Agenda Item 2a)

MINUTES OF THE PENSION FUND COMMITTEE

Date: Thursday 18th October 2018

Time: 10:00-12.45 pm

Place: Room 128, Shire Hall, Cambridge

Committee Members present: County Councillors D Ambrose Smith (substituting for Cllr Hickford), P Downes, A Hay, R Robertson, T Rogers (Chairman), M Pink and M Shellens; L Brennan and J Walker

Officers: C Blose, S Heywood, R Sanderson, T Pegram, J Walton and M Whitby

Advisor: G Nathan

Observer: Cllr S King

Apologies: Cllrs R Hickford (Vice-Chairman), J Schumann and D Seaton,

85. DECLARATIONS OF INTEREST

John Walker declared a personal interest (i) as a retired member of the Local Government Pension Scheme (LGPS), (ii) his daughter-in-law was a current member of the LGPS and (ii) his son was a deferred Member of the LGPS.

Matthew Pink declared a personal interest as both his wife and himself were active members of the LGPS.

Councillor R Robertson declared a personal interest as his wife was in receipt of a small pension.

86. MINUTES AND ACTION LOG OF THE PENSION FUND COMMITTEE MEETING HELD ON 26th JULY 2018

The minutes of the Pension Fund Committee meeting held on 26TH July 2018 were approved as a correct record and were signed by the Chairman.

The following item was noted under the Action Log:

Item no. 82 - The Annual Review of the Fund Investment Managers - the request to include a column in the manager summary table comparing the Mercer rating and opinion for the previous year had been noted and would be included in future reports. **Action: Paul Tysoe**

The Committee noted the Action Log.

87. PENSION FUND ANNUAL BUSINESS PLAN UPDATE

This report presented an update of the Pension Fund Business Plan.

Attention was drawn to:

- Paragraph 2.1.3 'Implement Additional Posts to the Structure' which indicated that an oral update would be provided to advise the outcome of the Data Quality Officer interviews and the progress in establishing the Communications Officer Post. In terms of the Data Quality post, interviews had taken place with two candidates, but neither had been considered suitable. As a result, a different approach was to be looked at, including approaching other Pension Funds through the Local Government Association. The Communications Officer recruitment process was still ongoing.

- Paragraph 2.2.1 Legal Services Procurement - It was explained that the Fund needed to procure its own supplier of Legal Services that had a specialism in pensions and investment law using the national LGPS Framework for Legal Services. As it was due to expire in January 2019, the Committee was recommended to delay the activity until the New Framework had been refreshed in order to allow the Fund to take advantage of revised and more beneficial terms and conditions from updated potential suppliers.

- Paragraph 2.2.3 GC8 - Guaranteed Minimum Pension Reconciliation / Rectification – Her Majesty's Revenues and Customs (HMRC) were until 31st December 2018 operating a reconciliation service for schemes to query and amend data held in order to comply with requirements following the end of contracting out. This required all pension schemes to reconcile their scheme members' contracted out liability against that recorded by HMRC. The deadline for queries requiring a second review by HMRC was 31st October.

Arising from the report:

- Questioning why there were not many targets, numbers or dates on the Business Plan update. It was explained that this was a high level update reviewing milestones and it had not been the intention to go into that level of detail.

- One Member, following up on the above, suggested that a Business Plan should include basic targets and key performance Indicators (KPI's). In reply it was explained that KPI's were not used in respect of projects, but that progress against project objectives was reported and would continue to be undertaken on a quarterly basis.

- It was suggested, and this was supported by the Committee, **that future updates should be more specific to include what action was required, the current update position (where we are) and the end date for the project Action: J Walton**

- With reference to GC9 – Pensioner administration v pensioner payroll records rectification - The retired Members Union representative highlighted two cases of large overpayments which had been brought to his attention, one going back to 2011-12, which were causing hardship in terms of paying back the overpayment. He wanted to ensure it was not a growing trend and queried why they had not been spotted earlier and whether the current systems were adequate. The Member was reminded that the Policy as agreed by the Committee was to seek repayment with LGSS entitled to recoup the sums involved. In the two cases referred to, the members had been offered an extension of the repayment periods. While accepting that in the past reconciliations had not happened in Cambridgeshire, GC9 was all about the rectification exercise which had begun following the migration of the pensioner payroll to the Altair payroll in 2016 to ensure overpayments did not occur. **Action: There was a request to the officers to respond in an e-mail to the specific cases quoted by John Walker and provide more information on the rectification being undertaken.**

Having commented, it was resolved unanimously:

1) To Note the Pension Fund Business Plan update for the first meeting of the 2018-19 financial year.

2) To approve the delay in the procurement of Legal Services until January 2019 as set out in paragraph 2.2.1 of the report.

88. ADMINISTRATION PERFORMANCE REPORT

This report set out a number of the key areas of administration performance for consideration by the Committee to help ensure effective and efficient governance and administration of the Pension Fund.

In discussion:

- Appendix 1 page 33 the two figures in the estimate and forecast totals were both showing as minus figures.

- A member asked if benchmarking was available to assess administration performance with other funds. It was explained that this Committee had previously rejected The Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking of performance, and only wished to be informed if the Fund performance deviated to a large extent to the performance of other Funds. The Fund was however still part of the CIPFA Benchmarking club with CIPFA undertaking a benchmarking review on an annual basis This was due to be published in November with Cambridgeshire's data having already been submitted. The Fund was within the average cost bracket for Funds. **There was a request for the CIPFA return information to be sent to the Committee. Action: Jo Walton**

The report was noted.

89. EXCLUSION OF PRESS AND PUBLIC

It was resolved:

That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following three items of business on the grounds that they contain exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act

1972, as amended (information which is likely to reveal information relating to the financial or business affairs of any particular person) and that it would not be in the public interest for this information to be disclosed.

90. HYMANS ROBERTSON EMPLOYER ASSETS TRACKER (HEAT)

This report presented the Committee with information regarding the Hymans Robertson Proprietary Employer Assets Tracker system (HEAT) already purchased by Northamptonshire Pension Fund. The system enabled the monthly tracking of Fund assets at the scheme employer level, providing live asset information. It was also able to base assets on different investment scenarios. This compared to the current position where assets determination allocated to each scheme employer was only undertaken at the triennial valuation with no monthly or even annual tracking being undertaken on employer accounts. The projected asset share became less and less accurate the further it moved from the triennial valuation. Feedback from Employers was that this was unsatisfactory.

In discussion:

- It was suggested that a table showing the final cost figures would have been helpful, rather than having to extract them from various paragraphs of text.

- A question was raised on how a multi investment strategy approach would affect the investment strategies of individual employers in the context of asset pooling. In reply, individual funds currently took their own decisions on investments, the Pool was there to make strategies available to help deliver them / help model them to a Fund's requirements.

- In reply to a question raised on whether HEAT was used by other authorities, the answer was yes, but the majority were at Stage 1, with only one at Stage 2.

In order that the Committee could discuss the matter further and make a decision on the recommendations Geoff Nathan (Actuarial Department Hymans Robertson) withdrew from the meeting.

A further issue clarified, was that the Pension Fund would be tied to the actuarial contract for two valuation cycles – six years giving the product a reasonable minimum life - if it was agreed to purchase HEAT, after which time the market for the actuarial contract could be tested for other provider products.

It was resolved by six votes in favour with two abstentions

To approve the purchase and implementation of HEAT.

91. OUTLINE OF FUND VALUATION PROCESS

The report and the tabled presentation Appendix 3 titled 'Actuarial Valuation and Funding Strategy Statement Updates' provided the Committee with both an overview of the presentation to be delivered by the Scheme Actuary and an outline of the process for the 2019 Cambridgeshire Pension Fund Valuation.

