Lancashire County Council

Pension Fund Administration Sub-Committee

Minutes of the meeting held on Friday 25 September 2009

Present:

County Councillor M Welsh (Chair)

County Councillors:

M Barron*     F De Molfetta
M Brindle     G Roper

*County Councillor M Barron replaced County Councillor M Green for this meeting.

Co-opted Members:

Councillor G Bell          District Council/Unitary Authority representative
Mr B Harvey              Trade Union representative

Officers who attended the meeting were:

Phil Halsall, Executive Director for Resources,
Diane Lister, Pensions Services Manager,
Colin Smith, Pensions Services Technical Advisor,
David Porter, Principal Administrative Officer,
Garth Harbison, Committee Support Officer.

Disclosure of Personal and Prejudicial Interests

Members declared personal interests as follows:-

County Councillors M Barron and F De Molfetta as members of the Lancashire Combined Fire Authority.

County Councillor M Brindle as a member of the Local Government Pension Scheme and as a member of a Trade Union.

County Councillor G Roper as a member of the Lancashire Police Authority.

(Officers in attendance advising the Sub-Committee also registered an interest as members of the Local Government Pension Scheme).

Pension Fund Administration Sub-Committee Constitution:
Membership; Chair and Deputy Chair; Terms of Reference

It was reported that the County Council at its annual meeting on 25 June 2009 had approved the constitution of the sub-committee on the basis of 3 Conservative members, 1 Labour member, 1 Liberal Democrat member, 1
trade union co-opted member and 1 co-opted member representing the Lancashire District Councils and Unitary Authorities. The membership of the Sub-Committee and its terms of reference were reported. The Sub –Committee was also asked to appoint a Chair and Deputy Chair for the municipal year 2009/10.

1. Resolved:

(i) That County Councillor Michael Welsh be appointed Chair of the Sub-Committee for the Municipal Year 2009/10.

(ii) That County Councillor G Roper be appointed Deputy Chair of the Sub-Committee for the Municipal Year 2009/10.

(iii) That the Membership and terms of reference of the Sub-Committee, as now reported, be noted.

Minutes of the Meeting held on 23 October 2008

2. Resolved: That the Minutes of the meeting held on 23 October 2008 be confirmed and signed by the Chair.

Lancashire County Pension Fund Policy on Admissions and Terminations

It was reported that Lancashire County Pension Fund was required to have in place a policy on employer Admissions into the Fund as well as a methodology for assessment of a termination payment on the cessation of an Admitted Body’s participation in the Fund. This policy supplements the general policy of the Fund as set out in the current Funding Strategy Statement (FSS).

An Admissions Policy had been in place for Lancashire County Pension Fund since 2006. Essentially 'Admitted Bodies' were Local Government Pension Scheme (LGPS) employing bodies who did not have an automatic right to participate in the Fund and therefore must do so under the terms of an Admission Agreement in order for their employees to be eligible for membership of the Scheme. Consequently, it was also possible to terminate an Admitted Body's participation within the Fund, either at the request of the body or at the determination of the administering authority.

The Fund's current Policy had been updated to reflect a more robust set of qualifying criteria in order to further limit any potential additional liabilities that may, as a consequence of an Admission, be placed upon the Fund. Essentially this change in policy was a response to the ongoing funding issues faced by the Fund as a whole and the need to ensure, as far as possible, that the Fund was not further disadvantaged by unforeseen liabilities.

In addition, there was a need for the Fund to set out a clear policy statement in respect of the potential termination of Admitted Body status.
The proposed revised Policy (a copy of which was presented as Appendix A to the report) incorporated the following changes:

- Further details on process of application for Admitted Body status
- An appendix of conditions of participation and the requirement that these conditions must be met. (These conditions were also included in individual admission agreements).
- Reference to updated Regulations effective from 2008.
- The statement that Community admissions must provide a guarantor or bond to cover liabilities and a further option to "pre fund" liabilities through increased contributions.
- The introduction of a new exception to the transferee admission policy not to allow admissions where the transferring scheme employer was a participating employer within another LGPS Fund. This was because there would be no fallback position to recover liabilities from contributions upon termination.
- The allowance for admissions under the community arrangement to be refused or accepted under unique "exceptional circumstances".
- The administering authority's right to determine employer specific recovery periods.
- The Fund's Policy on the methodology for assessment of termination.
- A documented termination policy to cover how any outstanding liabilities at the termination of an admission body should be calculated and recovered.

On the advice of an actuary it was important to have a termination policy in place. This was considered the most important issue.

It was noted that this Policy had been revised taking into account the advice of the Fund's Actuary as well as the County Council's Legal Services Section.

3. **Resolved:** That:

   (i) The revised Admissions and Terminations Policy, as now presented and set out in Appendix A to the report now presented, be recommended to the Pension Fund Committee for approval

   (ii) The Pension Fund Committee be asked to authorise the Executive Director for Resources and Treasurer of Lancashire County Pension Fund to determine transferee and community Admissions which are considered as 'exceptional circumstances'

### Response to Communities and Local Government Consultation on Local Government Pension Scheme Governance Arrangements

It was reported that on 13 May 2009, the Department for Communities and Local Government (CLG) issued a consultation document on the governance of the Local Government Pension Scheme and its pension funds. A copy of the consultation document was presented as Appendix A to
the report. Consultees were invited to respond by 30 September 2009, specifically they were asked to respond in respect of the following issues:

- Extending the current high standards of governance and involvement.
- How best to translate any measures and proposals for best practice and experience into either new regulation or further guidance.
- CLG's intention to contact selected Scheme administering authorities to discuss their current and future policy, and how this was locally to be managed in those authorities.

Following a previous governance initiative in 2006, statutory guidance was issued to administering authorities in November 2008 to assist them in the preparation and publication of their Governance Compliance Statements, as required by regulation 31 of The Local Government Pension Scheme Administration Regulations.

As a result of the 2006 consultation and the subsequent issue of statutory guidance in 2008, the County Council undertook a thorough review of its pension fund governance arrangements and the following changes were approved and implemented as a result:

- The main committee terms of reference were revised
- The investment panel terms of reference were revised
- A new administration sub-committee was put in place
- A new appointments committee was put in place
- Representation on the main committee was reviewed and changes implemented
- The Fund Governance Policy Statement was revised to incorporate the new arrangements.

Lancashire County Pension Fund was fully compliant against 7 out of the 9 best practice standards and had partial compliance in respect of the remaining 2 principles; these were Structure and Representation. A copy of the Compliance Statement was presented as Appendix B to the report.

The Pension Fund Administration Sub-Committee was asked to agree a response to this consultation detailing the administering authorities commitment to Scheme governance as follows:

"The Fund was content with its current high standards of governance and involvement and would view any further extension in respect of its own governance arrangements as unnecessary. However, the Fund welcomed the opportunity to discuss its own thorough review of governance arrangements with Ministers as a beacon of best practice.

Any further proposals would be carried forward within the current statutory guidance framework rather than by the introduction of new regulations as this would provide little in terms of added value given that compliance
against the current best practice guidance was already significantly high across all authorities."

Members of the Sub-Committee expressed their satisfaction with existing governance arrangements for the County Council's Pension Scheme and supported the proposed response to the government consultation document.

4. Resolved: That the proposed response to the Department for Communities and Local Government consultation detailing the administering authorities' commitment to Scheme governance, as set out in the report now presented, be agreed.

Response to Communities and Local Government Consultation on Local Government Pension Scheme Delivering Affordability, Viability and Fairness

It was reported that on 25 June 2009, the Department for Communities and Local Government (CLG) had issued an informal consultation document entitled 'Local Government Pension Scheme Delivering Affordability, Viability and Fairness'. A copy of the consultation document was presented as Appendix A to the report. Consultees were invited to respond by 30 September 2009, specifically in respect of a possible new approach to solvency and the proposition for a revised employee contribution tariff.

Comments were invited on two new approaches to solvency; The Finance Plan approach and an alternative, Local Funding Target approach, taking into account the existing Funding Strategy Statement framework.

Comments were also invited on a proposition to further revise employee contribution rates which could involve raising the higher rate to 10% of pay from the current 7.5% and widening further the lowest rate of contribution of 5.5% to encompass more lower paid members of the Local Government Pension Scheme.

