individual assumptions can be measured.	An increase of 0.5% in the discount rate assumption would decrease the pension liability by approximately £125 million at 31 March 2016. An increase of 0.25% in assumed salary inflation would increase the pension liability by approximately £12 million at 31 March 2016. A one year increase in assumed life expectancy would increase the pension liability by approximately £45 million at 31 March 2016.

At the balance sheet date, the following new standards and amendments to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments;
- IFRS 15 Revenue from Contracts with Customers, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard;
- IAS 7 Statement of Cash Flows (Disclosure Initiative), will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure; and,
- IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses), applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

5. Contributions

2016-17 £000		2017-18 £000
	Employers' normal contributions	
16,923	Administering authority	20,411
3,270	Scheduled bodies	4,555
2,119	Admitted bodies	2,017
	Employers' other contributions	
12,263	Deficit funding	11,702
1,439	Strain on the Fund following early retirements	788
	Members	
8,521	Normal	8,891
44,535		48,364

6. Transfers in from other pension funds

2016-17 £000		2017-18 £000
3,004	Individual transfers in from other schemes	5,100
3,004		5,100

7. Benefits

2016-17 £000		2017-18 £000
	Pensions	
37,659	Administering authority	38,515
2,118	Scheduled bodies	2,337
1,698	Admitted bodies	1,796
7,466	Commutation of pensions and lump sum retirement benefits	6,561
1,755	Lump sum death benefits	1,112
50,696		50,321

8. Payments to and on account of leavers

2016-17 £000		2017-18 £000
2,455	Individual transfers to other schemes	5,756
38	Payments for members joining state scheme	-
88	Refunds to members leaving service	77
2,581		5,833

9. Management expenses

2016-17 £000		2017-18 £000
723	Administrative costs	926
5,117	Investment management expenses	4,852
421	Oversight and governance costs	520
-	BCPP Ltd expenses	127
6,261		6,425

Investment management expenses can be further analysed as follows:

2016-17 £000		2017-18 £000
5,082	Management fees	4,816
35	Custody fees	36
5,117		4,852

Indirect management fees charged within pooled investment vehicles and partnerships have been included in investment management expenses, and management expenses analysed in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

External audit fees of £22,516 (£22,516 in 2016-17) are included in oversight and governance costs.

10. Investment income

2016-17		2017-18
£000		£000
3,393	Income from pooled investment vehicles	3,040
3,865	Income from ventures and partnerships	5,041
(17)	Net interest on cash deposits	1
7,241		8,082

11. Investments

31 March 2017		31 March 2018
£000		£000
	Actively managed investments	
50,031	Unit trusts (property)	53,430
	Other managed funds	
99,911	Other fixed interest	103,253
105,653	Ventures and partnerships	101,580
255,595		258,263
	Passively managed investments	
1,050,286	Unitised insurance policies (equity and index linked)	1,081,962
1,305,881		1,340,225
993	Other investment balances	893
1,306,874		1,341,118

Pension Accounts

Notes Supporting the Pension Fund Accounts

Fund investments at 31 March 2018 (and at 31 March 2017) were all externally managed in pooled investment vehicles which can be analysed as follows:

	Value at 1 April 2017 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2018 £000
Actively managed investments	255,595	10,474	(13,053)	5,247	258,263
Passively managed investments	1,050,286	885,828	(885,828)	31,676	1,081,962
	1,305,881	896,302	(898,881)	36,923	1,340,225
Other investment balances	993			51	893
Total	1,306,874			36,974	1,341,118

	Value at 1 April 2016 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2017 £000
Actively managed investments	347,959	14,773	(157,948)	50,811	255,595
Passively managed investments	709,469	1,239,093	(1,105,110)	206,834	1,050,286
	1,057,428	1,253,866	(1,263,058)	257,645	1,305,881
Other investment balances	246			173	993
Total	1,057,674			257,818	1,306,874

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and indirect costs incurred through the bid-offer spread on investments within pooled investment vehicles. Transaction costs incurred in the year amounted to £0.03 million (£0.14 million in 2016-17).

Pension Accounts

Notes Supporting the Pension Fund Accounts

Other investment balances

31 March 2017		31 March 2018
£000		£000
908	Cash deposits	841
85	Outstanding dividends, tax and other investment income	52
993		893

12. Current assets

31 March 2017		31 March 2018
£000		£000
	Contributions due from employers in respect of	
291	Employers	321
81	Members	75
335	Retirement grants prepaid	4,200
1	Other	-
708		4,596

These can be further analysed as follows:

31 March 2017		31 March 2018
£000		£000
536	Bodies external to general government	168
127	Central government bodies	185
43	NHS bodies	43
2	Other local authorities	4,200
708		4,596

13. Current Liabilities

31 March 2017		31 March 2018
£000		£000
(2,458)	Due to Northumberland County Council	(2,516)
(61)	Retirement/death grants due	(265)
(60)	Investment management and custodial fees due	(81)
(123)	Other	(62)
(2,702)		(2,924)

These can be further analysed as follows:

31 March 2017		31 March 2018
£000		£000
(40)	Central government bodies	(4)
(2,458)	Other local authorities	(2,516)
(204)	Bodies external to general government	(404)
(2,702)		(2,924)

14. Analysis of Investments

The total market value of the Fund at 31 March 2018 was £1,344.26 million (£1,308.32 million at 31 March 2017), which can be analysed as follows:

	31 March 2017		31 March 2018	
	£m	%	£m	%
UK and overseas equities	821.64	62.8	826.44	61.5
Fixed interest and index linked	328.56	25.1	358.78	26.7
Property unit trusts	50.03	3.8	53.43	4.0
Ventures and partnerships	105.65	8.1	101.58	7.5
Other investment balances	0.99	0.1	0.89	0.1
Cash deposits and net current (liabilities)/assets	1.45	0.1	3.14	0.2
Total	1,308.32	100.0	1,344.26	100.0

The majority of the Fund's value is held in equities. Analysis by geographical area is as follows:

	31 March 2017		31 March 2018	
	£m	%	£m	%
United Kingdom	330.35	40.2	324.28	39.3
Europe	97.57	11.9	94.39	11.4
North America	94.47	11.5	99.83	12.1
Japan	46.33	5.6	49.87	6.0
Pacific	48.73	5.9	48.01	5.8
Other	204.19	24.9	210.06	25.4
Total	821.64	100.00	826.44	100.0

Fund Value and Proportions

The values and proportions of the Fund's assets managed externally are as follows:

	31 March 2017		31 March 2018	
	£m	%	£m	%
Legal & General Investment Management	1,050.29	80.4	1,081.96	80.7
Wellington Management International	99.91	7.6	103.25	7.7
Morgan Stanley (private equity)	32.74	2.5	23.80	1.8
NB Alternatives (private equity)	21.29	1.6	20.44	1.5
Pantheon (private equity)		0.0	5.94	0.4
Schroder Investment Management	25.64	2.0	27.41	2.0
BlackRock Investment Management (UK)	24.53	1.9	26.14	2.0
GIP (infrastructure)	33.51	2.6	32.71	2.4
Antin (infrastructure)	18.96	1.4	19.46	1.5
Total	1,306.87	100.0	1,341.11	100.0

Net current assets of £3.15 million are not externally managed and therefore not shown in the analysis above.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

15. Significant holdings

At 31 March 2018, the Fund had holdings in certain pooled investment vehicles which individually represented more than 5% of the total value of Fund net assets. These holdings were:

- £324.27 million (24.1%) in the UK Equity Index Fund managed by Legal and General Investment Management. (Three separate holdings, each of £110.12 million (8.4%) totalling £330.35 million or 25.2% at 31 March 2017);
- £255.52 million (19.0%) in the Over Five Year Index Linked Gilts Fund managed by Legal and General Investment Management. (Three separate holdings, each of £76.21 million (5.8%), which together total £228.64 million (17.5%) at 31 March 2017);
- £109.72 million (8.2%) in the RAFI 3000 Overseas Equity Fund managed by Legal and General Investment Management;
- £100.33 million (7.5%) in the Emerging Markets Overseas Equity Fund managed by Legal and General Investment Management; and,
- £68.93 million (5.1%) in the Multi Sector Credit Portfolio managed by Wellington Management International. (£66.27 million or 5.1% at 31 March 2017).

16. Additional voluntary contributions (AVCs)

Scheme members may make AVCs that are invested with the Fund's nominated AVC provider. A wide range of investment types is offered to members and benefits obtained are on a money purchase basis. These contributions are not included in these accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which prohibits administering authorities from crediting AVCs to the Pension Fund.

During 2017-18 members were able to invest in an AVC plan with Prudential. Prudential was engaged as AVC provider to the Fund in February 2001 to replace Equitable Life, and all new AVCs taken out after that date were with Prudential. Equitable Life replaced Phoenix Life Limited

and some members have continued to contribute to existing AVC investments with both Equitable Life and Phoenix Life Limited.

Aggregate contributions paid by members during 2017-18 to AVC investments were £265,075 (£242,549 in 2016-17) to Prudential, and £1,513 (£1,815 in 2016-17) to Phoenix Life Limited. There were no contributions made in 2017-18 (£87 in 2016-17) to Equitable Life.

At 31 March 2018, the aggregate value of the AVC investments with Prudential was £1,952,634 (£1,864,693 at 31 March 2017), with Equitable Life was £46,806 (£48,852 at 31 March 2017), and with Phoenix Life Limited was £13,274 (£13,015 at 31 March 2017).

17. Related party transactions

Northumberland County Council administers the Pension Fund. During 2017-18 the Pension Fund had an average balance of £0.11 million loaned to the Council for which it received interest of £358 (and an average balance of £4.93 million borrowed from the Council during 2016-17 for which it paid interest of £17,214). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2017-18 these costs amounted to £0.70 million (£0.65 million in 2016-17). £2.52 million was due to the Council at 31 March 2017 (£2.46 million at 31 March 2017).

Part of the recharge to the Fund relates to the Council's Section 151 Officer, who comprises the key management personnel of the Fund. Remuneration recharged is as follows:

31 March 2017		31 March 2018
£		£
(9,895)	Short term benefits	(9,237)
(1,563)	Post-employment benefits	(1,337)
(11,458)		(10,574)

Employer contributions for Pension Fund Panel members and senior management who are members of the Scheme are paid in accordance with the rates set by the actuary in the Rates and Adjustments Certificate, and active member contributions are paid in accordance with rates set in the

Local Government Pension Scheme Regulations. The terms and conditions which apply to Panel members and senior managers are the same as those which apply to all other Scheme members. Four voting Panel members were members of the Scheme at 31 March 2018 (four at 31 March 2017).

18. Fund's operations, funding and membership

Northumberland County Council Pension Fund is part of the Local Government Pension Scheme (LGPS), which is a statutory, funded pension scheme. The benefits of the Scheme are defined and guaranteed in law.

The LGPS was contracted out of the State Second Pension until 6 April 2016. Benefits provided include a tax-free lump sum, with the option to commute pension for lump sum, and a guaranteed annual pension.

Local authority employees other than those aged over 75, teachers and fire-fighters, are automatically admitted to the LGPS, unless they opt out. Automatic enrolment legislation also applies to all eligible workers. The list of all participating employers in the Northumberland County Council Pension Fund at 31 March 2018 is shown in Appendix 1

The LGPS changed with effect from 1 April 2014 to a career average scheme for service accrued on and after 1 April 2014; service accrued prior to 31 March 2014 remains linked to final salary.

Northumberland County Council Pension Fund collects contributions from active members of the LGPS and their employers. It pays pensions and related expenses, and reimburses Northumberland County Council for the costs incurred in administering the LGPS. Surplus funds, not needed for the day-to-day expenses, are invested with external fund managers for long term growth.

As a funded scheme, contributions received from employers and employees and transfer values received are invested in the Fund to meet the benefits when they fall due. Future returns on investments and future benefits payable are not known in advance, therefore the employer

contributions payable are regularly reviewed (every three years) by the Fund actuary to ensure their adequacy for the Fund's long term solvency. The last statutory actuarial valuation of the Fund was carried out at 31 March 2016. Investment, inflation and longevity risks are carried by the employers and not by the individual Scheme members.

Northumberland County Council is the administering authority for Northumberland County Council Pension Fund under the LGPS Regulations, and has delegated its responsibility for determining investment policy and monitoring performance to the Pension Fund Panel.

The Pension Fund Panel comprises six County Council representatives, one non-voting employer representative, one non-voting Scheme member representative and two non-voting Trade Union representatives.

External fund managers have been appointed to make the day-to-day investment decisions.

At 31 March 2018 there were four external investment managers, namely Legal and General Investment Management, Wellington Management International, BlackRock Investment Management (UK), and Schroder Investment Management.

At 31 March 2018 the Fund also had private equity investments with Morgan Stanley, NB Alternatives and Pantheon, and infrastructure investment with Global Infrastructure Partners and Antin Infrastructure Partners.

The Northern Trust Company provides custodial services for the Fund.

19. Investment Strategy Statement (ISS)

Northumberland County Council Pension Fund's ISS is shown on pages 7 to 20

20. Outstanding commitments

At 31 March 2018 the Fund had outstanding commitments to six investments.

	Year of commitment	Initial commitment m	Capital payments made m	Outstanding commitment as at 31 March 2018 m	Outstanding commitment as at 31 March 2018 £m
Antin Infrastructure Partners II	2013	€ 24.00	€ 20.19	€ 3.81	3.34
Global Infrastructure Partners II-C	2011	\$43.00	\$37.81	\$5.19	3.70
Morgan Stanley GDO Fund	2006	\$10.00	\$9.70	\$0.30	0.22
Morgan Stanley Private Markets III	2005	\$50.00	\$48.48	\$1.52	1.09
Morgan Stanley Private Markets IV	2007	\$30.00	\$29.59	\$0.41	0.29
Pantheon Global Select 2017	2017	\$65.23	\$8.41	\$56.82	40.50
Total outstanding commitments					49.14

Outstanding capital commitments totalled £49.14 million at 31 March 2018 (£11.28 million at 31 March 2017). Capital is payable by the Fund to these private equity and infrastructure investments when called. Amounts called are irregular in value and timing, and are typically spread over a period of ten years.

21. Financial instruments

The value of financial instruments, classified into one of three levels according to the quality and reliability of information used to determine values, is as follows:

31 March 2017					31 March 2018			
Level 1 £000	Level 2 £000	Level 3 £000	Total £000		Level 1 £000	Level 2 £000	Level 3 £000	Total £000
-	1,200,228	105,653	1,305,881	Financial assets at fair value through profit and loss	-	1,238,646	101,580	1,340,226
5,143	-	-	5,143	Loans and receivables	6,961	-	-	6,961
(2,702)	-	-	(2,702)	Financial liabilities at amortised cost	(2,924)	-	-	(2,924)
2,441	1,200,228	105,653	1,308,322	Net financial assets	4,037	1,238,646	101,580	1,344,263

Level 1 means financial instruments valued using unadjusted quoted prices in active markets for identical assets or liabilities; level 2 means financial instruments valued using mainly observable market data but publicly quoted market prices are not available and level 3 means financial instruments valued using unobservable inputs. Level 3 instruments include unquoted investments which are valued using various techniques requiring significant judgement in determining appropriate assumptions. The Fund's level 3 investments comprise infrastructure and private equity partnerships which are valued in the Net Assets Statement based on unaudited valuations at either 31 December 2017 or 31 March 2018 provided by the managers controlling the partnerships.

The Fund has no investment assets classified as level 1. No financial instruments have been reclassified during the year.

Pension Accounts

Notes Supporting the Pension Fund Accounts

The basis of valuations of each class of investment asset is as follows:

Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation
Pooled investment vehicles including unitised insurance policies, unit trusts and other managed funds (fixed interest)	Level 2	NAV based prices published at each dealing point	Price of recent transactions for an identical instrument	N/A
Ventures and partnerships (infrastructure and private equity)	Level 3	Valuations prepared by the managers of those controlling the partnerships (i.e. the general partners) in accordance with International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP	The general partners' assessments of cash flow, growth and profitability expectations and other appropriate financial information	Material events affecting the valuations may occur between the date of the financial information provided by the general partners and the Fund's reporting date

A reconciliation of fair value measurements within level 3 is as follows:

	Value at 1 April 2017 £000	Purchases at Cost £000	Sales Proceeds £000	Change in market value £000	Value at 31 March 2018 £000
Level 3 Investments	105,653	10,412	(13,093)	(1,392)	101,580

Net gains and losses on financial instruments can be analysed as follows:

2016-17 £000		2017-18 £000
257,645	Financial assets at fair value through profit and loss	36,923
173	Loans and receivables	51
257,818	Total net gains on financial instruments	36,974

22. Nature and extent of risk arising from financial instruments

Overall Fund risk

All Fund assets and liabilities, as disclosed in the Net Assets Statement, are classified as financial instruments. However, as stated at the foot of the Net Assets Statement, it excludes the most significant Fund liability, namely the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which values such pension obligations, is dealt with in the Statement of the Actuary and the Whole of Pension Fund Disclosures under IAS 26 shown on Appendix 2 and Appendix 3 respectively to this report.

