

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 29th January, 2016 at 10.30 am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Present:

County Councillor Kevin Ellard (Chair)

County Councillors

M Barron	M Parkinson
L Beavers	P Rigby
D Borrow	A Schofield
C Crompton	K Sedgewick
G Dowding	D Westley
J Oakes	D Whipp
M Otter	

Co-opted members

Paul Crewe, (Trade Union Representative)
Councillor Edward Pope, (Lancashire Leaders' Group Representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)

External Advisors

Aoifinn Devitt
Eric Lambert

County Councillors Carl Crompton and Paul Rigby replaced County Councillors Janice Hanson and Barrie Yates respectively at this meeting.

The Chair welcomed Mark Packham, PricewaterhouseCoopers (PwC), to the meeting.

1. Apologies

Apologies for absence were received from Alistair Milloy, HE/FE Sector Representative; Councillor Peter Rankin, Preston City Council; and Councillor Mark Smith, Blackpool Council.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

County Councillor David Borrow declared a non-pecuniary interest as the County Council's shareholder representative on the Board of the Lancashire and London Pensions Partnership (LLPP).

George Graham, Mike Jensen, Diane Lister, Frances Deakin and Andy Brown declared non-pecuniary interests in view of their likely TUPE transfer to the LLPP.

3. Minutes of the Meeting held on 27 November 2015

Resolved: - That the minutes of the meeting held on 27 November 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 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. Lancashire and London Pensions Partnership - Progress 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 progress made since the last meeting on the development of an Asset and Liability Management Partnership with the London Pensions Fund Authority (LPFA), known as the Lancashire and London Pensions Partnership (LLPP).

Ian Young, Director of Governance, Finance and Public Services, gave an overview of progress made and highlighted that, whilst work was progressing on schedule towards a 1 April implementation date and that officers were cautiously optimistic of meeting the timetable, nevertheless there remained a risk that Full Council approval could not be sought before then if all the necessary agreements and documents had not been finalised. Should that be the case, it may be necessary for Full Council to consider the proposals at its meeting on 26 May.

The Committee's attention was also drawn to the Government's recent announcement on wealth funds and the minimum £25bn required for pooled fund proposals to go forward, and the Committee was invited to consider whether the proposed partnership with LPFA should be 'paused' to allow for discussions to take place with other funds with a view to reaching the £25bn minimum.

Laura Sales, Director of Legal and Democratic Services, updated the Committee specifically on progress on the development of the documentation necessary to give effect to the proposed arrangements. It was reported that the principal document underpinning the proposals was the Shareholder Agreement between the Lancashire County Pension Fund (LCPF) and LPFA. In addition to this, work was progressing well on various governance issues and the Investment Management Agreement was almost complete. Agreement on administrative services was close to conclusion and other areas being brought to a final stage included risk and liability, transfer of assets and the provision of Treasury Management Services to Lancashire County Council by LLPP. Whilst further work remained to be undertaken, a 1 April implementation date remained realistic.

Mark Packham, PricewaterhouseCoopers (PwC), updated the Committee on the work that PwC had undertaken on behalf of the County Council to consider the financial viability of the partnership proposals. It was suggested that discussions with other pension funds in the North West should continue in the light of the Government's announcement on wealth funds and that the strength of the LLPP proposals lay in the clarity and vision and the structures which would be in place and which would be attractive to other funds. Despite the announcement of the £25bn benchmark there remained a strong case for pressing ahead with the proposals as they stood, not least the indication of Government support to date. It was important, however, for the Committee to consider all the options available, including the option of 'pausing' the process.

The Committee discussed the option of continuing with the partnership proposals in their current form towards a 1 April implementation, together with the alternative option of 'pausing' the process to allow for discussion with other funds to explore options for reaching the £25bn minimum. Issues considered included the financial and reputational risks. Given that continuing with the current proposals did not prevent discussions with other funds continuing, the Committee concluded that the partnership proposals should proceed as planned to a 1 April implementation.

Resolved: - That:

- (i) The continuing progress with the development of the Lancashire and London Pensions Partnership, as set out in the report, now presented, be noted;
- (ii) The progress on the preparation of the legal documentation, as set out in the report, now presented, be noted;
- (iii) The progress on the ongoing work by the independent financial advisors on the proposed pooling arrangement, as set out in the report, now presented, be noted.

6. The Lancashire County Pension Fund's Response to the Government's Requirement for Stage 1 Pooling Submissions

(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 setting out a proposed approach to developing arrangements in response to the Government's agenda for the creation of six pools of investment assets, each of around £25bn. The proposals formed part of the Government's overall agenda for reform of the Local Government Pension Scheme.

George Graham, Director, Lancashire County Pension Fund (LCPF), reported that the work being undertaken to create the LLPP was part of this overall agenda and that the approach set out in the report aimed to protect the investment already made in the creation of the LLPP and grow the number of funds which shared a similar approach to that of the LCPF, and with which the LCPF worked.

It was noted that Funds were required to make a submission by 19 February 2016 setting out how they proposed to address this requirement.

Resolved: - That:

- (i) The approach to developing arrangements in response to the Government's pooling agenda, as set out in the report now presented, be approved;
- (ii) The Director, Lancashire County Pension Fund, in consultation with the Chair of the Pension Fund Committee, be authorised to prepare and submit a detailed response to the Government in line with the required timetable.

Part I

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

7. Consultation on Replacing the Local Government Pension Scheme (Investment and Management of Funds) Regulations

The Committee considered a report setting out details of a consultation on replacing the Local Government Pension Scheme (Investment and Management of Funds) Regulations. A copy of the consultation document was set out at Appendix 'A'. It was proposed that the new regulations, the draft of which was set out at Appendix 'B', would come into force on 1 April 2016.

George Graham, Director, LCPF, reported that, overall, the proposals were to be welcomed but that there were two areas of concern as follows:

- The reserve power of intervention by the Secretary of State which is intended to deal with Funds which refuse to pool their assets is drawn too widely and a separate debate should take place if this remains the case;
- Proposals which would restrict the ability to reflect Responsible Investment issues in decisions.

Appendix 'C' set out, for approval, the proposed response by the Fund to the consultation taking account of the two areas of concern set out above.

It was agreed that the response on Page 55 of the agenda pack (4th bullet point) be strengthened prior to submission. It was also requested that a session on derivatives be the subject of one of the future monthly workshops for Committee and Local Pension Board Members.

Resolved: - That the draft response to the consultation on the draft Local Government Pension Scheme Investment Regulations, as set out at Appendix 'C' to the report, now presented, be approved, subject to the re-drafting of the appropriate section of Page 55 as set out above.

8. Lancashire County Pension Fund - Future Employer Risk Management Framework and Approach to Covenant Review

The Committee considered a report setting out details of a covenant review process which had been undertaken in advance of the 2016 Actuarial Valuation. Andy Brown, Policy and Operations Manager, LCPF, reported that the two principal pieces of work were to:

- Specifically assess covenant for the majority of Fund employers;
- Devise and implement an ongoing covenant assessment and risk management framework.

It was proposed to adopt the risk management framework as set out and to concentrate resources on the higher risk areas.

The Committee raised a number of issues around the classification of Universities and Further Education Colleges in Category B (higher risk) despite them being scheduled bodies, together with Academies being classified in Category A (lowest risk). In response, it was agreed that the description for each category would be removed and that Academies were considered to be state funded and part of the public sector and, as such, would be subject to a degree of financial protection.

Resolved: - That, subject to the comments made, the proposed risk classification methodology and approach to implementing risk management/security arrangements, as set out in the report, now presented, be approved.

9. Lancashire County Pension Fund Training Policy

The Committee considered a report setting out a proposed new Training Policy for the Fund. The policy provided a framework for ensuring an appropriate balance between individuals assuming personal responsibility for their own learning, and the County Council (as Administering Authority) providing support for the development of the skills and knowledge needed to ensure effective oversight, governance and decision making.

Frances Deakin, Financial Policy Officer, LCPF, reported that the existing policy had expired at the end of 2015 and that there were two main changes that had to be taken account of in the development of a new policy. These were; the establishment of a Local Pension Board during 2015; and the extension of the remit of The Pension Regulator (TPR) to include public sector pension schemes such as the LGPS.

It was to be noted that, in terms of training and development, different expectations rested on members of the Pension Fund Committee, which was very much a collective responsibility, than that on members of the Local Pension Board, which was very much an individual responsibility.

The policy formed part of the Fund's risk management strategy to demonstrate that the Administering Authority was taking its responsibility for training and development seriously.

It was highlighted that Pension Board Members were already using the Virtual Reading Room and had found it a useful tool and it was now proposed to roll this out to Committee Members. It was suggested that Committee Members could take a specific responsibility for two or three of the eight core areas of knowledge referred to in the new policy and it was agreed that this could be looked at as part of the discussions around the future governance arrangements for the Fund.

Resolved: - That:

- (i) The report, now presented, be noted;
- (ii) The Lancashire County Pension Fund Training Policy, set out at Appendix 'A' to the report, now presented, be approved;
- (iii) A commitment be made to meeting the requirements of the Training Policy which forms part of the Fund's wider risk management arrangements.

10. Lancashire County Pension Fund - Discretionary Policies Update

The Committee considered a report which provided an update on the Fund's discretionary policies.

The report:

- Summarised consultation feedback in respect of the five 'key' discretionary policy areas and made recommendations accordingly;
- Presented a summary of the remaining refreshed or restated policies (other than death grants);
- Proposed specific changes to the death grants policy.

Andy Brown, Policy and Operations Manager, LCPF, reported that there had been positive feedback in response to the consultation on the top five key discretions. The death grants policy had last been amended in 2014 and whilst it worked well in practice, it was proposed to make specific changes as follows:

- The payment of death grants where the beneficiary would be a young adult or child;
- The payment of grants where a pensioner does not have mental capacity to manage their own financial affairs.

Resolved: - That:

- (i) The original proposals in respect of the five key discretions, as set out in the report, now presented, be approved;
- (ii) The proposed policies covering remaining discretions (excluding death grants), as set out in the report, now presented, be approved;
- (iii) The proposed changes to the existing death grants policy, as set out in the report, now presented, be approved;

11. Report of Decisions taken under the Urgent Business Procedure

The Committee considered a report setting out details of decisions taken under the Urgent Business Procedure.

Since the last meeting, the Director, LCPF, following consultation with the Chair and Deputy Chair of the Committee, had supported the election of three candidates to the officer places on Local Authority Pension Fund Forum Executive. Of the three candidates, it was reported that two, Faith Ward and Jane Firth, had been elected.

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

12. Urgent Business

There was no urgent business to be considered.

The Chair reported that he had extended an invitation to Mr William Bourne, Chair of the Lancashire Local Pension Board, to attend and address a future meeting of the Committee.

13. Date of Next Meeting

The Committee noted that the next meeting of the Committee would be a further special meeting and would be held on Tuesday 1 March 2016 at 10.00am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

I Young
Director of Governance, Finance
and Public Services

County Hall
Preston