LOCAL PENSION BOARD

MINUTES OF THE CAMBRIDGESHIRE LOCAL PENSION BOARD

Friday 5th July 2019

Members of the Board in attendance:
Employer Representatives – County Councillors E Meschini, S King (Chairman) and Parish Councillor D Payne
Scheme Member Representatives - D Brooks (Vice Chairman), B O'Sullivan and J Stokes

Officers in attendance:
M Oakensen - Governance Officer
C Blose – Employer Services and Systems Manager
D Cave - Democratic Services Officer
J Walton - Governance and Regulations Manager
P Tysoe – Investment and Fund Accounting Manager

Time: *10.00 am to 12.35 pm*
Place: *KV Room, Shire Hall, Cambridge*

ACTION BY

104. ELECTION OF CHAIRMAN/WOMAN AND VICE-CHAIRMAN/WOMAN

It was resolved unanimously to elect Councillor Simon King as Chairman of the Board for the municipal year 2019-20.

Councillor King thanked members for their support and input over the past year.

It was resolved unanimously to elect David Brooks as Vice-Chairman of the Board for the municipal year 2019-20.

105. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

There were no apologies for absence.

106. MINUTES OF THE PENSIONS FUND BOARD 3rd MAY 2019

The minutes of the meeting of 3rd May 2019 were approved as a correct record and were signed by the Chairman.

107. MINUTES ACTION LOG

Discussing item 98 (Reappointments to the Board) – it was noted that maintaining the level of expertise in Local Pension Boards was raised as an issue at a recent conference that a number of members had attended, where Board members from across the country had expressed similar concerns about succession arrangements. "Ghost" members had been discussed, but Democratic Services had responded that given it was difficult to find six committed Board members, this was unlikely to be a viable solution. The other suggestion raised at the conference was having a membership of six rather than four members, so that meetings were still quorate when someone was absent. It was noted that membership of more than six members was permissible, if proportionality was maintained. The Vice Chairman suggested that members could have different lengths of terms, or staggered terms, to ensure continuity. It was agreed that options could be reviewed as part of the review of Terms of Reference, along with ideas on recruitment. **Action required.** It was pointed out that meetings were open to the public and members interested in joining the Board could attend meetings to get a better understanding of how the Local Pension Board worked. **M Oakensen**

The Minute Action Log was noted.

108. MINUTES PENSION FUND COMMITTEE 13th JUNE 2019

Both confidential and public versions of the Pension Fund Committee minutes had been provided to the Board for information.

A Member noted that in their consideration of the Administration & Performance report, the Pension Fund Committee had spent time looking at overpayments, but underpayments did not appear to have been explored by the Committee, and it was unclear whether any action was required. It was agreed that this issue would be explored further when the Board looked at the Data Improvement Plan report later in the meeting, which was one of the reports presented to Pension Fund Committee.

There was a discussion around the different pools of employers in terms of contributions. Strong concerns had been expressed about the viability going forward of Parish Councils and charities at a recent Employer day in Girton. Officers assured Board members that all Employer pools were treated with the same level of diligence and detail, and the future approach to Contributions would be considered at the Pension Fund Committee later in the year. These issues would also be covered in some detail in the Valuation presentation later in the meeting.

109. ADMINISTRATION REPORT

The Board considered a report which considered key areas of administration performance of the Cambridgeshire Pension Fund.

The following points were noted:

- With regard to the Stage 1 dispute set out in the report, since the agenda had been published, the scheme member had advised that they would be progressing to a Stage 2 dispute;

- With regard to the Stage 2 dispute relating to the refusal to permit payment of a transfer value, the scheme member had not yet advised whether they would be progressing this complaint further, and that they had six months to do so;

- In relation to Appendix 3 (Receipt of Employee and Employer contributions), the jump in the number of Employers paid late in April 2019 probably related to the financial year end, but officers agreed to check and respond to the Board. **Action required;** **M Oakensen**

- In Appendix 4 (Late payment of employer contributions), one employer appeared twice. Action was taken if there were three late payments within a six month period. Some of the Employers were very small e.g. Parish Councils, and an isolated late payment may result from the absence of a key member of staff e.g. the Parish Clerk;

- One employer repeatedly appeared in these reports a late paying employer. The range of tools open to the Fund for late paying employers were noted, e.g. reporting breaches to the Pension Regulator, and charging interest and administration charges, but it was often too soon to start charging interest. Ultimately, Admission Agreements can be terminated if an Employer repeatedly breached the terms of their agreement.

