

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Wednesday, 30th September, 2015 at 2.00 pm in Cabinet Room 'D' - The Henry Bolingbroke Room, County Hall, Preston

Present:

County Councillor Kevin Ellard (Chair)

County Councillors

L Beavers	K Sedgewick
D Borrow	D T Smith
G Dowding	D Westley
S Holgate	D Whipp
J Oakes	B Yates
M Otter	

Co-opted members

Councillor Peter Rankin, (Lancashire Leaders' Group Representative)
Councillor Edward Pope, (Lancashire Leaders' Group Representative)

Independent Advisors

Aoifinn Devitt
Eric Lambert

Announcements

The Committee was informed of a number of recent awards to the Lancashire County Pension Fund as follows:

- LGPS Fund of the Year - Winner
- Investment Strategy of the Year - Winner
- LGPS Investment Performance of the Year - Highly Commended

Resolved: - That the Pension Fund be congratulated on the awards.

1. Apologies

Apologies for absence were received from County Councillors Malcolm Barron, Janice Hanson, Miles Parkinson and Alan Schofield; Paul Crewe, Alastair Milloy, Councillor Mark Smith and Councillor Ron Whittle.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

Councillor Peter Rankin declared an interest in the agenda as a member of the Lancashire County Pension Fund.

3. Minutes of the Meeting held on 2 July 2015

Resolved: - That the minutes of the meeting held on 2 July 2015 be confirmed as a true and accurate record and be signed by the Chair.

4. Exclusion of Press and Public

Resolved: - That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

5. Fund Performance Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee considered a report on the performance of the Fund as at 30 June 2015.

It was reported that the format of the information presented had been changed to ensure that it was more focussed and easy to understand. The new format also included commentary from individual portfolio managers to highlight particular issues, areas of concern and key risks.

Particular reference was made to the following areas:

- The economic backdrop;
- The total fund return at 30 June 2015;
- 12 months performance to 30 June 2015 in respect of equities, property, credit, infrastructure, private equity;
- Funding ratio since 31 March 2013;
- Fund allocations;
- Contributions net of benefits.

Resolved: - That:

- (i) The report, now presented, be noted;

- (ii) The new format of the report, now presented, be welcomed;
- (iii) A briefing session on fund performance be arranged for a future date.

6. Investment Panel Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee received a report from the Investment Panel setting out the work of the Panel since the last meeting of the Committee.

The Committee's attention was specifically drawn to the following key areas considered by the Panel:

- The Investment and Market Context in which the Fund is operating;
- Performance Report;
- Annual Private Equity Manager Review;
- Infrastructure Strategy Update;
- Further Credit Allocations;
- Transactions outside of Panel Meeting.

Resolved: - That the report, now presented, be noted.

7. Progress in Developing the Lancashire and London Pensions Partnership

(Exempt information as defined in Paragraphs 1 and 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee considered a report setting out progress on the development of the Lancashire and London Pensions Partnership following the Committee's agreement in principle, following its meeting on 2 July 2015, to continue to develop proposals for the creation of an Asset and Liability Management Partnership with the London Pensions Fund Authority (LPFA).

The report referred to progress made on the various legal and financial workstreams underway as part of the due diligence process which were being undertaken by independent legal and financial advisors on behalf of the County Council and LPFA.

Resolved: - That:

- (i) The report, now presented, be noted;
- (ii) That Members of the Project Advisory Working Party and Officers be thanked for the work undertaken to date to progress the proposals.

Part I

Resolved: - That the Committee returns to the remaining Part I agenda items.

8. Initial Approach to the 2016 Actuarial Valuation

The Committee considered a report setting out proposals for an initial approach to the 2016 Actuarial Valuation.

The Committee's attention was drawn to the table on page 29 of the agenda which set out the key assumptions made and what had happened since the last valuation in 2013.

It was noted that this valuation was likely to be more difficult than the previous one due to the current pressures on local government finance.

The report set out a timetable for the valuation process which had commenced in September 2015 with the planned approach being agreed with Mercers, the Fund's Actuary, and which, it was proposed, would conclude in April 2017 with the revised contribution rates and revised Funding Strategy Statement in place.

It was reported that the overall objective for the Fund for employer contributions was, at the whole fund level, to maintain, in cash terms, the contribution plan set in 2013. The report also set out the proposed objectives in terms of:

- The deficit recovery period;
- Key assumptions around pay increases, life expectancy and take up of the 50/50 option;
- Employer risk;
- Academy Schools;
- Ill health retirement.

During the discussion particular reference was made to the impact on employers of reducing the deficit recovery period from 19 to 16 years, and the impact of fewer scheme members due to changes in the size of the local authority and wider public sector workforce. It was clarified that the detailed methodology for the process would be determined by the Fund Actuary and would be reported to the Committee in due course.

Resolved: - That the Fund's initial position in relation to the 2016 valuation set out at Appendix 'A' to the report, now presented, be approved as the basis for consultation and engagement with fund employers.

9. Lancashire County Pension Fund - Report on Administering Authority Discretions

The Committee considered a report setting out proposals for five key areas of discretion following a review of existing policies and discretions, prompted by changes to pension legislation. Subject to the Committee's approval, it was now

proposed to consult on each of the following five policies prior to formal adoption by the Committee at a future date:

- Abatement of pensions;
- Transfer in of pension rights;
- Commutation of pensions;
- Admissions and terminations;
- Bulk transfers.

Resolved: - That:

- (i) The recommendations set out at Appendices 'A', 'B', 'C', 'D' and 'E' of the report now presented, be approved;
- (ii) The recommendations form the basis of a consultation exercise with fund employers and the Lancashire Local Pension Board prior to formal policy adoption by the Committee at a future meeting.

10. Annual Report and Statement of Accounts of Lancashire County Pension Fund for the year ended 31 March 2015

The Committee considered a report setting out the Lancashire County Pension Fund Annual Report and Statement of Accounts for the year ended 31 March 2015.

It was noted that the Annual Report and Statement of Accounts would be submitted to Full Council at its meeting on 22 October 2015.

Resolved: - That:

- (i) The Lancashire County Pension Fund Annual Report and Statement of Accounts for the year ended 31 March 2015 as set out at Appendix 'A' to the report, now presented, be welcomed and approved;
- (ii) The submission of the report to the meeting of Full Council on 22 October 2015 be noted.

11. External Audit - Lancashire County Pension Fund Audit Findings Report 2014/15

The Committee considered a report setting out the findings of the external auditor following the audit of the Pension Fund accounts for 2014/15. The report was also considered by the County Council's Audit and Governance Committee on 28 September 2015.

The report set out the key issues arising from the audit and confirmed that no control weaknesses were required to be highlighted. It was also confirmed that the outstanding issues referred to on page 187 of the report had now been completed.

The two opinions around the statement of accounts referred to in the report had now been issued and in overall terms it was reported that the statement of accounts and the annual report itself had been produced to a very high standard. The external auditor wished to thank the finance and pension teams for their assistance during the audit.

The Committee welcomed the unqualified audit opinion provided by the external auditor.

Resolved: - That:

- (i) The report of the external auditor following the audit of the Lancashire County Pension Fund Accounts for 2014/15, now presented, be welcomed and noted;
- (ii) The Pension Fund be congratulated on the findings of the external auditor.

12. Lancashire County Pension Fund Risk Register

The Committee considered a report setting out the Pension Fund's Risk Register following a previous review undertaken at the meeting of the Committee on 27 March 2015.

The register had been reviewed by risk owners to identify any new risks and update on the status of existing risks, with details of high risks set out separately at the front of the register.

Those risks designated as high were:

- Falling share prices and therefore asset value;
- Liability Risk – Inflation/Deflation;
- Liability Risk – Longevity;
- Liability Risk – LGPS Regulations;
- Asset Liability mismatch.

Resolved: - That the report, now presented, be noted.

13. Responsible Investment

The Committee considered a report setting out details on matters relating to Responsible Investment and including:

- Quarterly reports from the provider of proxy voting and governance services and the provider of engagement and governance services respectively;
- Details of litigation cases in which the Fund has a potential interest;
- Other matters of news and note relating to Responsible Investment;
- Progress against the priorities identified by the Member Working Group on Responsible Investment.

The Committee's attention was particularly drawn to developments since the last meeting of the Committee including acting on a commitment to increase the relationship and involvement with the Local Authority Pension Fund Forum. Reference was also made to the updates on shareholder litigation, active investing and other developments, such as responding to the report of the Lancashire Fairness Commission. The Committee also welcomed the proposal to develop a policy for stakeholder consultation and the work of the Member Working Group, particularly around the recommendation to reduce the carbon footprint of the Fund's property portfolio wherever possible.

Resolved: - That the report, now presented, be noted.

14. Lancashire County Pension Fund Compliance Monitoring

The Committee considered a report setting out details of a monitoring programme to undertake compliance checks on various areas of the Fund. The programme had been implemented in April 2015 and the report set out the outcome of the testing undertaken to 31 July 2015.

It was reported that the compliance monitoring programme linked to the risk register and any breaches would be reported to the Committee. During this first phase of testing and monitoring, no breaches or issues had been identified. It was noted that the compliance monitoring was an important source of assurance for the County Council's Audit and Governance Committee.

Resolved: - That the report, now presented, be noted.

15. Report of Decisions taken under the Urgent Business Procedure

The Committee considered a report setting out details of items that had recently been dealt with by the Director, Lancashire County Pension Fund, under the procedure for dealing with matters of urgent business.

Resolved: - That the report, now presented, be noted.

16. Feedback from Committee Members on External Pension Fund Training Events and Conferences

The Committee considered a report on external Pension Fund training events and conferences attended by Members since the last meeting of the Committee.

County Councillor Kevin Ellard reported on his recent attendance at the CIPFA Pensions Network event *Introduction to the LGPS* on 25 September. Literature from the event was available to be circulated to Committee Members if required.

Resolved: - That the report, now presented, be noted.

17. Urgent Business

The Chair informed the Committee that he had agreed to the inclusion of an item of urgent business, copies of the relevant documentation having been tabled.

The Committee considered the response by the Director, Lancashire County Pension Fund, to a Department for Communities and Local Government consultation on Local Government Pension Scheme Criteria for the assessment of pooling proposals.

Resolved: - That the response, now presented, be noted.

18. Date of Next Meeting

The Committee noted that the next meeting of the Committee would be held on Tuesday 10 November 2015 at 10.00am in Cabinet Room 'D' - The Henry Bolingbroke Room, County Hall, Preston.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston