MINUTES OF THE PENSION FUND BOARD

Date: Thursday 26th June 2014

Time: 9.30-12.05

Place: Kreis Viersen Room, Shire Hall, Cambridge

Board Members Present: Councillors P Ashcroft, S Count (Chairman), R Hickford (Vice-Chairman), M Leeke, M Pink (representing UNISON active members) and J Walker (representing UNISON retired members)

Officers: D Cave, S Dainty, C Malyon, T Osekita, J Walton

Officer advisors: Karen McWilliam (Aon Hewitt)

Observers: Councillor M Shellens

Board Member apologies: Councillor D Seaton, Councillors J Reynolds and A Walsh

88. WELCOME AND DECLARATIONS OF INTERESTS

John Walker declared a personal interest as a retired member of the LGPS, and that his son and daughter-in-law were deferred members.

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

89. MINUTES OF THE PENSION FUND BOARD MEETING HELD ON 5th JUNE 2014

The minutes of the Pension Fund Board meeting held on 5th June 2014 were approved as a correct record and were signed by the Chairman.

90. ACTION LOG FROM PENSION FUND BOARD HELD ON 8th APRIL 2014

Steve Dainty made the following comments on the 'ongoing' items included in the Action Log:

66a – Reimbursing Board Members – it was confirmed that a report would be presented to the Independent Remuneration Panel, who would then make their recommendation to full Council, and that this was a decision for full Council, not the Pension Fund Board. The report would stress the importance of having well-qualified members on the Board.

79[2] – Pension Fund Annual Business Plan and Medium Term Strategy – Members noted that Paul Potter and Andrew Elliott had been asked to provide further information regarding their cashflow forecast section, and this had not been included as a late addition to the Log, as the information had only just become available. Hymans had confirmed that the wrong forecast figures had been used, and apologised for this error.

91. (a) DRAFT MINUTES FROM THE PENSION FUND BOARD INVESTMENT SUB-COMMITTEE MEETING HELD ON 5th JUNE 2014

The Pension Fund Board noted the public minutes of the Pension Fund Board Investment Sub-Committee meeting held on 5th June, circulated to the Board for information.

91. (b) DRAFT CONFIDENTIAL MINUTES FROM THE PENSION FUND BOARD INVESTMENT SUB-COMMITTEE MEETING HELD ON 5th JUNE 2014

The Pension Fund Board noted the confidential minutes of the Pension Fund Board Investment Sub-Committee meeting held on 5th June, circulated to the Board for information.

92. PENSION FUND BUSINESS PLAN UPDATE REPROT 2014-15 (QUARTER 1)

The Pensions Services Governance Officer presented an update on the Pension Fund Business Plan for the first quarter of 2014-15 Financial Year.

Members noted:

- Pension Fund News – the Year End Accounts for 2013-14 had been completed, and were currently being audited, prior to presentation to the Annual General Meeting of the Pension Fund Board on 24th July 2014. The Annual Report for 2013-14 would also be presented to that meeting;
- Triennial Actual Valuation of the Fund – a review of the process and the quality of the data had been completed by the Fund's actuary, and a report would be presented to the Board's October meeting;
- Local Government Pension Scheme (Transitional Protection) Regulations – these had come into force on 01/04/14, and set out provisions for those with membership of the LGPS before and after 01/04/14;
- Draft governance regulations had been issued w/c 23/06/14;
- Member Self Service – of the 18,713 active pension scheme members who had received activation keys, 3,154 had accessed the Member Self Service facility. Promotion of Member Self Service would continue and the uptake would be reported within each Business Plan update, with 100% roll-out anticipated to be achieve by Quarter 4;
- Key Performance Indicators (KPIs) – some KPIs were under target, but expected to be on track by next Quarter.

Referring to the last point on KPIs, the Chairman acknowledged that the Service had undergone significant changes recently, but pointed out that KPIs were part of the Council's culture, and performance was expected to be maintained even when major projects were underway. Steve Dainty acknowledged this point, but commented that the recent changes had been so exceptional because of restructuring and new staff joining the team. He was confident that given the quality of staff in post, performance would improve significantly by the time the next quarterly report was presented to the September meeting. The Chairman was assured by these comments.

The Chairman asked how the KPIs had originally been agreed, specifically whether there had been any Member involvement. Steve explained that these KPIs had been selected from around 50 within the Administration Strategy, but this had not been a Member decision.

The Chairman challenged the need for the last two KPIs:

(i) Performance of each Fund's assets: why was this required in a separate document, as performance of the Fund's assets was already monitored by Members?

(ii) Fund asset performance in relation to LGPS peers: comparison to peers had only limited value, as each authority had their own strategy on the spectrum between risk averse and growth, and therefore it was potentially misleading to compare such authorities.

With regard to (i) Tolu commented that whilst the Board's Investment Sub-Committee monitored performance of the Fund's assets quarterly, this information was not routinely reported to the Pension Fund Board, which was why this was included. With regard to (ii), Tolu acknowledged this point, but commented that it was important to review how LGPS peers' Funds were performing, as this may result in the Board re-examining its own strategies.

It was resolved:

> To note the Pension Fund Business Plan update for the first quarter of the 2014-15 Financial Year.

93. ADMISSIONS REPORT

The Board received a report on the details of the admission of one Scheduled Body and one Transferee Admission Body to join the Cambridgeshire Pension Fund. Both Bodies were entitled to join the Fund.

It was noted that where Academies were part of a Multi Academy Trust (MAT) the Trust was the scheme employer, and not each individual Academy. Academies joining an existing MAT were not reported as they were therefore not recognised as new scheme members. Related to this, a Member raised a query on the position of e.g. an Academy taking over a failing school, i.e. whether the school would automatically become a scheme member. Steve explained that if the takeover occurred prior to the Academy joining the scheme, the school would automatically become a member, but if the takeover took place after the Academy had joined the scheme, it would be classed separately. It was acknowledged that there was considerable variation in the arrangements for Academies and Trusts, and that the position was becoming more complex

A Member asked what would happen if an Academy failed. Steve commented that scheme members were closely monitored so that any employer in financial difficulty who was not fully paying their contributions would be picked up, and his team maintained regular contact with all employers. The national press was also monitored.

Karen McWilliam advised that she had been involved with other Funds where Academies which were scheme members had failed, but this had not caused problems for those Funds overall. The Chairman commented that he was assured by that, and the fact that other Academies usually took over failing Academies, and that the government had allocated a fund to cope with such contingencies.

It was resolved:

> (i) To note the admission of the following body to the Cambridgeshire Pension Fund: Linton Village College Academy (MAT);
>
> (ii) To approve the admission of the following body to the Cambridgeshire Pension Fund: Woman's Aid

94. ADMINISTERING AUTHORITY DISCRETIONS POLICY

The Board received a report describing the various discretions an administering authority such as Cambridgeshire Pension Fund was required to formulate policy decisions on behalf of all the employers within the Pension Fund. It was noted that the Board had originally agreed a set of proposed policies in relation to the exercise of discretions that may be exercised by the Fund in October 2012.

The report presented an all-encompassing "Administering Authority Discretions Policy", which would apply to all employers and scheme members in the Cambridgeshire Pension Fund, and not just Cambridgeshire County Council. The Board was reassured that administering authority discretions were low risk, and had no or very low potential financial impact. The majority of the proposed policies reflected those already put in place in October 2012, and the report detailed where changes had been made.

It was resolved:

> To approve the Administering Authority Discretions Policy appended to the report.

95. PROPOSED LGSS SERVICE LEVEL AGREEMENT (SLA)

The Board was reminded that at their March meeting, Members considered a Service Level Agreement (SLA) put forward by LGSS. However, Members had not been happy with the proposed SLA, and a Working Party, comprising both Cambridgeshire and Northamptonshire Pension Fund Board Members, had been set up to investigate this issue. That Working Group, chaired by Councillor Leeke, had met twice in the intervening period.

