

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 30th November, 2012 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	T Pimblett
P Evans	S Riches
H Henshaw	G Roper
F De Molfetta	M Welsh
M Parkinson	K Young

Co-opted members

Councillor Ian Grant, (Lancashire Leaders' Group representative)

Bob Harvey, (Trade Union representative)

Councillor Paul Leadbetter, (Lancashire Leader's Group representative)

1. Apologies and Announcements

Apologies for absence were received from County Councillors M Devaney, K Iddon and J Lawrenson, and Councillor M Smith.

It was reported that Councillor Grant had been appointed to represent the Lancashire Leaders' Group and Councillor Grant was welcomed to the meeting.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None.

3. Minutes of the Meeting held on 27 July 2012

The Minutes of the meeting held on 27 July 2012 were presented.

Resolved: That the Minutes of the meeting held on 27 July 2012 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. Fund 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 September 2012, focussing on the key areas of:

- the funding position;
- cash flow;
- investment performance and allocation; and
- risk management of the Fund.

There was a general discussion on the report presented and officers responded to specific questions on the Fund's cash flow position, investment income, private equity performance and the need to reduce the Fund's liabilities. It was noted that a report on a liability management strategy would be presented to the next meeting of the Committee.

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 meeting held on 24 September 2012. The Committee's attention was specifically drawn to the following key areas:

- The investment context in which the Fund was operating and in particular the effects of the continued weak economic growth, the "fiscal cliff" in the US and the on-going problems within the euro zone;
- Investment decisions that had been taken within the Lower Volatility Strategies Allocation;
- Further allocation work that was being undertaken on a number of investment opportunities; and
- Potential restructuring of Private Equity and Fixed income mandates.

Resolved: That the report be noted.

7. Global Equities Transition 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 an update on the Fund's transition to the new global equities investment managers, as reported to the Committee in May 2012.

It was noted that the transition had been completed with effect from 1 October 2012 and that the transition was within the cost estimates provided despite a falling market.

It was also noted that the Fund had entered into a Commission Recapture programme to obtain rebates on commission costs for the new global equity mandates which should generate significant costs savings per annum. The Committee welcomed this course of action.

Resolved: That the report be noted.

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

8. Administration Sub-Committee Report

The Committee received the minutes of the Pension Fund Administration Sub-Committee from its meeting on 11 October 2012.

It was noted that the Sub-Committee had considered reports on the following:

- Membership of the Local Government Pension Scheme and Auto-enrolment; and
- Member Self Service.

The Sub-Committee had previously approved a Communications Strategy to encourage a greater take up of the Local Government Pension Scheme. The Committee noted that the Sub-Committee had now approved the roll out of a communications action plan to coincide with the County Council's auto-enrolment date of 1 January 2013. It was reported that the campaign was well underway and that the campaign materials would be made available to other Fund employers including District Councils as the auto enrolment process began to affect them.

It was reported that over 3,000 people had requested access to the new on-line member self-service system. This would give scheme members including pensioners access to their pensions data through a secure website. Around 300 people had requested that information be sent to them in hard copy format.

Resolved: That the report be noted.

9. Update on Local Government Pension Scheme 2014 and the Public Service Pensions Bill

The Committee received an update report on the progress of the Local Government Pension Scheme (LGPS) 2014 proposals and the statutory consultation framework relating to draft regulations. The report also covered the key provisions of the Public Service Pensions Bill and its impact on the LGPS 2014,

It was reported that whilst the draft regulations had been delayed, they were still expected before the end of 2012 with consultations taking place in early 2013. The delay did not change the basis of the LGPS 2014 on Scheme design. Details of the proposals were presented.

The Public Service Pension Bill was published on 13 September 2012. The Bill would work its way through Parliament before being enacted during 2013. Individual schemes, including the LGPS, would then issue secondary legislation defining new scheme regulations ahead of the commencement date, expected to be 1 April 2014. It was noted that the new career average public sector pension schemes would only come into effect after the commencement date and that the pension rights accrued by a member before that date would be protected.

Resolved: That the report be noted.

10. Statement of Investment Principles Report

The Committee considered a report on the Fund's Statement of Investment of Principles.

It was noted that regulations governing the operation of the Fund required the Statement of Investment Principles to be reviewed and if necessary, revised, in case of any material change to the Principles within 6 months from the date of change. The change of investment managers with the implementation of the global equities mandate was considered to constitute such a change.

A revised Statement of Investment Principles was presented and the Committee's attention was drawn to the advice that the Investment Panel was required to provide to the Treasurer of the Fund. It was felt that the advice relating to "Performance measurement" needed to be more specific and that section h. should be amended to read "To oversee the performance of the investment managers appointed by the Fund and to report on the Fund's performance." The Committee approved this amendment.

It was suggested that the Statement of Investment Principles should be further amended to include reference to the Fund investing in local infrastructure. The Committee was informed that local infrastructure investment by Pension Funds was currently the subject of a Government consultation. It was agreed that a

further report on this matter including the possible establishment of a local infrastructure investment protocol be presented to a future meeting.

Resolved:

- i.. That subject to section h. of the Investment Panel's Terms of Reference being amended, as set out above, the Statement of Investment Principles be approved.
- ii. That a further report on the position of the Pension Fund investing in local infrastructure, and on the development of a local infrastructure investment protocol be presented to a future meeting.

11. Fund Shareholder Voting Report

The Committee considered a comprehensive report on the Fund's shareholder voting arrangements and voting activity for the period 1 July to 30 September 2012. It was noted that the Fund had voted on 330 occasions during this period and had opposed or abstained in 33% of votes.

It was noted that the Australian superannuation fund First State Super had announced its decision to divest from tobacco investments. The implications of the Fund adopting a similar stance were discussed and members were reminded of the Fund's over-riding fiduciary duty to maximise returns for its members. It was agreed that a further report on the Fund's fiduciary duties in so far as they related to ethical considerations and investments be presented to the next meeting of the Committee.

Resolved:

- i. That the report be noted.
- ii. That a report on the Fund's fiduciary duties in so far as they relate to ethical considerations and investments be presented to the next meeting of the Committee.

12. External Audit, Annual Governance Report 2011/12

The Committee considered the Audit Commission's Pension Fund Annual Governance report for the year ended 31 March 2012.

It was noted that the Governance Report had already been considered by the Audit and Governance Committee. The report included the letter of representation which gave the Audit Commission specific management assurances regarding the accounts of the Lancashire County Pension Fund.

The Committee was informed that the District Auditor had issued an unqualified audit opinion on the financial statements of the Pension Fund. In commenting on the County Council's accounts, Karen Murray, district auditor, informed the Committee that she had not identified any material errors within the financial

statements and those errors which had been identified and which were set out on page 5 of the report, had not affected the underlying financial position of the Council. She also commented that this was a significant achievement on the part of the County Council's finance staff as it had been a particularly challenging year with the introduction of a number of changes.

The audit work had identified a potential misclassification of accounting entries between the County Council. It was reported that action was being undertaken to address this issue.

Resolved:

- i. That the Audit Commission's Pension Fund Annual Governance report 2011/12 be noted.
- ii. That the Committee's thanks and appreciation be extended to the County Council's finance staff for their work in producing the financial statements of the Pension Fund during a particularly challenging year.

13. Urgent Business

None.

14. Date of Next Meeting

It was noted that the next meeting of the Committee would be held on Friday 22 March 2013 at 10.00 am at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston