

**PENSIONS COMMITTEE
24 JULY 2014**

PRESENT: COUNCILLOR M G ALLAN (CHAIRMAN)

Councillors R J Phillips (Vice-Chairman), N I Jackson, B W Keimach, Mrs S Rawlins and A H Turner MBE JP

Other members: Andy Antcliffe (Employee Representative), Cllr M Leaning (District Council Representative)

Independent Adviser: Peter Jones

Officers in attendance:- Jo Ray (Group Manager, Pensions and Treasury), Nick Rouse (Investment Manager), Catherine Wilman (Democratic Services Officer)

9 APOLOGIES FOR ABSENCE/MEMBER REPLACEMENT

Apologies were received from Councillor C E D Mair.

10 DECLARATIONS OF MEMBERS' INTERESTS

Councillor M G Allan requested that a note be made in the minutes that he was currently a contributing member of the Pension Fund as a North Kesteven District Councillor and as a County Councillor.

Mr A Antcliff requested that a note should be made in the minutes that he was currently a contributing member of the Pension Fund as an employee of Lincolnshire County Council.

Councillor R J Phillips declared a personal interest in all items on the agenda as a member of the Upper Witham Internal Drainage Board and as a contributing member of the Pension Fund.

Councillor M Leaning stated he was now a pensioner and in receipt of a pension from the fund.

11 MINUTES OF THE PREVIOUS MEETING OF THE PENSIONS COMMITTEE HELD ON 29 MAY 2014

RESOLVED

That the minutes of the meeting held on 29 May 2014 be agreed and signed by the Chairman as a correct record.

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12 INDEPENDENT ADVISOR'S REPORT

Consideration was given to a report by Peter Jones, the Committee's Independent Advisor, which provided a market commentary on the current state of global investment markets.

Inflation worldwide was too low to be healthy. It was currently below 2% in the US and UK inflation had gone down quite quickly in recent months. However, wage inflation had meant that China was not likely to be a cheap producer of goods any longer.

It was expected that the Bank of England base rate would begin to rise shortly.

RESOLVED

That the update be noted.

13 PENSION FUND UPDATE REPORT

Consideration was given to a report which updated the Committee on current issues and Fund matters over the quarter ending 31 March 2014.

It was noted that the Fund's ten largest single company investments were the same companies as the previous quarter. A request was noted for the full list of holdings to be produced for the Committee. It was agreed to present it at Committee once a year.

Voting had been relatively quiet over the quarter.

Councillor Jackson updated the Committee on the most recent meeting of the Local Authority Pension Fund Forum. The Scheme Governance Regulations were discussed.

There was discussion about the ongoing issue with IRFS reporting requirements and whether banks were fully showing debts on statements. There had been extensive discussion in the UK and US about the legality of the accounting process. The issue was currently in a pre-pre-judicial review stage.

It was highlighted that the contract with Mouchel to provide Pensions Administration services to the Fund would end on 31 March 2015. Committee members had already been notified by email that West Yorkshire Pension Fund had been chosen as the preferred provider for pension administration services from 1 April 2015. A project board and team had been set up to help manage the transfer.

Employers within the scheme had been informed, but not members of the Fund. Members should not experience any change in the service, except for different contact details.

RESOLVED

That the report be noted.

14 INVESTMENT MANAGEMENT REPORT

Consideration was given to a report which updated the Committee on current issues and Fund matters over the quarter ending 31 March 2014.

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RESOLVED

That the report be noted.

15 PENSION ADMINISTRATION REPORT

Consideration was given to a quarterly report by the pension administrator from Mouchel. Stuart Duncombe, the Communications Coordinator was present to take the Committee through the report.

It was highlighted that six out of 21 performance indicators had dipped below 100% in the period March to May 2014. It was explained this had been due to the late issuance of the Transitional Regulations, which resulted in a period when the

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pensions unit was not in a position to calculate benefits and be confident that they were correct.

This issue was likely to cause a ripple effect in other indicators in the coming months.

RESOLVED

That the report be noted.

16 UK EQUITY PORTFOLIO ANNUAL REPORT

The Committee considered the annual report covering the performance of the UK Equity index-tracking portfolio, which was managed internally, for the year ended 31 March 2014. The Investment Manager summarised the report for Members

The objective of the portfolio was to deliver the total return of the MSCI UK IMI index +/-0.5% pa. This was to be achieved while maintaining a predicted portfolio tracking error within 0.5% of the index.

RESOLVED

That the report be noted.

17 ANNUAL REPORT ON THE FUND'S PROPERTY INVESTMENT

Consideration was given to a report which outlined the performance of the Fund's property and related investments for the year ended 31 March 2014. The Investment Manager summarised the report and the following points were noted:

- The UK Commercial Property Investments had returned above the benchmarks since inception;
- The retail industry had undergone huge changes due to online sales. There was a high chance that retail properties may not be used as shops again once their businesses had closed;

RESOLVED

That the report be noted.

18 PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS

Consideration was given to a report which provided the Committee with the draft Annual Report and Accounts for the Pension Fund.

