MINUTES OF THE PENSION FUND COMMITTEE

Date: Thursday 23rd July 2020

Time: 10.00am – 12.45pm

Venue: *Meeting held remotely in accordance with The Local Authorities (Coronavirus) (Flexibility of Local Authority Meetings) (England) Regulations 2020*

Present: County Councillors P Downes, I Gardener (Vice-Chairman), A Hay, T Rogers (Chairman) and M Shellens *(via telephone)*; Cambridge City Councillor R Robertson; Peterborough City Councillor D Seaton; Lee Phanco and John Walker

Officers: B Barlow, C Blose, D Cave, F Coates, P Gent (Mercer), D Green (Hymans Robertson), R McInroy (Hymans Robertson), M Oakensen, R Perry, P Tysoe, J Walton and M Whitby

Apologies: None

197. DECLARATIONS OF INTEREST

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

198. PUBLIC MINUTES OF THE PENSION FUND COMMITTEE MEETING HELD 18TH JUNE 2020

The minutes of the Pension Fund Committee meeting held on 18th June 2020 were approved as a correct record.

It was confirmed that a full response had been sent Mr Potter, the member of the public who had raised a question at the last meeting.

199. PUBLIC QUESTIONS

There were no Public Questions.

200. PENSION FUND STATEMENT OF ACCOUNT

The Committee considered the draft Statement of Accounts of the Pension Fund for the 2019-20 financial year.

The following key points were noted:

- There was a £177.9M net decrease for the year, with the Fund's net assets falling to just above £3 billion. This was mainly due to the Covid-19 pandemic;

- Contributions had increased slightly from £124.5M to £126.5M reflecting the growth in the number of active members;

- Benefit payments had increased to £107.9M from £106.3M. The increase in pension payments reflected the growth in the number of pensioners during the year;

- Administration expenses appeared to increase significantly, but this was due to an adjustment made for previous years. The detail of this adjustment was explained following a Member question, as the accrual in the 2018-19 accounts had been understated, and this had been corrected in 2019-20: the real year on year comparison was in fact minimal. It was agreed that the detail for the three year period would be circulated. **ACTION: Officers to circulate three year costs to all Members;**

- Investment returns as at 31st March 2020 were a negative £174.1M. The investment return for the Fund over the financial year was -5.7% compared to the Fund's weighted benchmark return of -3.3%, reflecting the financial situation brought about by the Covid-19 pandemic and the active investment management decisions made by the Fund;

- Investment income decreased from £45.5M in 2018-19 to £34.4M in 2019-20, mainly from equities and pooled investments, and there had also been disinvestment in segregated equities. It was confirmed that in 2018-19 there had been a £10M dividend payment which skewed the figures for that year.

Turning to the Statement of Accounts, this highlighted the increase in contributions, transfers in (which were essentially a demand led action), increased benefits and a slight reduction in payments. Most of the reduction to returns on investment reflect the financial situation brought about by the Covid-19 pandemic and the active investment management decisions made by the Fund.

The main part of the Cambridgeshire Pension Fund Audit had been completed, and officers' view was that it had gone very well with no major issues, and this would be presented to the Pension Fund Committee at their next meeting.

A Member queried the likely level of investment income for 2020-21, and the impact of any reduction on the probability of becoming cash negative. Officers had contacted quite a few investment managers regarding likely impact on investment income, and they had all advised that they were estimating a 20-40% reduction in returns, and this would be reflected in future reports.

A Member observed that Councils were having to rationalise their operations in response to the Pandemic, but noted that surprisingly, the number of Council employees had increased by 1500, and he asked if there was a reason for this increase. Officers confirmed that whilst there was a long-term downward trend in the number of Council employees, initiatives such as auto-enrolment and the 50/50 scheme had resulted in a rise in the number of Council scheme members. It was also worth noting that the staff numbers presented were not FTEs (full-time equivalents), and there were more part-time workers than in the past, and some individuals were counted more than once in those numbers. Moreover, the perception of the scheme as a valuable benefit was much higher than it had been in the past. The Member commented that it would be interesting to know how many Council employees were eligible, compared to actual take-up.

A Member asked the Head of Pensions if there was anything specific in the Pension Fund accounts that Members should be aware of. He responded that all the pertinent points were within the report, and that the most striking thing for him was the administration cost.

A Member asked how many employers were in scheme compared to last year. It was confirmed that this information would be in the Annual Report, which would also highlight relevant trends.

A Member noted the number of County Council employees had risen by 7%, and number of pensions had also risen; he commented that it would be useful to know how many Pension Members were employed by Councils as opposed to other types of organisations. Again, it was confirmed that this information would be included in the Annual Report, as the Statement of Accounts had to be in the format prescribed by CIPFA.

A Member asked how the number of employers had reduced by 60, which seemed to be a significant drop. It was confirmed that this was largely due to the establishment of Multi Academy Trusts, which were then technically a single employer, leading to the aggregation of the number of Academies.

It was resolved unanimously to:

1) Note the Statement of Accounts of the Pension Fund for the 2019-20 financial year.

201. GOVERNANCE AND COMPLIANCE REPORT

Members received a report on governance issues concerning the Local Government Pension Scheme (LGPS) on a national and local basis, and also details of forthcoming training events.

A consultation from MHCLG had been received on the McCloud case, given guidance on how to remedy the age discrimination inconsistencies. Twelve weeks had been given to respond to the consultation, which was largely technical. The proposed response would be circulated to the Committee for their views.

A Member asked how many pensioner records would need to be checked. Officers confirmed that they would need to look at a lot of member records, but it was unclear how many of these reviews could be conducted manually, and how many could be done via software. Hymans Robertson representatives advised that the Press were quoting the government Actuary's assessment of the potential impact being £70billion, but this related to the unfunded public sector schemes (e.g. Civil Service, NHS), and did not include local authorities. Other sources estimated that the impact on LGPS to be nearer £2.5billion, which Hymans Robertson thought was overstated, believing the likely impact to be closer to £500M across the 87 Local Authority Pension Funds. The main issue for the Fund was that the impact would not be felt evenly across all employers, e.g. it was likely to have a minimal impact on Councils, but a more significant impact on employers such as Academies and Leisure Centres, with more active and younger membership. However, as the Fund's Actuary, Hymans Robertson would not be looking for contributions to be amended before the next valuation for most employers.

As a result of the McCloud consultation, MHCLG had announced that it would be restarting the Cost Cap Mechanism. The last time it was valued, costs of the scheme had been below the 19.5% +/-2% threshold. Restarting the Cost Cap Mechanism could result in benefits being readjusted to keep scheme costs in line with the relevant legislation. Potentially there were a lot of changes to the scheme over the next couple of years.

A Member asked if officers could deal with these changes within existing staffing resources. Officers responded that it was difficult to answer without knowing the exact scale of the issue – they were currently relying on software suppliers to some extent. High level analysis of potential numbers and scope had been carried out, and if everything was automated, it should require little additional resource, but it may be a significant issue for a short duration. Every Fund in the country was in the same position. A related issue was that some scheme members had been targeted by companies charging a fee on this issue. It was suggested that the Pension Fund issued guidance to all scheme members to advise that it was being done automatically, and officers agreed that this was a good idea. It was confirmed that any LGPS Member who had been effected would be notified individually.

With regard to deceased scheme members, it was confirmed that any scheme member who had left a spouse or partner may be entitled under the McCloud remedy. However, officers advised that they had not yet agreed an order for how scheme members and their dependents would be prioritised.

A Member queried a statement in the report that funding would be restricted for training trustees. Officers advised that Members could attend conferences and training events, the disclaimer related to many members attending the same event.

A Member asked about training: he had originally intended to retire as a Councillor, and therefore a Committee Member, in May 2020, but the elections had been deferred for a year. As he was due to leave, he had been taking a relaxed view on training. Officers suggested that the key thing was to ensure all Members had the required skills and experience to make decisions at Committee: an experienced Committee Member would clearly have the required knowledge.

A Member suggested that there should be a Covid-19 specific risk be added to Risk Log. It was confirmed that there was an entirely separate Covid-19 Risk Log which had been considered by the Committee in June. It was further noted that the Risk Log and Risk Register were separate documents. It was noted that the Risk Log was referenced under Risk 2 “economic conditions”, which included a mitigation relating to Covid-19.

In terms of training, it was noted that the intention nationally was for conferences to resume on 1st October, unless there was a local lockdown, but that some industry bodies had indicated that they would not have physical conferences this year. In response to a Member question, it was confirmed that the review of training credits had been delayed due to Covid-19. The policy would be amended in light of the review and presented to a future meeting.

It was resolved unanimously to:

Note the report.

202. ADMINISTRATION PERFORMANCE REPORT

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

Arising from the report, Members noted:

- Key Performance Indicators: given that the report covered the lockdown period, the KPIs were quite impressive, with staff continuing to work at the same volume and pace as previously;

- Employee contributions: again, given that Lockdown was included in the period covered, the vast majority of schedules and payments had been received, which was pleasing;

- Breaches of the law: this detailed areas of administration which had not gone as they should. These were judged by officers to be "non material breaches", but Members of the Board and Committee have the option to take a different view and report breaches to the Pensions Regulator. The breaches identified had been rectified subsequently;

- Internal Dispute Resolution Procedure: there was one ongoing case to note, which related to a scheme member who had opted to transfer to another pension scheme, but subsequently regretted that decision as the new scheme had not performed as well. The dispute related to their assertion that they had not been given sufficient information on the issues involved before transferring. It was clear that these type of claims, assisted by Claim companies who may get a high commission, were on the rise, with the Claim companies were proactively contacting former members. These disputes would normally expect to go before the Pensions Ombudsman for a final decision, having proceeded through the Internal Dispute Resolution Procedure first;

- Data Improvement Plan: this related to the processing of all the unprocessed leaver benefits in accordance with the member's entitlement under the LGPS regulations. The timescale for this Plan had been extended;

- Contracted Out Liabilities rectification: this related to the correction of variances to pensions in payment as a result of any changes notified to the contracted-out earnings included within the pension. The delay in HMRC issuing the final data file has impacted the completion of this activity, but the final file had now been received. More data would be available at the Autumn Committee meeting.

There was a query about the Red rating in the KPIs. It was confirmed that this related to failure to meet statutory targets only, and an explanation of the Red/Amber/Green ratings would be included in future reports. **Action required.**

It was resolved unanimously to:

> Note the administration performance report.

203. EXCLUSION OF PRESS AND PUBLIC

It was resolved unanimously:

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 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.

204. COVID-19 AND FUNDING RISKS

The Committee considered a briefing paper and presentation from Fund's Actuary regarding funding impact and risk associated with the ongoing Covid-19 pandemic. Members were reminded that they had had a presentation from Mercer at the last meeting on the implications of Covid-19 on investment returns.

It was resolved unanimously to:

Note the report.

(Hymans Robertson representatives left the meeting)

205. ANNUAL REVIEW OF THE FUND'S INVESTMENT MANAGERS

The Committee considered a report reviewing the performance of the Fund's Investment Managers for the year ended 31st March 2020.

It was resolved unanimously:

Note the Annual Review of the Fund's Investment Managers.

206. INVESTMENT MANAGER FEE REVIEW

Members considered a report reviewing fees paid by the Fund to its Investment Managers.

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

Chairman