The report sought approval to consult on amendments to the Funding Strategy Statement following changes to Scheme Regulations and the key time lines when approvals would be required. The existing Funding Strategy Statement 2016 was attached as Appendix 1 Page 53-98 with the Updated 'Funding Strategy Statement October 2018' set out at Appendix 2 starting on page 99 to 144.

It was highlighted that one of the main changes was in respect of exit credits to employers. Previously where there was a surplus in Employer payments compared to their individual liabilities, the Fund retained it (while if the Employer contributions was in deficit, at exit they needed to pay it back). The latter still applied, but any credits accrued had to be returned to the Employer within three months. This arrangement had shifted the risk to the Fund, as while there were always the funds to pay for any surplus identified, if there was a deficit, there was no certainty of recovering the monies owed. The way to deal with this would be by way of a risk sharing approach. The amendment required to the Policy was shown on page 118.

Issues raised in discussion included:

- With reference to D5 'How is each employer's assets share calculated' on page 91 and the statement reading "the Administering Authority does not account for each employer's assets separately, instead the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial review". A question was raised on what was involved in identifying the gap between assets and liabilities in order to make judgements on employers' contributions? It was explained that two exercises were undertaken, with the opening position on funding levels looking at one set of assumptions, and then as a second stage, projecting forward to a point in the future, to check if there were sufficient assets to cover expected liabilities. This was then undertaken for each employer as a check on the necessary contribution required. While the overall funding level was important, more important was the future contribution rates.

- A question was raised on how the Fund calculated increasing variables such as: fewer employees; the probability that a Council will collapse within 2-3 years and assumptions on longevity. In reply in terms of longevity this was levelling off in some areas as a result of increased obesity. The valuation looked at the long term as opposed to short term financial volatility, with each type of asset investment having different projections.

- Page 60 Paragraph 2.5 second paragraph last line reading: "The amount of deficit or shortfall is the difference between the asset value and the liabilities value". A Member highlighted that he believed the word 'shortfall' in the sentence should be replaced by the word 'surplus'.

- Some Members suggested that the updated Strategy at Appendix 2 should have included side bars / or clear identification of the changes within the document (e.g. insertions bold, deletions shown as strikethrough) showing the track changes. This was agreed as required for future update documents. **Action Mark Whitby / Jo Walton.**

- Page 140 (b) Salary Growth showing as 1% per annum until March 2020 - in reply to a question raised in the light of the Prime Minister's recent announcement regarding the end of austerity, it was confirmed that this would be reviewed. **Action Mark Whitby / Jo Walton.**

It was resolved:

1) To note the contents of the report.

2) Approve the amendments to the Policy as set out in the revised Policy document at Appendix 2.

92. ACCESS ASSET POOLING UPDATE

This report updated the Committee on the Access Joint Committee meeting held on 19th September 2018.

In discussion:

- It was clarified that the acronym OWG used in paragraph 2.3.3 referred to officer working group.

- There was a request for an update on access costs. **Officers undertook to provide the latest report to Members outside of the meeting Action: Mark Whitby / Jo Walton**

- It was highlighted that there were proposals to change the Pool to becoming a segregated fund as this had tax advantages. The detail of such proposals would be the subject of a future report to the Committee.

- The retired member representative expressed his disappointment on the decision regarding Board members not having representation on the Joint Committee, stating that nationally two pools already had such arrangements. He expressed the view again that there should be Board representation or at least, in an observer capacity. His views was that the Pool was not filtering down adequately their activities to other Members. He wanted his views recorded that the Joint Committee should reconsider their decision.

- Councillor Robinson a new member asked to be provided with background papers regarding setting up the ACCESS pool. He also questioned whether there was a responsible Investment Policy taking account of environmental issues. Action **Officers to provide the necessary report outside of the meeting Action: Mark Whitby / Jo Walton**

It was resolved:

1. To Note the Assert Pooling Update.

2. Note the exempt Minutes attached as an appendix to the report from the ACCESS Joint Committee meeting of the 11th June.

