

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 15th April, 2011 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	T Pimblett
M Brindle	S Riches
P Evans	G Roper
M France	M Welsh
J Lawrenson	K Young
F De Molfetta	

Co-opted members

P Doyle	(Lancashire Leaders' Group representative)
B Harvey	(Trade Union representative)
P Hyett	(HE/FE Sector Establishments representative)

Independent Advisers - Panel Members:

E Lambert

1. Apologies

Apologies for absence were received from County Councillor M Parkinson and N Mills (Independent Adviser).

2. Disclosure of Personal and Prejudicial Interests

County Councillors P Evans, M France, T Pimblett, D Westley and M Brindle disclosed personal, non-prejudicial interests in the agenda as they were members of the Local Government Pension Scheme.

(The Committee at its meeting on 15 July 2011 noted that County Councillor T Pimblett had been omitted from the list of members who had declared a personal, non-prejudicial interest as members of the Local Government Pension Scheme. It was agreed that the minutes should be corrected accordingly)

3. Minutes of the Meeting held on 4 February 2011

The minutes of the meeting held on 4 February 2011 were presented.

Resolved: That the minutes of the meeting held on 4 February 2011 be confirmed and signed by the Chair.

4. Audit Commission - Lancashire Pension Fund 2010/11 External Audit Plan

The Committee considered a report on the 2010/11 external audit plan of the Pension Fund.

It was reported that the 2009/10 audit had been completed by the Audit Commission and that a detailed audit plan had now been produced setting out in particular the key audit risks for 2010/11. The plan also identified the work which the Audit Commission proposed to undertake in relation to the audit of financial statements 2010/11 for the Lancashire Pension Fund.

The Committee noted that the audit plan had been considered and noted by the County Council's Audit Committee on 24 January 2011. Clive Portman, District Auditor responded to questions from members of the Committee including an explanation of the basis on which the Audit Commission fee was calculated, confirming that the audit fee for 2011/12 would reduce.

Resolved: That the report be noted.

5. Internal Audit Plan 2011/12

The Committee considered a report on the plan of work to be undertaken by the Council's internal audit service on the Pension Fund in 2011/12. The plan which amounted to a planned resource of 112 audit days was presented at Appendix 'A'.

Resolved: That the internal audit plan for 2011/12, as set out at Appendix 'A', be approved.

6. The Operation of the Investment Panel - Investment Decision Making

The Committee considered a report on the operation of the Investment Panel and its decision making process as a key element of delivering the new investment strategy.

The Committee noted that the Investment Panel needed to be rigorous, transparent and accountable to the Committee in order to successfully implement the new investment strategy. The process by which the Panel would operate to achieve this was set out in the report and included matters relating to:

- the importance of the due diligence process in relation to investment proposals
- the role of the independent advisors (specifically that agreement from both advisors is necessary for an investment proposal to proceed)
- the role of the Assistant Director of Finance as a check within the system
- the role of the Fund Treasurer
- accountability and reporting arrangements to the Pension Fund Committee
- the constitution, and
- the role of the Chair/Deputy Chair.

The County Treasurer proposed that an additional element be included in the investment decision making process, reflecting concerns previously raised by the Committee, whereby, briefing meetings for Committee Members would be held before each meeting of the Investment Panel, providing Members with an opportunity to express their views on matters being considered by Panel and decisions taken by them.

Resolved: That subject to the inclusion of briefing meetings before each meeting of the Investment Panel as proposed, the arrangements for the operation of the Investment Panel as set out in the Report be agreed.

7. Revised Governance Arrangements

The Committee considered a report on the revised governance arrangements for the Pension Fund Committee. The Committee was informed that the governance documents which were set out at Appendix 'A' to the report had been amended to reflect the changes to the operation of the Investment Panel which had been agreed and the wish to adopt new ways of working to allow the Fund to be managed more dynamically to take advantage of opportunity and avoid risk as required by the new Investment Strategy.

The Committee noted that the governance documents had also been amended to provide greater transparency and accountability, in particular around the management of the Fund's property portfolio, reporting arrangements and the process of preparing and approving pension fund policies, statements, strategies and procedures.

The revised governance documents also took into account the Committee's decision in February 2011 to disestablish the Pension Fund Appointments Sub-Committee and the implementation of a new procurement process more aligned to EU procurement rules.

