

Pension Fund Committee

Meeting to be held on Friday, 14 September 2018

Electoral Division affected: None;

Lancashire County Pension Fund - Update on 2017/18 Annual Report

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Executive Summary

The draft Lancashire County Pension Fund Annual Report was approved by the Pension Fund Committee at the meeting on 5th July 2018.

This report sets out the changes between the draft reviewed by the Committee on the 5th July 2018 and the final accounts.

Recommendations

1. The Committee is asked to note the amendments to the accounts between draft and final versions.
2. The Committee is asked to note the responses to queries raised at the meeting on 5th July 2018.

Background and Advice

The Annual Report of the Fund includes the accounts of the Fund for the year to 31st March 2018.

The draft Annual Report was presented to the Pension Fund Committee at its meeting on 5 July 2018 in order that the Committee could review and note the accounts and subsequently recommend them for approval at the Audit, Risk and Governance Committee on the 30th July 2018.

The Committee was also asked to review the remainder of the Annual Report and, subject to any changes being minor, approve it for submission to full Council on the 18th October 2018.

It was resolved at the meeting that an update on transition costs, current and long term liabilities and membership figures referred to in the Annual Report would be presented to the Committee in September.

Transition Costs

Transition costs for the year ended 31 March 2018 amounted to £0.3m, compared to £2.0m in the previous financial year. This reduction was in line with expectations as the transition of the Fund's equity investments into the LPPI Global Equities Pool in October 2017 was forecast to be the most expensive of all the planned investment transitions due to the number of transactions required together with exchange and market movements.

The transition of infrastructure, private equity and credit portfolios was at a significantly lower cost.

Current and long term liabilities

An adjustment of £137.0m was made to the final accounts. The details of this adjustment are set out below and were highlighted to the Committee by the Head of Fund at the meeting in July.

Following the 2016 actuarial valuation, some authorities paid future service costs and deficit contributions in advance, in return for a discount. In the draft accounts these up-front payments were treated as liabilities and the contributions were recognised in the period in which they fell due. In the majority of cases this meant that the up-front payments would be recognised as income over a period of three years.

This was considered by the Fund to be the true substance of the contributions received in advance, consistent with the accounting by each employer and in line with generally accepted accounting principles.

The view of Grant Thornton was that these up-front payments should be recognised as income on receipt, rather than over the period to which they related. Grant Thornton asserted that the likelihood of repayment of these cash amounts was minimal and that the Fund was already benefitting, through investment, from the early inflow of cash.

On this basis the external auditors required an adjustment to be made to remove the liability of £137.0m and instead recognise as income in full. Not making this adjustment would have significantly increased the risk of the auditors issuing a qualified opinion on the pension fund accounts.

This treatment results in a higher net asset position and an increase in the value of the Fund as at 31 March 2018 of £137.0m.

Narrative has been included in the final accounts of the Fund to explain the income recognition and to highlight the reason for the apparent increase in contributions when compared with the previous year. Reference is also made in the notes to the accounts that without the up-front receipt, the net cash flow of the Fund, before investment income, is negative.

Membership figures

Note 1.2 to the Fund accounts includes a table which details the membership of the Fund as at 31 March 2018 and 31 March 2017.

The movements between the two years were queried at the previous meeting of the Pension Fund Committee and LPP has provided the following explanation.

The number of active members reported in the table for both 16/17 and 17/18 includes 'pending leavers'. These are members who are due to be processed as leavers but have not yet been reclassified as 'deferred pensioners' or 'pensioners'.

The 2017/18 figures include 5,530 pending leavers within 'active members' (2016/17: 4,592). After adjusting for pending leavers, there is a minimal increase in active members of 23.

If the pending members are reclassified from active to deferred (assuming all pending leavers are deferrals rather than direct to pensioners) then the movement between the years and membership categories appears more in line with our expectations.

An explanatory sentence has been included in Section D ('Administration of the Fund') of the Annual Report.

Consultations

The amendments referred to above were made after consultation with the Fund's external auditors Grant Thornton.

Implications:

This item has the following implications, as indicated:

Risk management

The Accounts of the Fund have been signed and received an unqualified external audit opinion dated 31 July 2018, in line with the statutory deadline. A separate external audit opinion will be issued in respect of the Annual Report and this is expected to be unadjusted.

The statutory deadline for publication of the Annual Report is 1 December 2018.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate
N/A