The sole purpose of holding Fund assets is to invest contributions received from employees and employers, together with transfer values received and investment income, so that there are sufficient funds available to pay pensions when the active and deferred members become pensioner members.

The primary risk for the Fund is the risk that Fund assets do not match the liabilities over the long term. It is the gap between the assets and liabilities, known as the funding deficit (or surplus), which is most relevant to the Fund's participating employers, who are responsible for meeting the funding deficit. Focussing on the risks surrounding the assets alone therefore gives only a partial picture. For example, should UK gilt yields increase this would reduce the value of the Fund's holdings in UK gilts, but it may also reduce the actuarial value placed on the liabilities to pay pensions and therefore change the funding deficit.

Overall Fund risk and the actions taken to manage that risk are described in the Fund's Statement of Investment Principles and in the Funding Strategy Statement, both maintained as separate documents which can be obtained from the Service Director - Finance.

The key controls are:

- the actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates;

- the asset liability modelling study which is carried out every three years or more frequently if necessary, to consider alternative asset allocations for the Fund and the long term impact on employer contribution rates; and,
- quarterly monitoring by the Pension Fund Panel of the Fund investments and of the updated estimated funding position.

The remainder of this note only considers risk in relation to the financial instruments disclosed on the Net Assets Statement.

Credit risk

Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk on its externally managed investment portfolio, on cash deposits managed in-house, and on the contributions receivable from the Fund's participating employers.

The market values of investments usually reflect an assessment of credit risk in their pricing and as a result the risk of loss is implicitly provided for in the fair value of the Fund's investments. Credit risk is also managed through the selection and monitoring of the Fund's custodian and investment managers, and via their contracts with the Fund. All investment managers and the custodian are required to provide the Fund with an up to date AAF06/01 report, or equivalent, annually. The Fund's active bond manager, Wellington Management International, considers credit risk as part of its portfolio construction.

Credit risk on cash deposits managed in-house is managed by Northumberland County Council's Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Northumberland County Council's Treasury Management Annual Report.

Credit risk on contributions receivable from employers is minimised by regular monitoring of the monthly receipt of payments from employers. There is no provision for doubtful debts against the amounts due from employers at 31 March 2017. The LGPS Regulations require that a risk assessment of any new employer admitted under paragraph 1(d) of Part 3, Schedule 2 of the

Pension Accounts

Notes Supporting the Pension Fund Accounts

2013 LGPS Regulations (formerly known as a transferee admitted body) is carried out, and that a bond or guarantee is obtained where necessary. The Pension Fund Panel must approve the admission of any other new admission body. Bonds or guarantees have been obtained for the Fund's admitted employers, where possible. The Fund is potentially exposed to credit risk from certain scheduled employers that have neither tax-raising powers nor a guarantee from central government.

None of the Fund's financial assets are past due or impaired.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due.

The Fund holds in-house cash resources to meet day-to-day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, units in the Fund's holdings with Legal and General Investment Management, which totalled £1,081.96 million at 31 March 2018, can be realised at short notice and at minimal cost. In eight out of the last ten years the Fund has experienced net withdrawals from dealings with members, with the maximum withdrawal in a single year being £10.30 million.

With the exception of investments in private equity and infrastructure, there are no commitments to contribute further capital to any of the existing Fund investments. When private equity/infrastructure capital calls are received, payment is made out of in-house cash surpluses, or, if there are insufficient funds available, units held with Legal and General are realised. Note 20 to the accounts shows further information about outstanding commitments to private equity and infrastructure investments.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements, and the asset mix.

Market risk is inherent in the investments that the Fund holds. To mitigate market risk, the Fund invests in a diversified portfolio to include a variety of asset classes, geographical regions and industrial sectors. The Fund is also managed by eight separate investment managers, each with different investment styles and strategies, and different benchmarks and performance targets. The Fund has a regular rebalancing policy to maintain the asset split close to the agreed asset allocation target. Full details of asset allocation and management structure are described in the Fund's Statement of Investment Principles maintained as a separate document which can be obtained from the Service Director - Finance.

The purpose of diversifying the portfolio of assets in the Fund is to reduce the impact of price movements, because it is unlikely that all asset classes will move in the same direction at the same time.

To manage market risk, the Pension Fund Panel and its adviser regularly review the Fund's asset allocation and management structure, and monitor investment managers' performance on a quarterly basis.

Market risk can be divided into three elements, namely other price risk, interest rate risk and currency risk. These are considered further below.

Pension Accounts

Notes Supporting the Pension Fund Accounts

Market risk - other price risk

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Fund is exposed to other price risk on all of its investment assets. This risk is mitigated by asset and manager diversification. Price risk can be quantified as follows:

31 March 2017	Percentage change	Value on increase	Value on decrease		31 March 2018	Percentage change	Value on increase	Value on decrease
£000	%	£000	£000		£000	%	£000	£000
330,347	8.9	359,615	301,078	UK equities	324,274	9.3	324,529	294,020
491,294	11.3	546,976	435,612	Overseas equities	502,166	12.3	561,773	442,558
228,645	11.1	254,096	203,194	Index linked	255,522	10.9	283,298	227,747
99,911	7.0	106,855	92,967	Other fixed interest	103,253	5.7	109,179	97,326
50,031	2.9	51,462	48,600	Property	53,430	2.2	54,590	52,271
105,653	8.6	114,703	96,602	Ventures and partnerships	101,580	8.4	110,059	93,101
993	0.0	993	993	Other investment balances	893	0.0	893	893
1,306,874	6.7	1,394,173	1,219,574	Total investment assets	1,341,118	6.7	1,431,509	1,250,727

The percentage change for total investment assets at 31 March 2018 and at 31 March 2017 includes the impact of correlation across asset classes, so the value on increase/decrease amounts do not sum to the total investment assets shown above.

