

## **MINUTES OF THE PENSION COMMITTEE**

Date: Thursday 27<sup>th</sup> July 2017

Time: 10:00-12:20

Place: Kreis Viersen Room, Shire Hall, Cambridge

### **Committee Members**

present: County Councillors Downes, Hay, Hickford (Chairman), Rogers (Vice Chairman), Schumann and Shellens; District Councillor A Fraser; Peterborough City Councillor D Seaton; L Brennan, J Walker and T Roden

Officers: D Cave, S Heywood, C Mason (item 7 onwards), R Perry, P Tysoe and M Whitby; J Holden

Apologies: Clive Mason (arriving late), Matthew Pink

## **18. DECLARATIONS OF INTEREST**

John Walker declared a personal interest as a retired member of the LGPS, his son was a deferred member, and his daughter-in-law was an active member.

Councillor Hay declared a personal interest as her husband was member of the LGPS scheme.

Tracy Roden declared a personal interest as an active and deferred member of LGPS.

## **19. MINUTES AND ACTION LOG OF THE PENSION FUND COMMITTEE MEETING HELD ON 29<sup>th</sup> JUNE 2017**

The minutes of the Pension Fund Committee meeting held on 29<sup>th</sup> June 2017 were approved as a correct record and were signed by the Chairman.

Items 8 (Internal Audit Report/access by former staff) and 14 (Ill health insurance investigation) would be reported to the October Committee.

Item 110 (cost of LGSS pensions administration) was on the agenda for this meeting.

## **20. LOCAL PENSION BOARD ANNUAL REPORT**

Members considered the Local Pension Board Fund Annual Report 2016-17, presented by the Board Chairman, Barry O'Sullivan.

Pension Fund Committee Members posed the following questions:

Observing that the Local Pension Board (LPB) was a relatively new body, the Chairman asked what was working well, and what was not working so well. Barry explained that because the LPB was so new, it had a steep learning curve. What worked well was the perspective of Board Members, who were coming from outside the Pensions field with a fresh perspective, looking at and questioning the work of both the Pension Fund Committee and the administering authority. What worked less well was that the Board did not have opportunity to comment on the Pension Fund Committee reports and decisions until after the event. He suggested that it would be helpful to be involved at an earlier stage so that any issues could be identified and comments fed into the process. The Chairman observed that the Board very much played a scrutiny role, and that the Board was more to do with governance rather than decision making. Mark Whitby advised that an element of “pre-scrutiny” had been introduced, with the LPB having sight of key reports before the PFC e.g. the Administration Strategy, and LPB comments had been included in the draft subsequently considered by the PFC, and officers felt that this had been a useful exercise. However, the role of the Pension Fund Committee as the decision making body should not be confused.

Barry advised that it was clear from an annual meeting of LPBs from across the country that there was a lot of variation on how LPBs operate: some almost had a quasi Pension Committee role, whereas others did not really have a role. The Cambridgeshire LPB was somewhere between these two extremes. It was also noted that some authorities had a joint Pension Fund Committee/LPB. Barry advised that the statutory guidance provided when LPBs were set up was at best woolly, and this was one of the reasons that there was such wide variation in the way LPBs operated. The guidance needed to be tightened up so that it was easier to interpret.

A Member commented that it was clear that the LPB had a very wide-ranging brief, but was disappointed that although there was 100% attendance from Scheme Members, attendance from Employers was poor. The Member asked if there was anything the Pension Fund Committee could do to promote greater attendance. Barry and Mark agreed that this had been an issue, and outlined the actions taken to date to try and resolve this. The Chairman offered to assist in promoting attendance from Councillors if that was an issue.

A Member asked what efforts were being made to publicise the role of the Board. Barry advised that there was little knowledge or information about the LPB. He suggested something could be included on pensioner payslips, or more coverage in member newsletters. In terms of recruitment of LPB members, Mark advised that this very much depended on whether it coincided with bulk circulation of communications. He added that he would continue to work with both the Board and Democratic Services to promote the role of the Board.

It was resolved unanimously to comment on and note the Local Pension Fund Board Annual Report 2016-17.

## **21. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS**

The Committee considered the draft Annual Report and Statement of Accounts (SOA) of the Pension Fund for the 2016-17 financial year. The main changes to the pro forma accounts, in line with regulatory guidance, were noted.

The Annual Report sets out the activities of the Committee, and the structure and content of the report was set out by CIPFA. The narrative provided information around the performance and administrative side of the Fund.

There had been issues with the External Auditors of the Pension Fund, BDO, last year, but BDO were addressing these issues, and the auditors were different, more pragmatic individuals. Whilst the auditors had not completed their field work, they had found nothing significant to date. The ISA260 (Communication with those charged with governance) would be produced in September.

The accounts were set out in a standard format. Members' attention was drawn to the section on Investment Management fees: CIPFA had issued guidance on greater transparency of Management fees charged to LGPS Funds. As a result, in 2016-17 the Fund now reported the fees that were deducted by managers from pooled funds and not invoiced or physically paid by the Fund, which had previously been netted against the profit or loss on investments. On a like for like basis there was an increase in fees as these are based on a percentage of asset values which had increased significantly over the year.

The increase in Employer contributions (from £119M to £125M) reflected small increases in employer rates: employees had actually paid slightly less. Benefits paid out had increased to £98M (from £92M). Transfers in from other Pension Funds had gone down by about £5M, but it was noted that this was a fluctuating figure which was basically outside the control of the Committee.

