MINUTES OF THE PENSION FUND COMMITTEE

Date: Tuesday 8th December 2020

Time: 1.30pm - 4.05pm

Venue: Virtual Meeting

Present: County Councillors P Downes, I Gardener (Vice-Chairman), A Hay, T Rogers (Chairman) and M Shellens; Cambridge City Councillor R Robertson; Lee Phanco, Matthew Pink and John Walker

Officers: C Blose, D Cave, P Tysoe, J Walton and M Whitby

Advisors: D Green and R McInroy

Apologies: Peterborough City Councillor D Seaton

220. DECLARATIONS OF INTEREST

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

John Walker and Councillor Downes both declared interests as retired members of the pension scheme.

Matthew Pink declared an interest an active member of the pension scheme.

221. PUBLIC MINUTES OF THE PENSION FUND COMMITTEE MEETING HELD 9th OCTOBER 2020

The minutes of the Pension Fund Committee meeting held on 9th October 2020 were approved as a correct record.

222. ACTION LOG

The Action Log was noted.

223. ADMINISTRATION PERFORMANCE REPORT

The Committee considered a report which set out a number of key areas of administration performance.

Members were reminded that since the start of the pandemic, the Pension team had managed to maintain performance across the range of KPIs (Key Performance Indicators).

However, there had recently been a dip in performance due to a system outage on Altair pension administration system and the NCC network, which had impacted on the KPIs in relevant areas. Additionally, a key member of staff had been off sick which had affected performance in a number of areas, but it was confirmed that the team had subsequently caught up. The main issue had been the three consecutive days of outage, which had meant that it had not been possible to complete a number of actions requiring a five day turnaround.

In terms of Employer contributions, the vast majority of Employers were paying on time, with just two Employers failing to meet the deadline. However, those two Employers were only late by a few days, and had always paid on time previously, so this was not considered to be a cause for concern.

Despite the formal cessation of LGSS, the Pensions Service would continue to provide a shared service arrangement for Northamptonshire and Cambridgeshire Funds. When the new local authority arrangements came into place in Northamptonshire in 2021, the Pensions Service would sit under West Northamptonshire Council going forward.

With regard to the Tier 1 Ill Health Estimate that had been overstated, it was agreed that an email would be circulated to the Committee to provide an update on this case and the other IDRP cases identified in the report. Action required.

Mr Walker advised that a number of employed scheme members had expressed concern as they had been waiting a while for their Pension query acknowledgements. Officers advised that queries were automatically acknowledged where the request was sent by email, so there may be some technical reason why it appeared that they had not been sent e.g. acknowledgements going to Junk folders. It was agreed Mr Walker would be provided with an officer point of contact so that he could raise any such issues directly with the team. Action required.

It was resolved unanimously to:

Note the Administration Performance Report

224. PENSION FUND ANNUAL BUSINESS PLAN UPDATE REPORT 2020- 21

The Committee considered an update to the Business Plan for the period 1st September to 31st October 2020.

Members noted that progress had been made on many aspects of the Business Plan, specifically:

- Positive progress on the seven investment activities, as set out in Appendix 1 to the report. There had been a slight delay in asset pooling, but there had subsequently been a number of Sub-fund launches. Multiple Investment Strategies would be considered later in the meeting;

- With regard to the Business Continuity Plan, the Pensions services would be moving to West Northamptonshire Council in April 2021, and would have a new corporate entity at that point, so some of this activity had been re-profiled. Some elements will therefore be tested after April, but the Aquila Heywood system would be tested in advance of that;

- Cybercrime was potentially posing increasingly sophisticated threats to the administration of the Fund. The section on Cybercrime had been significantly updated in the latest iteration of the Business Plan. The whole Pensions team had undertaken training, and an Aon scorecard assessment would be undertaken in December.

One Member expressed strong concerns about cybercrime. Officers reassured him that there was resilience within the pensions systems, including the Altair platform, which required multifactor authentication to access. The Member commented that his particular concern was the security of those organisations that the Pensions team shared data with, e.g. in relation to confirming the existence of members of living abroad. Officers advised that there were few organisations that the data was shared with, and outlined the measures in place. Douglas Green (Actuary) also reassured Committee Members that there had been a section on data protection and security in the last actuarial tender, which was robustly tested as part of that tender framework.