The Pension Fund Annual Report and Accounts for the year ended 31 March 2014 would shortly be presented to the Audit Committee, along with the Council's Annual Report and Accounts, however the Council's external auditors KPMG had requested that the report be approved by the Pensions Committee first.

Once approved by the Pensions Committees, the report would be signed off by the auditors and taken to the September Audit Committee. Once opinion has been given, the Report and Accounts will be made available to all Councillors. Additionally, the report would be available on the Pension Fund website.

RESOLVED

That the draft Annual Report and Accounts be approved and that delegated authority be given to officers to add an addendum to the accounts to meet additional CIPFA reporting requirements, if needed.

19 PENSION FUND POLICIES REVIEW

A report was considered which brought to the Committee the main policies of the Pension Fund for review. As the Administering Authority of the Lincolnshire Pension Fund, the Pensions Committee was required to review a number of key policy documents annually, the last review being in July 2013.

There had been minimal changes to the policies in the intervening year and therefore the Committee approved the policies for another 12 months.

RESOLVED

That the policies be agreed and the report be noted.

20 PENSION FUND RISK REGISTER

The Committee considered a report which presented the Pension Fund Risk Register for annual review and it was reported that there were currently no red risks.

The end of the council's contract with Mouchel was approaching and the project managing the transfer to the new pensions administration provider had its own risk register.

If changes in risks were identified, they would be highlighted in a quarterly update. Changes in risk could be plotted on a risk matrix and Jo Ray offered to complete this for the Committee's next meeting, should any risks change.

RESOLVED

That the risk register be agreed.

21 DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT (DCLG)
DRAFT SCHEME GOVERNANCE REGULATIONS

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Consideration was given to the draft Local Government Pension Scheme Governance regulations issued by the Department for Communities and Local Government (DCLG) as part of the Public Services Pensions Act 2013 (PSPA 2013)

PSPA 2013 effected a number of changes to public service pension schemes, some of which would impact on the governance of such schemes and the changes would come into force in April 2015. Of the changes to be made:

- Local pensions boards (PSPA Boards) would be introduced whose role would be to assist in administering authorities to ensure compliance with the LGPS regulations;
- A national scheme advisory board would be set up, and be responsible for providing advice to the Secretary of State on the desirability of making changes to the LGPS.

Officers felt the Council's scheme already had good governance in place and the Local Pensions Boards required by the Act had a "one size fits all" structure, not all of which needed to be implemented by the Council but was required to be in place nevertheless.

The Pensions Committee would continue as normal and its role would not change; the Local Pensions Board would run parallel to it.

The consultation provided two alternatives relating to how procedures would be established for the Local Pensions Boards and was asking authorities to indicate their preferred method:

- For local authorities, Part 6 of the Local Government Act could be made to apply to the LPB as if it was a local authority committee, or
- Each administering authority determined its own procedures.

The Group Manager, Pensions and Treasury, would respond to the consultation on behalf of the committee and Members' views were sought to feed into the response. The following comments were made:

- It was felt that potential Board members would be hard to meet the criteria set out in the Act;
- It was suggested that an East Midlands pension board would be more effective than lots of smaller local ones. This view could be incorporated into the response, however the Act specifically required a Local Pensions Board for each Fund.

The Committee was taken through the suggested responses to the consultation, as detailed in the report. The Committee agreed with all suggested responses and added the following comments:

- Response 25 – Employee events were slightly too infrequent. This had been the feedback after the previous employee event, with a request to have more of them;
- Response 27 – The training schedule provided for the Committee was very comprehensive and setting up a minimum level of required knowledge would be a good suggestion. Training in pensions related issues was an ongoing process which could take many years.

RESOLVED

1. That the report be noted and the suggested response to the consultation be agreed;
2. That the Assistant Director of Resources and the Group Manager, Pensions and Treasury work with Democratic Services and legal Services Officers to progress the requirements.

22 REVIEW OF INVESTMENT STRATEGY

A report was considered which introduced the review of the investment strategy by Hymans Robertson, the Fund's Investment Consultant, following the 2013 Triennial Valuation.

Following the reappointment of Hymans Robertson in December 2013, the company was asked to undertake an asset liability study based on the 2013 Triennial Valuation.

The setting of the high level asset allocation was the most important investment decision the Committee was required to make. Generally 80% of the return of the fund was generated by the asset allocation, with the remaining 20% generated by the performance of managers.

A presentation was received from Paul Potter from Hymans Robertson which provided a series of options to the Committee looking at a range of funding level outcomes, based on the ratio of growth assets to low risk assets.

A recommendation of the report was to create a working group of officers, committee members and the Independent Advisor to consider the detailed asset allocation for the Fund and to report recommendations to the Committee.

Councillor N I Jackson volunteered to be a member of the working group and Jo Ray would email the Committee to seek further members.

RESOLVED

1. That the high level asset allocation strategy for the fund be agreed;

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2. That a working group of officers, committee members and the Independent Advisor be set up to consider the detailed asset allocation for the Fund and to report recommendations to the Committee.

The meeting closed at 12.50 pm