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. The analysis shown above assumes all other potential variables remain the same. The price risk shown above includes interest rate risk and currency risk as they cannot be separated out of market price movements.

Market risk - interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of interest rate changes. The Fund is exposed to interest rate risk on its fixed interest investment assets. This risk is mitigated by asset and manager diversification. Interest rate risk can be quantified as follows:

31 March 2017	Value following 1% decrease in interest rates	Value following 1% increase in interest rates		31 March 2018	Value following 1% decrease in interest rates	Value following 1% increase in interest rates
£000	£000	£000		£000	£000	£000
228,645	254,096	203,194	Index linked	255,522	319,250	191,795
99,911	106,855	92,967	Other fixed interest	101,253	105,435	97,070
328,556	360,951	296,161	Total fixed interest investments	356,775	424,685	288,865

Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The analysis above shows the likely effect of a 1% increase or decrease in interest rates on the value of the bond instruments held by the Fund. It assumes all other potential variables remain the same, and ignores the effect a change in interest rates might have on the value of other investments held.

Pension Accounts

Notes Supporting the Pension Fund Accounts

Market risk - currency risk

Currency risk is the risk of the value of a financial instrument changing as a result of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that were purchased in any currency other than sterling. This risk is mitigated by asset and manager diversification. Currency risk can be quantified as follows:

31 March 2017 £000	Percentage change %	Value on increase £000	Value on decrease £000		31 March 2018 £000	Percentage change %	Value on increase £000	Value on decrease £000
Equities								
97,571	9.0	106,391	88,750	Europe	94,394	9.1	102,961	85,827
94,473	9.1	103,050	85,896	North America	99,834	9.7	109,520	90,147
46,329	12.9	52,284	40,375	Japan	49,870	15.6	57,663	42,076
48,729	10.7	53,938	43,520	Pacific	48,011	11.0	53,306	42,715
204,192	11.9	228,573	179,812	Other	210,057	12.3	235,811	184,304
99,911	7.6	107,505	92,318	Other fixed interest	103,253	8.1	111,616	94,889
105,653	9.1	115,238	96,067	Ventures and partnerships	100,140	9.6	109,734	90,546
696,858	7.6	749,819	643,897	Total overseas investments	705,558	8.1	762,708	648,408

The percentage change for total overseas investments at 31 March 2018 and at 31 March 2017 includes the impact of correlation across currencies, so the value on increase/decrease amounts do not sum to the total overseas investments shown above.

Potential value changes are determined based on the observed historical volatility of currency movements relative to sterling. The potential volatilities are consistent with a one standard deviation movement in currencies relative to sterling over the latest three years. The analysis shown above assumes all other potential variables remain the same.

Fund membership at 31 March 2018

	Active members	Pensioner members	Deferred members
Northumberland County Council			
Employees	6,744	7,743	7,822
Councillors	-	21	22
Local Government Pension Scheme Employers (known as "Scheduled Bodies")			
Ashington Town Council	4	-	-
Berwick Academy	51	9	11
Blyth Academy (part of Northern Education Trust)	78	13	22
Blyth Quays Trust Academy	139	13	49
Choppington Parish Council	2	-	-
Corbridge Parish Council	1	-	1
Cramlington Learning Village Academy	104	12	38
Cramlington Village Primary School (free school)	12	1	5
Emmanuel Schools Foundation (formerly Bede Academy)	140	17	53
Hadrian Learning Trust	147	-	8
Haltwhistle Community Campus Academy	46	3	15
Hexham Town Council	6	4	-
Meadowdale Academy	34	4	20
Morpeth Town Council	5	4	1
North East Learning Trust	87	-	-
Northumberland College	250	167	277
Northumberland Church of England Academy	276	61	139
Northumberland Inshore Fisheries and Conservation Authority	14	5	5
Northumberland National Park Authority	78	38	86
Northumbria Magistrates Courts Committee	-	91	49
Pax Christi Catholic Academy Trust	74	10	14

	Active members	Pensioner members	Deferred members
Ponteland Academy Trust	30	-	1
Ponteland Town Council	3	1	-
Prudhoe Adderlane Primary (part of Wise Academies)	50	-	-
St. Matthew's Catholic Academy (part of St. Thomas More Partnership)	20	1	4
Seaton Valley Council	-	-	1
Three Rivers Learning Trust Academy	242	17	80
West Bedlington Town Council	1	-	1
Admitted Bodies			
Action for Children	9	2	16
Active Northumberland	176	67	61
Age UK Northumberland	2	14	15
Barnardo's Services Ltd	7	1	13
Berwick Borough Housing Ltd (part of Bernicia Group)	6	12	4
Bullough Cleaning Services Ltd	8	2	1
Compass Chartwells	5	-	-
Feversham School	-	26	13
Isos Housing Ltd	17	61	21
Northumberland Aged Mineworkers Homes Association	7	7	-
Northumbria Healthcare NHS Foundation Trust	43	85	42
Queens Hall Arts	3	2	2
The Disabilities Trust	1	3	3
Wansbeck Homes (part of Bernicia Group)	92	62	18
Woodhorn Charitable Trust	17	7	7
Other bodies pre 1974	-	10	-
	9,031	8,596	8,940

Statement of the Actuary for the year ended 31 March 2018

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every three years. The purpose of this is to establish that the Northumberland County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The next valuation will be undertaken as at 31 March 2019.