With regard to reducing pension liabilities, the team were continuing to contact Members about claiming refunds which they were entitled to as leavers. As of October 2020 1,153 (17%) out of 6,928 members had been contacted and been given the opportunity to claim a frozen refund, and 373 members had requested and received a refund to date. A Member queried the age profile of those who were not claiming, i.e. how long ago since they left employment. Officers advised that the time period varied greatly, and it was acknowledged that it was more difficult to trace those who had left a long time ago.

With regard to the resolution of undecided leavers, it was confirmed that this had not progressed significantly, with volumes remaining static throughout the Pandemic. Officers explained how this was a particularly resource heavy activity, and how the proposed action to address this was to obtain access to key Employers' systems so that officers could respond to quite simple queries themselves. In response to a Member question on leverage with Employers, it was confirmed that ultimately leverage could be deployed through the Administration Strategy and Charging, but officers preferred to work with the Employer to identify and resolve issues. The example was given of an Employer who had had insufficient resources due to a recruitment freeze, which had subsequently been lifted, and it was therefore anticipated that the delays would be resolved.

A Member queried whether the mortality screening and address tracing services was beneficial in cost terms. Officers confirmed that Mortality tracing was definitely worthwhile, but address tracing was more problematic, as some of the results were low confidence. However, there had been pressure from the Pension Regulator to undertake address tracing. It was agreed that information on address tracing costs would be circulated. Action required.

Members noted the financial information in the appendices to the report, and it was agreed that further information would be circulated relating to 'above the line' cashflows, which had been requested by the Investment Sub-Committee. Action required. Officers advised that there had been a recent significant inflow of contributions from the Department of Health (DoH), relating to legacy liabilities, also some contributions from some local authorities choosing to pay their deficit contributions as one payment. As a result the Total Income estimate for 2020/21 would be increasing from £135.2M to approximately £150M, with the majority of that increase relating to the single payment from the DoH.

Investment Management Expenses has been historically paid out of cash i.e. invoiced, but this had reduced considerably as the assets moved across to the ACCESS Pool, where they were deducted from the underlying sub-fund.

A Member raised a query relating to Appendix 1, Governance and Compliance, and asked if officers could provide Members with a schedule of events that they should attend, as he had been inundated with offers to attend training and conferences, and specific guidance on what was useful would be helpful. The Chairman advised that he always contacted the Pensions Team to see if events were worthwhile. It was noted that Appendix 2 of the following agenda item identified the most useful training events.

A Member queried the key actions on investments, asking whether there should be a review of Climate Change implications in the Investment Strategy, especially with regard to Global Warming caused by the Oil, Aviation and Shipping sectors. Officers advised that the Committee had already considered their Investment Beliefs, and a revised RI (Responsible Investment) Statement would be considered at the next Investment Sub-Committee meeting, which following consultation, would become part of the Fund's main Investment Statement. Following that, a variety of RI related actions would feed into the Business Plan. At pool level, Mark Whitby was chairing a group which was developing principles and guidance around RI/ESG. The Chairman highlighted that the amount of investment into the Energy sector had reduced significantly from about 5% to 2.5% over recent years. Officers reminded Members that they had received a briefing note highlighting the Fund's minimal exposure to energy stocks such as Oil, but that this was unlikely to ever reduce to zero, as Oil still had a place in developing countries, but it was recognised that Climate Change issues could have material financial impact on investments. A possible next step was to reduce some of the climate risk within the portfolio. Officers reiterated that they were working very closely with partner funds in ACCESS, and whilst this may take longer, collectively the combined Funds would have a far greater impact.

A Member queried the massive reduction in income (30%) from investments, and asked how this would impact on the Fund, and whether this resulted from the Pandemic and Brexit. Officers advised that the Fund had performed remarkably well in the Pandemic, with performance of all managers recovering. The significant decline in income was largely due to companies not paying dividends, as nearly all companies had suspended or drastically reducing dividends. During the Pandemic the biggest issue has been liquidity i.e. whether companies had enough money to survive and pay bills so that could continue to trade. Even those cash rich companies which could afford to pay dividends had taken the decision to withheld dividends and maintain their cash reserves so they were better placed to survive through difficult times. Whilst the roll out of Covid-19 vaccines was very welcome, it would still take time for markets to return to functioning normally, and it may be that companies re-set their dividends to lower levels. However, the Fund was a long term investor and the current situation should be regarded as a blip in investment terms. On the positive side, the fall in equity prices had given investment managers the opportunity to select stocks which had previously been too expensive. Another Member commented that he felt the outlook for the next twelve months was poor, and he believed there would be further reductions in income, but underlying asset values would increase if companies were not paying out dividends, which would feed through in to longer term valuations.

