

**PENSIONS COMMITTEE  
19 JULY 2018**

**PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)**

Councillors R D Butroid, B Adams and Dr M E Thompson.

Co-Opted Members: Mr A N Antcliff (Employee Representative), Mr J Grant (Non-District Council Employers Representative) and Jeff Summers (District Councils Representative).

Roger Buttery (Chairman of the LGPS Pension Board), Peter Jones (Independent Investment Advisor) and David Vickers (Scheme Member Representative) were also in attendance.

Officers in attendance:-

David Forbes (County Finance Officer), Yunus Gajra (Business Development Manager, West Yorkshire Pension Fund), Cheryl Hall (Democratic Services Officer), Claire Machej (Accounting, Investment and Governance Manager) and Jo Ray (Pension Fund Manager).

9 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mrs S Rawlins.

10 DECLARATIONS OF MEMBERS' INTERESTS

Mr A N Antcliff declared an interest as an employee of Lincolnshire County Council and as a contributory member of the Pension Fund.

11 MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 7 JUNE 2018

Members of the Committee were reminded to complete TPR (The Pension Regulator) Toolkit as soon as possible, and forward their certificates onto the Pension Fund Manager.

**RESOLVED**

That the minutes of the Pensions Committee meeting held on 7 June 2018 be approved and signed by the Chairman as a correct record.

12 INDEPENDENT ADVISOR'S REPORT

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

The Independent Advisor presented the report to the Committee and in doing so provided detailed information on: preparing for the next global recession – some implications; central bank responsibilities; and the impact on markets.

The potential impacts of Brexit on the UK economy were discussed by the Committee.

RESOLVED

That the report be noted.

13 PENSIONS ADMINISTRATION REPORT

Consideration was given to a report from the Business Development Manager from the West Yorkshire Pension Fund (WYPF), which provided a quarterly update on current administration issues.

The Business Development Manager presented the report to the Committee and in doing so provided detailed information on: performance benchmarking; scheme information; praise and complaints; internal disputes resolution procedures; administration update; and current issues.

The Committee was reminded that it had been previously noted that the Fund's largest employer, Lincolnshire County Council, had developed a backlog in providing detailed leaver information to WYPF. The County Council and its corporate support services provider (Serco) had set out an improvement plan to address the backlog, which was expected to be cleared by 31 May 2018. The backlog of leaver forms had mainly been cleared and currently stood at 543. It was advised that a high proportion of the 543 were old cases, which the current payroll provider had acquired from the previous provider. Following a recommendation received from the Local Pension Board, the County Council had self-reported the breach to the Pensions Regulator.

It was highlighted that the spring newsletter was being issued to all active members with their Annual Benefit Statements. To date 88.9% had been issued to active members and 99.7% to deferred members. A copy of the newsletter was attached at Appendix 4 of the report.

Also appended to the report were the Customer Survey Results – Lincolnshire Members; employer feedback; and employer survey 2018 – priorities for improvement.

Members were provided with an opportunity to ask questions, where the following points were noted: -

- Stage 2 complaints, which had previously been considered by a solicitor at Lincolnshire County Council, would now be processed via the West Yorkshire Pension Fund;
- The Local Government Pension Scheme (Amendment) Regulations 2018 had been updated in April 2018 and a summary of the changes were detailed within the report. It was noted that with effect from 14 May 2018, Members with deferred benefits under the earlier regulations may now take voluntary early retirement from age 55 (rather than having to wait until age 60). However, with early payment come extensive reductions for the employee. It was clarified that no additional costs were incurred by the employer as a result of the early release of pension benefits; and
- The shared service pension administration cost per member of £14.73 had been used to recharge the Lincolnshire Pension Fund for 2017/18, compared to the target cost of £17. It was advised that the target cost of £17 was the amount included within the West Yorkshire Pension Fund's bid during the tendering process.

RESOLVED

That the report be noted.

#### 14 PENSION FUND UPDATE REPORT

Consideration was given to a report by the Pension Fund Manager, which provided an update on Fund matters over the quarter ending 31 March 2018 and any current issues.

The Committee was advised that over the period covered by the report, the value of the Fund had fallen in value by £70.5m (3.1%) to £2,175.4m on 31 March 2018. It was highlighted that fund performance and individual manager returns were covered at Agenda Item 8 – Investment Management Report.

It was highlighted that the Treasury Manager had produced the outturn report detailing the performance of the cash balances managed by the County Council Treasury Team. The outturn report had shown an average cash balance of £15.8m for the financial year to 31 March 2018. The invested cash had outperformed the benchmark from 1 April 2017 by 0.26%, annualised, and had earned interest of £71.5k.

It was also advised that following a meeting of the Local Pension Board on 26 March 2018, the Board had recommended to representatives from Lincolnshire County Council that they should report themselves to the Pension Regulator, rather than the Board reporting the County Council. It was confirmed that the County Council had self-reported on 10 April 2018.

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Furthermore, it was highlighted that a special meeting of the Board was held on 7 June 2018, to enable Lincolnshire County Council to update the Board on the progress of the improvement plan and to understand what monitoring had been put in place to ensure that the County Council had met all the requirements of an employer in the LGPS. The Board was satisfied with progress at that point and would receive a further update at its meeting in July 2018.

Members of the Committee were reminded to complete The Pension Regulator Toolkit as soon as possible, and to forward their certificates onto the Pension Fund Manager.

**RESOLVED**

That the report be noted.

**15     ASSET POOLING UPDATE**

Consideration was given to a report by the Pension Fund Manager, which updated the Committee on progress of the creation of Border to Coast, the Fund's chosen asset pool.

The Pension Fund Manager advised that the Lincolnshire Fund had been working closely with eleven other partner funds since 2015 to create the asset pool, now known as Border to Coast Pensions Partnership Ltd (Border to Coast). Since the last meeting of the Committee, significant progress had been made to ensure that Border to Coast was operational in July 2018, and ready to commence with the first transition of assets.

It was highlighted that Border to Coast was now live and had completed its first statutory accounts, under the small companies' exemption, for the first period of operation to 31 March 2018. A clean bill of health was given by the external auditors KPMG, and the accounts had been approved by the Border to Coast Board on 24 May 2018. Officers (both fund officers and S151 officers) were now working closely with Border to Coast as assets were being transferred. The Committee was pleased with the significant progress made to date.

Detailed information was provided as part of the report, which covered the following areas: Joint Committee Meetings; Joint Committee Membership; Transitions; Externally Managed Funds – Manager Selection Process; Client Relationship; and Next Steps for Lincolnshire.

It was noted that the Joint Committee had previously considered the issue of employer and/or scheme member representation on the oversight body and had not taken it forward. However, following an amendment to the guidance issued by the Scheme Advisory Board, this matter would be reconsidered by the Joint Committee at its meeting in July 2018. The outcome would be reported to the Committee at its next meeting.

The employee representative advised that it was Unison's preference for the scheme member representative to be represented by a trade union. In response, it was advised that Border to the Coast's preference for the representation was that it should be from a scheme member, who may or may not be associated with a trade union.

RESOLVED

That the report be noted.

## 16 INVESTMENT MANAGEMENT REPORT

A report by the Accounting, Investment and Governance Manager was considered, which covered the management of the Lincolnshire Pension Fund assets over the period from 1 January 2018 to 31 March 2018.

The Accounting, Investment and Governance Manager presented the report to the Committee and in doing so provided detailed information on the Funding Level Update; Fund Performance and Asset Allocation; Hymans Robertson Manager Ratings; and Individual Manager Update.

The Committee was reminded that the funding update was provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, which was taken on 31 March 2016, to the current quarter end of 31 March 2018. The accuracy of this type of funding update was expected to decline over time, as the period since the last valuation increases.

It was highlighted that the graph on page 74 of the report had shown the funding level at the latest formal valuation, at 76.9%, and its movement to 31 March 2018 where the funding level had increased to 78.6%. It was highlighted that moving to the end of May 2018, the funding level had significantly improved to circa 85%.

It was also highlighted that the Manager Returns were detailed on page 77 of the report. It was noted that it was a poor quarter for the Fund with all but one manager showing negative absolute returns. Two managers, Morgan Stanley Global Brand and Morgan Stanley Alternative Investments had underperformed their benchmark over the quarter. Over the 12 month period, all managers, except Morgan Stanley Global Brands had produced a positive absolute return and had matched or outperformed their benchmark. The Committee had received a manager presentation from Morgan Stanley Global Brands at its meeting on 7 June 2018.

RESOLVED

That the report be noted.

**17 ANNUAL REPORT ON THE FUND'S PROPERTY AND INFRASTRUCTURE INVESTMENTS**

Consideration was given to a report from the Accounting, Investment and Governance Manager, which outlined the performance of the Fund's property and infrastructure investments for the year ended 31 March 2018.

The Committee was advised that investment exposure to property and infrastructure was achieved via holdings in pooled vehicles. The Fund's strategic allocation of 9.0% to property was slightly higher than the average local authority pension fund, currently at 7%. The market value of holdings in property pooled vehicles at 31 March 2018 was £207.5m (9.5% of the Fund).

The Fund also had a 2.5% strategic allocation to infrastructure and had made commitments to various infrastructure funds. The market value of holdings in infrastructure pooled vehicles at 31 March 2018 was £35.5m (1.6% of the Fund).

Details of the individual property and infrastructure holdings and their performance were set out in the report.

Members were provided with an opportunity to ask questions, where the following points were noted: -

- It was highlighted that Royal London returns had underperformed against the benchmark in the last 12 months, 3 and 5 years annualised, but were well ahead over the ten year period. In response to a question, it was confirmed that officers met with managers on a regular basis and that the Accounting, Investment and Governance Manager would be meeting with all managers as part of her role; and
- It was confirmed that some of the infrastructure managers invested in the research and development of alternative and renewable energy; and new technologies.

**RESOLVED**

That the report be noted.

**18 LINCOLNSHIRE PENSION FUND POLICIES REVIEW**

A report by the Pension Fund Manager was considered, which presented to the Committee the main policies of the Pension Fund for review.

