Pension Fund

2015-2016 Annual Report and Accounts

NORTHUMBERLAND
Northumberland County Council

www.northumberland.gov.uk

NORTHUMBERLAND COUNTY COUNCIL PENSION FUND
2015/2016 Report and Accounts

CONTENTS

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 2016. 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 2016 is shown in the Fund Account.

The total market value of the Fund, net of liabilities, has decreased from £1,067 million to £1,055 million as the payments made from the Fund have exceeded the annual return on the Fund (comprising income and realised/unrealised gains/losses on investments) together with receipts to the Fund in the year.

The most significant change in the Fund Account was net withdrawal from dealings with members of £10 million in 2015/2016 (£7 million in 2014/2015) reflecting increasing payments to pensioners and leavers as the Fund matures, partially offset by increasing contributions (in aggregate) from members and employers. The net negative return on investments experienced during 2015/2016 of £2 million reflects the flat returns experienced by funds generally over that period and follows the high positive returns experienced during 2014/2015.

The overall annual return on the Fund was -0.7% for the year (13.4% in 2014/2015), which compares favourably with the Fund specific benchmark annual return of -1.2%.

The degree of long term growth of the Pension Fund is seen as a more 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 2016 was 5.5%, which compares with the benchmark annualised return of 5.7%. Fund returns for the ten year period were higher than the growth in average earnings of 2.3% and inflation (RPI) increases of 3.0%.

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.

As at 31 March 2016, the membership of the Pension Fund Panel was as follows:

Voting members

Representing Northumberland County Council

Councillor A. W. Reid	(Chairman)
Councillor A. Tebbutt	(Vice Chairman)
Councillor D. L. Bawn	
Councillor A. G. Sambrook	
Councillor Mrs V. Tyler	
Councillor J. G. Watson	

Non-voting members

Representing employers

Mrs Helene Adams	Northumberland National Park Authority

Representing employees and pensioners

Ms Sue Dick	Employee 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.

INVESTMENT MANAGEMENT

The day-to-day management of the Fund's investments as at 31 March 2016 was carried out by the following five external managers:

Passive balanced	**Legal & General Investment Management Ltd** **One Coleman Street** **London** **EC2R 5AA**
Corporate bonds	**Wellington Management International Ltd** **Cardinal Place** **80 Victoria Street** **London** **SW1E 5JL**
Global equities	**M&G Investment Management Ltd** **Laurence Pountney Hill** **London** **EC4R 0HH**
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. As at 31 March 2016, the Fund had commitments to three of Morgan Stanley's private equity funds of funds. The Panel subsequently selected NB Alternatives, an affiliate of Neuberger Berman Europe Ltd, Lansdowne House, 57 Berkeley Square, London W1J 6ER, as a second private equity fund of funds investment provider in January 2007 and as at 31 March 2016 had a commitment to two NB Crossroads private equity funds of funds.

Infrastructure

The Panel selected Global Infrastructure Partners of 12 East 49th Street, 38th Floor, New York, New York 10017, USA, as an infrastructure fund investment provider to the Fund in July 2011. As at 31 March 2016 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 as at 31 March 2016 had a commitment to Antin Infrastructure Partners II LP.

Fund assets as at 31 March 2016 can be analysed as follows:

	UK £m	Non-UK £m	Global £m	Total £m
Equities	256.1	291.7	116.8	664.6
Bonds	161.6	-	93.6	255.2
Alternatives	49.4	-	88.2	137.6
Cash and cash equivalents	(2.1)	-	-	(2.1)
Total	465.0	291.7	298.6	1,055.3

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 an external solicitor is engaged, for example, Sacker & Partners LLP of 20 Gresham Street, London EC2V 7JE for investment managers' contract review.

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 2015/2016 members were able to take out AVC plans with:

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

STATEMENT OF INVESTMENT PRINCIPLES

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

The Pension Fund Panel is comprised of six County Council representatives, one non-voting employer representative, one non-voting scheme member representative and two non-voting trade union representatives. Its responsibilities include ensuring the proper administration of the Local Government Pension Scheme and 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.

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

The Panel’s investment responsibilities include

- To approve and review the content of the Statement of Investment Principles, annually or more frequently if necessary.
- To appoint and review the appointment of investment managers and global custodian.
- To monitor the performance of the investment managers, quarterly.
- To assess the quality and performance of each investment manager annually, after consulting with the Panel’s expert adviser on performance measurement, the investment adviser and the Chief Executive.
- To set and review the investment parameters and asset allocation within which the investment managers operate.
- To review the appointment of each manager and the investment strategy of the Fund at three yearly intervals, or more frequently if the Panel deems it appropriate.
- To appoint expert advisers as appropriate, and monitor their performance.
- To ensure that the Fund is managed in accordance with relevant current legislation, guidelines, and best practice and that its investment objective is met.

Investment objective

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

- ensures that, together with employer and member contributions, the Fund can meet its long term liabilities;
- aims to maximise returns within acceptable risk parameters;
- recognises the desirability of maintaining as nearly a constant contribution rate as possible and the long-term cost-efficiency of the Fund.

Fund structure

The target asset allocation and scheme specific benchmark is:

- 24% in UK equities
- 36% in overseas equities
  - 9.0% in US
  - 9.0% in Europe
  - 4.5% in Japan
  - 4.5% in Asia Pacific (Ex Japan)
  - 9.0% in Emerging Markets
- 15% in index linked securities
- 10% in corporate bond securities
- 5% in property
- 5% in private equity investments
- 5% in infrastructure investments

The target investment management structure is:

- 60% with one index tracking (passive) manager
- 15% with one global equity (active) manager
- 10% with one corporate bond (active) manager
- 5% with two property unit trust managers, i.e. 2.5% each
- 5% in private equity fund of funds investment vehicles
- 5% in infrastructure investment vehicles

The Panel determined the Fund structure and benchmark, with advice from the Fund's investment adviser, after considering the following issues:

- the maturity profile of the Fund liabilities;
- the expected level of volatility and returns of various alternative Fund structures,
- adequate diversification of assets; and
- the Panel's attitude to solvency risk and mismatching risk, and the expected impact on the employers' contribution rates.

Fund structure is considered every three years or more often if necessary, with the last full review (i.e. an asset liability modelling study) undertaken at two Panel meetings held in October and November 2014.

Private equity

The Panel approved a single small investment (less than 0.1% of the total Fund value) in local venture capital, which was launched in January 2002.

The Panel has allocated 5% of the Fund to private equity. The investment in this asset class takes the form of separate investments in private equity funds of funds. The Panel selected Morgan Stanley's Private Markets Fund III LP in November 2005, Morgan Stanley's Global Distressed Opportunities Fund LP in November 2006, NB Crossroads Fund XVIII in January 2007, Morgan Stanley's Private Markets Fund IV LP in December 2007 and NB Crossroads Fund XX in June 2014. Capital of around 7% of total Fund value was committed to these funds in the expectation of achieving an actual allocation of approximately 5% of Fund value over the life of the investments. Each investment is expected to represent at least a ten-year commitment.

Infrastructure

The Panel has allocated 5% of the Fund to infrastructure. The investment in this asset class takes the form of separate investments in infrastructure funds. The Panel has selected two infrastructure funds and committed capital of around 5% of total Fund value, with the intention of selecting at least one further infrastructure fund in the future to arrive at a total commitment of around 7% of total Fund value. The Panel selected Global Infrastructure Partners' Fund II LP in July 2011 and Antin Infrastructure Partners Fund II LP in September 2013. Each investment is expected to represent at least a ten-year commitment.

Investment managers

- Legal & General was appointed as index tracking manager, with effect from 18 December 2001, to manage UK and overseas equities, and fixed interest and index linked securities.

- M&G was appointed as global equity (active) manager, with effect from 9 January 2008 for half the actively managed global equity allocation. This was topped up to the full allocation on 7 July 2011.

- Wellington was appointed as corporate bond (active) manager, with effect from 1 March 2011.

- BlackRock and Schroder were appointed to manage property unit trusts, with effect from 18 December 2001.

Direct investments

- The Pension Fund has a capital commitment of $50 million to Morgan Stanley's Private Markets Fund III LP, a private equity fund of funds. The partnership agreement was signed on 7 April 2006, with the first capital payment in April 2006.

- The Pension Fund has a capital commitment of $10 million to Morgan Stanley's Global Distressed Opportunities Fund LP, a private equity fund of funds. The partnership agreement was signed on 21 December 2006, with the first capital payment in January 2007.

- The Pension Fund has a capital commitment of $27 million to NB Crossroads XVIII, a private equity fund of funds. The partnership agreement was signed on 27 March 2007, with the first capital payment in March 2007.

- The Pension Fund has a capital commitment of $30 million to Morgan Stanley's Private Markets Fund IV LP, a private equity fund of funds. The partnership agreement was signed on 7 December 2007, with the first capital payment in January 2008.

- The Pension Fund has a capital commitment of $26 million to NB Crossroads XX, a private equity fund of funds. The partnership agreement was signed on 30 June 2014, with the first capital payment in July 2014.

- The Pension Fund has a capital commitment of $43 million to Global Infrastructure Partners' GIP Fund II LP, an infrastructure fund. The partnership agreement was signed on 15 December 2011, with the first capital payment in May 2011.

- The Pension Fund has a capital commitment of €24 million to Antin Infrastructure Partners II LP, an infrastructure fund. The partnership agreement was signed on 20 December 2013, with the first capital payment in April 2014.

Performance targets

- The active managers have the following targets incorporated within their investment management agreements:

	outperformance target over three year rolling periods %p.a.	risk constraint measures in operation
M&G (Global equities)	2.5	µ
Wellington (Corporate bonds)	1.5	†

µ M&G (global equities mandate) has an ex-ante tracking error (annualised) of between 4% and 6%.

† Wellington (corporate bonds) ex-ante tracking error (annualised) of less than 3%.

- The property unit trusts held by BlackRock and Schroder are measured against the following:

	outperformance target over three year rolling periods %p.a.	whilst avoiding underperformance in any twelve month period %p.a.
Schroder (property unit trust)	0.50	1.50
BlackRock (property unit trust)	0.50	1.50

- The private equity funds of funds will be measured against a performance target of 6% (gross of fees) per annum over the life of the fund above the appropriate public equity index.

