Agenda Item 3

PUBLIC MINUTES OF THE PENSION FUND BOARD

Date: Tuesday 8th April 2014

Time: 10.a.m.- 4.20 p.m.

Place: Kreis Viersen Room, Shire Hall, Cambridge

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

Officers: S Dainty, I Smith, P Tysoe, M Whitby
Officer advisors: G Nathan and A Elliott Hymans Robertson, Karen McWilliam Aon Hewitt
Observers: None

Board Member Apologies: Councillor D Seaton, M Pink (UNISON active members) Councillors J Reynolds and A Walsh
Officer apologies: C Malyon

65. WELCOME AND DECLARATIONS OF INTERESTS

The Chairman welcomed Karen McWilliam in her returning role as an advisor to the Board.

The Chairman, Councillor Count declared a personal interest in items 7 and 14 as he was responsible for Council finances as the Cabinet Member for Resources and Performance and was also the Chairman of the LGSS Joint Committee.

John Walker declared a personal interest as a retired member of the LGPS.

66. MINUTES OF THE PENSION FUND BOARD MEETING HELD ON 12th DECEMBER 2014

The minutes of the Pension Fund Board meeting held on 12TH December 2014 were approved as a correct record and were signed by the Chairman.

The Chairman highlighted two ongoing actions from the previous Action Log which suggested reports were due to come forward to the current Pension Fund Board meeting but which were not on the agenda or referred to in the Action Log item later on the agenda. He therefore requested an oral update on the following items:

a) **Reimbursing Board Members – Additional Members Allowances to compensate for the increased workload and cover attendance at meetings, training, etc.**

An oral response indicated that this was being looked at further, as there were both legal issues currently in relation to providing additional allowance payments and also the consultation undertaken with other councils had resulted in very mixed responses having been received, in terms of payments made to members of Pension Fund Boards. Karen McWilliam was researching the issue further and a report would come back to the Board at the July Board meeting. In addition, it was suggested that expected changes to

Pensions legislation introducing a new Pension Board should be considered in tandem and was part of a later presentation on the agenda.

b) **Non-Executive Director (NED) Role – workload implications and payment of allowances to be comparable to those of other small banks.**

It was reported that there had been slippage on this item as it had been difficult to progress the proposal as those private banks approached had been unwilling to divulge details of individual allowances paid to their NEDS. An update position would be provided at the next full Board meeting. **Tolu Osekita to action.**

67. ACTION LOG FROM THE PENSION FUND BOARD HELD ON 10th OCTOBER 2013

Paul Tysoe made the following comments on the 'ongoing' items included in the Action Log:

(57) – Annual Benefit Statements – 2 copies of both a colour and black and white version of the booklet was circulated around the Board at the meeting as the issue raised at a previous meeting had been whether the printing of the statement booklet in colour was a un-necessary additional cost. It was orally indicated by the officers that the difference in printing costs amounted to several hundred pounds. Their view was that in many areas for example the information provided on page 19 (in terms of the investment pie chart) justified the colour print run, as it was difficult to distinguish the individual segments in black and white.

The Pension Fund Board having had time during the meeting to review both versions were happy to agree to authorise continuing to print the annual statement in colour, citing that the cost differential had not been as great as previously surmised and was justified for clarity reasons.

The other two items in the Log numbered 61 referring to the '2013 Valuation Funding Strategy Statement' had been or had actions in hand as set out in the comments column and required no further action.

68. DRAFT MINUTES FROM THE PENSION FUND BOARD INVESTMENT SUB-COMMITTEE MEETING HELD ON 12th DECEMBER 2013

The Pension Fund Board noted the public Minutes of the Pension Fund Board Investment Sub-Committee meeting held on 12th December provided on the main agenda for the Board's information.

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 item of business on the grounds that it contains exempt information under Paragraph 3 of Part 1 of Schedule 12 A of the Local Government Act 1972 as amended (information relating to the financial or of any particular person) as it would not be in the public interest for this information to be disclosed.

69. DRAFT CONFIDENTIAL MINUTES FROM THE PENSION FUND BOARD INVESTMENT SUB-COMMITTEE MEETING HELD ON 12th DECEMBER 2013

The Pension Fund Board noted the detailed, confidential Minutes of the Pension Fund Board Investment Sub-Committee meeting held on 12th December circulated separately to the Board for information.

The Chairman who was not at the above meeting drew attention to the report on the performance of fund managers which appeared to contain inaccurate information clarified in an e-mail following the meeting..
The Chairman was concerned that this lack of accurate information had impacted on the discussions at the Sub-Committee meeting and queried the effect this would have when discussing the Asset Allocation Strategy report later on the agenda. It was explained that the report to the Investment Sub-Committee had been an update on fund managers' performance and no decisions had been taken in relation to overall asset classes, which was a more appropriate discussion for the Board, with the detail to then be considered further by the Sub-Committee at a later meeting.

In relation to a discussion on moving underlying funds, the Chairman requested that this should be examined as one of the options going forward. **Tolu Osekita to Action.**

At the conclusion of the discussion, the meeting reverted to being a public meeting.

70. 2013 VALUATION UPDATE

In introducing the report, Geoff Nathan the Actuary informed the Board of the activities undertaken in relation to the production of the 2013 Valuation and Funding Strategy Statement. Attention was drawn to the following items:

- Minor adjustments to the wording of the final Funding Strategy Statement set out in appendix 1 to the report. The areas that had been amended included the different approaches used for different employers to calculate the employer contribution rate. The table has been updated to show that Academies were now to have their own stabilised contribution rate and their deficit recovery payments were to be calculated as a total percentage of pay, as detailed in the report.

- A note had been added under the table in 3.3 (note b) to state that the 4th year (2017-18) contributions would be held exactly as the 3rd year (2016/17) subject to adverse market conditions not making it inappropriate to do so.

- Life expectancy statistics which were not available at the time the draft strategy was written had now been updated in appendix E, note 3 d) of the Funding Strategy Statement. This note detailed the approach used in the 2013 valuation to add around 1% per annum per year of life expectancy.

- After the last Board meeting, the Fund's Actuary, Hymans Robertson, had issued a discussion document ' 2013 Actuarial Valuation – Initial Results' (set out in appendix 2 of the report) detailing the initial valuation results at whole fund level, the assumptions made for the 2013 valuation and an analysis of how the 2010 valuation assumptions had borne out in actual experience. The information contained within it did not warrant any significant change to the Funding Strategy approved at the last Board meeting In December.

- The following four sections to the Initial Results Discussion paper were presented in more detail during the meeting by the Fund Actuary:

  - Analysis of Pension Fund Events since 2010 – which addressed how the Actuary's assumptions used within the 2010 valuation have played out against actual Fund experience.
  - 2013 – Proposed Approach and Assumptions – detailing the approach and assumptions used by the Actuary in the 2013 Valuation.
  - 2013 – Initial Results – for the past service position, future service rates and whole fund employee and employer contribution rates with a comparison against the 2010 position.
  - 2013 - Risk Assessment - addressing the risks associated with the actuarial assumptions not being borne out in practice.

It was reported that since the interim report had been published as a second dispatch for the current meeting, the final 2013 Valuation had been completed and could be circulated to the Board following the meeting. **Action: Geoff Nathan to arrange.**

Highlighted in the presentation:

- Were the difficult financial challenges since the last valuation, including: issues of new employers entering the fund; the increase in the number of academies and how they were required to be treated; and other impacting issues such as the benefits re-organisation.
- Was the positive increase in employer engagement through the work of the Head of Pensions in setting up employer forums and the provision of the 'Employer Results Report' which had provided them with much better information than in the past. In relation to this area, one Member raised the question of whether enough was being done to ensure employers were aware of their liabilities going forward. In reply it was explained that Employer forums were now to be undertaken every year and were well attended with the Actuary and officers present to answer questions. In addition, they were always available to reply to queries if employers wished to contact them directly. The Head of Pensions agreed that still more needed to be done in the future, but highlighted that compared with three years ago, consultation undertaken and the information provided, had greatly improved.