The rest of the meeting now resumed as a meeting open to the public.

93. GOVERNANCE AND COMPLIANCE REPORT

This report provided information on:

1) Potential, new or amending legislation affecting the LGPS;
2) On other pensions legislation;
3) Activities of the LGPS Scheme Advisory Board and the Pensions Regulator;
4 On issues concerning the governance of the Local Government Pension Scheme (LGPS) on a national and local basis; and
5) Skills and knowledge opportunities.

The report was noted.

94. REVIEW OF THE REPORTING BREACHES OF THE LAW TO THE PENSIONS REGULATOR POLICY

This report presented the review of the reporting breaches of the law to the Pensions Regulator Policy. The main changes were set out on page 176. As there were no questions,

It was resolved:

To approve the reporting breaches of the Law to the Pensions Regulator and Delegate to the Head of Pensions in consultation with the Chairman any immaterial amendments to the policy.

95. CAMBRIDGESHIRE PENSION FUND DATA IMPROVEMENT POLICY AND PLAN

The Public Service Pension Act 2013 came into effect on 1 April 2014 and increased the powers of the Pensions Regulator to ensure that public service pension schemes had appropriate measures in place to ensure high standards of governance and administration. The code of practice 14 – governance and administration of public service pension schemes addresses the need for high standards of accurate data and states that schemes must regularly review the data held and put in place a Data Improvement Plan to address any issues.

This report presented the Data Improvement Policy (Appendix 1) and the Data Improvement Plan (Appendix 2) which had been drafted for Committee approval to demonstrate to the Pensions Regulator that the Fund has reviewed the quality of its data and has an ongoing approach to ensuring the Fund has appropriate processes in place to consistently hold accurate data. It was explained that there was no standard way to store data and different pension funds used different methods. Cambridgeshire had been very transparent in its self-scoring and been tougher than some other Funds.

Issues raised in discussion included:

- The suggestion that as data collection monitoring improved, future update reports should provide details of the original data figures. It was explained that the test would be that the right benefits were being paid. It was not known how it would change liabilities but the expectation was that it would improve efficiency.

- Requesting an update on overseas pension payments where the addresses could not be contacted. It was explained that pensions were no longer being paid if people could not be traced overseas. Failure to find the correct addresses however was being counted as a fail on the return to the Pensions Regulator which was not the policy being adopted by some other Funds when completing their returns.

- Further to this, a question was raised on whether the person could be written off if they did not respond to correspondence within a reasonable timeframe. In reply it was indicated that they were not written off as a death certificate was required in order to close the records. The benefits were paid into an ESCROW Fund until they were claimed, otherwise they sat there suspended.

  It was resolved

  To approve the Data Improvement Policy and Plan.

96. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

This report provided an update on admissions and cessations to the Cambridgeshire Pension Fund since the last report paper reported. It detailed the seven admission bodies and provided details on the termination of one scheduled body from the Cambridgeshire Pension Fund.

Questions raised included:

- Whether there was any discretion on admitting bodies in terms of the average number of employees to employers as the fixed costs could be an issue. In reply detail was provided on charities, but the Fund aimed to minimise the costs for small employers. The aim would be to ensure the Pension Fund was not making its Admissions Agreement too difficult to discourage new entries, as new contributions needed to be encouraged.

- In answer to how many cessations were currently in transit the reply was 16.

It was resolved:

1. To note the admission of the following admission bodies to the Cambridgeshire Pension Fund:

Everyone Health Limited
Edwards and Blake

Lunchtime UK Limited for the following contracts:

- *Houghton Primary School*
- *Friday Bridge Primary*
- *The Ashbeach Primary School*
- *St Laurence Catholic Primary School*
- Clean Slate (Histon Early Years Centre)

2) Note the termination of the following scheduled body from the Cambridgeshire Pension Fund:

- *St Neot's Learning Partnership Trust.*

97. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS

The Committee received a report presenting the final audited Annual Report and Statement of Accounts of the Pension Fund for the 2017-2018 financial year.

