MINUTES OF THE PENSION FUND COMMITTEE

Date: Thursday 14th January 2020

Time: 10.00am – 11.35am

Place: Kreis Viersen Room, Shire Hall, Cambridge

Present: County Councillors P Downes, I Gardener, A Hay, T Rogers (Chairman) and M Shellens; Cambridge City Councillor R Robertson; Liz Brennan (substituting for John Walker)

Officers: C Blose, D Cave, S Heywood, J Walton and M Whitby

Observers: John Stokes

Apologies: Councillor Seaton, John Walker and Matthew Pink

173. DECLARATIONS OF INTEREST

Councillor R Robertson declared a personal interest as his wife was a retired member of the LGPS.

Liz Brennan declared a personal interest as an active scheme member.

174. MINUTES OF THE PENSION FUND COMMITTEE MEETING HELD ON 10th OCTOBER 2019 AND ACTION LOG

The minutes of the Pension Fund Committee meeting held on 10th October 2019 were approved as a correct record and were signed by the Chairman.

The following items were discussed:

Item 122 – Automating monthly data collection - officers advised that due to staff turnover, this project had not yet been completed. Information had been available before Christmas but there were concerns that it was not completely accurate, so it had since been revised and the report would be circulated to Members.

Item 138 – KPIs – this report had been deferred until the March meeting.

The Committee noted the Minute Action Log.

175. VALUATION OF THE FUND

Officers updated Members on progress since the agenda had been published. There had been negotiations with employers, including a forum meeting in December where the process and contribution rates had been explained. A number of meetings had been arranged with the smaller charities, showing them the rates they would need to pay. Officers explained how a more relaxed approach was being taken with Employers who provided security e.g. charges on assets, but a more prudent approach, effectively stripping out the investment return in valuations, had to be taken with those employers who did not provide security. A number of Employers had proactively been looking to provide security, which was very positive.

There had been some really positive feedback from both the Employers and the Actuary regarding the Employer Forum, and the Actuary had commented that it was one of the best and most constructive events of its kind he had attended, which was great credit to the team.

The Funding Strategy Statement (FSS) Consultation finished on Friday 17th January, and no responses had been received to date, but there was general acceptance of the principles of the FSS. The main changes to the FSS since it had been considered by Committee were:

- A reduced time horizon for getting to full funding for Further Education colleges, as the government was no longer acting as a guarantor for their liabilities;
- A more prudent approach has been taken in relation to admission bodies with no guarantor (mainly small charities), increasing the Funding target so it is based on the employers exit basis but reducing the required probability of success threshold to 50% (previously 80%) to cushion some of the extra prudence;
- Conversely a more relaxed approach had been taken on Contractors, moving down to a 55% probability of success threshold to avoid a build-up of a surplus in their funding position;

In response to Member questions:

- officers explained that the contribution rates were always reviewed in the Valuation period, to ensure that a deficit would not be opened up in future. The contribution rate for *employees* was set nationally through LGPS. That mechanism was set in 2014, and was regularly adjusted for CPI. There was a cost cap in the new LGPS mechanism, which was on hold following the McCloud case. Cost control was put in place to protect employers: employers could determine how they apply employee rates, i.e. they have some discretion on when grades are changed (e.g. monthly or annually).

- security was sought from employers in those cases where the contribution rates were becoming unaffordable. Two employers were already discussing with officers security in the form of a charge on assets, and another employer was looking at setting up a surety bond. It was confirmed that the baseline approach to contributions was on a prudent, exit basis, but a more relaxed approach could be taken if there was security;

- regarding how reflective the contribution rates being negotiated were of historic rates, officers confirmed that they were slightly higher due to the McCloud risk: the LGA had advised that liabilities should be valued on the current structure, but with a cushion built in for McCloud. At the higher end of the scale e.g. greater than 80% funded, that prudence was already there, but needed to be included on less funded employers who were at the lower end of the scale;

- the Committee noted that the FSS would be presented for Members' consideration at their March meeting, and the Actuary would be present for that meeting.

