

## **Lancashire County Council**

### **Pension Fund Committee**

**Minutes of the Meeting held on Friday, 18th November, 2011 at 10.00 am in Cabinet Room 'C' - County Hall, Preston**

#### **Present:**

County Councillor David Westley (Chair)

#### **County Councillors**

T Aldridge	M Parkinson
M Brindle	T Pimblett
M Devaney	S Riches
P Evans	G Roper
M France	M Welsh
F De Molfetta	

#### **Co-opted members**

P Doyle	(Lancashire Leaders' Group representative)
B Harvey	(Trade Union representative)
P Hyett	(HE/FE Sector Establishments representative)
M Smith	(Blackpool Council representative)
D Walsh	(Blackburn with Darwen Borough Council representative)

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

#### **Announcements**

The Chair reported that Blackburn with Darwen Borough Council had appointed Councillor Dorothy Walsh to serve on the Committee. Councillor Walsh had replaced Councillor O'Keeffe and the Chair welcomed Councillor Walsh to the meeting.

The Chair also congratulated Diane Lister and the Your Pension Services team on being shortlisted for the LGC Investment Awards, Quality of Service Award.

Noel Mills, independent adviser to the Pension Fund was welcomed on his return after a period of illness.

## **1. Apologies**

Apologies for absence were received from County Councillor K Young and Gill Kilpatrick, Treasurer to the Pension Fund.

## **2. Disclosure of Personal and Prejudicial Interests**

County Councillors P Evans, M Parkinson, F De Molfetta, M Brindle, T Pimblett, M France and D Westley, and Councillor D Walsh and Mr R Harvey disclosed personal non-prejudicial interests in the agenda as they were members of the Local Government Scheme.

## **3. Minutes of the Meeting held on 15 July 2011**

The minutes of the meeting held on 15 July 2011 were presented.

**Resolved:** That the minutes of the meeting held on 15 July 2011 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 2011, focussing on the funding position, the investment performance and allocation, and risk management of the Fund.

There was a lengthy discussion on these issues and officers also responded to general questions about:

- The effects of changes in inflation on the Pension Fund;
- The effects of county council staff taking voluntary redundancy;
- The Fund's exposure to foreign bonds;
- Credit rating agencies; and
- The effects of quantitative easing.

**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 considered a report on matters considered by the Pension Fund Investment Panel on 12 September 2011 and members were given an update on issues and action taken since that meeting.

It was noted 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 and risk profile;
- On-going procurements;
- Further development of the Committee's investment strategy, particularly through the consideration of proposals for investment within the Lower Volatility Strategies Allocation; and
- An issue which had arisen in the wider business of one of the Fund's managers

Members expressed concerns about the effects of the current global economic climate on the Pension Fund. It was hoped that the Fund's Investment Strategy would help to mitigate risk particularly through the allocation of up to 40% of the Fund into Lower Volatility Strategies. Whilst this allocation was designed to enhance stability through the generation of income streams and stable revenues rather than a pure capital appreciation approach, in what were predicted to be extremely testing circumstances.

The Committee was informed that the Fund had been unsuccessful in its attempt to fund two healthcare facilities and with the purchase a public utility company. A concern was expressed about the Fund's ability to take over the control of a commercial enterprise. Members were informed that the Fund would only look to undertake such purchases in very limited circumstances and markets and that the Fund would engage relevant experts to undertake due diligence work and to provide other support and advice as necessary. It was suggested that a partner should be required to have an equity stake in any company purchased by the Fund. It was agreed that a further report setting out the principles and the implications including any risks to the Fund of acquiring ownership of a commercial enterprise should be presented to a future meeting.

**Resolved:**

1. That the report be noted.

2. That a report setting out the principles and the implications including any risks to the Fund of acquiring ownership of a commercial enterprise be presented to a future meeting.

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

## **7. Consultation on proposed changes to the Local Government Pension Scheme**

The Committee considered a report on the Government's consultation on proposed short term changes to the Local Government Pension Scheme (LGPS). The report provided a comprehensive appraisal of the proposals contained within the consultation, as well as a number of key principles that could be included within a potential response and alternative proposals to be made by the Committee.

There was considerable discussion on:

- the Government's proposals for short term changes to the LGPS;
- the impact of the cost reductions on the Fund and Employers;
- the potential impact of members opting out of the LGPS;
- the alternative options that would achieve the required £900m reduction in the cost of the LGPS without having to increase employee contributions, and options to reduce the risk of opt out; and
- the nature and content of the response to be submitted on behalf of the Lancashire County Pension Fund.