Key points highlighted in the Executive Summary on the financial position of the Fund at March 2013 compared with March 2010 included:

- That the funding level had changed slightly, being 72.9% in 2010 from just under £1.5 billion and 72.4% just over £1.9 billion in 2013.
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- Liabilities had increased from just over £2 billion to just over £2.6 billion partially due to the falls in yields on bonds.
- Total market related whole fund employer contribution rate had increased from 26.1% to 30.5%.
- The figures for average Employee contribution rates falling from 6.5% to 6.1% was based on the assumption that a number of employees would chose the 50:50 contribution option.
- The performance of the Fund's Investments had been more than expected over the three year period: - 7.2%p.a. compared with expected returns of 6.1%p.a. Fixed interest gilts had decreased from actual of 4.5% in 2010 to 3% in 2013.
- There had been more early leavers but fewer ill health retirements than had been anticipated.

- Salaries had increased at a slower rate than had been expected.
- Pensions had increased more than had been expected.
- The amount of pensions ceasing was less than had been anticipated.
- Moving forward assumptions had been made that increases in life expectancy would stabilise and so while life expectancy was assumed to continue to be going up, the rate of increase would not be as great as in the past.

The Actuary confirmed that he was happy overall with the level of contributions going into the fund from Employers and some Councils / employers who had issues with the increases had been helped by through phasing the increase over a number of years. Subject to there not being adverse experience in the period to the next formal valuation, the possible intention was that Employer contributions would not increase in 2017/18.

Questions raised by Members included:

- Page 11 - One Member making reference to the bar chart was surprised that the increase in contributions being greater than the cost of Accrual, appeared to have so little effect on the Funding position. In reply it was explained that this primarily applied to 15-20% of the active liabilities of the Fund as larger employers had not contributed that much over the three year period and the increase shown, was largely the result of smaller employers paying higher contributions.
- An explanation was requested on the change in base mortality assumption. It was indicated that the last valuation assumptions had been over prudent, which had now been adjusted to reflect more scheme specific statistics.
- Page 13 - There was a request for an explanation in the table titled 'Valuation Date' on Future Service Rates on why expenses had increased from 0.5% to 0.7 % over the three year period. **While it was explained that the three years up to 2010 had not been anywhere near as busy as from 2010-2013, more detail was required to explain the increase – Action: Paul Tysoe**
- Page 24 Death in Service tables – an explanation was requested on the basis of the assumptions made on the reason why at age 35, the death rate for male officers was the same as for female officers, when for all other ages in the table the death rates were higher for men compared with women at all other times – **Action**: **Further investigation by Geoff Nathan**

Geoff Nathan was thanked for a very full, informative presentation.

It was resolved:

> **To note the changes as set out in the report and that no further recommendations were required at the current time.**

71. PUBLIC PENSIONS ACT 2013 – GOVERNANCE CHANGES

Karen McWilliam, Head of Public Sector Benefits Consultancy at Aon Hewitt undertook a power-point presentation as detailed as appendix 1 to these minutes explaining details of a number of key changes to public services pensions schemes being proposed by the Public Services Pensions Act.

It was highlighted that the Act was introducing the following three potentially fundamental changes impacting on the Cambridgeshire Pension Fund:

- The new local roles of Scheme Manager and Pension Board (This new Board was expected to have an oversight of decisions made by the current Board in relation to

pensions legislation and the Pensions Regulator’s guidance and was expected to be a separate entity from the current Pension Fund Board which if the Local Government Pension Scheme (LGPS) specific legislation went through as expected, would retain the Scheme Manager role as the decision making Committee)
- The requirement to have a National Scheme Advisory Board.
- The extension of the Pension Regulator’s role into the public sector.

The presentation set out the number of potential permutations to future governance arrangements while highlighting that many unfunded schemes, unlike the LGPS, currently did not have a committee based governance structure. Of the current options used within the LGPS, delegating to the Section 151 Officer all decision making powers was not considered good practice due to the potential key one person risk involved in vesting all the powers in one officer.

The expectation was the LPGS specific legislation and accompanying guidance would not become available until September 2014 with implementation by April 2015, which would require groundwork to begin in the Autumn. It was indicated that the most likely option going forward would be to the requirement to have a new Board with equal numbers of Scheme Member representatives and Employer representatives (Likely to be a minimum of two or three of each). The Membership would not require elected members but would likely require the membership to be separate from the current Board / Committee. It would be for the full Council to appoint the membership and not the current Board /Committee with the expectation that it would meet three or four times a year. The new Board would not have decision making powers, as it only had an assisting role to overview decisions made by the current Board / committee to ensure it was operating within its agreed remits. Its role would be to draw attention to any identified breaches and make recommendations on any compliance issues going forward, but it would not be undertaking any of the functions of the current Board.

A further option as set out in the presentation would be to consider a new Joint Board for Cambridgeshire and Northamptonshire. This might not be legally permitted, but a separate Board could be established with overlapping membership and back to back meetings. Any such arrangement would require agreement by both Councils.

Issues highlighted included:

- There was the expectation that the compliance requirements would entail extra work for officers and staff servicing the new Board.

- The National Scheme Advisory Board would have a role in dispensing best practice advice. It was reported that appointments had already been made to it, including elected councillors, representing pensions authorities. In relation to this latter point, a question was raised on how the appointments had been made. In reply it was indicated that the elections had been run by the Local Government Association. **As current Board Members had not seen any information / been made aware of such elections, there was a request that the Board be provided with advance notice on future appointments to the membership of the LGPS Advisory Board**. **Action: Paul Tysoe.**

- The Pension Regulator’s extended role as set out on slide 16 was not yet finalised within the Code of Practice but the intention currently was not to force pension authorities to undertake particular actions. It would not be looking at investments matters, but would be there to help with areas such as Pension Board conflicts.

Comments from Members of the Board included:

- Concerns around the additional cost of training for what was a new body the Members requiring specific skills and whether there would be sufficient volunteers to serve, bearing in mind it was currently difficult to recruit to vacancies on the existing Board. As there was a need to incentivise membership, this needed to be reviewed further at the same time as the further work being undertaken on allowances. Added to this, the retired scheme member highlighted that currently many employers had reduced the ability to have time off with pay, in some cases by as much as 75% and therefore members who currently wished to serve on the Board were having to do so in their in their own time, without pay. Those classed as key workers (and he cited the substitute scheme member an example) were not allowed time off without pay, unless three month notice was given. He made the strong point that there was a need to compensate such people for the time they were taking off, including reading large agendas or it would be increasingly unlikely that these places would be able to be filled and would undermine the whole governance structure proposed by the Government.
- One Member raised the issue of who would advise the new Board, as this could not be some of the current officers, as they could be perceived as being conflicted. He suggested this was an example of the Government being advised by people with good intentions but who did not understand the implications of what was being proposed. He suggested it appeared to be a very expensive proposal for the Fund going forward.
- In relation to current and retired scheme members who were due for re-election in the current year, clarity was requested regarding what should happen with their appointments going forward. The advice was that for the current time the appointments should continue as long as possible, but that arrangements for new elections would need to be undertaken later, but still within 2014. This approach was endorsed.
- Concerns that the Board may not have any elected councillor representation.
- The point was made that membership of either the current Board (committee) / future Compliance Board would require a substantial time commitment from Members. Karen McWilliam indicated that she would be happy to receive details of the current time commitment made by individual members to help with her research work going forward and would prepare a simple questionnaire for circulation. **Action: Karen McWilliam**
- While noting that the membership of the new Board would not be within the remit of the current Board, it was suggested that the Board should have the ability to comment in advance on suggested terms of reference and appointments.
- A mechanism would need to be in place in terms of ensuring the new structure did not lead to any delays in the decision making processes associated with the current structures. One Member suggested this would not be an issue as the new Board would not have the powers of veto, but rather was there to ensure that decisions were made in the right way.

It was resolved to:

a) **note the expected changes.**

b) **Request that officers provide further updates on how the changes will impact the Fund and provide recommendations for required changes going forward.**

At the conclusion of the item at 12.05 p.m. there was a comfort break to 12.15.

72. SERVICE LEVEL AGREEMENT BETWEEN PENSION BOARD AND LGSS

Councillor Count reminded the Board that his current role at the County Council included having been appointed as the Chairman of the LGSS Joint Committee and also as the Cabinet portfolio holder for Resources and Performance, having responsibility to seek savings where ever possible. He asked if any members of the Board were uncomfortable with him chairing the debate on this report, indicating if this was the case, he would hand over to the vice chairman. There was no request for such a course of action.

The report presented was in order for the Board to consider a draft Service Level Agreement (SLA) attached as an appendix for ongoing working between LGSS and the Council in its capacity as administering authority to the Cambridgeshire LGPS Fund. It was suggested that the document once agreed, could form the template for future savings agreements with other partners.

It was reported that the same report had already been to the Northamptonshire Pension Fund Board who had expressed concerns regarding the profit sharing proposals being suggested in paragraph 3.5 of the report, especially in relation to 50% of any future efficiency savings from charges going to LGSS e.g. 25% to each County Council as shareholders in LGSS). Their Board had suggested that some form of joint meeting / working party should be formed from the membership of both Pension Boards to look in detail on the issues of concern and to then make recommendations / their views known back to each Board, who could then take them into account when further considering an update report at a future meeting. In suggesting a joint meeting, Northamptonshire Pension Fund Board had not wished elected County Councillors from their Board to be included on the working group.

On being asked his view of the report, the Pension Fund Manager expressed a personal opinion that the current SLA as drafted, which was an agreement between the two County Councils, was not the right document, but supported the idea of a joint meeting between representatives from the two Boards to discuss further the issues of concern.

Members of the Board made the following comments:

- One Member expressed a very strong view that the Pension Board was independent of both Councils and LGSS and had as its first duty a requirement to safeguard the assets of the Pension Fund. He also made the point that he did not consider that it was a robust enough SLA, as there was no detail included in relation to performance requirements. He suggested that as the contracting authority, LGSS should be looking to making further efficiency savings and not profit sharing. He believed the SLA should have specific information included in it in relation to savings targets over three years. He was not convinced there was a need to sit down with Northamptonshire but did see the need for those members with specialist knowledge to be included in the joint discussions, whether elected councillors or not. This latter point was supported by the other Members of the Board and it was agreed that no such restrictions should be placed on seeking volunteers from the Cambridgeshire Board membership.
- Another Member agreed it was a good starting point, but that the issues of concern already raised, needed to be looked at and explored in more detail outside of the current meeting and that no agreement should be made on the current SLA in front of the Board.

Members were unanimously in favour of a joint meeting in order to hear Northamptonshire's concerns in more detail.

The Chairman asked for volunteers from those present, ruling himself out, as there could be a perception of a possible conflict of interest, due to his Cabinet portfolio role. Councillor Leeke volunteered his services, but as a second member volunteer was not forthcoming from those Board Members present, **it was resolved:**

That Karen McWilliam make arrangements to write to other Board Members seeking a second volunteer to serve with Councillor Leeke and to identify suitable dates.

CHANGE IN ORDER OF BUSINESS

With the agreement of the Board, the Chairman agreed to bring forward item 9 'Admissions Report' and item 10 'Annual Business Plan' as the next items of business before breaking for lunch.

73. ADMISSIONS REPORT

Having received a report on the details of the admission of one scheduled body to join the Cambridgeshire Pension Fund as a result of two schools converting to academy status

It was resolved:

To note the admission of Whittlesea Learning Trust.

74. PENSION FUND BUSINESS PLAN

The Board received the Pension Fund Business Plan update for the fourth quarter of the Financial Year 2013-14 to comply with good governance requirements and to be appraised of the progression the Fund had made in terms of its Vision and Values and also other initiatives covering the following areas:

- **Business Plan Background** – providing a brief outline of where LGSS Pensions Services has reached with regards to the restructure that began in the summer of 2013 and introducing the work undertaken to bring in the LGPS 2014 changes to scheme members, employers and staff. There was also an update on the roll out of Member Self Service which it was indicated should be completed by the summer and the level of take up to the date of the report.
- **Quarter 4 News – Skills and Knowledge Update** Providing an update on the next Skills and Knowledge training day on 10th June in Bedfordshire and how it was proposed to analyse the success of the CIPFA Skills and Knowledge framework when all modules had been taken with a report back to the July Board meeting. .
- **Quarter 4 News – Regulations and Consultations Update** – providing information on recently released Local Government Pension Scheme regulations and consultations with the relevant consultation responses set out in appendix 2.