Councillor Leeke thanked Councillor Ashcroft and John Walker, fellow members of the Working Group, and also Karen McWilliam for her assistance. John Walker echoed the thanks to Karen. He explained that the three particular concerns of the Working Group with the original SLA were:

(i) Sharing of savings with LGSS – but no suggestion of sharing costs or contribution towards any investment required;

(ii) Potential conflicts of interest – advisors should be impartial, not LGSS, who had a vested interest;

(iii) Flexibility – if a very prescriptive SLA was drawn up, especially if it was backed up by cost savings elements, if there were any changes, e.g. legislative, there would be issues of control and flexibility. The example of location of staff was cited, which would have potential cost implications for LGSS.

To assist in considering any amendments to the SLA, the Working Group agreed a number of key principles, outlined in section 3.4 of the report.

John Walker raised concerns that had been raised with him by staff, about casework being moved to Northampton. The current arrangement was that there would be a hotdesk/rota for casework queries based in Cambridge, with at least one member of staff in attendance every day, from a pool of three. However, not all of those staff had casework knowledge. It was therefore likely that Northampton would have a better level of service.

Steve Dainty confirmed that the vast majority of contact was either by phone or email, but there would always be occasions when someone wanted face to face contact, which took place either on an ad hoc or (more usually) on an appointment basis. He confirmed that there would be a permanently manned office in Cambridge, with at least one member of staff from a pool of 8 or 9 former Cambridgeshire staff, including Mark Whitby, providing a high level of service. Whilst it would not always be possible to resolve queries instantly, the same was true for face to face queries with staff in the Northampton office, or phone queries. However, the Pensions team took customer service very seriously, regardless of whether staff were Cambridgeshire or Northamptonshire based, and were always very professional, and were always striving for improvement in the service provided. Compared with LGPS peers, the service provided was above average, and there was a commitment to improve the quality of service. Steve expressed strong concerns that there was such disinformation, and acknowledged that this was probably in part due to staff concerns with the outcome of the consultation.

In terms of restructuring, it was confirmed that one member of Cambridge based staff was considering moving to the Northampton office, but seven staff did not want to move, and had indicated they would like to leave. The redundancy notice period would start on 30/06/14.

In response to a question on what procedures were in place to review processes and effectiveness, Steve confirmed that there were such procedures in place. The first stage of the move to centralise the office has been a success, including moving a number of staff previously based in Cambridge to Northampton. It would be necessary to recruit staff to the Northampton office, as a result of the Cambridge staff who did not want to relocate.

In response to a Member question, it was confirmed that several years ago the Cambridgeshire Pensions team had a rolling backlog of 12,000 enquiries, and that backlog existed for a number of years prior to the Pensions team becoming part of LGSS. This backlog had been cleared by the Cambridge-based LGSS staff after that point, very successfully, whilst LGSS had continued to provide ‘business as usual’.

Whilst applauding the approach being taken, and the success at clearing the backlog, a Member queried how many face to face meetings were requested on average, and whilst acknowledging that this was a valuable part of the services provided, whether there was scope for downscaling this part of the service further and only offering face to face meetings by appointment, possibly on specific days of the week. Steve advised that on average, there were about two face to face meetings per day (mainly employees but also employers) and these were mainly by appointment. He acknowledged that there may be scope to limit the service to ‘by appointment’ only. It was noted that there had been criticism previously regarding the service being co-located, and locating services at one office was bringing about real efficiencies and economies. The Section 151 Officer commented that the majority of face to face queries usually came on the back of restructuring exercises.