It was noted that the overall funding percentage of the Fund was 100%, but that each individual employer was different in terms of their funding level, i.e. some were quite underfunded, whilst some were significantly overfunded (>120%). Any employers exiting the Fund with a surplus would receive a refund. In cases where the indemnity was provided by the County Council, there was an argument that the County Council should receive the surplus, and there was currently a legal case relating to the Northamptonshire Fund on that basis, and a similar case in Cambridgeshire, which was on hold pending the outcome of the Northamptonshire case.

It was resolved unanimously to:

1) Note the Valuation update

176. ANTI-FRAUD AND CORRUPTION POLICY REVIEW

The Committee received a report on the Cambridgeshire Pension Fund Anti-Fraud and Corruption Policy. Members were reminded that the Policy had been approved by the Committee in 2017, and was being reviewed to reflect changes since that time, such as annual proof of existence for overseas members.

The Chairman thanked Mr Stokes, Chair of the Pension Fund Board, as that body had spent considerable time helping review this Policy.

A Member noted that the deterrent value of the Policy was alluded to in the "Purpose" section of the report, and suggested that this should be emphasised in the Policy. **Action required.**

A Member asked about verifying bank account details of pensioners, especially those about to be paid a lump sum. Officers outlined the checks made, including safeguards such as ensuring paperwork provided was checked against signatures on file. Officers acknowledged that there were risks of fraud from both external and internal sources, but advised that there were limitations on what could be done from both a GDPR perspective (e.g. asking for sight of a bank statement), and also in terms of resource constraints. It was agreed that officers would bring back a short statement to update the Committee, including the number of frauds in this area (if any) they were aware of in recent years. **Action required.**

It was resolved unanimously:

1) To approve the Anti-Fraud and Corruption Policy.

177. DIGITAL COMMUNICATIONS STRATEGY

The Committee received a report on the Fund's Digital Communications Strategy. Members were reminded that the Fund's Communication Plan had been approved by the Committee in 2019, at which point it had been agreed that the Digital Communication Strategy would be produced. The Strategy outlined how the Fund planned to use technology to find more engaging methods of communicating with employers and members digitally, which would have the benefit of reducing printing and postage costs, reducing opportunities for fraud and increasing engagement with the pension scheme by scheme members. Any scheme member could opt out of electronic communications, at any time, by informing the Pensions team in writing.

Arising from the report:

- A Member expressed concern about the opportunities for fraud if a member's computer was hacked. It was stressed that communications and information would not be sent by email, but through the portal i.e. a website that the member had to actively log in to. Documents such as pension statements were stored on the portal, it was not necessary to keep paper copies. Officers outlined the measures that were taken to secure the portal. It was noted that some hackers monitored what was on a device's screen, but ultimately members were responsible for those aspects of security.

- A Member asked if any training was available for recently retired members on using the portal. Officers advised that due to the large number of scheme members, and limited resources, it was difficult to target training sessions to members. However, support was always available from the Pensions team through telephone or online. The focus of the Digital Communication Strategy was on active members, and there had been a number of demonstrations of the portal in Council offices. In addition, there was a user guide, featuring screenshots, which showed users how to use the portal. The potential for a webinar was also raised. Ms Brennan advised that Cambridge City Council had digital champions, and it may be worth contacting them to see if they could help support this process;

- In terms of monitoring engagement, a Member asked how the Pensions team could establish if a member never signed in to the portal? Officers advised that an exercise would be carried out later in the year to encourage use of portal, and some employers had asked for help with this. It was reiterated that members always had the option of opting out of electronic communications. It was also pointed out that even when paper pension statements were sent out, there was evidence that these were sometimes discarded or unread. The Member suggested that if there was no engagement at all, it could suggest that the Member was no longer alive;

- It was confirmed that mortality screening in the UK was undertaken by a contractor. However, overseas monitoring was more complex and difficult, as there were many different methods for recording deaths.

It was agreed that future reports would include an estimate of how many members had accessed the portal.

The Chairman thanked both officers and the Pension Fund Board for all their work on this issue.

It was resolved unanimously:

1) To approve the draft digital communications strategy.

178. PENSION FUND ANNUAL BUSINESS PLAN UPDATE REPORT 2019/20

The Committee considered an update on the Pension Fund Business Plan for the period from 1st September to 31st October 2019.

Members noted the following points:

- with regard to the procurement of specialist legal advice, this action had been delayed slightly, as responses to queries were still awaited. However, the start date of the new contract (1st February 2020) was not expected to change;

- for the implementation of the Monthly data collection, this would need to be rescheduled as all actions would not be completed by 31st March 2020;

- the delay in the Monthly data collection project would impact on the Processing of undecided leavers project, one of the largest projects in the Business Plan. Steady progress was being made with the backlog, with the assistance of the contractor, Aon, and the current tranche would be broadly complete by March. It was noted that the "business as usual" numbers were getting higher than officers were comfortable with, with around 4,500 in excess of the usual numbers of undecided leavers. Many of these related to cases where the employer had not advised the Pensions team that an employee had left. More radical changes of process had already been introduced, especially where the employer had moved to monthly processing: once a year's worth of data was available for an employer, there was no need for a formal paper notification (Leaver's Certificate) to be sent;

- due to the delay with Undecided Leavers project, Aon needed to be paid extra fees: the original contract had not been fixed price as there were too many variables. The additional fees were around £100K, and Aon had absorbed a lot of the costs themselves;

- the implementation of online payment platform for employers' contribution payments was listed in the report as 'Red', but since the report had been published, this had been completed. The main delay had related to payment by card functionality, but given that the vast majority of employers paid by BACS, this was not an issue;

- in response to a Member question, it was confirmed that there were measures in place for those employers who failed to send through Leavers' Certificates in a timely manner. A communication had been sent to all employers, and those in breach had been targeted individually, and advised that fines would be incurred in future. The expectations in terms of timeliness of information would be made clear to any employers who were not moving on to monthly processing. The Committee had previously approved, as part of the Administration strategy, the policy on how non performing employers could be dealt with.

It was resolved unanimously:

1) To note the Pension Fund Business Plan update for the period ending 31st October 2019 of the 2019-20 financial year.

179. ADMINISTRATION PERFORMANCE REPORT

The Committee considered a report which set out a number of key areas of administration performance during the period 1st September to 31st October 2019.

There had been no material or non-materials breaches during the period.

With regard to Data Improvement, the independent data audit had recently been concluded for 2019, and there was little change in the scores. There had been an increase in unprocessed leavers as a direct consequence of over 1500 suspected leavers being identified through year end processing, as well as automation issues around the switch-over to monthly data submission. All of those unprocessed leavers had been counted as data fails.

The reconciliation of contracted-out liabilities had been going on for some considerable time, and it had been hoped that it would be concluded by March 2020. However, a recent HMRC bulletin had confirmed that there would be a delay in issuing the final data file that would allow the rectification of errors to begin. HMRC were due to issue a bulletin update the following week and were arranging sessions to talk to Pension Funds. There was no indication from HMRC on when this was likely to be completed, but it may become clearer following the next bulletin. Members' pensions could not be rectified without this information from HMRC being finalised, and it was unlikely that the costs to the Fund as a result of HMRC's delay could be recovered. It was confirmed that the Pensions team had to purchase specialist software to undertake the rectification, and it was likely that a software licence for a further year would be required due to the HMRC delay. It was estimated that around 400 pensions had either been over or underpaid.

It was noted that the verification process for members with a new address should conclude in March 2020.

Members noted the positive results for the CIPFA Benchmarking exercise, which was a very useful analysis of unit costs. Regrettably, the numbers of LGPS pension funds participating had fallen, with only 29 out of a potential 87 taking part. The results indicated that the net administration costs were slightly lower than average (£14.09 compared to £21.34). It was noted how this figure was composed. It was anticipated that the net administration costs for Cambridgeshire would increase in 2020 as there were more projects taking place. It was confirmed that the resources required to participate in the Benchmarking exercise were minimal, with much of the data already available. However, if the number of participants fell further, it would be necessary to review whether continued involvement was useful.

With regard to Appendix 1 to the report (variances to forecast administration expenses), it was noted that most variances related to Management Expenses. Officers outlined how these figures could be skewed by issues in one quarter, and how they would like to control variances better.