- **Quarter 4 – Investment Information** – detailing the key developments and updates from quarter 4 and a recap of the areas covered to date.
- **LGPS 2014 -** providing an update of the work undertaken by LGSS Pensions to prepare for and communicate the changes to the LGPS regulations with effect from 1st April 2014.
- **Current Year Work Plan 2013-14 –** Providing details the plan of work and delivery timescales on a quarterly basis for the financial year, 2013-14. The work plan indicated whether target completion dates had been met or partially met and the reasons why. In relation to this it was highlighted that the last year had seen significant changes in terms of the reconfiguration of services and staffing with as significant vacancies and that it was a testament to the staff in relation to what had been able to be achieved in relation to the Business Plan. .
- **Pension Fund Board, and Investment Sub Committee Meeting dates -**Details of the forthcoming meeting dates and topics of discussion.

In noting the report the Chairman conveyed the thanks of the Board to the teams for all the hard work undertaken and asked that this be conveyed to them.

BREAK FOR LUNCH

There was a lunch break between 12.45 and 1.05 p.m.

CHANGE IN THE ORDER OF BUSINESS

The Chairman, with the support of the Board agreed to bring forward the next two items of business: agenda Item 12 titled ‘Internal Audit Plan 2014/15’ and the confidential item 14 titled ‘Asset Allocations Strategy’.

75. INTERNAL AUDIT PLAN 2014/15

The Board received a report introduced by Paul Clark, the Head of Internal Audit and Risk Management at Northamptonshire in the absence of Steve Tinkler, who had now left the County Council. The report set out details on completed audits and Internal Audit work planned for 2014-15. It set out the internal audit work undertaken and in progress, covering process, convergence and the adequacy of design and implementation of controls for the administration of the Pensions Services being shared between Cambridgeshire and Northamptonshire.

It was highlighted that the review had provided substantial assurance opinion and there was an agreed action plan to strengthen further the controls. It was noted that further review and compliance testing would be undertaken in 2014-15 to provide on-going assurance and support the opinion work of the external auditors.

It was noted that an annual audit of the administration of the LGSS Pension Service was to be undertaken during 2014-15. This would provide an independent opinion on the management of risks relating to the operation of the LGSS Pension Service, with the areas to be included, as detailed in the report.

It was resolved:

To note the audit work undertaken and to approve the plan of Internal Audit work 2014-15, as outlined in sections 3 and 4 of this report.

76. EXCLUSION OF THE 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 item of business on the grounds that it contained exempt information under Paragraph 3 of Part 1 of Schedule 12 A of the Local Government Act 1972 as amended (information relating to the financial or of any particular person) as it would not be in the public interest for this information to be disclosed.

77. ASSET ALLOCATION STRATEGY

This report introduced by Andrew Elliott from Hymans Robertson, provided the opportunity to discuss the conclusions of the review of the Fund's Asset Allocation Strategy following the 2013 triennial valuation and to agree it going forward. It highlighted that the financial health of the Fund was largely dependent upon the contributions paid in and the investment returns generated (in excess of the growth of the liabilities). The current strategy was 64.5% equities, 21% return seeking (diversifying) alternatives (including property and private equity) and 14.5% bonds. The Strategy was currently expected to produce a return, over the longer term, of c4% p.a. above the Fund's liabilities. The Actuary, as part of the actuarial valuation as at March 2013, had assumed a return of 1.6% p.a. over gilts (the proxy asset for the Fund's liabilities). It was highlighted that currently the largest investment risks facing the Fund was inflation and its impact on the Fund's liabilities, and equity market risk volatility.

Given the constraints on contributions paid in, the investment strategy was highlighted as having increased importance going forward. The aim of the review had been to ensure that the current investment strategy was fit for purpose and to consider whether there were any changes that could be made that would improve the chances of achieving both funding level improvements and contribution rate stability. It had therefore focused on the key risks that the Fund was facing and highlighted which ones ought to be prioritised for mitigation.

There was a request to undertake a full review of the cashflow postion. It was indicated in response that this was already underway**. Action: Tolu Osekita**

The conclusions from the presentation were that:

- The Fund's current high level strategy gave a good chance of achieving a fully funded position over the 20 year recovery period and highlighted the fund's need to maintain a strong bias towards long term growth assets.
- The Fund's current levels of risk could be better managed or reduced without materially reducing the return potential needed to meet the funding target in the long term.
- The Fund could implement a modest reduction of investment risk with the current contribution strategy. The modelling results suggested that taking more investment risk would not be attractive.