Members carefully considered each of the recommendations in turn, particularly (3) – the key principles agreed by the working Group, which were set out in section 3.4 of the report. There was a discussion around the principle of *“the methodology for deliver that service should be agreed between the respective parties with a mechanism put in place to consider changes”.* Some Members suggested that delivery of the service was key, not the detail on how this was delivered. Councillor Leeke advised that the Working Group’s concern was that there was flexibility i.e. the service did not want to be hamstrung by the SLA, e.g. on location of service or software used. The Chairman concluded that it would be helpful to have from the Working Group a steer on how that balance was defined.

With regard to the principle on recharging, it was clarified that the SLA only applied to the two founding authorities, Cambridgeshire and Northamptonshire. It was confirmed that costs for individual Funds were proportionally based on the number of scheme membership records, as this was the largest part of the day to day work.

The Board agreed that rather than setting up a joint sub-committee for consideration of changes and monitoring of the SLA, referred to in the principles, a Task and Finish Group would be more appropriate. Councillor Leeke confirmed that this could be an ad hoc arrangement, the important thing was to keep channels of communication open.

Karen commented that the concern was individual Boards should have ownership, but having some form of joint representation would make it easier to run.

The Chairman urged that a pragmatic approach needed to be taken. It was confirmed that the whole point of LGSS was to make efficiencies, not a profit, albeit any surpluses go back to the founding authorities. Councillor Leeke commented that one of the benefits of the SLA were that there would be a model for recruiting pension funds in future. Whilst LGSS did not determine its costs on a mark-up basis, the Board agreed that it was entirely appropriate for any surplus to go back to the founding authorities, and all parties benefitted from efficiencies.

It was resolved to:

1. Note the conclusions of the Task and Finish Group;

2. Agree that the existing proposed SLA is not accepted;

3. Agree that the key principles as noted in point 3.4 of the report developed by the Group, subject to the points raised, and consider whether these should be the basis of any SLA with LGSS;

4. Continue to use external independent legal advice to assist with commenting on future drafts of the SLA;

5. Consider if the Task and Finish Group should continue to assist in the development of the SLA;

6. Consider the appropriate governance structure for future consideration of changes by LGSS and monitoring of the SLA;

7. Note the need for regular reports to the Board of performance against key performance indicators (which is already in progress by officers);

8. Consider the need for greater understanding as to how the County Council recharges are calculated and approved.

96. DRAFT DEPARTMENT OF COMMUNITIES AND LOCAL GOVERNMENT (DCLG) CONSULTATION RESPONSE: “LOCAL GOVERNMENT PENSION SCHEME: OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES

The Board received an update on the consultation on the future structure of the LGPS and how it invested its assets, which had been released by the Department for Communities and Local Government (DCLG) on 01/05/14.

The main focus of the consultation was the use of Common Investment Vehicles (CIVs) and the use of passive, rather than active, investing as a way of reducing investment management fees. The consultation comprised five main questions, and a draft response was presented for Members' comments. It was suggested that if Cambridgeshire and Northamptonshire Boards both submitted individual responses, this would carry more weight than a combined response. Members agreed with this approach. Each question was considered in turn:

Question 1: Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? The proposed response suggested that there was minimal or no benefits to a CIV approach for listed securities, but there was scope for Alternatives (e.g. property) for a commercially structured CIV to provide benefits by merit of size, albeit on an optional basis.

Members agreed with the propose response with some small wording changes to the last paragraph.

Question 2: Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities? The response focused on the fact that the bulk of investment returns derive from the asset allocation strategy, and the importance of good governance in achieving good performance. Whilst there was an issue with consistently underperforming funds, and consideration could be given by LGPS to applying some type of "special measures" arrangement, all Funds should not be subject to the same constraints. Members agreed, and stressed the point that careful consideration would need to be given on how underperformance was defined, as performance for all Funds inevitably fluctuated in the short-term, whereas the important consideration was performance over the long-term (20+ years). Another issue was that asset allocation strategies varied between Funds, e.g. a Fund that had a low risk investment strategy, when the majority of peer Funds worked to a growth strategy, could be erroneously judged to 'underperform'. The Board agreed that decisions on asset allocation should be kept with the individual Fund Boards, as should the decisions on allocation between passive and active investments. It was also suggested that the response should be shortened and stress this point.