Investment management agreements

- All agreements with the investment managers allow for their appointments to be terminated by the Council without notice.

- Performance will normally be evaluated over three year rolling periods.

- The managers have a contractual responsibility to comply with any restrictions imposed by the most recent Local Government Pension Scheme Investment Regulations.

Custodian

- The Northern Trust Company was appointed as global custodian with effect from 1 November 2001.

- The Custodian safeguards all assets within the Fund and ensures that all associated income is collected.

- The Custodian provides the County Council with monthly statements of assets, cashflows and corporate actions.

Securities lending

The Fund participates in a securities lending programme managed by its Global Custodian, Northern Trust. Stock on loan is secured via a custom fund collateral section consisting of OECD AAA sovereign debt collateral. Initial collateral levels are not less than 105% of the market value of the borrowed securities unless the borrowed securities and collateral are denominated in the same currency, in which case 102% will apply. All equity loans will have initial collateral of 105% regardless of the currency of collateral except for US equities, which will have a collateral level of 102%. Marking to market is performed every business day.

With effect from July 2011, the Fund does not have any assets managed on a segregated basis, and therefore cannot benefit from the securities lending programme.

Audit responsibilities

- The Pension Fund is subject to audit by the County Council's external auditor, Ernst & Young LLP.

- The external auditor is responsible for reporting on whether the Northumberland County Council Financial Statements give a true and fair view of the financial position, and whether the separate Northumberland County Council Pension Fund Financial Statements are consistent with the full annual statement of accounts of Northumberland County Council.

Actuary

- Aon Hewitt was appointed as actuary to the Fund with effect from October 2000, and reappointed following a competitive tendering process in June 2012.

- The actuary performs a valuation of the Fund every three years, in accordance with the Local Government Pension Scheme Regulations. The latest actuarial valuation was performed as at 31 March 2013, and revealed a funding level of 81%.

- The main purpose of the actuarial valuation is to assess and set the employers' contributions required to achieve 100% funding, whilst keeping the contribution rates as stable as possible. For the majority of the Fund employers, a 22-year deficit recovery period has been adopted.

Investment adviser

Mercer was appointed as adviser to the Panel in March 2009 in respect of all issues relating to the investment of the Fund's assets.

Performance measurement services

Performance Measurement services are provided to the Fund by GS Performance Services (formerly WM Company).

Fee structures

- Investment Managers have ad valorem fee structures in place, except for Wellington, for whom a performance related structure is overlaid.

- GS Performance Services (performance measurement) has a fixed fee structure in line with standard industry practice.

- Aon Hewitt (actuary) and Mercer (investment adviser) both have fees based on a combination of fixed fees and time costs in line with standard industry practice.

Restrictions on investments

- The powers to invest are embodied in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Significant restrictions are as follows:

    - No more than 10% of the fund may be invested in unlisted securities of companies;

    - No more than 10% of the fund may be represented by a single holding;

    - No more than 10% of the fund may be deposited with any one bank (other than National Savings);

    - Loans from the fund, including money used by the administering authority or lent to other local authorities, but not including loans to the Government, may not in total exceed 10% of the value of the fund;

    - Each manager may deal in options, futures and contracts for differences for hedging purposes only.

- Other than those specified in the regulations, there are no further restrictions placed on the fund managers' ability to invest.

Use of increased limits under regulation 14(3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

The above named regulation permits the administering authority to increase the percentage limits on certain permitted investments, so long as when doing so the authority complies with regulation 15 of the 2009 Regulations.

<u>Insurance contracts</u>
The limit under regulation 14(2) permits a maximum of 25% of the total value of the fund to be invested in any single insurance contract, whereas the increased limit under regulation 14(3) enables the administering authority to increase that limit to 35%.

The Northumberland County Council Pension Fund has two insurance contracts with Legal & General, each originally representing less than 25% of the value of the Fund. However, at the meeting of the Pension Fund Panel held on 30 March 2005, the Panel resolved to increase the maximum permitted in each of these insurance contracts to 35%. The purpose of this increased limit was to facilitate the transfer of assets managed by other fund manager(s) into the Legal & General insurance contracts during a transition to a new Fund structure. The increased limit will remain in place until further review to facilitate any future fund management changes in which Legal & General is used to provide a temporary or permanent manager for assets following the termination of an active manager's appointment. This decision complies with regulation 15 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

<u>Contributions to partnerships</u>
The limits under regulation 14(2) permit a maximum contribution of 2% of the total value of the fund to any single partnership and 5% of the total fund value to all partnerships, whereas the increased limits under regulation 14(3) enable the administering authority to increase those limits to 5% and 30% respectively.

The Northumberland County Council Pension Fund has allocated a target of 5% of total Fund value to private equity, and capital may be over-committed in order to achieve the target allocation. Private Equity fund of fund investments are set up as partnerships and therefore the limits on partnerships apply. At the meeting of the Pension Fund Panel held on 19 May 2006, the Panel resolved to increase the limits to accommodate the commitments that may be made in this investment. The limit on all contributions in any single partnership will be raised to 5% and the limit on all contributions to partnerships will be raised to 10%. The purpose of increasing these limits is to enable the Fund to commit capital of up to 10% in all private equity partnerships held, with the purpose of achieving and maintaining the 5% target allocation to this asset class. The increased limits will remain in place for the period in which the Fund maintains its target allocation of 5% to private equity investments. This decision complies with regulation 15 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

At the meeting of the Pension Fund Panel held on 23 November 2012, the Panel resolved to extend the increase to the limits on partnerships (as detailed above) to also apply to its 5% allocation to infrastructure investments and to raise the limit on all contributions to partnerships, whether private equity or infrastructure, to 15%.

Risk

- The primary risk upon which the Panel focuses is that arising through a mismatch between the Fund's assets and its liabilities.

- The Panel recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, which generally move in line with gilt yields, as well as producing more short-term volatility in the funding position. The Panel has taken advice on the matter and (in light of the objectives) considered carefully the implications of adopting different levels of risk.

- While the risk introduced through investing a significant proportion of the Fund's assets in equities could lead to volatility in the funding level disclosed at a subsequent actuarial valuation, it is felt that this risk is acceptable in view of the potential benefits of the expected extra returns.

- The Panel recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Panel aims to ensure the asset allocation policy results in an adequately diversified portfolio across a number of managers.

- The documents governing the managers' appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The managers are prevented from investing in asset classes outside of their mandate without the prior consent of the Panel.

- The safe custody of the Fund's assets is delegated to a professional custodian.

- Should there be a material change in the Fund's circumstances, the Panel will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

- Risk is also controlled by (at least) quarterly reviews of past performance and future plans of each fund manager, and obtaining the advice of an independent expert who attends all of the regular Panel meetings.

- The Panel also determines the degree of risk taken by the investment fund managers by setting performance targets and monitoring the risk levels taken by each manager in order to achieve that target.

Expected returns

- The Fund invests in a range of UK and overseas stocks and bonds. Part of the portfolio is managed on a passive basis where the return is expected to be in line with the market as a whole, and part on an active basis where the objective is to outperform the corresponding markets. A broad measure of the long term return expected on each major asset class is:

Equities	6.6%
Property	4.6%
Private equity	8.8%
Corporate bonds	4.1%
Gilts	2.6%

  However the return in any short-term period, such as one year, may vary significantly from these long-term averages.

- In order to fulfil the assumptions used in the actuarial valuation of the Fund, a minimum return of 5.3% per annum is required long term.

Realisation of Investments

- The fund managers have discretion to realise investments whenever they wish to change the investments held. The vast majority of investments held are readily marketable, the principal exceptions being private equity, infrastructure and property, which may take some time to realise; property could take up to two years to realise, depending on the market, but private equity and infrastructure have a lifespan of somewhere between seven and fourteen years, and are therefore a significant long-term commitment.

- The Fund is not sufficiently mature to require the realisation of investments to meet the commitments to pay pensions, therefore there is no policy as yet upon this issue. When necessary, a small proportion of the assets managed by Legal & General are realised to cover a cash shortfall.

Social Ethical and Environmental Issues

- The Pension Fund Panel does not place restrictions on investment managers in choosing investments in quoted companies except as stated above. The Panel does, however, request that the managers:

  - consider that companies must be run in the long term interests of their shareholders and will need to manage relationships with employees, suppliers and customers effectively. Companies will be expected to behave ethically and have regard for the environment and society as a whole in carrying out their business. These considerations should be taken into account when managers are assessing companies, with issues of material concern being raised in their meetings with management;

  - avoid investing in companies implicated in serious crime;

  - avoid investing in countries covered by United Nations trade embargo.

- The Pension Fund Panel endorses Pensions & Investment Research Consultants (PIRC) Limited's Shareholder Voting Guidelines, and Governance*Plus* Guidelines, which cover social, ethical and environmental issues.

- 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.

Corporate Governance

- As a general principle, the Pension Fund Panel expects the Fund's investment managers to comply with the Statement of Principles issued by the Institutional Shareholders' Committee entitled 'The Responsibilities of Institutional Shareholders and Agents' (the 'ISC Principles'), which applies to UK listed companies.

- The Pension Fund Panel requires that its UK equity investment manager votes their shareholdings in accordance with Pensions & Investment Research Consultants (PIRC) Limited's Shareholder Voting Guidelines, and Governance*Plus* Guidelines, which cover social, ethical and environmental issues.

- The Panel expects the Fund's investment managers to vote every share owned, where practical.

- The Panel endorses the voting policies of the overseas equity investment managers.

Compliance Statement

Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 effectively require administering authorities to state the extent to which they comply 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. Therefore, a Compliance Statement is appended to this document.

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 fund 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 Pension Fund Panel focuses on setting the strategy for the pension fund and monitoring performance. The Panel delegates the day-to-day administration of the Pension Scheme to the Chief Executive, and delegates the day-to-day investment decisions to external fund managers.

The Pension Fund Panel and the County Council reviews 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.

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 Statement of Investment Principles 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 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 Business 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*
- *include a statement of their policy on responsible ownership in the statement of investment principles*
- *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 & General and M&G.