It was noted that whilst the totals for Investment Management Expenses had not changed much (£12.526M compared to £12.446M in the previous year), the breakdown had e.g. management fees had increased but performance related fees had reduced. Fee increases included around £1M each for Dodge & Cox and Schroders. There was a discussion around management fees and performance related fees, with the Chairman pointing out that the Committee was willing to pay more for good performance but not rewarding mediocre or poor performance. Paul explained that the standard fee approach being used rewarded good managers, and could save the Fund £2-3M if managers delivered the levels expected. This decision had been made by the Committee some time ago, in an attempt to unpick the existing multi asset arrangements. Members expressed some disquiet, and queried what measures the Fund had to mitigate against poor performance with this approach. The Chairman reiterated that fees should reward good performance, and suggested that too much time was spent on fees, which were not a major part of the Fund, percentage-wise: the big decisions were about allocations and the managers selected.

Members noted the significant increase in "Oversight and governance costs" to £419K, from £219K in the previous year. This was partly due to CIPFA recategorising costs, e.g. audit and actuarial costs, and partly due to the actuarial valuation of the Fund within the year. Noting that officers needed complete an analysis to provide accurate figures on how much the actuarial valuation had cost, the Chairman commented that there should be a better handle on costs, and such information should easily be accessible on request. Other Members agreed, pointing out that management and running costs should be controllable as they were very much within the Committee's remit.

A Member pointed out that that the document was difficult to navigate, and whilst much of the information was in there, it was difficult to find. Officers reiterated that the structure of the

accounts was out of the control of officers, it was a format prescribed by CIPFA, and External Audit required accounts to be completed in a certain way. It was agreed that officers would raise concerns on these presentational and formatting issues. **Action required.** It was also suggested that officers could explore how to present more user-friendly information within the confines of the requirements, e.g. with narrative, footnotes and cross-references.

Councillor Shellens advised, as Chairman of the Audit and Accounts Committee, that last year had been disastrous in terms of external audit, resulting in a failure by the County Council to meet the statutory deadline for signing accounts. The Auditors had been encouraged to adopt processes to make the whole process run more smoothly e.g. regular progress meetings, Gantt charts, etc, and they were more or less on schedule this year.

There was a lengthy discussion about Administrative Management Performance, with some Members indicating they were unhappy that some targets were not being met, on an ongoing basis. Mark explained that this was reported to Committee through the Business Plan updates each quarter. Most shortfalls were due to resource issues, which were being addressed but had not been resolved. The specific problems with attracting and recruiting suitably qualified and experienced candidates were noted, and that this was a national issue. Officers explained how complex and technical the work involved was, and how candidates required in-depth knowledge of the regulations. It was confirmed that when good temporary staff were employed, they were offered permanent contracts. The Chairman asked officers to report back to the next Committee meeting. **Action required.**

A Member queried why investment income from equity investments was down, specifically, if the Fund had more equities, why was it getting less money? Officers advised that the Fund did not have more equities, but those it did have were worth more. Additionally, given the highs of the equity markets, whilst the share values had increased, dividends had not increased commensurately i.e. the bulk of increase in value was from the market value, not dividend income: companies do not generate more profits because the market value of their equities increases, so dividend yield goes down as the market value goes up.

There was a discussion on future estimates of "Transfers Out" and it was agreed that whilst this was demand led and difficult to estimate, it may be more prudent to base it on the estimated outturn, although it was acknowledged that this was difficult to predict.

*(Cllr Downes left the meeting)*

A Member commented that there were multiple statements throughout the report saying that the Fund was cash positive. However, that appeared to be predicated on continuing large numbers of County Council staff, which may not be the case going forward. Officers advised that whilst the County Council was the largest employer in the Fund, much of the Fund was now made up of other employers, and the numbers of those employers was increasing. Therefore the view that the Fund was very much cash positive was accurate.

A Member queried the process for approving the accounts, in that the General Purposes Committee and Audit and Accounts Committee had already see the draft general accounts for the Council, which included the Pension Fund statement of accounts. He suggested that the Pension Fund Committee should see them at the same time. The Chairman observed that the approval of the Pension Fund Annual Report was separate from the approval of the statement of accounts, and were not integral to the general accounts. The Chairman highlighted that the

recommendation enabled him to sign off the Annual Report, providing any amendments arising from the completion of the external audit were immaterial: if any significant amendments were required, he would call a special meeting of the Committee. Officers also commented that the external audit of the Pension Fund would usually be complete by now.

It was resolved to:

- 1) Approve the Draft Annual Report and note the Statement of Accounts of the Pension Fund for the 2016-17 financial year;
- 2) Approve that the Chairman agrees with officers any immaterial amendments to the Annual Report arising from final External Auditor review comments.

## **22. EXCLUSION OF PRESS AND PUBLIC**

It was resolved:

That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business (item 10) on the grounds it contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information which is likely to reveal information relating to the financial or business affairs of any particular person) and that it would not be in the public interest for this information to be disclosed.

## **23. ANNUAL REVIEW OF THE FUND'S INVESTMENT MANAGERS**

The Committee received a presentation from Jo Holden on the Fund's Investment Managers.

It was resolved to note the Annual Review of the Fund's Investment Managers.

*(Clive Mason joined the meeting)*

## **24. INVESTMENT MANAGER FEE REVIEW**

The Committee received a report on the fees paid by the Fund to its Investment Managers over the three year period to 31<sup>st</sup> March 2017.

It was resolved to note the review of the fees paid by the Fund to its investment managers.

*(Cllr Schumann left the meeting)*

## **25. CUSTODIAN MONITORING REPORT**

The Committee considered a report on the performance of the Fund's Custodian, focusing on the efficiency of its Investment Managers for the year to 31<sup>st</sup> March 2017.

It was resolved to note the Annual Custodian monitoring report.

**26. LGSS PENSION SERVICES COST REVIEW**

Members considered a presentation on the review of LGSS Pension Services costs.

It was resolved to note the contents of the report.

**27. DATE OF NEXT MEETING 10am Thursday 19<sup>th</sup> October 2017**