Members were reminded that the over-riding fiduciary duty of the Pension Fund Committee was to ensure that the Fund's deficits were reduced while maintaining stability in employer contributions rather than trading increased employee contributions for reduced employer contributions. With this in mind and upon being put to the vote, the Committee agreed that following key points should form the basis of the response to the Government's consultation:

1. The fact that Funds were operating with deficits must be recognised and any reduction in employer contributions should be considered at the next valuation, which would take into account the overall position of the Funds.
2. Any proposals for change from April 2012 need to minimise the risk of increased levels of opt out from the scheme.
3. Any proposals for change from April 2012 need to be administratively deliverable.
4. The preference of the Fund would be for a series of changes which did not require increases in employee contributions which at the current level were already higher than in many public sector

schemes where average member earnings were higher than in LGPS.

5. Given that Ministers were likely to view options which did not increase employee contributions unfavourably, a proposal which balanced all of these objectives would be to make changes to accrual rates from April 2013 with any accompanying increase in employee contributions structured so as to protect the lowest paid.
6. Some of the additional "savings" from an earlier move to a reduced accrual rate should be used to reduce the level of increase in employee contributions for members earning in the range £21,000 to £40,000, which was the group where the risk of further opt outs seemed most likely.

The Committee agreed that the response to the consultation should also include the following two alternative proposals that would achieve the Government's required £900m reduction in the cost of the LGPS. It was noted that the alternative proposals had been worked up with the assistance of the Fund's actuary.

#### Alternative 1

Savings of £450m would be achieved by a change in the scheme's accrual rate from the current rate of 1/60ths to 1/65ths with effect from April 2013. A further £450m would be achieved from a phased increase in employees' contribution rate.

#### Alternative 2

The preferred option would be to achieve £900m by a change in the scheme's accrual rate to 1/70ths from the current rate of 1/60ths with effect from April 2013. This would mean that any increase in contribution rates could be kept at a minimum and would only need to be effective from 2014/15 to achieve the required savings.

The Committee noted that the Government was also developing the post 2015 reference scheme that would provide a template for schemes across the public sector. Further information on the Government's proposals was awaited.

#### **Resolved:**

1. That the draft response and alternative proposals, as set out at Appendix 'B' and Appendix 'C' respectively, be agreed as the Lancashire County Pension Fund's submission to the Government's consultation on proposed short term changes to the Local Government Pension Scheme.
2. That a report on the Government's proposals for public sector pension schemes beyond 2015 be presented to a future meeting.

## **8. Update on Procurement Processes**

The Committee received an update on the procurement process for the following contracts:

- Global Equity Managers;
- UK property management and independent valuers;
- Governance and proxy voting advisors; and
- Tax agents

It was confirmed that the procurements were progressing as planned.

**Resolved:** That the report be noted.

## **9. CIPFA Skills and Knowledge framework**

At its meeting on 15 July 2011 the Committee requested a list of relevant training and conference events for members of the committee to attend. A list of suitable external events had been identified and details were presented at Appendix 'A'.

A process for determining and approving attendance at external events needed to be established. In the meantime, it was agreed that members should submit a request to attend an event to the Chair of the Committee. It was also agreed that attendance at any event be limited to no more than two members of the Committee and that members would be expected to provide feedback to the Committee on any events attended.

The Committee was informed that following the July meeting, CIPFA had announced that they were in the process of formally adopting a Code of Practice that would embed the requirement for the acquisition, retention and maintenance of appropriate knowledge and skills by both members and officers into a formal structure for public sector pension schemes. The full details of this code were released on 28 October 2011 and a full report would be presented to the next meeting. The report would also include details of proposed internal training events and briefings.

**Resolved:** That the report be noted.

## **10. Audit Commission Annual governance report 2010/11**

The Committee considered the Audit Commission's Pension Fund Annual Governance report for the year ended 31 March 2011.

It was noted that the Governance Report had already been considered by the Audit 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. This was a significant achievement on the part of the council's finance staff as it had been a particularly challenging year.

**Resolved:** That the Audit Commission's Pension Fund Annual Governance report 2010/11 be noted.

**11. Urgent Business**

None

**12. Date of Next Meeting**

It was noted that the next meeting of the Committee would be held on Friday 3 February 2012 at 10.00 am at County Hall, Preston.

I M Fisher  
County Secretary and Solicitor

County Hall  
Preston