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £1,055.26 million) covering 84% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 is:
 - 19.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate);

Plus

 - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 21 years from 1 April 2017 (the secondary rate), equivalent to 7.9% of pensionable pay (or £11.2 million in 2017-18 increasing by 10.9% every 3 years).
3. In practice, each individual employer's or Group of Employers' position is assessed separately and contributions are set out in Aon Hewitt Limited's

report dated 29 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer or Group is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods were agreed with the administering authority reflecting the employers' circumstances.
5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows:

Discount rate for periods in service	
Scheduled Bodies	4.4% per annum
Ongoing Orphan employers	4.4% per annum
Discount rate for periods after leaving service	
Scheduled Bodies	4.4% per annum
Ongoing Orphan employers	2.5% per annum
Rate of inflationary pay increases (additional allowance made for promotional increases)	3.5% per annum
Rate of increase to pension accounts	2.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.0% per annum

The discount rate for scheduled bodies was also used for employers whose liabilities will be subsumed after exit by a scheduled body employer.

In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation are set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such

- the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 29 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
 8. Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material. In addition, amendment Regulations have been laid which provide for exit credits to be repaid to employers on exit, effective from 14 May 2018. It is anticipated that the Administering Authority will consider whether its Funding Strategy Statement should be revised on account of these changes.
 9. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, Northumberland County Council, the Administering Authority of the Fund, in respect of this Statement.
 10. The report on the actuarial valuation as at 31 March 2016 is available from Northumberland County Council. Requests should be addressed to andrew.lister@northumberland.gov.uk

Aon Hewitt Limited

May 2018



Whole of Pension Fund IAS 26 Disclosure

Prepared for Northumberland County Council Pension Fund
Prepared by Joel Duckham FIA
Date 10 May 2017

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Registered in England & Wales No. 4396810
Registered office:

The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN

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Glossary

2016 Valuation	Actuarial Valuation of the Fund as at 31 March 2016
Accounting date	This report is suitable for publication in the Fund's accounts for the years ending 31 March 2017, 31 March 2018 and 31 March 2019
Fund	Northumberland County Council Pension Fund
Fund Administering Authority	Northumberland County Council

1 Introduction

Addressee This report sets out pension cost information required by the Fund Administering Authority in order to meet their disclosure requirements in relation to their pension obligations as specified by the accounting standard, IAS 26.

We have carried out this work in relation to benefits payable from the Fund.

Related Documents The advice provided in this report is supported by advice contained in the following documents:

- IAS 26 Terms of Reference dated 26 April 2017 ('Terms of Reference').
- Whole of Pension Fund IAS 26 Assumptions Advice dated 10 May 2017 ('Assumptions Advice').
- Actuarial Valuation at 31 March 2016 – Northumberland County Council Pension Fund dated 29 March 2017 (the '2016 Valuation').

Background CIPFA's Code of Practice indicates that the Fund accounts for the year ending 31 March 2017 should disclose the "actuarial present value of the promised retirement benefits" as set out in IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on the funding assumptions.

CIPFA put forward three options for disclosing the actuarial present value of promised retirement benefits and further detail on these can be found in our Terms of Reference document noted above.

The Fund Administering Authority has chosen "Option C" which was confirmed to us in an e-mail dated 5 April 2017. Option C requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2016. Under Option C this, together with other related information, should be disclosed in an actuarial report which will accompany the notes to the accounts.

The calculations contained in this document have been carried out on a basis consistent with our understanding of IAS 19.

I confirm that I am a Fellow of the Institute and Faculty of Actuaries.

Document structure

This document is structured as follows:

- Section 1 summarises the scope of the work we have undertaken.
 - Section 2 sets out the results of our calculations together with some comments on the calculations.
 - Appendix A summarises the data used in our calculations.
 - Appendix B sets out a brief explanation of the method we have used in preparing the figures.
 - Appendix C sets out compliance and legal considerations.
-

Methodology

The approach to our calculations under the various options was set out in the Terms of Reference. Comments on the methodology as it applies to IAS 26 are set out as Appendix B.

2 Information Required for IAS 26

Introduction

IAS 26 requires the "actuarial present value of the promised retirement benefits" (also known as the "defined benefit obligation") to be disclosed.

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits based on members' Pensionable Pay. Pre 1 April 2014 benefits are linked to pay increases while members are active members of the Fund and post 1 April 2014 benefits are linked to statutory (inflationary) revaluation in service.

Actuarial present value of promised retirement benefits

Paragraph 6.5.2.7 of CIPFA's Code of Practice on local authority accounting for 2016/17 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed.

The results as at 31 March 2016, together with the results as at 31 March 2013 are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions.

	Value as at 31 March 2016	Value as at 31 March 2013
	£M	£M
Fair value of net assets	1,055.3	914.4
Actuarial present value of the promised retirement benefits	1,421.4	1,281.2
Surplus / (deficit) in the Fund as measured for IAS 26 purposes	(366.1)	(366.8)

Assumptions

The latest full triennial actuarial valuation of the Fund's liabilities was carried out as at 31 March 2016. The principal assumptions used for the purpose of IAS 26 by the Fund's independent qualified actuaries were:

	31 March 2016 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	3.4	4.4
RPI Inflation	2.9	3.4
CPI Inflation (pension increases) *	1.8	2.4
Rate of general increase in salaries **	3.3	3.9

** In excess of Guaranteed Minimum Pension increases in payment where appropriate. We also recommend the assumption for the revaluation rate of pension accounts is set equal to the assumption for pension increases.*

*** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.*

Principal demographic assumptions

	31 March 2016	31 March 2013
Post retirement mortality ⁽¹⁾		
Males		
Base table	Standard SAPS S2P Tables	Standard SAPS S1N Tables
Rating to above base table (years) ⁽²⁾	0	0
Scaling to above base table rates	100%	100%
Allowance for future improvements	CMI 2014 with a long term rate of improvement of	CMI 2012 with a long term rate of improvement of
Future lifetime from age 65 (currently aged 65)	22.7	22.8 ⁽³⁾
Future lifetime from age 65 (currently aged 45)	24.9	25.0 ⁽³⁾
Females		
Base table	Standard SAPS S2P Tables	Standard SAPS S1N Tables
Rating to above base table (years) ⁽²⁾	0	0
Scaling to above base table rates	100%	100%
Allowance for future improvements	CMI 2014 with a long term rate of improvement of	CMI 2012 with a long term rate of improvement of
Future lifetime from age 65 (currently aged 65)	24.8	25.3 ⁽³⁾
Future lifetime from age 65 (currently aged 45)	27.1	27.6 ⁽³⁾

⁽¹⁾ The mortality tables shown apply to normal health retirements. Different rates apply to retirements in ill health.