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

The Fund's annual report and accounts reproduces the Statement of Investment Principles in full. The annual report and accounts and the Statement of Investment Principles 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*

- *provide regular communication to scheme members in the form they consider most appropriate.*

The Fund's policy statements, including its Governance Compliance Statement, Statement of Investment Principles, 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 hard 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.

FUNDING STRATEGY STATEMENT

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 October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012."

Consultation

In accordance with Regulation 58(1) of the 2013 Regulations, all 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 Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (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 regulatory requirement in relation to the desirability of maintaining as nearly constant a common rate of contributions as possible; and
- takes a prudent longer-term view of funding the Fund's liabilities;

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 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 Statement of Investment Principles 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 profile remains appropriate including, where appropriate, commissioning asset liability modelling or other analysis techniques.

Review of Statement

The Administering Authority undertook its latest substantive review of this Statement in February 2015.

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 in so doing smooth out the contributions required from employers over the long term.

Aims of the Fund

The aims of the Fund are:

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 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 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 income from investments within reasonable risk parameters (see (d) 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.

b) <u>To ensure that sufficient resources are available to meet all liabilities as they fall due</u>

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 Administering Authority monitors the position to ensure that all cash requirements can be met.

c) <u>To manage employers' liabilities effectively</u>

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.

d) To maximise the income 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 11 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(b) 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 provision of information and provision of valuation results;
- ensure provision of data of suitable accuracy;
- 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 a Statement of Investment Principles 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 Statement of Investment Principles 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) Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer

Individual employers will:

- deduct contributions from employees' pay correctly;
- pay all 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; and
- notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding; and
- note and if desired respond to any consultation regarding the Funding Strategy Statement, the Statement of Investment Principles or other policies.

The **Fund Actuary** will:

a) Prepare triennial actuarial valuations including the setting of employers' contribution rates 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
- 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 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, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. 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 appropriate levels of contribution payable now and, by extension, the appropriate valuation approach to adopt now. 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. 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.

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 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

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 costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which 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' 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 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.

- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the 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).

Full funding

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. 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. As noted earlier, the valuation method, including components of the Funding Target, future service costs and adjustment for surplus or deficiency simply serve to set a level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period.

For simplicity, the Trajectory Period for the largest employer (or employer group) in the Fund and the Recovery period are both set to be the same.

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 and Trajectory Periods and has agreed with the Fund Actuary a limit of 22 years for both, for employers which are assessed by the Administering Authority as being long term secure employers.

The Administering Authority's policy is to set Recovery Periods for each employer which are as short as possible within this framework. 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 Director of 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 22 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 22 years may be applied for category B and C academies.

A period of 22 years has been used for Northumberland County Council, the largest employer in the Fund. Trajectory and 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.

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 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.

Notional Sub Funds

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 sub fund 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 Sub Funds

The notional sub fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below.

In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year. 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 (cashflows will not exist for these transfers). The Fund actuary will assume an estimated cashflow 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 cashflow calculations. In such a circumstance:

- where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used; and
- where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, or the results of the cashflow 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 cashflows 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 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 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.
- 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.

- 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 would 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);
  - 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 subsumed 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 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 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 & Customs rules. The LGPS is also going through a major structural change. 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.

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 other 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.

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.

<u>Smoothing</u>

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%.

<u>Recovery Period</u>

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 ("the Fund") and has been developed following consultation with employers in the Fund, scheme member representatives and other interested stakeholders.

Northumberland County Council, ("the Administering Authority"), is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). The Fund comprises over 40 employers with active members, and around 25,000 scheme members (including active members, deferred and pensioner members).

The Local Government Pension Scheme Regulations 2013 require all Local Government Pension Scheme funds in England and Wales to publish a statement of policy concerning communication with members and scheme employers. This Statement sets out with whom the Administering Authority 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 appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Fund. The Administering Authority also believes that effective communications will help to maintain the efficient running of the Fund.

The Communications Strategy has a number of specific objectives relating to how the Administering Authority communicates with its stakeholders. The Administering Authority 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
- Look for efficiencies in delivering communications.

Regulatory basis

The LGPS is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme 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 Local Government Pension Scheme the Administering Authority 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
- Data Protection Act 2003.

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.

(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).

This statement has been developed to include the information required by those provisions and to describe the Administering Authority's approach in relation to meeting these requirements in its communications.

Delivery of communications

Northumberland County Council 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 Panel will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the delivery of communications for the Fund is undertaken 'in-house' within Northumberland County Council, mainly by the Pensions Administration Team. However, the Pensions Administration Team will often make use of externally produced material, for example, material produced by the LGA's pension secretariat team including the national LGPS website. Also, the Pensions Administration Team attends regional group meetings to discuss and share communication material. Such information will, if considered appropriate, be customised to the needs of the Fund's stakeholders.

How the Administering Authority communicates

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance, and the Administering Authority recognises that communicating in a clear informative style is vital in achieving this aim.

Who the Administering Authority communicates with

The Administering Authority 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
- Pension Fund staff

- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in the Appendix to this Statement which can be obtained from Paul Foster or Helen Payne, both Acting Head of Pensions Administration.
Email: paul.foster01@northumberland.gov.uk or helen.payne@northumberland.gov.uk

Diversity of communication

The Fund's information is available in alternative formats for example, Braille, large print, BSL Video/DVD and audio tape, on request. The Administering Authority always aims to use the most appropriate communication medium for the audience receiving the 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.

Measuring whether the communication objectives are met

The Administering Authority 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 scheme members achieving 90% of scores in positive responses in these areas Provide a newsletter to all active and pensioner members at least once a year detailing scheme changes and other developments Provide all active members with the chance to attend a meeting at least once a year
Provide communications that are valued by stakeholders	Satisfaction surveys of employers and 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 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 the Administering Authority's performance against these objectives will be reported within the Fund's annual report and accounts and reported on an ongoing basis to the Pension Fund Panel and LGPS Local Pension Board.

Where performance is substantially below standard the Administering Authority 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 Head of Pensions Administration and other officers will work with the Pension Fund Panel and LGPS Local Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in workloads causes strain on day to day delivery and less focus on communications
- Issues in production of annual benefit statements, e.g. wrong address or printing errors due to external supplier
- Inability to deliver a service to pension members due to system unavailability or failure
- Issuing incorrect or inaccurate communications
- Lack of clear communication to employers or Scheme members.

Costs

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

Approval, review and consultation

This Communication Strategy Statement was approved at the Pension Fund Panel meeting on 26 November 2015. It is effective from 1 January 2016.

It will be formally reviewed and updated at least every three years or sooner if any matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing this Strategy the Administering Authority has consulted with the relevant employing authorities, the scheme member and employer representatives on the LGPS Local Pension Board and other persons considered appropriate.

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.*

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 will be appointed during 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;
- 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 Chairman 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.

Chairman/Vice Chairman

Only elected members of NCC may be the Chairman and Vice Chairman 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 Chairman, a meeting of the Pension Fund Panel can last up to seven hours, including breaks.

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 Statement of Investment Principles and the Governance Compliance Statement.

NCC Pension Administration Team also 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 22 May 2015. 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			
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	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	
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.	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	
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	There is no secondary committee or panel.	Yes	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
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.	There is no secondary committee or panel.	Yes	
	Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-			
i) employing authorities (including non-scheme employers, e.g. admitted bodies);	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	
ii) scheme members (including deferred and pensioner scheme members);	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)
iii) independent professional observers; and	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.
iv) expert advisors (on an ad-hoc basis).	The Pension Fund Panel investment adviser attends all meetings.	Yes	
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.	All Panel members and observers are treated equally in terms of access to papers, training, and participation in the decision making process.	Yes	
Selection and Role of Lay Members			
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.	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	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
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.	Declaration of interests is a standard procedure at the start of all Pension Fund Panel meetings. Declarations are noted in the minutes.	Yes	
	Voting		
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.	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.	Yes	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
	Training/Facility Time/Expenses		
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.	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.	Yes	
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.	The policy applies equally to all members of the Pension Fund Panel. There is no secondary committee or panel.	Yes	

Compliance Standard	**Arrangements in Place/Action Taken**	**Action Complies with Principle? Yes/No/Partial**	**Reason for non-Compliance (if applicable)**
	Meetings (frequency/quorum)		
That an administering authority's main committee or committees meet at least quarterly.	The Pension Fund Panel meets at least quarterly.	Yes	
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.	There is no secondary committee or panel.	Yes	
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.	Trade union observers and the employee/pensioner representative on the Pension Fund Panel represent lay members.	Yes	
	Access		
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.	All Panel members and observers are treated equally in terms of access to papers and advice.	Yes	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
Scope			
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference for the Pension Fund Panel, includes all administering authority responsibilities, and therefore the Panel considers 'wider issues' and not just investments. The one exception to this principle is that the Northumberland County Council Constitution provides that its Staff Committee should, where necessary, exercise administering authority discretion over the payment of death grants. At its meeting held on 16 November 2007, the Pension Fund Panel gave consideration to bringing the responsibility for death grant discretion within the remit of the Panel, but resolved to leave it with the Staff Committee, where the practical arrangements were working well.	Yes	
Publicity			
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.	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 NAPF. Members are invited to attend the annual meeting for employers which includes a presentation by the Fund's actuary.

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 2015/2016.

ASSESSMENT OF THE EFFECTIVENESS OF THE PENSION FUND PANEL DECISIONS MADE IN 2015/2016

Overall assessment

The Panel faced a major challenge as a result of a new Government requirement to make a proposal to pool LGPS fund assets with other LGPS funds to comply with guidance contained in a November 2015 consultation. This left the Panel with a very important decision to make in a relatively short time-frame and based on limited information; i.e. the decision as to which proposed pooling group to collaborate with. The Chairman and Vice Chairman of the Panel were very engaged during this process in gathering information to consider all the options before the Panel came to a decision to join the 'Border to Coast' Pool prior to the February 2016 deadline.

The Panel has continued to build on knowledge and experience to implement decisions through the year. The new member has shown commitment to training, and continuity has been achieved in 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 worked collaboratively with the recently formed NCC LGPS Local Pension Board to implement the new governance arrangements for the LGPS, encouraging Board members to attend Panel meetings to enable them to observe the decision making process;
- it has implemented improved reporting and transparency in the LGPS as required by the Pensions Regulator's code of practice with particular emphasis on 'Reporting Breaches of the Law' for which a training session was delivered;
- it has reviewed the appointment of the active global equity manager, M&G;
- it has considered all of the available information to make the decision to collaborate with twelve other LGPS funds in the 'Border to Coast' Pool, and submit a joint response on pooling to Government; and
- it has made an early start on the guaranteed minimum pension (GMP) reconciliation work and engaged ITM Ltd to carry out the first stage work on NCC's behalf.

Administrative arrangements

The Panel met nine times in the 2015/2016 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 ad hoc meeting to deal with the Fund's strategy review;
- two further extra-ordinary meetings to discuss and consider NCC's pooling options; and
- one 'beauty parade' held in London to interview the Fund's active global equity manager, M&G, as well as three other potential replacement managers.

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.

The Panel has delegated authority to the Chief Executive, in consultation with the Chairman and Vice Chairman, 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 Chairman 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 Chairman 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.

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 Sacker.

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 Chief Executive 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 (Deloitte in 2014/2015, changing to EY from 2015/2016) 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 (GS Performance Services, formerly WM Company) 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 2015/2016 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 the Chairman from pre-2009 returning as Chairman in 2013) ;
- 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 as well as potential new 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.

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 THE NORTHUMBERLAND COUNTY COUNCIL LGPS LOCAL PENSION BOARD

Overall assessment

1 Constitution, Representation and Attendance

The Northumberland County Council LGPS Local Pension Board ("the Board") was constituted under the Public Service Pensions Act 2013 and held its first meeting as required by 31 July 2015. 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 three occasions during the year, and each meeting was quorate.

To facilitate the operations of the Board, its members are invited as observers to meetings of the Northumberland County Council Pension Fund Panel ("the Panel"). This arrangement is reciprocated, with the Chairman and Vice Chairman of the Panel being invited to attend Board meetings, also in an observer capacity.

Membership and attendance	at the meeting held on 23 July 2015	29 October 2015	17 March 2016
Gerard Moore Independent Chair (Non-voting)	N/A	✓	✓
Councillor Bernard Pidcock Employer Representative, Northumberland County Council	✓	✓	✓
Mrs Helene Adams Employer Representative, Northumberland National Park Authority	✓	✓	✓
Ms Sue Dick Scheme Member Representative, active member	✓	✓	✓
John Clark Scheme Member Representative, pensioner member	✗	✗	✓

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;
- 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 the Fund that it is meeting its objectives (as set out in the Statement of NCC Pension Fund's Objectives approved by the Panel on 26 February 2016), producing its required statements, managing its risks, etc. so as to achieve the overall 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 Department for Communities and Local Government (DCLG) and the Pensions Regulator as its regulators.

2.4 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

2.5 The Board is supported by the Board Secretary.

2.6 The Board is not a Committee of the Council, but is established under the Public Service Pensions Act 2013. Members of the Board can be fined by the Pensions Regulator, as indeed can the Administering Authority. The Council's insurer, Zurich Municipal Underwriting Services, has confirmed that insurance cover provided for Board members is identical to that provided for NCC's councillors in performing their Council duties.

2.7 The establishment and initial meetings of the Board coincided with the period of greatest pressure on senior staff in the recent history of the LGPS, with the Administering Authority having to respond to the DCLG by 19 February 2016 on the critical consultation documents on both the proposed pooling of LGPS investments, and also on revised Investment and Management of Funds Regulations. These developments placed a relatively higher level of workload on smaller funds like Northumberland. It was clear that an over-ambitious Board could have had the opposite effect to its purpose of "assisting the Administering Authority" by over-commissioning reports from the Board Secretary. The Board therefore adopted a number of arrangements that ensured that it performed its function effectively, but in a less intrusive way.

2.8 Mindful of the sheer range of issues and papers which it could consider within its governance budget, the Board recognises the need to prioritise and now differentiates in its agenda between items for detailed discussion, and those for awareness or noting, and prioritises its time budget accordingly.

2.9 The direct costs of operating the Board in 2015/2016, covering travel and training expenses relating to Board members as well as the fees and expenses of the Independent Chair, amounted to £13,190 and were met by the Fund. These costs do not include any indirect costs relating to officer time and apportioned costs for the use of the Council's premises, systems and services which are recharged to the Fund by the Council. The Board is mindful of delivering value for money, and has identified means of working in a cost-effective manner. By so doing, it is seeking ways of saving administration and printing costs, plus the valuable time of officers, without compromising the functionality of the Board. Should the Board feel the need to bring in a specific external specialist, it can do so with the agreement of the Board Secretary. No such expertise has yet been brought in. However, the Board has received presentations by senior pensions staff of the Fund which has helped the Board identify strengths and vulnerabilities. In addition, joint training sessions have been held with members and support officers of the Boards (both LGPS and Firefighters' Pension Scheme) of other local Funds.

3 Detailed Work of the Board

3.1 Scheme documents

The Board has examined the range of scheme documents expected to be in place. It has reported where it found gaps or where there was a need to update, and recognised that the significant time requirements of responding to the two major DCLG consultations has inevitably impacted on previously-scheduled work.

The Fund has introduced the following during 2015/2016:

- Training Policy;
- Conflicts of Interest Policy;
- Reporting Breaches Procedure;
- Risk Management Policy;
- Statement of Fund Objectives;
- An assessment against the Pensions Regulator and Scheme Advisory Board Compliance Checklist.

The Fund has reviewed/updated the following during 2015/2016:

- Statement of Investment Principles;
- Governance Policy and Compliance Statement;
- Administration Strategy Statement;
- Funding Strategy Statement.

3.2 Risk management and register/key person risk officers and Members

Following enquiries from the Board, it was accepted that there were benefits to the production of a risk management policy and risk register exclusive to the Fund, rather than it being an integrated part of the policy and risk register of the Authority as a whole. Nevertheless, it would be consistent with the principles inherent within the Authority's overall policy. This is a project in development. The Board will assist the Panel in examining the Fund's risk register in 2016/2017.

3.3 Pensions Regulator

3.3.1 Whilst it is generally felt that the LGPS is comparatively well governed, nevertheless the Pensions Regulator is examining the Scheme on an ongoing basis and has, for example, highlighted delays in producing Annual Benefit Statements.

3.3.2 A key achievement of the Board has been to commission a review of the Fund against the expectations as reflected in the Pension Regulator's Code of Practice 14. The assessment identifies areas where the Fund needs to make improvements.

3.4 Reporting and Recording Breaches

The Board and its members, as with other players, all have a responsibility to report breaches of law to the Pensions Regulator. Training had been provided in this area, and reporting and recording procedures are in place.

3.5 Scheme Advisory Board (SAB)

The SAB has a two way role: giving advice both upwards to the DCLG and down to individual funds. There is expected to be a two way flow of information between the SAB and individual Funds and it is the aim of the Board to be seen as an example of good practice. The SAB examined the establishment of Local Pension Boards and Northumberland complied with the requirements and timescales.

3.6 Externalities

The Board is aware that the Fund is vulnerable to criticism from the Pensions Regulator and the Scheme Advisory Board if there are failings attributable to employers participating in the Fund. These could, for example, be caused by the late submission of data, or of poor quality data from Fund employers causing delays to the production of Annual Benefit Statements. Similarly, the Board has reviewed problems within the Administering Authority which delayed the production of the ABSs for the year to 31 March 2015 (issued in 2015/2016), and has sought and received assurances that the necessary systems improvements will enable timely production of these statements during 2016/2017.

The Board may express its concerns should it find that the reputational risk of the Administering Authority is threatened by any shortage of appropriate resources to administer the Fund effectively, be it a temporary challenge such as managing the Guaranteed Minimum Pension reconciliation exercise, or any longer term issues. In so doing, it will be mindful of the age of austerity.

3.7 References have already been made to the impact of the workload requirement to respond to two major DCLG consultations. More fundamentally, the decision on investment pooling represented probably the most significant individual decision by the Administering Authority for decades. As such it was appropriate for the Board to review the decision-making process. The Board concluded that the officers and Members on the Pension Panel had identified all feasible options, had exercised due diligence in researching each option and its synergies with the Fund, had reached out widely, and had invested considerable personal time both formally and informally prior to reaching the decision to join the Border to Coast Pensions Partnership. Furthermore, the Administering Authority had pointed out to the DCLG that all Funds were being asked to make this critical decision with incomplete information, which in itself represented a major inherent risk. The Board congratulated officers and Members on their thorough and professional approach in reaching their decision, which complied with the required timescales.

4 Training

Each Board member has to be conversant with the details of the Scheme, which translates as having a good working knowledge. Specific external training has been locally provided for Board and Panel members both on the role and purpose of Board, and on the Reporting and Recording of Breaches.

- Assessment of training needs, and how they are met, is a standing item and examined on an ongoing basis. Both formal and informal (cascade) training is being considered.
- The Board was represented at the June 2015 annual LGA/LGPS Trustees Conference and will be represented at the equivalent event in June 2016, which provides a good high level perspective to supplement the greater level of detail in training in individual areas.
- The Board will be represented at the Fund-specific training in May and September 2016 on the 31 March 2016 actuarial valuation process.

5 **Workplan**

5.1 The agenda for the first three meetings emerged naturally as the Board scanned the statutory documents, reports to the Panel, and reports, reviews and compliance requirements of both the Scheme Advisory Board and the Pensions Regulator.

5.2 A workplan will be formulated for 2016/2017. This will show the separate activity areas of:

- Accounts;
- Administration;
- Audit and Risk Management;
- Governance;
- Developments in pooling;
- Investments;
- Triennial actuarial valuation as at 31 March 2016;
- Training.

5.3 There will be a degree of flexibility to allow for any additional reviews by either the Scheme Advisory Board or the Pensions Regulator.

Thanks

The Chair of Northumberland County Council's LGPS Local Pension Board wishes to thank his fellow Board members who have volunteered their time and energies for their new roles, and for their on-going support. Thanks are also expressed to the Board Secretary, Chairman and Vice Chairman of the Pension Fund Panel, and to the Democratic Services Officer.