Question 3: How many CIVs should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset CIVs? A Member suggested that this response should refer back to Question 1, and suggest that CIVs would only be appropriate, on an optional basis, for Alternatives. It was also suggested that the desired outcome of the consultation appeared to be for a simplified and centrally governed LGPS, and that should be opposed at every opportunity. Karen advised that many peers' responses to the consultation focused on improvements in governance rather than the active/passive debate.

Question 4: What type of CIV do you believe would offer the most beneficial structure? What governance arrangements should be established? The Board noted the suggested characteristics in the draft response, and also the emphasis on having a combination of three main objectives; improving net returns, reducing costs and streamlining governance, not just focusing on reducing costs. It was suggested that the responses to all of the questions should start on the basis that Cambridgeshire did not believe that CIVs were the solution, although there was scope for Alternatives CIVs (on an optional basis).

Karen stressed the value of a positive response, given potential reputational consequences. Members acknowledged this, but felt that the Fund had a duty not to collaborate with proposals it did not agree with, especially given LGSS's innovative experience in collectively managing Local Government Pension Funds – Members stressed that their reservations should be made clear, and the responses to the questions should also highlight their experiences of where savings could be made, and where they could not be made.

Question 5: In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out below offers best value for taxpayers, Scheme members and Employers: (i) Funds required to move all listed assets into passive management to maximise savings; (ii) Funds required to invest a specified percentage of their listed assets passively/or increase passive investments; (iii) Funds could be required to manage listed assets passively on a "comply or explain" basis; (iv) Funds expected to consider the benefits of passively managed assets. The proposed response discounted options (i) and (ii) on the grounds of mediocrity, stressing that the whole point of active management was that it aimed to outperform passively managed Funds. Option (iv) was already practised by Funds anyway, i.e. most Funds had a passively managed element. Option (iii) did not appear to add value.

In discussion, Members agreed that the key to Fund performance was good governance, and this should form the thrust of the response. Concern was expressed that the intention and approach of the consultation was to look for evidence that a centrally, passively managed LGPS scheme was the way forward. It was agreed that the response should stress the value of autonomy of individual Funds and good governance, and should strongly discourage any attempt at centralisation or devolution of control. Whilst the £780M investment fees which alarmed government seemed huge, this could well be balanced out in terms of the additional billions of pounds that could be earned across Funds through active management. Members urged that their outright opposition to Option (iii) should be stressed in the response.

Members supported the proposed conclusion in the draft response, and asked that the final document include numbered paragraphs.

It was noted that the original information provided by Hymans was based on only 23 of the 89 LGPS Pension funds. This was one of the reasons why the Minister was very keen to receive as many responses as possible. The importance of a positive but firm approach in the response was agreed, and it was agreed that Tolu would revise the response and circulate it to the Chairman, Vice Chairman and Section 151 Officer for comments and agreement prior to submission.

It was resolved to:

(i) Note the draft response to the consultation;
(ii) Delegate to the Section 151 officer, in consultation with the Chairman and Vice Chairman of the Pension Fund Board, the completion and submission of the final response.

97. DATE OF NEXT MEETING 9.30am 24th JULY 2014

It was noted that the next meeting was the Annual meeting. It was agreed that the issue of Substitute Members for the Investment Sub-Committee would be agreed at that meeting.

The Board was advised that the decision taken following the recent Head of Pensions interviews not to appoint. Alternative approaches were being considered, but in the meantime the current Head of Pensions had agreed to stay in post for a further 18 months. The Board thanked Steve Dainty for agreeing to remain in this role for this intervening period.

98. FURTHER SCHEDULED MEETINGS

The following further meetings were noted:

9.30am 11th September
9.30am 23rd October
9.30am 18th December
9.30am 19th March 2015

Chairman