⁽²⁾ A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

⁽³⁾ Future lifetimes shown at 31 March 2013 are for individuals aged 65 (or 45) at 31 March 2013, so do not show the effect of anticipated mortality improvements between 2013 and 2016.

	31 March 2016	31 March 2013
Commutation	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.

Key risks associated with reporting under IAS 26

Volatility of results

Results under IAS 26 can change significantly depending on market conditions. The defined benefit obligation is linked to yields on AA-rated corporate bonds, while a significant proportion of the assets of the Fund are invested in equities. Changing markets in conjunction with discount rate volatility will lead to volatility in the funded status of the Fund.

Choice of accounting assumptions

The calculation of the actuarial present value of the promised retirement benefits involves projecting future cash-flows from the Fund many years into the future. This means that the assumptions used can have a material impact on the surplus / deficit. As such, the Fund Administering Authority should ensure that it understands the reasoning behind the assumptions adopted and is comfortable that they are appropriate.

Furthermore, the Fund Administering Authority should bear in mind that, as required by the accounting standard, the assumptions (with the exception of the discount rate) have been set so that they represent a best estimate of future experience from the Fund. In practice future experience within the Fund may not be in line with the assumptions adopted. This means that the liabilities shown in this report only represent one view of the future and the true position could be different from those shown. For example members could live longer than foreseen or inflation could be higher or lower than allowed for in the calculations.

Sensitivity of results to key assumptions

IAS 19 requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions.

The following table illustrates the sensitivity of the defined benefit obligation to small changes to some of the key actuarial assumptions:

Change in assumption	Increase in defined benefit obligation
0.1% p.a. decrease in the discount rate	£25.2M
0.1% p.a. increase in the assumption for inflationary pay increases	£4.5M
1 year increase in life expectancy	£45.5M

GMP equalisation

The Government intends that GMPs will be equalised in due course. At present it is not appropriate to allow for this in the accounts because the methodology for implementing the equalisation is uncertain. However, once the methodology is clarified, the defined benefit obligation will increase and it is likely that the associated cost will need to be recognised through the profit and loss account. As such, a risk exists as to the magnitude of the impact of equalising GMPs.

Appendix A Data Summary

Active members at 31 March 2016

		Number	Average age	Total Pensionable Pay (£000 p.a.)	Average Pensionable Pay (£ p.a.)	Average service (years)
Men	2016	2,286	45.8	51,434	22,500	9.9
	2013	2,175	46.8	50,193	23,077	13.5
Women	2016	6,266	45.7	86,972	13,880	5.4
	2013	5,565	46.2	77,114	13,857	7.2
Total	2016	8,552	45.7	138,406	16,184	6.6
	2013	7,740	46.4	127,307	16,448	8.9

Note: The average ages shown in these tables are unweighted. Pensionable Pay is over the year to the valuation date, and includes annualised pay for new entrants during the year. Actual part-time pay is included for part-timers. It is based on the 2014 scheme definition of pensionable pay. Average service at the 2016 valuation is from 31 March 2014.

Deferred pensioners at 31 March 2016

		Number	Average age	Total pension (£000 p.a.)	Average pension (£ p.a.)
Men	2016	2,139	45.3	4,959	2,318
	2013	1,924	44.9	4,374	2,273
Women	2016	6,395	46.9	7,379	1,154
	2013	5,658	45.7	6,187	1,093
Total	2016	8,534	46.5	12,338	1,446
	2013	7,582	45.5	10,561	1,393

Note: The average ages shown in these tables are unweighted. The deferred pension amounts shown above include increases up to and including April 2016 (2013: April 2013). There were also 849 (2013: 522) members who had yet to decide whether to take transfer payments and suitable allowance has been made in our calculations.

Pensioners at 31 March 2016

		<i>Number</i>	<i>Average age</i>	<i>Total pension (£000 p.a.)</i>	<i>Average pension (£ p.a.)</i>
Men	2016	2,867	70.7	23,786	8,296
	2013	2,727	70.0	22,428	8,225
Women	2016	4,066	70.2	13,403	3,296
	2013	3,683	69.4	11,892	3,229
Dependants	2016	1,053	73.8	3,571	3,391
	2013	967	76.2	2,755	2,849
Total	2016	7,986	70.9	40,760	5,104
	2013	7,377	70.5	37,075	5,026

Note: The average ages shown in these tables are unweighted. The pension amounts shown above include the increase awarded in April 2016 (2013: April 2013). The figures include 51 children in receipt of pensions (2013: 54).

Appendix B Explanation of Actuarial Methods Used

Benefits valued

Our calculations relate to benefits payable from the Fund (as set out in LGPS Regulations at the relevant times) and related arrangements. These benefits include retirement pensions and benefits on members' death and leaving service.

A summary of the benefits that have been valued can be found in the report on the actuarial valuation of the Fund as at 31 March 2016. Unfunded defined benefit obligations e.g. discretionary pensions benefits being paid under the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations (generally referred to as Compensatory Added Years), have not been valued as they do not form part of the Fund. However, they may be required in the IAS 19 figures prepared for individual employers within the Fund.

Data

The valuation of accrued pension benefits for IAS 26 purposes requires detailed information in respect of each member such as date of birth, gender, date of joining the fund, their accrued pension and so forth.