Gerard Moore
Independent Chair
Northumberland County Council LGPS Local Pension Board
17 March 2016

ADMINISTRATION

The Fund’s accounts are the responsibility of:

Steven Mason
Chief Executive

Assisted by:

Alison Elsdon
Director of Corporate Resources

Staff members within the Pensions Administration Team of the Corporate Resources Directorate are 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.

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

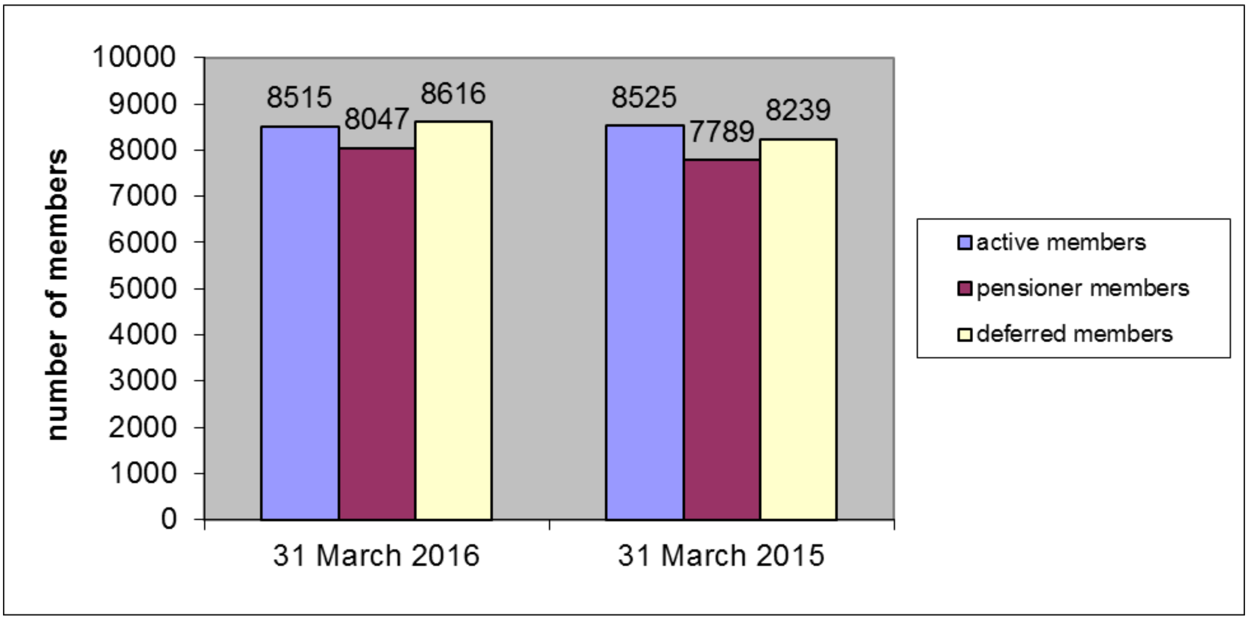
SCHEME MEMBERS

The Fund's members are current employees and councillors (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. As at 31 March 2016, the Fund had 8,515 active members and 8,047 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 as at 31 March 2016.

Fund members as at 31 March 2016



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")	23	2	25
Admitted Bodies	14	1	15
Total	37	3	40

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

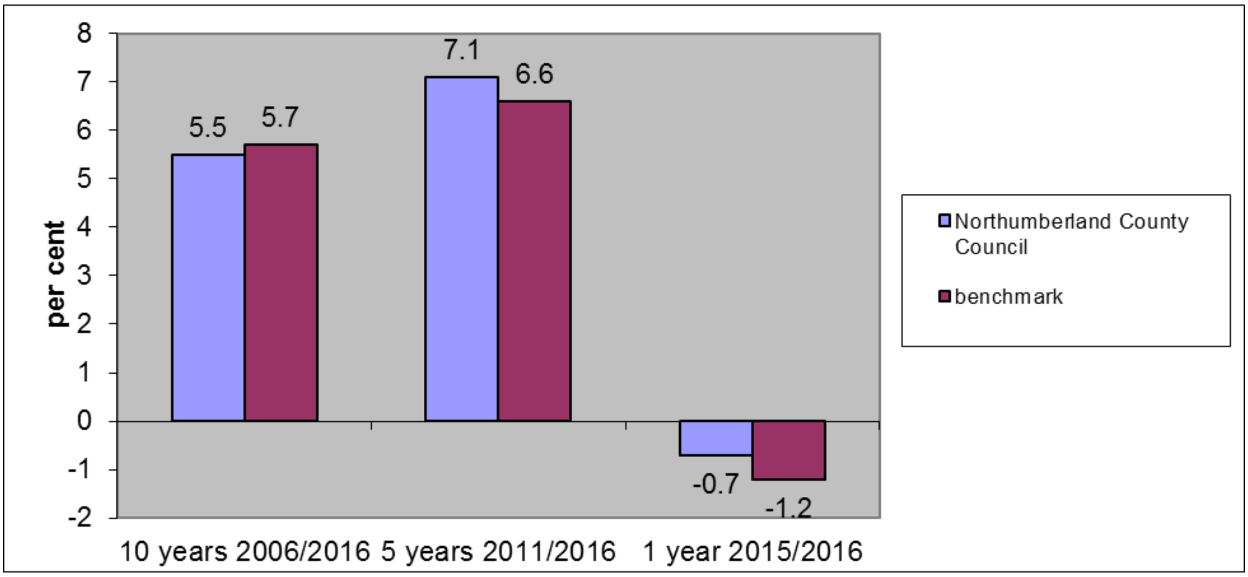
Over the year to 31 March 2016 the Northumberland County Council Pension Fund's return was -0.7%, outperforming its benchmark of -1.2%.

YEAR ENDING 31 MARCH	2012	2013	2014	2015	2016
Fund performance	5.6%	13.8%	4.0%	13.4%	-0.7%
Benchmark	4.0%	14.0%	3.7%	13.4%	-1.2%

ANNUALISED RETURNS

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

Comparison of annualised returns



ANALYSIS OF RETURNS

Manager (investment category)	Returns for year ended 31 March 2016 Fund	Benchmark
	%	%
Legal & General (index tracker)	-1.8	-2.1
M&G (global equities)	-3.5	-0.6
Wellington (bonds)	-0.4	0.8
BlackRock (property)	10.7	10.6
Schroder (property)	12.0	10.6
Morgan Stanley (private equity)	10.0	0.0
NB Alternatives (private equity)	7.1	0.0
Combined Fund	-0.7	-1.2

All returns are shown net of fees.

Market commentary

The average local authority pension fund return was just positive in 2015/2016, the return being less than the income generated.

All equity markets, with the exception of North America, produced negative returns over the year. In spite of a surprise outright majority being returned in the May 2015 UK general election, domestic equities lost ground in the early part of the period. After rebounding to some extent in the December 2015 quarter, they ended the period down 4%, reflecting the high exposure to large oil companies and commodities, which continued to suffer as oil prices fell.

In sterling terms, North America was the strongest performing of the major overseas markets returning 3%. In contrast the poorest performing areas were the emerging and some Asia Pacific markets which reduced in value by between 7 and 8%. Elsewhere, Europe lost 3% and Japan 4%. Currency had a major influence on international equity returns with the weakness of sterling insulating UK investors against much lower base currency returns.

After the double digit returns of the previous year, bond performance was much more subdued with an aggregate return in low single figures. Yields fell at the outset of the year and by Christmas, returns were looking quite negative. Central government comments and risk aversion generally in the closing quarter however saw yields pick up. Long dated bonds produced the best of the returns whilst corporate issues were marginally down over the period. Index linked gilts returned 2% and overseas bonds 4%.

Alternative investments in aggregate enjoyed a good year, however fortune was mixed. Private equity returned 14%, whilst hedge fund performance was flat. Pooled multi-asset (diversified growth) investments had a disappointing year, returning -3%. Property continued its strong run, returning 11%.

The Fund's returns

The Northumberland County Council Pension Fund produced a return of -0.7% in 2015/2016 which was below the growth in average earnings of 1.9% for the same period.

The Fund return of -0.7% was 0.5% above its benchmark. Asset allocation had no impact overall. Stock selection added 0.5% due to Private Equity performance.

Manager performance was mixed. Schroder and Legal & General beat their respective benchmarks, but this was offset by M&G and Wellington underperforming their benchmarks.

The WM Local Authority Pension Fund Universe for 2015/2016 produced an average return of 0.2% in the period. The range of returns was 2.3% for the 5th ranked to -2.6% for the 95th ranked fund. Northumberland County Council Pension Fund ranked 67th in 2015/2016 (46th in 2014/2015).

Over five years the Fund returned 7.1% p.a. which was 0.4% p.a. above the benchmark return of 6.6% p.a. and ranks 53rd in the Local Authority Universe.

Over ten years the Fund achieved a return of 5.5 p.a.. This compares with the RPI return of 3.0% p.a. and the average earnings index return of 2.3% p.a., and ranks 50th in the Local Authority Universe and marginally below the Fund's benchmark return of 5.7% p.a. for the same period.

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF NORTHUMBERLAND COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2016, which comprise the:

- Fund Account;
- Net Assets Statement; and
- related notes 1 to 23.

This report is made solely to the members of Northumberland County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Executive and the auditor

As explained more fully in the Statement of the Chief Executive's Responsibilities, the Chief Executive 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 2015/16.

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:

- Introduction
- Management
- Statement of Investment Principles
- Funding Strategy Statement
- Communication Strategy Statement
- Governance Policy and Compliance Statement
- Pension Fund Panel Training
- Assessment of the effectiveness of the Pension Fund Panel Decisions
- Annual Report of the Northumberland County Council LGPS Local Pension Board
- Administration
- Scheme members
- Fund performance
- Fund membership with employer summary
- Statement of the Actuary
- Whole of Pension Fund disclosures under IAS 26

We conducted our work in accordance with guidance 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.