It was noted that the payment of retirement benefits from active employment (Appendix 2) had not met its target, but a Member commented that this was an external factor beyond the Pension team's control. Whilst agreeing to some extent, officers responded that they would ideally have sufficient resource in place to deal with such variations in workload. The Chairman commented that variations were acceptable as long as they were not ongoing.

A Member observed that the increase in net assets available for benefits had increased by more than pensions paid, which was highly commendable, and would benefit the Fund when it became cash negative. He expressed concern that investment income only totalled around 1.5%. Officers commented that the Committee would be aware from the Investment Strategy, and the Strategic Asset Allocation in particular, that some asset classes were not held to generate a lot of investment income, and were held for other reasons. It was also likely that not all investment income was reflected in these figures. Officers agreed to respond to Councillor Shellens directly on this issue. **Action required.**

With regard to the contracted out liabilities rectification, it was noted that even if HMRC provided the Pensions team with the information in February, the team could not realistically complete this project until the end of the second quarter, due to the busy March-May period.

It was resolved unanimously:

To note the Administration Performance Report.

180. GOVERNANCE AND COMPLIANCE REPORT

Members received a report on governance issues concerning the Local Government Pension Scheme (LGPS) on a national and local basis, and also details of forthcoming training events.

Officers had recently emailed Committee Members, requesting feedback on the Good Governance Review report recommendations. Attention was drawn to the most notable recommendations, listed in the report. Whilst officers were happy with most of these, they had issues with F1 and F2, which related to compliance and improvement, specifically a biennial Independent Governance Review (IGR). It was suggested that strong guidance would be required as to exactly what 'independence' entailed.

The Scheme Advisory Board had issued a consultation on Responsible Investment guidance in early December 2019, with a deadline for responses extended to the end of January. A number of Funds had flagged up issues, specifically around Fiduciary Responsibility in terms of Committees' decision making powers. The Fund's final response to the consultation, would be shared with the Chairman and Vice-Chairman for approval. Officers agreed to send details of the consultation to Liz Brennan. **Action required.**

With regard to the Good Governance Review, specifically the MHCLG's production of statutory guidance establishing new governance requirements for funds, a Member asked what input Funds would have in to this statutory guidance. Officers expected there would be a consultation, and it was noted that the ACCESS funds were looking to meet with Hymans collectively to talk to them about the next stages.

Members' attention was drawn to the list of training events. It was noted that many events quickly became fully booked, so Members were encouraged to express an interest as soon as possible.

It was resolved unanimously:

To note the content of the report.

181. EMPLOYERS ADMISSIONS AND CESSATIONS REPORT

The Committee received a report on the admission of six admission bodies and one scheduled body, and the cessation of four bodies.

It was noted that all the admission bodes related to catering and cleaning functions previously coming under the remit of the Council service CCS. There had been some difficulties getting them to sign on in time, but the regulations did allow backdating. The Scheduled Body being admitted was an Academy, which could not be refused.

Observing that seven bodies had been admitted and four had left, a Member commented that this reflected the continuing trend of increasing numbers of employers, which meant more administration and costs for the Pension Fund.

It was noted the some of the schools listed in the report as primaries should be listed as special schools.

It was resolved unanimously to note:

1. the admission of the following admitted bodies to the Cambridgeshire Pension Fund and approves the sealing of the admission agreements:
- ABM Catering Limited;
- Caterlink
- Easy Clean
- Hertfordshire Catering Service (HCL)
- Nightingale Cleaning Limited
- Pabulum Limited

2. the admission of the following scheduled bodies to the Cambridgeshire Pension Fund:
- Our Lady of Walsingham MAT

3. the cessation of the following admission agreements with the Cambridgeshire Pension Fund:
- Aspens (The Weatherall's Primary School)
- Edwards and Blake (New Road Primary School)

- Pabulum (Downham Feoffees Primary)
- YMCA Trinity Group

182. EXCLUSION OF PRESS AND PUBLIC

It was resolved unanimously that the press and public be excluded from the meeting for the next report on the grounds that it contained exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information)) and that it would not be in the public interest for this information to be disclosed as they contained commercially sensitive information.

183. ASSET POOLING

Members considered a report on ACCESS Asset Pooling.

It was resolved unanimously to:

Note the asset pooling update.

Chairman