It was advised that under the various Local Government Pension Scheme Regulations, the Pensions Committee, as the Administering Authority of the Lincolnshire Pension Scheme, was required to produce and maintain a number of key policy documents. Policies were brought to the Committee on an annual basis, and the last comprehensive review was undertaken in 2017.

Appended to the report were the documents for review. The Pension Fund Manager highlighted the changes within each of the following documents: -

- the Fund's Investment Strategy Statement;
- the Fund's Funding Strategy Statement;
- the Fund's Communications Policy;
- the Fund's Governance Compliance Statement;
- the Fund's Stewardship Code Statement; and
- the Fund's Breaches Reporting Policy.

#### RESOLVED

- (1) That the report be noted.
- (2) That the following documents be approved:
  - the Fund's Investment Strategy Statement;
  - the Fund's Funding Strategy Statement;
  - the Fund's Communications Policy;
  - the Fund's Governance Compliance Statement;
  - the Fund's Stewardship Code Statement; and
  - the Fund's Breaches Reporting Policy.

#### 19 LINCOLNSHIRE PENSION FUND RISK REGISTER

Consideration was given to a report by the Pension Fund Manager, which presented the Pension Fund Risk Register for annual review.

The Committee was reminded of the importance of looking at risk as part of the normal Member training that the County Council provides. Given the size and importance of the Pension Fund, it was recognised that it was best practice to have a separate risk register considering the key risks that could impact the Fund and how they could be mitigated, if at all possible.

It was noted that the risk register was reviewed annually at the Committee, and any additional changes or updates were reported in the Quarterly Fund Update report.

The current Pension Fund Risk Register was attached at Appendix A to the report. 27 risks had been identified, along with the controls in place to mitigate them. Detailed information on the 27 risks could be found as part of the risk register at Appendix A.

It was requested that officers review the risk registers of partner funds in Border to Coast to ascertain if there were any common themes across the registers.

## RESOLVED

- (1) That the Lincolnshire Pension Fund Risk Register be approved.
- (2) That officers be requested to review the risk registers of partner funds to ascertain if there are any common themes across the registers.

**20 ANNUAL PENSIONS COMMITTEE TRAINING PLAN AND POLICY**

Consideration was given to a report by the Pension Fund Manager, which set out the training policy and the annual training plan for the Pensions Committee members for the year to June 2019.

It was reiterated that there was a high level of complexity involved in managing and making decisions relating to the Local Government Pension Scheme. It was therefore essential that those involved have the appropriate knowledge and skills to do so. Furthermore, it was advised that the introduction of the new Markets in Financial Instruments Directive (MiFIDII) in January 2018 had made it even more important for the Committee to be appropriately trained to ensure that the Fund retained its Professional investor status.

The Lincolnshire Pension Fund Training Policy and Annual Plan were detailed at Appendix A to the report.

The Chairman stressed the importance of members of the Committee completing The Pension Regulator Toolkit and as soon as possible. It was requested that Members forwarded on their certificates to the Pension Fund Manager.

## RESOLVED

- (1) That the Training Policy, as detailed at Appendix A, be approved.
- (2) That the areas for training at the September and February 2018 meetings, as detailed in the report, be approved.
- (3) That the Annual Training Plan, as detailed at Appendix A, be approved.

**21 PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS**

A report by the Pension Fund Manager was considered, which presented and sought approval of the draft Annual Report and Accounts for the Pension Fund. A copy of the draft Annual Report and Accounts 2018 was attached at Appendix A to the report.

It was highlighted that the Pension Fund Annual Report and Accounts for the year ended 31<sup>st</sup> March 2018 had been completed and was being independently audited by the Council's external auditors, KPMG. The accounts formed part of the Lincolnshire County Council's Statement of Accounts.



It was also highlighted that the Pension Fund Accounts, alongside the Council's Statement of Accounts, would be presented to the Audit Committee on 23 July 2018. An unqualified opinion was expected from KPMG, and no concerns had been raised as part of their audit process. The processes and procedures governing an audit were explained to the Committee.

It was noted that there would be no separate ISA 260 Governance report for the Pension Fund accounts but any comments would be included in the Council's ISA 260 Governance report. This report would be presented to the Committee at its meeting on 4 October 2018.

The Committee was advised that following a national tender process conducted by the Public Sector Audit Appointments in 2017, Mazars had been awarded the contract to provide external audit services in the East Midlands. It was reported that officers would be meeting with representatives of Mazars in September 2018.

RESOLVED

That the draft Pension Fund Annual Report and Accounts be approved.

**22**     EXCLUSION OF PUBLIC AND PRESS

RESOLVED

That, in accordance with Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that if they were present there could be disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

**23**     VOTING SERVICES

Consideration was given to an exempt report which asked the Committee to introduce a recommendation on the future of voting services in light of asset pooling.

The Pension Fund Manager presented the exempt report to the Committee and responded to the questions raised.

RESOLVED

That the recommendations, as detailed in the exempt report, be approved.

The meeting closed at 12.00 pm.