Opinion

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 2016 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

CAREEN GRAY

Careen Gray (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Newcastle-upon-Tyne
30 September 2016

FINANCIAL STATEMENTS

Fund Account

For the year ended 31 March 2016

2014/2015 Restated £'000		Note	2015/2016 £'000
	Dealings with members, employers and others directly involved with the Fund		
43,406	Contributions	5	43,633
1,019	Transfers in from other pension funds	6	1,331
44,425			44,964
(49,130)	Benefits	7	(48,889)
(1,275)	Payments to and on account of leavers	8	(5,160)
(989)	Administrative expenses	9	(1,175)
(51,394)			(55,224)
(6,969)	**Net (withdrawals) from dealings with members**		(10,260)
	Returns on investments		
4,750	Investment income	10	5,032
(1,954)	Taxes on income		-
131,029	Profit and losses on disposal of investments and changes in value of investments	11	(2,395)
(3,956)	Investment management expenses	12	(4,236)
129,869	**Net returns on investments**		(1,599)
122,900	**Net (decrease)/increase in the net assets available for benefits during the year**		(11,859)
944,221	**Net assets of the Fund at 1 April**		1,067,121
1,067,121	**At 31 March**		1,055,262

Investment management expenses and investment income for 2014/2015 have been restated in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*, increasing both by £1.9 million to include fees and other expenses that have been deducted at source.

Steven Mason
Chief Executive
29 September 2016

FINANCIAL STATEMENTS

Net Assets Statement

As at 31 March 2015		Note	As at 31 March 2016
£'000			£'000
	UK investments		
	POOLED INVESTMENT VEHICLES		
46,310	- Property		49,398
370,550	- Equity		372,881
191,732	- Index linked		161,615
7	VENTURES AND PARTNERSHIPS		-
	Overseas investments		
	POOLED INVESTMENT VEHICLES		
287,964	- Equity		291,742
93,857	- Other fixed interest		93,609
75,316	VENTURES AND PARTNERSHIPS		88,183
1,065,736		11	1,057,428
2,097	Other investment balances	11	246
1,067,833		11	1,057,674
3,451	Cash deposits		4,076
310	Current assets	13	323
(4,473)	Current liabilities	14	(6,811)
1,067,121	**Net assets of the Fund at 31 March**	15	1,055,262

The accounts summarise the transactions of the Fund and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Statement of the Actuary and the Whole of Pension Fund Disclosures under IAS26 (also prepared by the actuary) shown in Appendices 2 and 3 respectively of the Annual Report and these accounts 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, and comply with the provisions of Chapter 2 of the Statement of Recommended Practice, *Financial Reports of Pension Schemes (Revised May 2007)*, except if reference to the contrary is made.

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 2016;

(2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2016;

(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;

(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 2016 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 2016 are credited to the Fund.

- *Investment transactions*

  Investment transactions arising up to 31 March 2016 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 2016 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.

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.

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 2016 which provide evidence of conditions that existed as at 31 March 2016 are included in the accounts. Events that are indicative of conditions that arose after 31 March 2016 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 IAS26" and shown as Appendix 3 to the Annual Report. This treatment follows "Option C", as set out in IAS26 *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

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.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits, as disclosed in Appendix 3, is prepared by the Fund actuary adopting "Option C" of IAS26. Option C requires actuarial valuation of the liabilities on an IAS19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2013. 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 as at 31 March 2016 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 £88 million. The Fund's performance measurement service provider, GS Performance Services, 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 7.9%. This equates to a tolerance of +/- £7 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 £110 million at 31 March 2013. An increase of 0.25% in assumed salary inflation would increase the pension liability by approximately £14 million at 31 March 2013. A one year increase in assumed life expectancy would increase the pension liability by approximately £31 million at 31 March 2013.

There are no new relevant accounting standards which have been issued but not yet adopted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

5. Contributions

2014/2015 £'000		2015/2016 £'000
	Employers' normal contributions	
15,992	Administering authority	16,272
3,619	Scheduled bodies	3,424
2,245	Admitted bodies	2,410
	Employers' other contributions	
12,146	Deficit funding	12,174
928	Strain on the Fund following early retirements	903
	Members	
8,476	Normal	8,450
43,406		43,633

6. Transfers in from other pension funds

2014/2015 £'000		2015/2016 £'000
1,019	Individual transfers in from other schemes	1,331
1,019		1,331

7. Benefits

2014/2015 £'000		2015/2016 £'000
	Pensions	
36,020	Administering authority	37,322
2,174	Scheduled bodies	1,961
1,361	Admitted bodies	1,495
8,834	Commutation of pensions and lump sum retirement benefits	7,056
741	Lump sum death benefits	1,055
49,130		48,889

8. Payments to and on account of leavers

2014/2015 £'000		2015/2016 £'000
24	Refunds to members leaving service	81
-	Group transfer to other scheme	959
1,238	Individual transfers to other schemes	4,090
13	Payments for members joining state scheme	30
1,275		5,160

9. **Administrative expenses**

2014/2015 £'000		2015/2016 £'000
597	Administrative costs	739
392	Oversight and governance costs	436
989		1,175

Administrative expenses are analysed between administrative costs and oversight and governance costs in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.*

10. **Investment income**

2014/2015 Restated £'000		2015/2016 £'000
3,534	Income from pooled investment vehicles	3,563
1,240	Income from ventures and partnerships	1,488
(24)	Net interest on cash deposits	(19)
4,750		5,032

Investment income for 2014/2015 has been restated in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. Therefore, income from pooled investment vehicles and ventures and partnerships has been restated, increasing total investment income by £1.9 million from £2.8 million to £4.7 million to gross up income for previously netted off fees and other expenses deducted at source.

11. **Investments**

Fund investments as at 31 March 2016 (and as at 31 March 2015) were all externally managed in pooled investment vehicles which can be analysed as follows:

As at 31 March 2015 £'000		As at 31 March 2016 £'000
	Actively managed investments	
120,829	Unitised insurance policies (equity)	116,769
46,310	Unit trusts (property)	49,398
	Other managed funds	
93,857	- (other fixed interest)	93,609
75,323	- (ventures and partnerships)	88,183
336,319		347,959
	Passively managed investments	
	Unitised insurance policies (equity and index linked)	
729,417		709,469
1,065,736		1,057,428
2,097	**Other Investment balances**	246
1,067,833		1,057,674

	Value at 1 April 2015 £'000	**Purchases at cost** £'000	**Sales proceeds** £'000	**Change in market value** £'000	**Value at 31 March 2016** £'000
Actively managed investments	336,319	17,463	(15,979)	10,156	347,959
Passively managed investments	729,417	68,610	(75,900)	(12,658)	709,469
	1,065,736	86,073	(91,879)	(2,502)	1,057,428
Other investment balances	2,097			107	246
Total	1,067,833			(2,395)	1,057,674

	Value at 1 April 2014 £'000	**Purchases at cost** £'000	**Sales proceeds** £'000	**Change in market value** £'000	**Value at 31 March 2015** £'000
Actively managed investments	305,734	14,111	(20,353)	36,827	336,319
Passively managed investments	644,029	57,580	(66,411)	94,219	729,417
	949,763	71,691	(86,764)	131,046	1,065,736
Other investment balances	2,082			(17)	2,097
Total	951,845			131,029	1,067,833

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, and 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 £185,610 (£164,008 in 2014/2015).

Other investment balances

As at 31 March 2015 £'000		**As at 31 March 2016** £'000
35	Outstanding dividends, tax and other investment income	69
2,062	Cash deposits	177
2,097		246

12. **Investment management expenses**

The Fund Account shows investment management fees and custody charges charged to the Fund. Investment management fees are calculated as a percentage of the market value of the portfolio managed. For one fund manager there is an adjustment for under or over performance compared to the appropriate index. Custody is charged for separately.

2014/2015 Restated £'000		**2015/2016** £'000
3,920	Management fees	4,201
36	Custody fees	35
3,956		4,236

Indirect management fees charged within pooled investment vehicles and partnerships have been included in investment management expenses, in accordance with CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. Therefore, management fees for 2014/2015 have been restated, increasing by £1.9 million from £2.0 million to £3.9 million to include fees and other expenses that have been deducted at source.

13. Current assets

As at 31 March 2015 £'000		As at 31 March 2016 £'000
	Contributions due from employers in respect of	
174	Employers	156
42	Members	37
94	Retirement grants prepaid	120
-	Other	10
310		323

These can be further analysed as follows:

As at 31 March 2015 £'000		As at 31 March 2016 £'000
57	Central government bodies	46
1	Other local authorities	1
47	NHS bodies	44
205	Bodies external to general government	232
310		323

14. Current liabilities

As at 31 March 2015 £'000		As at 31 March 2016 £'000
3,990	Due to Northumberland County Council	6,001
169	Retirement/death grants due	219
211	Investment management and custodial fees due	312
103	Other	279
4,473		6,811

These can be further analysed as follows:

As at 31 March 2015 £'000		As at 31 March 2016 £'000
5	Central government bodies	27
3,990	Other local authorities	6,001
478	Bodies external to general government	783
4,473		6,811

15. **Analysis of investments**

The total market value of the Fund as at 31 March 2016 was £1,055.3 million (£1,067.1 million as at 31 March 2015) which can be analysed as follows:

As at 31 March 2015 £m		As at 31 March 2016 £m	%
658.5	UK and overseas equities	664.6	63.0
285.6	Fixed interest and index linked	255.2	24.2
46.3	Property unit trusts	49.4	4.7
75.3	Ventures and partnerships	88.2	8.3
2.1	Other investment balances	0.3	0.0
(0.7)	Cash deposits and net current (liabilities)	(2.4)	(0.2)
1,067.1		1,055.3	100.0

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

As at 31 March 2015 £m		As at 31 March 2016 £m	%
370.5	United Kingdom	372.9	56.1
72.6	Europe	70.4	10.6
71.2	North America	71.9	10.8
35.5	Japan	33.9	5.1
36.2	Pacific	37.5	5.6
72.5	Other	78.0	11.8
658.5		664.6	100.0

Analysis of UK equity investments by industrial sector is as follows:

As at 31 March 2015 £m		As at 31 March 2016 £m	%
4.9	Basic materials	4.9	1.3
2.0	Consumer staples	5.4	1.4
17.6	Consumer discretions	23.2	6.2
20.8	Financials	14.1	3.8
22.5	Healthcare	18.9	5.1
15.9	Industrials	10.9	2.9
7.6	Energy	4.4	1.2
26.1	Information Technology	34.6	9.3
253.1	Other (including managed funds)	256.5	68.8
370.5		372.9	100.0

Fund value and proportions

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

As at 31 March 2015 £m		As at 31 March 2016 £m	%
729.4	Legal & General Investment Management	709.5	67.1
120.8	M&G Investment Management	116.8	11.0
93.9	Wellington Management International	93.6	8.9
46.2	Morgan Stanley (private equity)	38.6	3.6
15.8	NB Alternatives (private equity)	16.5	1.6
23.3	Schroder Investment Management	24.9	2.4
23.4	BlackRock Investment Management (UK)	24.6	2.3
8.9	GIP (infrastructure)	20.0	1.9
6.1	Antin (infrastructure)	13.2	1.2
1,067.8		1,057.7	100.0

Net current liabilities (net of cash deposits) of £2.4 million are not externally managed and therefore not shown in the analysis above.

