

MINUTES OF THE PENSION FUND BOARD

Date: Thursday 19th March 2015

Time: 9.35am – 12.50pm

Place: Kreis Viersen Room, Shire Hall, Cambridge

Board Members

present: Councillors P Ashcroft, S Count (Chairman), A Fraser, R Hickford (Vice Chairman), M Leeke, M McGuire, D Seaton and M Shellens; M Pink (representing UNISON active scheme members), J Walker (representing UNISON retired members) and T Woods (representing non-authority employers)

Officers: D Cave, C Malyon, J Walton and M Whitby

Apologies: L Grinnell

126. DECLARATIONS OF INTEREST

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.

Councillor David Seaton declared an interest as his father was a retired member of scheme.

127. MINUTES OF THE PENSION FUND BOARD 18TH DECEMBER 2014

The minutes of the Pension Fund Board meeting held on 18th December 2014 were approved as a correct record and signed by the Chairman.

128. ACTION LOG

Members noted that all actions on the Action Log had been completed.

It was resolved to note the Action Log.

129. BUSINESS PLAN UPDATE

Jo Walton presented the Business Plan update. Members noted the following points:

Reconciling the contracting out membership details against HMRC data – this was a massive project involving the reconciliation of 180,000 lines of data from HMRC relating to deferred and retired members, and it was envisaged that the whole process would take 12-18 months. However, the project would now be resourced from the existing staffing base, rather than by recruiting two full time equivalent posts, which had originally been proposed. A report presenting a proposed overpayment policy would be presented to the June Pension Fund Board meeting.

Shadow Scheme Advisory Board (SSAB): deficit management – PwC had been commissioned by the SSAB to provide detailed analysis to support the development of the policy recommendations. The recommendations from the PwC report included: (i) standardised assumptions to calculate funding levels nationally; (ii) promoting better use of covenant checks and available security arrangements to protect against potential insolvency of employers; (iii) guidance on promoting early targeting of cessation deficits prior to employer exits; (iv) funding levels calculated on a consistent basis; (v) guidance on the requirement for stability in employer contribution rates.

In response to a Member question, it was confirmed that there had been no feedback from government on the possible centralisation of LGPS investments. Members discussed the advantages and disadvantages of centralising investments, particularly the proposal to move towards passively invested funds, with a number of Members expressing a strong preference for both the local management of pension funds and active management.

Procurement of Actuarial and Benefits Consultancy Services – it had previously been agreed that the Cambridgeshire and Northamptonshire Boards would seek collaboration opportunities to acquire a joint contract, and benefit from the associated cost savings. The joint procurement process would be deferred pending the 2016 actuarial valuation, and would start in June 2017. The current national framework expired on 31/12/2020, so retendering in June 2017 would mean that it would not need to be retendered again until after 2020. It was confirmed that the Cambridgeshire Pension Fund had a rolling contract with Hymans.

CIPFA Skills and Knowledge Framework – the Cambridgeshire Pension Fund had subscribed to the CIPFA Skills and Knowledge Framework since 2012, to identify the training needs of all members of the Pension Fund Board and Investment Sub-Committee. Hymans had advised that they would not be renewing their licence with CIPFA to operate the CIPFA package. The Knowledge Management Policy would therefore be rewritten and presented to the Pension Fund Board at the July Annual General Meeting for discussion and approval. Members noted this development, and asked whether this needed to be reviewed more fundamentally, e.g. whether it would be possible to do provide this in-house, or whether there was an alternative option to

demonstrate what Members need to know, rather than the CIPFA Framework. It was observed that Pension Fund Board Members were at various stages in terms of knowledge and skills, but it was also noted that this accumulation of knowledge was vital. Officers advised that Hymans were still developing their training products at the moment.

Late payments – the percentage of late payments was reducing, with only one late payment in December.

Regulations and consultations update – a Member queried the Marriage (Same Sex Couples Act 2013, and the statement that benefits were less generous for same sex couples. It was clarified that the legislation sought to address this inequality.

Member Self Service (MSS) – 20% of the members issued with an activation key had registered to use MSS. In response to a Member query, it was confirmed that the intention was to ensure take up of MSS was as high as possible, and the intention was to provide the annual benefits statements electronically by default with effect from 2016. However, scheme members would be able to 'opt in' to receiving paper copies if they did not have access to the internet.

Embedding the Fund Administration Strategy – The Employers Team had presented training to over 50 employers recently.

Key Performance Indicators (KPI) – targets had mainly been met. Members noted that notification of employees retiring from active membership of benefits awards had fallen to 89% against a 95% target, mainly due to insufficient cover arrangements over Christmas. As a result, the two retirement teams had been pooled together (CPF and NPF) so this problem should not be repeated.

The Chairman commented that a number of the performance monitoring graphs in the report showed a downward trajectory, and he asked if this trend was now changing. Officers advised that there had been performance issues relating to individuals, and there had been some changes to the team to address this. Officers also suggested that the Retirement KPI was more realistically an aspirational target – the industry standard was 30 days compared to the Cambridgeshire KPI of five days. However, Members pointed that these targets would soon form part of the Service Level Agreement (SLA) with LGSS. It was confirmed that there was no compensation if LGSS did not achieve the targets in the SLA.

There was a more general discussion about KPIs, especially where they were aspirational and there were no 'SMART' objectives. It was noted that some objectives were continual and did not have a specific target e.g. "to improve efficiency" could be seen as an embedded, ongoing objective.

It was resolved to:

note the Pension Fund Business Plan fourth update report for the 2014-15 financial year.

130. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

The Board received a report on the prospective admission of one designating body and gain approval for one admission body to join the Cambridgeshire Fund.

It was resolved to:

- 1) note the admission of the following prospective Designating Body to the Cambridgeshire Pension Fund: Whittlesey Town Council;
- 2) approve the admission of the following body to the Cambridgeshire Pension Fund: Aspens Services Ltd.

131. PENSION FUND BOARD AND INVESTMENT SUB-COMMITTEE EFFECTIVENESS REVIEW

The Board considered a report on the review of the effectiveness of the Pension Fund Board (PFB) and Investment Sub-Committee (ISC). Members were reminded that the December Pension Fund Board had received a report explaining the need to regularly review the effectiveness of both the PFB and ISC, and the questionnaire had been sent to all members. Seven questionnaires had been returned, and the report listed the main conclusions drawn from those responses:

- the need to allow sufficient agenda time to discuss reports;
- advice from officers and professional advisers was regarded to be of a high quality allowing the Board to make effective decisions;
- the importance of understanding of fiduciary duties to make decisions that were in the best interest of the scheme members;
- the CIPFA Skills and Knowledge Framework was regarded as a useful and effective training method;
- the need to ensure that the risks of undertaking (or not undertaking) a proposal were adequately explained, enabling Board members to make appropriate decisions.

The report also set out a number of areas for improvement, and responses/solutions to the points raised:

- in terms of repetition in Board reports, officers commented that sometimes this was unavoidable, as officers strove to produce high quality reports, enabling Members to make effective decisions;
- it was acknowledged that it was sometimes advantageous for the Board to meet more frequently, and it was suggested that additional meetings could be called as and when required;
- with regard to objectives being made clearer and referenced more often, the Pension Fund objectives would be reviewed at the October 2015 PFB meeting. In the intervening period, more reference would be made to the objectives in reports.

In discussion, Members expressed concern about the volume of agenda items and paperwork considered at each meeting, especially when preparatory reading time was taken into account. Rather than calling extraordinary meetings, it was suggested that a more efficient approach would be to schedule at least one additional date which Members could keep in their diaries – this could always be cancelled if the meeting was no longer required. One Member suggested that the current number of meetings was about right, but they needed to be ‘punchier’. **ACTION: Mark Whitby/Jo Walton to produce proposals on how to make the PFB’s workload more manageable, and also identify reserve dates.**

Another suggestion was that paperwork should clearly show changes, i.e. deletions or additions should be highlighted in documents, so it was obvious exactly where changes had been made.

The Chairman commented that whilst the workload had increased for PFB and ISC Members, the governance of the Fund had improved significantly over recent years.

A Member asked how the PFB identified success against the “engagement with stakeholders” objective. Officers outlined the measures used to engage with stakeholders, including presentations on the work of the Pension Fund Board at Employer Forums, but advised that the feedback suggested that those attending were more interested in operational issues and not interested in the governance arrangements, which was regrettable. It was also noted that there was representation, through Councillor Seaton and Tim Woods, for non County Council employers. A Member observed that most employers and employees were unlikely to concern themselves in governance arrangements unless there was a problem.

Members discussed the validity of the stakeholder engagement objective, and whether it was still appropriate. It was noted that employees received annual correspondence through their Annual Benefits Statements, and employers received more frequent communications. It was suggested that officers should explore other ways to engage with stakeholders. **ACTION: Mark Whitby/Jo Walton.**

John Walker disputed the remark in one of the questionnaire comments which stated “... *non-union members ... have no knowledge of proceedings and no real voice*”, pointing out that his name was given as a contact for *any* Scheme Member, and he did receive such approaches. He added that the Unison representatives produced a report after every meeting they attended which goes out to all branches in Cambridgeshire, and added that Unison represented around 45% of scheme members, not 40% as suggested in the report, and estimated that about 1 in 3 scheme Members had access to his report.

It was resolved to:

note the feedback and approve the plan of action to improve the effectiveness of the Pension Fund Board and Investment Sub-Committee in the areas identified in the report.

132. PENSIONS SERVICE LEVEL AGREEMENT WITH LGSS

A report was presented on the Service Level Agreement (SLA) being finalised between LGSS and the administering authority of the Cambridgeshire Pension Fund.

The Chairman expressed strong concerns that the final SLA would be agreed directly by LGSS and the Chief Executives of the administering authorities, as he felt that it would be appropriate for the Pension Fund Board to be involved in this decision. Officers outlined the discussions that had taken place on this matter between relevant senior officers and the LGSS Management Board, and it was confirmed that the administering authority had delegated powers relating to pensions. It was noted that when the Task and Finish Group had been set up by the respective Pension Fund Boards, the question on who could make the decision was examined from a legal perspective. Chris Malyon advised that the drafting of the SLA was seen to be an operational matter, which was why it was discussed by the LGSS Management Board, although he assured Members that the senior officers would be happy to have input from the Pension Fund Board.

ACTION: Mark Whitby to raise this issue with the Chief Executive.

A Member asked what the penalties were in place for not meeting the Key Performance Indicators (KPIs), observing that LGSS was effectively an outside body. Chris Malyon commented that a wholly commercial organisation would include a risk margin in their costs, which LGSS did not do, as all profits/surpluses were retained and shared between LGSS and the two authorities. This point was acknowledged, but it was pointed out that the Cambridgeshire Pension Fund comprised members from organisations other than the County Council. Therefore profits/surpluses were retained by the County Councils not by the fund members. He felt that there should be something in the SLA to hold LGSS to account if they failed to deliver on KPIs. Another Member suggested that it would be preferable to pay a risk premium in order to achieve the type of accountability that was being sought. **ACTION: Chris Malyon, Mark**

Whitby and Jo Walton to explore a way forward on measures to be taken if KPIs not achieved.

It was also suggested the table of relevant Pension Fund objectives should distinguish between aspirational targets and specific SMART objectives. This is intended to be included when the Pension Fund objectives would be reviewed at the October 2015 PFB meeting as covered by the note on page 5 (item 131).

In discussion, it was noted that because the relationship between LGSS and the administering authorities was unique, in that it was neither an in-house arrangement or commercial agreement, it was not possible to benchmark practice on KPIs with other authorities. A Member suggested that because LGSS occupied this 'grey area', it was more important that the issue was clarified, as the Pension Fund Board needed to be assured that LGSS was providing the best service that it could, and also identify what other options were available. Responding, Chris Malyon commented that the only way to truly ensure that the Board was getting value for money would be to test the market, which would be a long process. In the interim, it was agreed that a more commercialised arrangement forming the basis of the SLA with LGSS needed to be explored. **ACTION: Mark Whitby and Jo Walton to provide Members with benchmarking information.**

There was a discussion on the proposed Pension Services rolling budget, which covered both Cambridgeshire and Northamptonshire Funds. Members noted the reasons for the apparent increase in surplus income to LGSS, which mainly related to using the correct accounting treatment of Fire and Police income streams. Members also noted how the efficiencies generated would be treated. In response to a Member question, it was clarified that Police and Fire *civilian* staff were members of the LGPS Fund, officers had their own Schemes.

Turning to the breakdown of overheads, it was clarified that accommodation related to the internal rental charges paid to the authorities for office accommodation. It was clarified that expenses (e.g. travel and subsistence) were included under employee costs. It was clarified that the Pensions SLA Management Fee included various costs including the services of the Section 151 Officer for Cambridgeshire and a number of non-direct costs involved in the delivery of the services. These fixed fees for the delivery of management costs had been agreed previously by the Boards or Chairs. **ACTION: Chris Malyon to send the detailed information on fees to the Pension Fund Board Members.** Further detail and breakdown was requested on a number of overhead headings, including Democratic Services, and it was agreed that this would be emailed the Board Members. **ACTION: Mark Whitby/Jo Walton to provide information requested.**

It was resolved:

that the Board did not note the terms of the Service Level Agreement and the proposed financial management of the Pensions Service budget, but requested

further information to establish a way forward for the Pension Fund Board to input into the to the Service Level Agreement process.

133. PENSION FUND ANNUAL BUSINESS PLAN AND MEDIUM TERM STRATEGY 2015-16 TO 2017-18

Members considered the proposed Annual Business Plan and Medium Term Strategy for 2015-16 to 2017-18, which set out the Fund's objectives and key activities.