This information was supplied by the Fund Administering Authority for the 2016 formal actuarial valuation of the Fund in the form of a standardised data extract from the Fund Administering Authority's administration systems.

The formal valuation process (which is a precursor to the valuation for IAS 26 purposes) involves a series of structured validation tests on the data items for integrity and reasonableness. These tests, together with any actions taken in respect of specific data issues, are documented as part of the normal valuation process.

Where tests reveal issues with the data, the Fund Administering Authority is contacted with a view to resolving all data queries. Only when the data queries have been resolved to the satisfaction of the Fund Actuary, will the valuation proceed.

We can confirm that no data issues were identified at the 2016 valuation that we believe would have a material effect on the calculations presented in this report. Overall, it is our opinion that the data presented at the valuation is sufficiently accurate, relevant and complete for the Fund Administering Authority to rely on the resulting IAS 19 (IAS 26) figures.

Assumptions

IAS 19 sets out the following general requirements for the setting of assumptions:

- Actuarial assumptions shall be unbiased and mutually compatible; and
- Financial assumptions shall be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.

Furthermore IAS 19 requires that the assumed discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds and in countries where there is no deep market in such bonds, the market yield (at the balance sheet date) on government bonds shall be used.

CIPFA have informed us that under IAS 26 the assumptions are ultimately the responsibility of the Fund Administering Authority. Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the balance sheet date.

The key financial assumptions are set out on the first page of Section 2 and the derivation of the assumptions is set out in our assumptions letter referred to in the Related Documents section.

Method and calculations

The figures at 31 March 2016 have been based on a full calculation of the liabilities using the assumptions set out in the Assumptions Advice.

Assets

IAS 19 requires that assets be valued at Fair Value which is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. For the purposes of this exercise we have taken the asset values directly from the Fund's audited annual accounts as at 31 March 2016.

Treatment of Risk Benefits

To value the risk benefits we have valued service related benefits based on service completed to the date of calculation only.

Expenses

Fund administration expenses are not reserved for in the Net Present Value of Actuarial Liabilities, consistent with the treatment adopted for individual employers who require IAS 19 disclosures. If the Fund wishes the administration expenses to be treated in a different way they should discuss this further with their auditor and ourselves.

IFRIC 14

IFRIC 14 is an interpretation of paragraph 58 of the IAS 19 accounting standard setting out limits to the amount of surplus that can be recognised by employing organisations in their accounts. We do not believe it has any relevance to IAS 26.

Appendix C Compliance and Disclaimer

Compliance with actuarial standards

This report should be read in conjunction with the supporting documents listed in Section 1.

This report and the work related to it, is subject to and complies with the Financial Reporting Council Limited's Pensions Technical Actuarial Standard and the Technical Actuarial Standards on reporting actuarial information, data and modelling.

The results of the calculations provided in this document constitute a valuation exercise.

Disclaimer

The calculations contained in this report have been made on a basis consistent with our understanding of IAS 19 and IAS 26. Figures required for other purposes should be calculated in accordance with the specific requirements of those purposes. It must not be assumed that figures produced for the purposes of IAS 26, which we present in this report, have any relevance beyond the scope of the Financial Reporting Standards requirements.

This report is prepared on the instructions of the Fund Administering Authority as appropriate ("you" or "your") in relation to the preparation of IAS 26 figures for the Fund Administering Authority's financial reporting as at the accounting date. It has been prepared at this date, for the purpose and on the basis set out in this report and for the benefit and use of the Fund Administering Authority.

This report should not be used or relied upon by any other person for any other purpose including, without limitation, other professional advisers, including your auditors and accountants ("third parties" or "third party"), to the Fund Administering Authority. All third parties are hereby notified that this report shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them. We do not accept any responsibility for any consequences arising from any third party seeking to rely on this report.

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We recognise that your auditors may request you directly to see a copy of our report, as part of their audit process and under statutory requirements. We agree that you may release our report to those auditors for such purpose however in making such disclosure, you shall ensure that this disclaimer remains attached to this report, and you further agree that you shall ensure that your auditors have read this disclaimer. For the avoidance of doubt, if we are approached directly by any third party for copies of this report or requested to answer queries about the report, we will require such third party to accept a third party release non reliance letter agreeing that we did not prepare the report for the third party and we do not accept any legal obligations to them. Please rest assured that this approach does not affect our contractual obligations to you as our client, with whom we continue to hold a duty of care in accordance with our terms of engagement.

This report was based on data available to us at the effective date of our calculations and takes no account of developments after that date except where explicitly stated otherwise.

With respect to data on which we have relied in producing this report, whilst we have taken certain limited steps to satisfy ourselves that

the data provided to us is of a quality sufficient for the purposes of our investigation, including carrying out certain basic tests for the purpose of detecting manifest inconsistencies, it is not possible for us to confirm the accuracy or completeness of the detailed information provided. Whilst the Fund Administering Authority may have relied on others for the maintenance of accurate data, it is their responsibility to ensure the adequacy of these arrangements and ultimately the Fund Administering Authority that bears the primary responsibility for the accuracy of such information provided. The information used is summarised in various sections of this report and Appendix A.

Pension Scheme Tax Reference Number:

(for the LGPS in England and Wales)

PSTR 00329946RE

Pension Scheme Tax Reference Number:

(for the LGPS administered by Northumberland County Council)

PSTR 00328721RH

Address for enquiries

Corporate Resources Directorate
Northumberland County Council
County Hall
Morpeth
Northumberland
NE61 2EF

Email: andrew.lister@northumberland.gov.uk

If you would like to receive the Northumberland County Council Pension Fund Report and Accounts document in large print, braille, audio or in another format or language please contact us.

Telephone 0345 600 6400

Fax 01670 511413

Text phone 01670 542521

Typetalk 018001 0345 600 6400

Email ask@northumberland.gov.uk

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