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

16. Significant holdings

As at 31 March 2016, 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:

- £128.1 million (12.1%) in the UK Equity Index Fund managed by Legal & General Investment Management, and a further £128.0 million (12.1%) also in the UK Equity Index Fund managed by Legal & General Investment Management, each in a separate insurance contract.

- £80.8 million (7.7%) in the Over Five Year Index Linked Gilts Fund managed by Legal & General Investment Management, and a further £80.8 million (7.7%) also in the Over Five Year Index Linked Gilts Fund managed by Legal & General Investment Management, each in a separate insurance contract.

- £116.8 million (11.1%) in the Global Leaders Fund managed by M&G Investment Management.

- £59.5 million (5.6%) in the Multi Sector Credit Portfolio managed by Wellington Management International.

17. 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 2015/2016 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 2015/2016 to AVC investments were £290,522 (£334,637 in 2014/2015) to Prudential, £87 (£97 in 2014/2015) to Equitable Life, and £2,134 (£3,712 in 2014/2015) to Phoenix Life Limited.

As at 31 March 2016, the aggregate value of the AVC investments with Prudential was £1,824,210 (£1,830,321 as at 31 March 2015), with Equitable Life was £46,498 (£48,920 as at 31 March 2015), and with Phoenix Life Limited was £25,248 (£34,350 as at 31 March 2015).

18. Related party transactions

Northumberland County Council administers the Pension Fund. During 2015/2016 the Pension Fund had an average balance of £3.7 million borrowed from the Council for which it paid interest of £19,169 (and an average balance of £4.9 million borrowed from the Council during 2014/2015 for which it paid interest of £23,679). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2015/2016 these costs amounted to £636,086 (£576,250 in 2014/2015). £6,001,444 was due to the Council at 31 March 2016 (£3,990,067 at 31 March 2015).

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 as at 31 March 2016 (four as at 31 March 2015).

19. 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 (S2P) as at 31 March 2016 and provides benefits that are broadly equivalent to or better than members would have received had they been members of S2P. 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 as at 31 March 2016 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 2013 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 as at 31 March 2013. 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.

As at 31 March 2016 there were five external investment managers, namely Legal & General Investment Management, M&G Investment Management, Wellington Management International, BlackRock Investment Management (UK), and Schroder Investment Management.

As at 31 March 2016 the Fund also had private equity investments with Morgan Stanley, and NB Alternatives, and infrastructure investment with Global Infrastructure Partners and Antin Infrastructure Partners.

The Northern Trust Company provides custodial services for the Fund.

20. **Statement of Investment Principles (SIP)**

Northumberland County Council Pension Fund’s SIP is shown on pages 6 to 18 of this report.

21. Outstanding commitments

As at 31 March 2016 the Fund had outstanding commitments to six investments.

	Year of commitment	Initial commitment	Capital payments made	Outstanding commitment as at 31 March 2016	
Morgan Stanley Private Markets III	2005	\$50.0m	\$47.6m	\$2.4m	£1.7m
Morgan Stanley GDO Fund	2006	\$10.0m	\$9.6m	\$0.4m	£0.2m
Morgan Stanley Private Markets IV	2007	\$30.0m	\$28.6m	\$1.4m	£1.0m
Global Infrastructure Partners II-C	2011	\$43.0m	\$27.3m	\$15.7m	£10.9m
Antin Infrastructure Partners II	2013	€24.0m	€15.2m	€8.8m	£7.0m
NB Crossroads Fund XX	2014	\$26.0m	\$10.5m	\$15.5m	£10.8m
Total outstanding commitments					£31.6m

Outstanding capital commitments totalled £31.6 million as at 31 March 2016 (£50.1 million as at 31 March 2015). 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.

22. 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:

	As at 31 March 2016			
	Level 1 £'000	**Level 2** £'000	**Level 3** £'000	**Total** £'000
Financial assets at fair value through profit and loss	-	969,245	88,183	1,057,428
Loans and receivables	4,645	-	-	4,645
Financial (liabilities) at amortised cost	(6,811)	-	-	(6,811)
Net financial assets	(2,166)	969,245	88,183	1,055,262

	As at 31 March 2015			
	Level 1 £'000	**Level 2** £'000	**Level 3** £'000	**Total** £'000
Financial assets at fair value through profit and loss	-	990,413	75,323	1,065,736
Loans and receivables	5,858	-	-	5,858
Financial (liabilities) at amortised cost	(4,473)	-	-	(4,473)
Net financial assets	1,385	990,413	75,323	1,067,121

Financial instruments as at 31 March 2015 have been restated, classifying the financial assets at fair value through profit and loss previously shown as level 1 as level 2 instead, to better reflect the valuation methods used for these assets.

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 and level 3 means financial instruments valued using unobservable inputs.

The majority of the Fund assets are classified as level 2. The Fund has no investment assets classified as level 1 and has private equity and infrastructure investments classified as level 3 which are based on the valuations provided by the general partners to the funds invested in. Private equity and infrastructure investments are categorised as "ventures and partnerships" in the Net Assets Statement.

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

2014/2015 £'000		**2015/2016** £'000
131,046	Financial assets at fair value through profit and loss	(2,502)
(17)	Loans and receivables	107
131,029	Total net gains on financial instruments	(2,395)

23. **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 IAS26 shown in Appendices 2 and 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, shown on pages 6 to 18 of this report, and in the Funding Strategy Statement, shown on pages 19 to 37 of this report.

The key controls are:

- the actuarial valuation of the Fund which is carried out every three years and sets 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 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 as at 31 March 2016. The LGPS Regulations require that a risk assessment of any new employer admitted under paragraph 1(d) of Part 3, Schedule 2 of the 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 & General Investment Management, which totalled £709.5 million as at 31 March 2016, can be realised at short notice and at minimal cost. In seven 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 £10.3 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 & General are realised. Note 21 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 five different investment managers, each with different investment styles and strategies, and different benchmarks and performance targets. The LGPS Regulations contain prescribed limits to prevent overconcentration in certain asset classes and encourage diversification. Full details of asset allocation and management structure are described in the Fund's Statement of Investment Principles shown on pages 6 to 18 of this report.

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.

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:

	As at 31 March 2016 £'000	**Percentage change** %	**Value on increase** £'000	**Value on decrease** £000
UK equities	372,881	10.6	412,369	333,393
Overseas equities	291,742	10.3	321,908	261,576
Index linked	161,615	9.5	176,904	146,326
Other fixed interest	93,609	3.6	96,979	90,239
Property	49,398	1.9	50,322	48,474
Ventures and partnerships	88,183	7.9	95,167	81,199
Other investment balances	246	-	246	246
Total investment assets	1,057,674	7.0	1,131,500	983,848

	As at 31 March 2015 £'000	**Percentage change** %	**Value on increase** £'000	**Value on decrease** £000
UK equities	370,550	10.3	408,717	332,383
Overseas equities	287,964	9.6	315,609	260,319
Index linked	191,732	9.7	210,292	173,172
Other fixed interest	93,857	3.4	97,048	90,666
Property	46,310	2.3	47,394	45,226
Ventures and partnerships	75,323	7.9	81,304	69,342
Other investment balances	2,097	-	2,097	2,097
Total investment assets	1,067,833	6.4	1,135,961	999,705

The percentage change for total investment assets as at 31 March 2016 and as at 31 March 2015 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:

	As at 31 March 2016	**Value following 1% decrease in interest rates**	**Value following 1% increase in interest rates**
	£'000	£'000	£000
Index linked	161,615	200,451	122,779
Other fixed interest	93,609	96,483	90,735
Total fixed interest investments	255,224	296,934	213,514

	As at 31 March 2015	**Value following 1% decrease in interest rates**	**Value following 1% increase in interest rates**
	£'000	£'000	£000
Index linked	191,732	235,792	147,672
Other fixed interest	93,857	98,183	89,530
Total fixed interest investments	285,589	333,975	237,202

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.

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:

	As at 31 March 2016 £'000	Percentage change %	Value on increase £'000	Value on decrease £000
Equities				
Europe	70,429	6.5	74,981	65,877
North America	71,888	7.8	77,483	66,293
Japan	33,938	11.7	37,901	29,975
Pacific	37,537	6.5	39,986	35,088
Other	77,950	6.8	83,244	72,656
Other fixed interest	93,609	6.0	99,219	87,999
Ventures and partnerships	88,183	7.0	94,338	82,028
Total overseas investments	473,534	6.1	502,526	444,542

	As at 31 March 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £000
Equities				
Europe	72,657	3.8	75,401	69,913
North America	71,187	7.4	76,464	65,910
Japan	35,469	11.0	39,379	31,559
Pacific	36,182	6.4	38,512	33,852
Other	72,469	6.8	77,394	67,544
Other fixed interest	93,857	5.6	99,121	88,593
Ventures and partnerships	75,316	7.6	81,077	69,555
Total overseas investments	457,137	5.6	482,920	431,354

The percentage change for total overseas investments as at 31 March 2016 and as at 31 March 2015 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.