A Member asked for consistency in the use of brackets and minus signs in financial reporting. Action required.

It was resolved unanimously to:

Note the Business Plan Update to 31st October 2020.

225. 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.

With regard to the Public Sector Exit Cap, Members noted that the exit payment cap was set at a total of £95K with no provision for this amount to be index linked. Exit payments must cover all redundancy payments, including statutory redundancy, severance payments and pension strain costs which arose when a member of the LGPS pension was made redundant at the age of 55+. The Exit Cap regulations had been brought into force on 4th November. This meant that currently, the legislation was in place, but there was no guidance and the LGPS regulations had not been amended to reflect the Exit Cap, so there was currently a conflict between the two sets of legislation. Both the Scheme Advisory Board and the Fund had sought legal advice, and the advice from both was similar, in that individuals would only be offered deferred benefit or a fully actuarial reduced pension if the member was over the age of 55 and their exit package exceeded £95K. Advice had been circulated to employers w/c 30/11/20, but to date there had been no cases in Cambridgeshire. In addition, the Fund’s Actuary had provided the Pensions team with pension strain cost factors, more aligned to the future GAD factors that would be used once the LGPS Regulations had been amended.

There were a number of Judicial Reviews in scope on this matter, and it was looking hopeful that there would be a test case on how Funds should operate pending the amendment of the LGPS Regulations. As the Fund was effectively operating outside the law, there was concern that the Fund should report itself to the Pensions Regulator, but the Pensions Regulator had confirmed that they were aware of the issue, which was relevant to all LGPS Pension Funds, and they would not be investigating.

The Chairman asked whether costs would be covered if the Fund was taken to Court by one of its members. It was also noted that any cases would firstly need to exhaust the internal dispute and Ombudsman processes, before there was a right of appeal to the Courts. It was confirmed that the £95K limit was likely to be beneficial to the Fund, as it was potentially restricting the amount of benefits the Fund had to pay out.

With regard to seminars and training events, officers reiterated the point that the Chairman had raised earlier in the meeting, stating that they were always happy to advise on whether an event was suitable.

It was resolved unanimously to:

Note the content of the report.

226. RISK MONITORING

The Committee reviewed the Risk Register and considered a number of proposed changes. Members were reminded that it had been agreed that the Pension Fund Board would monitor risks on a quarterly basis, whilst the Pension Fund Committee would review the Risk Register twice a year. The Risk Register had been updated to reflect short and medium term risks arising from the Pandemic.

Members noted changes to the Risk Register that had been made at the suggestion of the Local Pension Board at their meeting on 6th November. It was also noted that the Exit Cap issued had had a considerable impact on administrative resources since it had emerged.

Noting that "*(investment) Managers are required to report regularly on their compliance with our ESG policy",* a Member asked how this was demonstrated. Officers confirmed that monitoring of ESG compliance was embedded within core processes, including manager selection, the annual report and regular updates with individual managers. Officers would approach individual managers if they had specific concerns that managers were not aligned with the Fund's ESG/RI principles.

With regard to a query on the potential impact of Brexit, officers explained that the Fund had disinvested from its UK/Europe mandates in 2019, and the Fund's holdings were therefore Global. Whilst Global equities would include some FTSE100 listed companies, these tended to be multinationals with global exposure. In addition, most markets had already "priced in" Brexit, and whilst it was acknowledged that a lot of short term market volatility was driven by sentiment, the Fund had a very long term horizon.

It was resolved unanimously to:

Review the current risks facing the Fund

(Cllr Hay left the meeting)

227. CAMBRIDGESHIRE PENSION FUND DATA IMPROVEMENT POLICY

The Committee considered a report on an updated Data Improvement Policy. The Policy had been revised to reflect a number of process improvements. The updated Policy had been considered by the Local Pensions Board at its meeting on 6th November 2020.

Members noted the changes that had been made which related to:

- Data Audit
- LGPS National Insurance Database
- Member tracing and mortality screening
- Overseas proof of continued existence checks

It was resolved unanimously to

review and approve the revisions to the Data Improvement Policy

228. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

The Committee received a report on the admission of five admission bodies, and the cessation of four bodies. None of the admission bodies were discretionary.