There were concerns that the current 100% funding target, as set out in within LGPS Regulations, had become artificial and imposed significant short term cost pressures on employers during times of economic downturn and falling investment returns.

The report suggested that a more flexible model would be more appropriate, to better reflect the individual circumstances of each pension fund authority taking account of the long term future of local government, its employer covenant and its statutory basis.

Two separate proposals were suggested within this informal consultation. The first involved the introduction of a Financing Plan underpinned by a completely new funding strategy. The second, the establishment of funding targets set locally by fund authorities within the existing funding strategy and valuation framework.

The Financing Plan approach would include the following key components
short to medium cash flow projections
employing body contribution rates to meet liability projections for the fund overall and for each employing body
certification of the plan by the fund officer responsible for the administration of the fund’s affairs and the appointed actuary
agreement to the Financing Plan by the authority’s formal pension committee, after consultation with all interested parties.

This approach would require formal amendments to the LGPS Regulations and, would introduce a funding regime based on a much shorter time frame which could be seen as being inconsistent with current funding best practice.

On the issue of Local Funding Targets the consultation suggested an alternative approach which could involve retaining the existing Scheme funding regime but additionally allowing an administering authority to adopt a long-term funding target which would not necessarily be set at 100%, provided that this could justified by the pension fund administering authority within its published Funding Strategy Statement.

The Sub-Committee was of the view that a locally set funding target should be 100%. It was thought that six months was too short a timescale to produce a funding plan and that nine months would be more accurate. The Sub-Committee felt the need to exercise caution to ensure that the local target did not fall below 85%. to avoid burdens being placed on members of the Fund.

Long term funding targets would, therefore, continue to be an essential feature of the Funding Strategy Statement, as would deficit recovery plans over a locally chosen period. This alternative would stabilise pension costs going forward, without losing sight of the fact that the Scheme must meet its statutory pension promise.

This alternative approach would put beyond doubt that ultimately it was for each administering authority, and most importantly its elected committee members, to have the final say on questions of affordability and sustainability and fairness to local taxpayers, within the framework set by the Scheme’s Regulations.

If the proposed Finance Plans were adopted the Sub-Committee would need to consider seeking further clarity on how each Scheme employing body would determine their plans and what, if any, restrictions would be placed upon Scheme employers in order to protect the interests of the Fund as a whole. It was felt that the proposal to introduce individual Employer Finance Plans might prove to be onerous with various schedules in place for individual employing bodies. In addition, the LCPF Funding Strategy Statement would require extensive revision as well as careful wording in order to ensure clarity of roles and responsibilities in respect of the administering authority and individual Scheme employing bodies.
With regard to the proposition in the consultation document for a revised employee contribution tariff, it was noted that the average pay of members of the Scheme in Lancashire as at the previous valuation (carried out at 31 March 2007) was £15,356. This being the case, it appeared that the proposal to revise contribution rates would put the majority of Scheme members in the pay range that attracted a slight increase in contribution rates rather than have the intended effect of reducing rates for the lower paid in Lancashire.

The Sub–Committee took the view that a response that suggested a fair and equitable approach to employee contribution rates i.e. one that may be based on the current income tax regime would be appropriate.

It was also noted that there was merit in both proposals and the Pension Fund Committee should be allowed to approach the results of the re-evaluation in March 2010.

Members of the Sub-Committee considered that the two schemes were not mutually exclusive. The direction to go was a combination of both. The starting point for this must be re-evaluation and with this the development of a methodology.

On the subject of rebalancing contributions the Union were reluctant to advocate change at this time. Unless there was a discrepancy the right time for change was felt to be at the conclusion of Job Evaluation.

Two important issues raised by the Sub-Committee were:

- The question of marginal costs. Any future consultation should pick this up
- How the Fund could be made more attractive to new joiners, particularly joiners on short term contracts.

5. **Resolved:** That the a response be made to the Department for Communities and Local Government informal consultation on the basis of the advice contained in the report now presented and having regard to the comments made by the Sub-Committee in the course of deliberations on the report now presented.

**Date of Next Meeting**

Members would be notified of the date of the next meeting in due course.

I M Fisher  
County Secretary and Solicitor  

County Hall  
Preston