Appendix 1

FUND MEMBERSHIP
As at 31 March 2016

	Active members	Pensioner members	Deferred members
Northumberland County Council - Employees	6,537	7,353	7,709
Councillors	20	12	11
Local Government Pension Scheme Employers (known as “Scheduled Bodies”)			
Ashington Town Council	2	0	0
Bede Academy	103	15	47
Berwick Academy	45	8	8
Blyth Academy (formerly Blyth Community College)	72	13	16
Blyth Quays Academy	138	9	30
Choppington Parish Council	2	0	0
Corbridge Parish Council	2	0	0
Cramlington Learning Village Academy	90	11	24
Cramlington Village Primary School (free school)	12	1	1
Haltwhistle Community Campus Academy	42	3	10
Hexham Town Council	6	5	0
Meadowdale Academy	31	2	13
Morpeth Town Council	6	4	0
Northumberland College	209	147	251
Northumberland Church of England Academy	294	38	110
Northumberland Inshore Fisheries and Conservation Authority	17	5	3
Northumberland National Park Authority	58	31	91
Northumbria Magistrates Courts Committee	0	83	58
Pax Christi Academy	91	5	8
Ponteland Town Council	1	1	0
St. Matthew’s Roman Catholic Academy	3	0	0
Seaton Valley Council	0	0	1
Three Rivers Learning Trust Academy	164	6	54
West Bedlington Town Council	1	0	1
Admitted Bodies			
Action for Children	14	1	12
Active Northumberland	307	24	24
Age UK Northumberland	2	13	16
Barnardo’s Services Ltd	10	1	11
Berwick Borough Housing Ltd	7	12	4
Bullough Cleaning Services Ltd	8	1	1
Feversham School	0	25	14
Isos Housing Ltd	21	57	19
Northumberland Aged Mineworkers Homes Association	8	6	0
Northumbria Healthcare NHS Foundation Trust	51	78	42
Queens Hall Arts	3	2	2
The Disabilities Trust	1	3	3
The Maltings (Berwick) Trust	1	1	2
Wansbeck Homes	108	52	13
Woodhorn Charitable Trust	28	5	7
Other bodies pre 1974	0	14	0
	8,515	8,047	8,616

STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31 MARCH 2016

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. 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 latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £914.4M) covering 81% of the liabilities in respect of service prior to the valuation date allowing, in the case of 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 2014 was:

- 16.4% 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.

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 22 years from 1 April 2014, amounting to £11.4M in 2014/15, and increasing by 3.9% p.a. thereafter.

3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (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 was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.

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 Orphan Bodies	 5.3% p.a. 5.2% p.a.
Discount rate for periods after leaving service Scheduled Bodies Orphan Bodies	 5.3% p.a. 3.7% p.a.
Rate of pay increases (additional allowance made for promotional increases)	3.9% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were 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 2013. 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 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme regulations 2013.

The actuarial valuation of the Fund as at 31 March 2016 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.

8. 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 2013. 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 Hewitt Limited 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.

Aon Hewitt Limited
26 May 2016

Whole of Pension Fund Disclosures under IAS 26

Northumberland County Council Pension Fund ("the Fund")

Prepared for Northumberland County Council, as Administering Authority to the Fund

Prepared by Chris Archer FIA

Aon Hewitt Ltd

Date 23 May 2014

1 Introduction

Addressee

This report sets out pension cost information required by Northumberland County Council in its capacity as Administering Authority to the Fund (the “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 Northumberland County Council Pension Fund (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 27 March 2014 (the 'Terms of Reference').
- Advice in relation to the actuarial assumptions was provided by Aon Hewitt in a document dated 23 May 2014 ('Assumptions Advice').

In addition, the following document should be referred to which contains a more detailed description of the approach taken in valuing liabilities, further detail on the demographic assumptions and the treatment of data.

- Actuarial Valuation at 31 March 2013 – Northumberland County Council Pension Fund dated 31 March 2014 (the '2013 Valuation').

Background

The Code of Practice indicates that the Fund accounts for the year ending 31 March 2014 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 Administering Authority has chosen "Option C" which was confirmed to us in an e-mail dated 27 March 2014. 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 2013. 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" to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the "defined benefit obligation".

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' Final Pensionable Pay.

Actuarial present value of promised retirement benefits

Paragraph 6.5.2.7 of CIPFA's Code of Practice on local authority accounting for 2013/14 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed.

The results at as 31 March 2013, together with the 2010 figures 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. We do not believe the Authority needs to show the 2010 figures under IAS 26 if it does not wish to do so. The Code of Practice is not clear if the fair value of assets and the surplus / deficit at 31 March 2013 also needs to be disclosed but you may want to include these figures for clarity.

	Value as at 31 March 2013	Value as at 31 March 2010
	£M	£M
Fair value of net assets	914.4	719.0
Actuarial present value of the promised retirement benefits	1,281.2	1,209.3
Surplus / (deficit) in the Fund as measured for IAS26 purposes	(366.8)	(490.3)

Assumptions

The latest full triennial actuarial valuation of the Fund's liabilities was carried out as at 31 March 2013. The principal assumptions used for the purpose of IAS 26 by the Fund's independent qualified actuaries were:

	31 March 2013 (% p.a.)	31 March 2010 (% p.a.)
Discount rate	4.4	5.5
RPI Inflation	3.4	3.9
CPI Inflation	2.4	3.0
Rate of increase to pensions in payment*	2.4	3.9
Rate of increase to deferred pensions*	2.4	3.9
Rate of general increase in salaries **	3.9	5.4

** In excess of Guaranteed Minimum Pension increases in payment where appropriate*
*** 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

Post retirement mortality	31 March 2013	31 March 2010
Males		
Base table	Standard SAPS Normal Health All Amounts (S1NMA)	Standard SAPS Normal Health All Amounts (S1NMA)
Scaling to above base table rates **	100%	100%
Allowance for future improvements	CMI 2012 with a long term rate of improvement of 1.5% p.a.	CMI 2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	22.8	22.1
Future lifetime from age 65 (currently aged 45)	25.0	24.0
Females		
Base table	Standard SAPS Normal Health All tables (S1NFA)	Standard SAPS Normal Health All tables (S1NFA)
Scaling to above base table rates **	100%	100%
Allowance for future improvements	CMI 2012 with a long term rate of improvement of 1.5% p.a.	CMI 2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	25.3	24.3
Future lifetime from age 65 (currently aged 45)	27.6	26.3

* 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.

** The scaling factors shown apply to normal health retirements

	31 March 2013	31 March 2010
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 is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

Changes in benefits during the accounting period	There have been no changes in benefits during the accounting period. No allowance has been made in our calculations for the new Scheme benefits accruing from 1 April 2014.

Key risks associated with reporting under IAS 26

Volatility of results

Results under IAS 26 can change dramatically 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 pension fund.

If at any time during the year you want us to provide you with an update of the IAS 26 position, please let us know.

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 Administering Authority should ensure that it understands the reasoning behind the assumptions adopted and are comfortable that they are appropriate.

Furthermore, the 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

In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions.

The revised version of IAS 19 requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions although it is not clear that IAS 26 or the CIPFA Code of Practice requires this information. Please let us know if you require this information.

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 2013

		Number	Average age	Total Pensionable Pay (£000 p.a.)	Average Pensionable Pay (£ p.a.)	Average service (years)
Men	**2013**	2,175	46.8	50,193	23,077	13.5
	2010	2,369	46.4	53,296	22,497	13.5
Women	2013	5,565	46.2	77,114	13,857	7.2
	2010	6,079	45.2	79,053	13,004	6.6
Total	2013	7,740	46.4	127,307	16,448	8.9
	2010	8,448	45.5	132,349	15,666	8.5

- Note: Pay is that over the year to the respective valuation date. Annualised pay is included for entrants in the last year. Part time pay is included for part-timers.

Deferred pensioners at 31 March 2013

		Number	Average age	Total pension (£000 p.a.)	Average pension (£ p.a.)
Men	2013	1,924	44.9	4,374	2,273
	2010	1,758	44.5	3,529	2,008
Women	2013	5,658	45.7	6,187	1,093
	2010	4,857	44.6	4,526	932
Total	2013	7,582	45.5	10,561	1,393
	2010	6,615	44.5	8,055	1,218

- Note: The deferred pensions include increases granted in April 2013 (2010). In addition to the numbers above there were members who had yet to decide whether to take a transfer payment. Suitable allowance has been made for these in our calculations.

Pensioners at 31 March 2013

		Number	Average age	Total pensions (£000 p.a.)	Average pension (£ p.a.)
Men	2013	2,727	70.0	22,428	8,225
	2010	2,532	69.4	19,166	7,570
Women	2013	3,683	69.4	11,892	3,229
	2010	3,291	68.6	9,444	2,870
Dependants	2013	967	76.2	2,755	2,849
	2010	943	76.5	2,344	2,485
Total	2013	7,377	70.5	37,075	5,026
	2010	6,766	70.0	30,954	4,575

Note: The pensions include increases granted in April 2013 (2010). The 2013 figures include 54 children (2010:45) who are in receipt of pensions. Suitable allowance has been made for these in our calculations.

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 reports on the actuarial valuations of the Fund as at 31 March 2013 and 31 March 2010.

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 Administering Authority for the 2013 and 2010 formal actuarial valuations of the Fund in the form of a standardised data extract from the 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 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 either the 2013 or the 2010 valuations that would have any material effect on the calculations presented in this report. Overall, it is our opinion that the data presented at both valuations is sufficiently accurate, relevant and complete for the 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 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 2013 have been based on a full calculation of the liabilities using the same method as for the full 2013 triennial valuation Fund, but with IAS 19 financial assumptions used.
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 2013.
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	Scheme 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 Administering Authority as appropriate ("you" or "your") in relation to the preparation of IAS 26 figures for the 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 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 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.

We neither warrant nor represent (either expressly or by implication) to any third party who receives this report that the information contained within is fair, accurate or complete, whether at the date of its preparation or at any other time.

Unless we provide express prior written consent, no part of this report should be reproduced, distributed or communicated to any other person other than to meet any statutory requirements and, in providing this report, we do not accept or assume any responsibility for any other purpose or to anyone other than the Administering Authority as appropriate.

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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 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 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: clare.gorman@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
Type talk 18001 0845 600 6400

Northumberland County Council

for you, for now, for the future

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