There was general agreement that while there was no appetite to substantially increasing the level of investments in Bonds or Growth Infrastructure but that there was agreement to reducing the level of risk with the detail to be agreed by the Investment Sub Committee in terms of exact allocations between fund managers. A proposal to change the allocations moved by Councillor Hickford was seconded by Councillor Leeke and unanimously agreed. It was therefore: **Resolved:**

a) To note the conclusions of the review of the Fund's Asset Allocation Strategy and the recommended priority areas.

b) To agree the following overall changes should be made to the structure of the asset classes of the Fund's High Level Asset Allocation Strategy with the detail to be looked at by the Investment Sub-Committee at their next two meetings.

55% - Total Listed equities, (from 64.5%)

30% - Total (return seeking) Diversifying Growth Assets, (including 'Property', 'Private Equity', Infrastructure and a new category titled 'Other Diversified')

15% - Bonds.

THANKS TO COUNCILLOR GUYATT

As Councillor Guyatt needed to leave the meeting early and would not be standing for office again at the forthcoming May District Council elections, this was therefore his last Board meeting representing one of the 'All other local authorities, police and fire' positions, the Chairman took the opportunity to express his thanks for his invaluable contribution and for his extensive knowledge which had been a real credit in undertaking the work of the Board. This was fully endorsed by all other Board Members present.

BREAK

There was a short comfort / refreshment break from 3.00p.m. to 3.10 p.m.

The remainder of the meeting was held in public.

78. LOCAL GOVERNMENT PENSION SCHEME 2014 PRESENTATION

Mark Whitby the 'Employer Services and Systems Manager - LGSS Pensions' provided a power-point presentation which had been produced for employees and had been used at roadshows to set out clearly the benefits of the new Local Government Pension Scheme. Its aim was to dispel some of the negative misunderstandings relating to the new scheme and provided clear statements on the main changes. In addition, it was confirmed that information was to be sent out electronically on the changes to all employees in the scheme.

The main points were as set out on the presentation slides included on the agenda with the key issues highlighted as follows:

- It represented a fairer cost to employers and taxpayers
- The 1/49 career average revalued scheme meant that the pension built up benefits quicker

- Significant change was that non contractual overtime pension contribution was based on actual pay received.
- The normal pension retirement age was now linked to the state pension retirement age.
- Vesting period – it was explained that this was the point an employee was entitled to benefits depending on age which was, prior to1st April 2014, three months of having to be in the Scheme and had now increased to two years.
- 50/50 change was reliant on employers informing the Pension Scheme of such requests.
- The contribution rates were now fairer with higher level pay scales paying greater contributions as set out in the relevant slide.
- Employees choosing the 50/50 option would only be able to use this option for a maximum of three years at any one time. There were mechanisms to move employees back to full contributions under the auto-enrolment scheme though they could re-elect for the 50/50 section. Unless an early application was received, the expectation was that all employees would start in the Scheme paying full contributions.
- There was now greater flexibility when people could retire with the ability to voluntarily leave the scheme and draw benefits from the age 55 and replaces the current age of 60 where employer consent was required. This was however subject to calculated reductions for taking the pension before the normal age of retirement, depending how many years early the benefit was taken.
- It was confirmed that the limit for being able to take a lump sum tax free was still in place by giving up some pension.

Questions / issues raised included:

- Whether the salary bands would change to take account of any future tax changes? In response it was indicated that the intention was to review the band scales every three years nationally to take into account the impact of areas such as wage inflation.
- Whether any employees thought the new scheme was unfair. In reply it was indicated that there had been a considerable level of vocal dissatisfaction in relation to those sitting within the £43-60k. (which had a new contribution rate of 8.5% compared to the 6.8% for the £34k to 43k band)
- On the 50/50 slide showing an example of contributions at 50/50 and full contribution on a salary of £20k it was suggested that this was misleading, as the real contribution of the employee on a full contribution was £848 and not £1160 as shown on the slide, as the figure didn't take into consideration areas such as tax relief.
- Reassurance was provided that any employees deciding to choose to take their retirement benefit as a lump sum would be provided with all the relevant implications, including tax penalties depending on the amounts involved, on any application received. This would ensure that they could make a considered, final decision after having been made aware of the benefits/ implications, as once such a decision was made, it could not be reversed at a later date.