Issues raised included:

- Page 238 - Timelines of Contributions three year forecast of income and expenditure - with reference to the net returns on investments of around the £100k figure, a question was raised on how this affected the funding position and whether the projected forecasts were material. In reply it was explained that currently there was a £24m surplus which was expected to increase over the next three years. The figures on investment income of around £30m estimated in each of the next three years could be used to help the cashflow position.

- Page 239 - Management Expenses - Councillor Robertson, a new Member, asked for an explanation of the large discrepancy between the estimated outturn and the final outturn in respect of management expenses and whether any benchmarking was carried out? It was explained that the forecast was based on how investment rates were forecast to perform. It was not possible to accurately forecast the future and higher returns than forecast resulted in higher final management fees where pay was linked to performance. While it appeared to be a large figure, it was in relation to a fund of £3 billion. Update reports reviewing management expenses and fees were received by both this Committee and the Investment Sub-Committee.

- Further to the discussion on management expenses, it was suggested an additional line should be included extrapolating how much of the fee represented performance related pay. In reply it was highlighted that this information was shown at 11a on page 296. Further to this reply, it was suggested that a note was included on page 239 cross referencing to page 296. This was agreed. **Action: T Pegram**

- There was request for a breakdown of Assets under Management fees **Action: T Pegram**

- Page 240 – There was a query regarding recovery of overpayments of Pension noting the increase in them in the last two years compared to 2015-16 asking what happened if they were not recovered. In reply, as detailed in the table, it was confirmed that they would be written off. (Write-offs as a percentage of payroll was miniscule as set out in the table at 0.02%) The Member suggested a further column showing the amount still under active review in respect of monies not recovered would be a useful addition. **Action: T Pegram to look into**

- Page 243 table - Age Profile of Fund Membership as at 31st March 2018 - Councillor Shellens requested a copy of the previous year's table. **Action: T Pegram**

- Page 239 and Page 250 it was highlighted that the employer contribution figures were not the same. Page 239 - £103,041,529 and £103,088 on Page 250. It was confirmed that the figures should be the same.

- Page 283 - the line showing profits on disposal of investments – in reply to a Member who suggested that it was not wise to show this it was explained that the CIPFA guidelines required it.

- Page 283 - On a question raised at the previous meeting regarding why tax had been paid on income in the year just ended but not in the previous year, enquiries of the custodian had confirmed that the £329k shown as tax on income at 31st March 2018 was made up of two transactions, of which one totalling £162k was recoverable. It had been agreed with the External Auditor that it would be left in the accounts as it was immaterial and instead, an amendment would be made in 2018-19. The £167k not recoverable was due to the payment method used by the Income issuer.

- Page 255 – Investment Manager Profiles and Performance Targets for 2017-18 – A question was raised regarding why the target above benchmark column was shown as not applicable for most items. It was explained that this was because they were passive investment managers so they would not have a benchmark score. However as reassurance, it was explained that the Investment Sub-Committee received quarterly updates on investment managers' performance.

- Members discussed the vulnerability of funds to Brexit. Officers stressed that the Fund was global, with exposure to UK markets limited to around 24%. It was explained that Mercer had just produced a report on the potential exposure to Brexit, and it was agreed to circulate it. **Action T Pegram**

- Officers agreed to provide the Annual Report (Investment Manager Fee and Transactions Cost Review), Mercers Annual Investment Manager Review and the latest Investment Performance Report as background for Councillor Robertson. **Action: Mark Whitby / Jo Walton**

- There was a request to provide as background to Councillor Robinson, training day reports and also for Paul Tysoe to have a session with the new Members. **Action T Pegram / Paul Tysoe**

It was resolved:

To note the report.

98. DATE OF NEXT MEETING MOVED FROM 6TH TO 13TH DECEMBER

Chairman
13th December 2018