The report also sought approval from the Committee to revise the contribution payments required from Peterborough City Council. Vivacity Culture and Leisure had been admitted to the Fund under a full admission agreement in 2010 after entering into a contract with Peterborough City Council to manage the City Council's culture and leisure facilities. Because of the Pandemic, in June 2020 Vivacity served 90 days' notice to Peterborough City Council to terminate their agreement for services.

If a deficit payment was pursued, the cost to Vivacity would be approximately £4.1M, as there had been no requirement to provide a guarantor when they were admitted. Peterborough City Council (PCC) had agreed to take on responsibility for those liabilities, which would be on the less prudent "ongoing" methodology which applied to the valuing of liabilities of a local authority. On that basis, there would be a £3.3M surplus, because different discount rates would apply. In discussion with PCC, this would result in a material improvement to the funding position of the City Council, reducing its deficit by 25% to around £9.5M. The City Council had requested that contribution payments be reviewed to reflect this material change and agree an appropriate reduction to their secondary contribution payments which were primarily targeted at reducing the City Council's deficit.

It was noted that this reduction was equal to half of the value of the assets: PCC was one of the Fund's long term Employers, but there could still be some volatility, which was why it was only being reduced to half the value of assets. Actuarial colleagues had confirmed that they were comfortable with this reduction in contributions. It was confirmed that the revaluation would take place 31/3/2022, so the reduction would take place during the current cycle.

A Member queried how the difference in valuations could be so dramatic i.e. from a £3.3M deficit to a £4.1M surplus. The Actuary advised it was because a more prudent basis was used, assuming the Employer's asset share would grow, whereas if Vivacity had ceased without a guarantor, other employers would be exposed and would have to contribute as there was no recourse to Vivacity.

Another Member asked if this was a temporary arrangement on PCC's part, and whether Vivacity staff would be TUPE'd across to PCC, and services recommenced once the Pandemic was over? Officers confirmed that services were being taken in house for at least one year, possibly two, and then an outside provider would be sought. In terms of the impact on the funding position, when staff were moved to a new provider, the liabilities and an equivalent amount of assets move across to new provider with the surplus assets staying with PCC.

It was resolved unanimously to:

1. Notes the admission of the following admitted bodies to the Cambridgeshire Pension Fund and approves the sealing of the admission agreements:

- Compass Contract Services
- HCL - Hertfordshire Catering Limited
- Solutions 4 Health Ltd
- Taylor Shaw Limited (x2)

2. Notes the cessation of the following bodies from the Cambridgeshire Pension Fund:

- Orchard Learning Trust
- Serco Limited (PCC ITNET)
- Solutions 4 Health Ltd
- Vivacity Culture and Leisure

3. Approves the revision to the contribution payments required from Peterborough City Council as set out in Paragraph 3.4.5 of the report.

(Cllr Shellens left the meeting)

229. ADMINISTRATION STRATEGY REVIEW

The Committee considered a report which proposed amendments to the Administration Strategy.

Members noted that the existing version of the Strategy was a joint strategy between Cambridgeshire and Northamptonshire Pension Funds, which was the preferred approach at that time. The Strategy had now been drafted as a separate document for each Fund.

Attention was also drawn to the KPIs which were split between overall Member experience, performance of the Fund and performance of the Employer. Wording of the objectives within the strategy had also been updated to ensure these reflected the latest version of the Fund Objectives.

A Member asked why the objectives relating to *"high quality, friendly and informative administration service"* and *"cost effective and efficient (administration)"* had been deleted. It was noted that these the Fund's objectives had been reviewed a few years ago, and those objectives were essentially subsumed within others.

It was resolved unanimously to:

Approve the amendments to the Administration Strategy.

230. EXCLUSION OF PRESS AND PUBLIC

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

231. ACCESS ASSET POOLING UPDATE

Members considered a report on ACCESS Asset Pooling. The reports for the most recent ACCESS meetings had been circulated to the Committee.

It was resolved to:

1. Note the attached minutes from the ACCESS Joint Committee meeting of the 7th September 2020.
2. Note the asset pooling update following the Joint Committee meeting of the 12th November 2020.

232. MULTIPLE INVESTMENT STRATEGIES

Members considered an update on the implementation of Multiple Investment Strategies.

It was resolved unanimously to:

1. note the report and the presentation from the Fund Actuary;

2. agree the next stages of this activity and the additional expenditure of £35,500 plus VAT, as set out in Section 2.4 of the report.