The presentation was noted.

79. PENSION FUND ANNUAL BUSINESS PLAN AND MEDIUM TERM STRATEGY 2014-15 TO 2017-18

The Board received the above Plan in line with good governance principles that each Pension Fund should adopt a Business Plan detailing the Fund's Vision and Values and setting out the future objectives the Fund wished to pursue. The Plan set out the developments and improvements the Fund wished to undertake with the proposed Business Plan attached at Appendix 1 to the report.

The Business Plan covered:-

- Fund Background - high level financial and membership information.
- Fund Objectives – from the existing policies and strategies of the Fund.
- Key Influences - impacting on the Fund over the next few years.
- Financials - the Funds' medium term summary budget, including a memorandum item showing summary Pension Services and Investment specific costs.
- Key Service Challenges - for 2014-15.

Key issues highlighted included:

- Page 1 of appendix 1 showed that the membership profile at 2013-14 had increased in terms of pensioners / deferred compared to active members to a ratio of 2:1 in favour of deferred / pensioners increasing the liabilities.
- The number of active members had remained relatively stable over the last seven years.
- With the increase in Academy membership this had entailed a considerable extra administrative work burden.
- In terms of key service challenges the additional governance arrangements in relation to the new Scheme would inevitably lead to an increased administration workload.
- The Fund Profile set out in more detail on page 8 was hard to predict going forward with future contributions being the biggest variable.
- Highlighted on page 9 was the Fund Account Table which showed the intention of increasing employer contributions at a steady rate for each of the three years from 2014/15 to 2016/17 but holding the rate at the same rate as the 2016/17 contribution rate for 2017/18.
- That the Pensions Administration Table on page 11 might require to change, subject to CIPFA requirements going forward. It was explained that the change in the cost of LGSS Services between 2013-14 and 2014-15 from £1650,000 to £1850,000 was as a result of vacancies in one year requiring to be filled going forward due to the stresses on the service from new legislative requirements. **It was agreed that more detail should be provided on how this increase was broken down. Action: Paul Tysoe**
- Appendix A set out the key performance indicators that the LGSS Pension would report on in the quarterly updates in the Business Plan report.

Questions raised / requests for additional information / action:

- The Chairman highlighted that this current report suggested a different scenario in terms of Cash-flow going forward compared to the presentation provided earlier in the meeting by Andrew Elliott during the confidential presentation on the Asset Allocation Strategy Review which had suggested that Cash-flow would be negative by 2017. He requested that officers from the Pensions Service liaise following the meeting with

Actuary officers to establish a common position. **Action**: **Paul Tysoe / Andrew Elliott to report back at the next full meeting in July on an agreed view on when cashflow to the Fund was estimated to become negative.**

- In relation to the draft Service Level Agreement it was considered essential that the key performance indicators listed in appendix A should be explicitly included in a revised draft as opposed to currently whereby there only reference to the indicators via a web-link. **Action: The Head of Pensions agreed to expedite this change.**
- A question was raised regarding whether the SLA would affect the current projected administration costs going forward as currently listed on page 11 and whether it was appropriate to agree them in the current Plan. In reply it was indicated that the costs included based on staffing levels were not expected to change and therefore approval would not negate agreeing the SLA at a later meeting.

It was resolved:

To approve the Pension Fund Business Plan for the 2014-15 Financial Year, provided as an appendix to the report.

80. DATE OF NEXT MEETING 9.30 a.m. 5th JUNE 2014

It was noted that this meeting was required in advance of the Investment Sub-Committee on the same day in order to appoint the Chairman and Vice Chairman of both the Board and the Sub-Committee and to agree which Members of the Board would serve on the Investment Sub-Committee.

81. FURTHER SCHEDULED MEETINGS

The following further meetings were scheduled and it was noted that as with the June meetings they would start at the earlier time of 9.30 a.m. in order to be able to accommodates the amount of business to be transacted:

9.30 26th June
9.30 a.m. 24th July
9.30 a.m. 11th September
9.30 a.m. 23rd October
9.30 a.m. 18th December
9.30 a.m. 19th March 2015

It was indicated that while the Board should note the dates for continuity purposes, no current Members had yet been issued with electronic invites as for County Councillor membership, appointments would not be known until May, following the Annual Council meeting.