Members noted the statement on Employer Contributions that *“for the majority of employers a percentage of payroll and cash deficit value was adopted, this (a stepped increase in employer rates) has the benefit of protecting the Fund against a potentially falling payroll base”*. It was clarified that this related to employers who were less than 100% funded, or where the deficit was wrong due to fluctuating payroll size – this was better addressed by calculating a cash sum, which offered protection, especially when there was a diminishing base of active employees.

Officers outlined the reason for the slight increase in active members.

Following the discussion under other agenda items on the Pension Fund objectives, it was agreed that the objectives would be reviewed at the October 2015 meeting.

It was resolved to:

approve the Pension Fund Business Plan for 2015-16.

134. STATEMENT OF INVESTMENT PRINCIPLES

The Pension Fund Board considered a revised Statement of Investment Principles, which had been considered by the Investment Sub-Committee at their meeting on 19th February 2015.

Members commented that this was an instance where it would be helpful to have an annotated version of the document, so it was clear where the changes had been made.

Councillor Seaton advised that Peterborough City Council had recently passed a Motion at its full Council meeting to develop an ethical investment and procurement policy, and he queried how that might potential affect the City Council's relationship with the Pension Fund objectives, and whether investment managers reported back on ethical investment. Councillor Seaton confirmed that 'ethical' in this context had not yet been defined by Peterborough City Council. Officers agreed to check the detail and identify any implications or potential conflicts. **ACTION: Mark Whitby.**

It was resolved to:

1. note the amendments made tot the Statement of Investment Principles and the inclusion of the UK Stewardship Code and Myners Principles;
2. approve the revised Statement of Investment Principles.

135. AUDIT WORK PLAN

Members received an update on the Internal Audit Plan for 2015-16, presented by Paul Clarke, Group Auditor.

Members noted the audit work undertaken in 2013-14 and 2014-15, and that all agreed actions from 2013-14 had been implemented, and that fieldwork should be completed by the end of March for 2014-15. The areas to be examined as part of 2015-16 Audit Plan were noted.

It was agreed that the timetable for reporting back to the Pension Fund Board would change slightly in future, so that it fitted in better with accounting closedown and reporting deadlines.

It was resolved to:

- note the audit work undertaken and approve the plan of Internal Audit work 2015-16, as outlined in sections 3 and 4 of the report.

136. NEW LEGISLATION AND GUIDANCE ON GOVERNANCE AND ADMINISTRATION OF THE LOCAL GOVERNMENT PENSION SCHEMES

The Board considered a report on proposals for the format of the local pension board following the publication of the final LGPS Governance Regulations and Shadow Advisory Board guidance.

Members noted that a report outlining a number of options had been presented to the Constitution & Ethics Committee on 3rd March 2015. This report included three proposals to the method of recruitment for the three employee representatives, specifically: (i) appointing three Unison representatives without any formal application and selection process; (ii) appointing two Unison representatives without formal application and selection process, with the third representative being selected from a separate selection and application process; (iii) appointing three representatives regardless of union membership via a formal application and selection process. The Constitution & Ethics Committee had chosen option (iii), and this recommendation would be presented to the full Council meeting on 24th March 2015.

It was reiterated that the decision on the format of the local pension board was a decision for Councillors at the full Council meeting. It was clarified that whilst option (iii) did not ringfence the employee representatives to Union members, there was nothing to stop Union members from applying and being appointed to all three places.

John Walker registered Unison's disappointment that the three places were not ringfenced for Unison representatives, and he advised that this was the option that neighbouring authorities such as Hertfordshire County Council were taking, and he outlined application and selection processes being undertaken elsewhere. The Chairman reiterated that this was a decision to be taken by Councillors at full Council, following the recommendation by the Constitution & Ethics Committee. He also gave assurance to John Walker representing Unison, that as part of the chairman's entitlement to speak in the council debate, he would raise the points made by Unison regarding automatic entitlement to two of the seats. It was noted that the full Council report included Rules of Procedure for the local pension board, including quorum, voting rights, etc.

Members also discussed the employer places, noting that the recommendation was for two of the three employer representatives to be Cambridgeshire County Councillors, with the third place from other employers. It was clarified that there were no political balance requirements for the County Councillors on the local pension board. It was also noted that membership of the local pension board and the existing Pension Fund Board was mutually exclusive, and that the local pension board should be operational within four months of 1st April 2015.

It was resolved to:

note the revised proposals for the format of the local pension board.

137. THE PENSION REGULATOR'S CODE OF PRACTICE NO.14 – GOVERNANCE AND ADMINISTRATION OF PUBLIC SERVICE PENSION SCHEMES

The Pension Fund Board received a report on the legal requirements on the Scheme Manager and members of the Pension Fund Board and Investment Sub-Committee contained within the Pensions Regulator's code of practice.

It was resolved to:

note the code of practice.

138. DATE OF NEXT MEETING: 10.00am 4th June 2015.