Resolved:

- i. That the revised governance arrangements for the Pension Fund Committee as set out in the report at Appendix 'A' be accepted;
- ii. That the Full Council be recommended to approve the revised governance arrangements at its annual meeting on 26 May 2011.

8. Pension Fund Treasury Management Policy and Strategy 2011/12

The Committee considered a report which set out the proposed Pension Fund Treasury Management Policy and Strategy for 2011/12 as well as a cash management and investment strategy.

The Committee was informed that from the 1 April 2011, the Pension Fund would be keeping its money in its own bank account separate from that of the County Council. In doing so, it was recommended to the Committee that it would be best practice for the Pension Fund to have its own Treasury Management and Investment Strategy tailored to its specific needs.

It was confirmed that the credit ratings proposed in the investment matrix within the Report took account of sovereign credit risk and agreed that this be reflected in the matrix.

Resolved: That subject to the inclusion of an appropriate reference to sovereign credit ratings, the Pension Fund Treasury Management Policy and Strategy for 2011/12 be amended and approved.

9. Appointment of Consultancy Bench

The Committee considered a report on the appointment of a Specialist Consultancy Bench, the implementation of which would enable the Investment Panel to more easily secure expert advice as and when required. A full procurement process was run in consultation between the County Council's Procurement Team, Pension Fund staff and an external consultant.

The Committee was informed that all respondents to the tender process had passed the Pension Fund's pre-qualifying criteria. The firms which responded were of a range of different sizes and specialisms and as such were accepted on to the Consultancy Framework. Furthermore, it was proposed that the Consultancy Bench be divided into three sections namely; Asset Allocation, Investment Manager Selection and Liability Asset Management.

The Committee was also informed that when the Fund required the services of an investment consultant it would run a mini-tender process amongst the members of the relevant section of the bench to obtain the best advice, ideas and price, rather than relying on the services of a generalist consultant on a retainer.

Resolved: That the appointment of a Specialist Consultancy Bench as set out in the report be approved.

10. Report of the Independent Public Service Pensions Commission

A report was presented containing a summary of the proposals from the final report of the Independent Public Service Pensions Commission chaired by Lord Hutton published on the 10 March 2011.

The final report recommended significant changes to the Local Government Pension Scheme whilst maintaining it as the only major public service scheme that was funded. Some of the significant changes and proposals included:

- A new pensions "deal" – intended to provide greater clarity for scheme beneficiaries, employers and taxpayers on what they could expect from the public service pension scheme;
- A career average revalued earnings (CARE) scheme – which would mean that benefits would be calculated on average earnings over the period of scheme membership adjusted in line with average earnings;
- A single basic scheme design across the public sector – a common framework for public service pensions
- Encouraging the development of increased collaboration and sharing of services between Local Government Pension Scheme Funds.

However, it was reported that significant details surrounding some of the proposed changes remained to be negotiated and that the implementation of which would also require primary legislation. It was suggested that the proposed changes would be implemented from the year 2015.

In particular it was noted that there was no suggestion that there would be any interference with the accrued rights of Scheme Members, protecting existing staff from the full impact of a change from a final salary scheme.

Resolved: That the report be noted.

11. Transaction of Urgent Business

The Committee received details of an item dealt with under the procedure for dealing with matters of urgent business.

Resolved: That the report be noted.

12. Date of Next Meeting

It was noted that the next meeting of the Lancashire Pension Fund Committee would be held on Friday 15 July 2011 at 10.00am at County Hall, Preston.

13. 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.

14. Global Custody

(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 outcome of a procurement exercise to appoint a new Global Custodian of the Pension Fund.

Resolved:

The Committee agreed:

- i. That the existing custodian contract be terminated.
- ii. That, subject to contract negotiations and to the receipt of appropriate references, Northern Trust be appointed as new global custodians of the Pension Fund.
- iii. That stock lending with the custodian be reinstated.

15. Report of the Investment Panel

(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 matters considered by the Pension Fund Investment Panel on 28 January 2011 and 30 March 2011.

It was reported that the Panel had discussed a broad range of issues relating to the investment context in which the Fund was operating, the current position of the Fund including specific manager performance, future strategy and other business plan issues.

Resolved: That the report be noted.

16. Review of Hedge Fund of Fund Managers

(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 Hedge Fund of Funds portfolio.

Resolved: That the recommended course of action set out in the report be approved.

I M Fisher
County Secretary and Solicitor

County Hall
Preston