

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 5th September, 2014 at 9.30 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor Terry Burns (Chair)

County Councillors

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| L Beavers | M Parkinson |
| D Borrow | A Schofield |
| M Brindle | K Sedgewick |
| G Dowding | R Newman-Thompson |
| J Oakes | D Westley |
| M Otter | B Yates |

Co-opted members

Paul Crewe, (Trade Union representative)
Bob Harvey, (Trade Union representative)
Jane McCann, (HE/FE sector establishments representative)
Councillor Edward Pope, (Lancashire Leaders' Group representative)
Councillor Mark Smith, (Blackpool Council representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council representative)

County Councillor R Newman-Thompson replaced County Councillor J Gibson at this meeting.

Eric Lambert and Noel Mills, Independent Advisers to the Pension Fund were also present.

It was reported that Paul Crewe had been appointed to represent the Trade Unions on the Committee. It was also reported that Councillor Edward Pope had been appointed to represent the Lancashire Leaders' Group.

1. Apologies

Apologies were received from Councillor P Leadbetter.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 6 June 2014

The Minutes of the meeting held on 6 June 2014 were presented.

Resolved: That the Minutes of the meeting held on 6 June 2014 be confirmed and signed by the chair.

4. Exclusion of Press and Public

Resolved: That the press and members of the 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 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. Investment Performance 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 performance of the Fund as at 30 June 2014, focussing on the key areas of:

- the funding position;
- cash flow;
- fund investment performance;
- management performance;
- investment allocations; and
- risk management of the Fund including liability, credit, liquidity, investment and operational risks.

Resolved: That the report be noted.

6. Investment Panel 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 received a report from the Investment Panel setting out the work of the Panel at its meetings held on 6 June and 21 July 2014. The Committee's attention was specifically drawn to the following key areas:

- The Investment Context in which the Fund was operating;
- Updates on property activity;
- Asset Trust Investment Format;
- Ground rent proposal; and
- Liability Risk Management

Resolved: That the report be noted.

The Committee then returned to the remaining Part I agenda items.

7. Annual Report and Statement of Accounts of Lancashire County Pension Fund for the year ended 31 March 2014

The Committee considered the Annual Report and Accounts of the Pension Fund for 2013/14.

It was noted that the Statement of Accounts was currently being audited by the external auditor and the auditor's opinion, together with any changes required as a result of the audit process would be included in the published Annual Report, when this had been completed.

A copy of the Annual Report 2013/14 was presented at Appendix 'A'. The content of the Annual Report included the following sections:

- An overview of the management and financial performance of the fund;
- The Governance Compliance Statement;
- Administration of the Fund;
- Knowledge and Skills Framework
- Investments of the Fund;
- The accounts and financial statements;
- Actuarial Valuation;
- The Governance Policy Statement;
- The Communication Policy Statement;
- The Funding Strategy Statement;
- The Statement of Investment Principles

It was noted that the County Council's Constitution required the Pension Fund Annual Report to be approved by the Committee and submitted to the Full Council for information.

Resolved: That the 2013/14 Lancashire County Pension Fund Annual Report, as now presented, be approved for submission to the Full Council.

8. Shareholder Voting and Engagement Report

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements and activity, and engagement activity for the period 1 April to 30 June 2014. The report also set out details of potential class actions in relation to companies in which the Lancashire County Pension fund currently owned shares or had previously owned shares.

It was noted that PIRC were collating UK proxy voting outcomes for the 2014 voting 'season' and would provide a report following the end of the September quarter. This would enable PIRC to review voting recommendations provided on behalf of Fund, as well as reviewing market trends and the significance of developments affecting those outcomes.

The expected report would also provide a commentary on the proxy season from the viewpoint of how institutional investors voting outcomes had impacted on individual company results, as well as the impact of highlighting new issues and the broader support for governance changes that investors had been arguing for. In addition, it would have a full statistical analysis of the Fund's voting record. This information would be included in future reports to the Committee.

Resolved: That the report be noted.

9. Lancashire County Pension Fund Risk Register

The Committee considered the Fund's Risk Register six monthly update report.

It was noted that the Risk Register had been reviewed by risk owners and that two new risks had been identified. The Committee's attention was also drawn to the areas currently designated as 'high' risk.

Resolved: That the report be noted.

10. Opportunities for Co-operation with Other Funds Within the Local Government Pension Scheme

The Committee considered a report on possible opportunities for collaborative working with other Local Government Pension Schemes.

It was noted that the Committee had in its various responses to Government consultation documents supported the proposition that increased collaboration between funds would be beneficial. The Committee was informed that a range of opportunities for collaboration were presenting themselves and an approach to dealing with the opportunities including potential areas for discussion was presented.

Resolved:

That officers be authorised to engage in exploratory discussions with other Local Government Pension Schemes on possible opportunities for co-operative working.

11. Extension of Contract for Actuarial Services

The Committee considered a report on the contract arrangements for the provision of actuarial services to the Fund.

It was noted that the current three year contract with the Fund's Actuary, Mercers, was due to expire and that it was proposed to take up the option to extend the contract for a further three years to September 2017. This would enable the Fund to continue to work with the Actuary beyond the completion of the next schedule actuarial valuation (31 March 2016) thus providing continuity and consistency of service. A procurement process would be undertaken following the expiry of the contract in September 2017.

Resolved: That the proposed extension of the current contract for the provision of actuarial services to the Fund to September 2017 be noted.

12. Transaction of Urgent Business

The Committee's responses to the following Government consultation exercises were presented:

- Opportunities for Collaboration, Cost Savings and Efficiencies within the Local Government Pension Scheme;
- Draft scheme governance regulations for the Local Government Pension Scheme

It was noted that the responses had been approved under the County Council's Urgent Business Procedure as the closing dates for submissions were prior to the next scheduled meeting of the Committee.

The Committee welcomed the responses and fully endorsed the views and concerns which had been expressed to Government. Members were particularly concerned about increased risks caused by:

- reduced accountability, control and oversight to deliver an effective strategy to eliminate the Fund's deficit;
- the Government's focus on fee reduction measures;
- the pooling of LGPS assets to a single strategy based around a common investment vehicle;
- the requirement to change asset allocation from active to passive management;
- the Government's one size fits all solution for all public sector pension schemes, which appeared to ignore the fundamental differences between the LGPS, which already had effective and inclusive governance

- arrangements which could be built on and the unfunded schemes which did not; and
- the potential conflict between the new Pension Board and pre-existing committees, and the exclusion of democratically elected councillors from the Board.

It was suggested that Lancashire Members of Parliament be informed of the Fund's views and concerns about the Government's proposals. The Committee agreed that the MPs should be asked to support the consultation responses and to raise the concerns with Government

The Committee was informed that a report on the proposed establishment and membership of the new Pension Board as from 1 April 2015 would need to be presented to Full Council in December 2014. This would follow consultations with stakeholders and consideration of the proposals by the Committee at its meeting on 28 November.

It was felt that a further briefing session should be held prior to the next meeting of the Committee on the implications of the consultation documents and on the proposals for the establishment of the new Pension Board.

Resolved

1. That the report be noted.
2. That Lancashire Members of Parliament be asked to support the Fund's responses to the Government's consultation documents.
3. That a briefing session on the implications of the Government's consultation documents, and on the proposed arrangements for the establishment of a new Pension Board be held prior to the next meeting of the Committee.

13. Urgent Business

None.

14. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 28 November 2014 at 10.00 am at County Hall, Preston.

I Young
County Secretary and Solicitor

County Hall
Preston