It was resolved to note the Administration Performance Report.

110. GOVERNANCE AND COMPLIANCE REPORT

This report provided information on issues concerning the governance of the Local Government Pension Scheme, as well as potential, new, amending and overriding legislation that would have an impact on how the Scheme was managed, and on Scheme members' benefits.

Members noted that the Scheme Advisory Board had recently issued guidance on the approach to be taken with regard to the liability arising from the outcome of the McCloud case in terms of the 2019 triennial valuation process. The Board was reminded that the McCloud case had challenged the 2014 Regulations on grounds of being age discriminatory, and the government had indicated that they would be appealing that outcome, but subsequently the government had announced that they would not be appealing.

It was unlikely that there would be any firm decisions on the impact of this case prior to 31/08/19, so the Valuation would be progressed on the basis of the Scheme as it currently stood. Estimates on the financial impact of the McCloud case had been put forward but it was difficult to estimate with any degree of accuracy the likely impact, or indeed any resource implications in terms of staffing. It was clarified that the age discriminatory element related to protection for those within ten years of their retirement, but not for younger scheme members. It was noted that the *"intended 19.5% target cost"* related to 19.5% of Payroll at a national scheme level.

The Scheme Advisory Board had commissioned Hymans Robertson to facilitate a review of governance models for the LGPS – "the Good Governance Review". Four proposed models were proposed to stakeholders, specifically 1) Improved Practice, 2) greater ring fencing for the LGPS within existing structures 3) Joint Committee and 4) Combined Authority (for administering LGPS Pension Funds). The Vice Chairman commented that whilst he and the Chairman had had notice of the consultation, they had not had much time to respond. It was noted that there would be a report back to the Scheme Advisory Board on the outcome of the Good Governance Review in July.

Another Member commented that with regard to good governance, every single member of the ACCESS asset pool was a Councillor, and the ACCESS Board included no representation from employees. It would be difficult to have greater separation from Councillors when things had been made worse by pooling arrangements. Officers acknowledged this point but commented that the Pension Fund Committee, which ultimately made the decisions on pension administration and investment, had equal representation from Councillors and employees. Members also discussed the degree of separation of the Pension Fund from the Council's own finances, noting that the way that the LGPS was set up provided these checks and balances, but there was always the need for vigilance and scrutiny of the type provided by the Local Pension Board to ensure that this was never conflicted.

HM Treasury had launched a consultation on the draft regulations entitled *"Restricting exit payments in the public sector: consultation on implementation of the regulations"*. This related to a proposed £95,000 cap on exit payments in the public sector. Members and officers discussed the impact on both Employers and Employees, especially on strain costs when redundancy was involved. This not only impacted on high earners, but also moderate earners who had accumulated significant service.

Officers advised that in terms of training, self-assessments had been completed, and training plans would be developed over the next few months. Members were encouraged to attend the Information Day on 17th July, which would effectively wrap up the two year programme of CIPFA training. The Chairman stressed the importance of training to even the most experienced Board members.

It was resolved:

To note the report contents.

111. RISK MONITORING

Following previous agreement from the Board on the process of monitoring risks, the Cambridgeshire Risk Strategy and Risk Register were reviewed and approved by the Pension Fund Committee on 28th March 2019. The Board was asked to review the current risks facing the Fund as set out in Appendix 1 of the report, and advise if the officer conclusions set out in paragraph 2.1 were agreed.

Members noted progress against reviews, including changes to risks 6, 24 and 25. Members were reminded that the Risk Register was a large document, and a lot of time had been spent streamlining it to make it more manageable. With this in mind, the intention was not to continually add to it, but it was important to highlight short term risks as they occur, such as McCloud. A Member commented that short term risks could be reported to Board as and when, and it was agreed that that was the right approach.

A Member commented that at a recent event, there had been an alarming presentation on cyber risk, and it appeared that some Funds' data had actually been accessed, and Member information corrupted. Cyber risk was clearly a major concern for the Pensions Regulator. The Member asked if it was possible to include a specific risk "cyber risk" on the Risk Register to cover that combination of cyber threats, rather than identifying those risks individually in the current Register structure.

Officers advised that there had originally been one risk identified, but this had since been encapsulated in Risk 12, but they were happy to review it, with a view to putting more detail under controls to ensure that everything was covered. **Action required.** M Oakensen

It was resolved:

> Having reviewed the current risks facing the Fund as set out in Appendix 1 to the report, the Board were content to agree with the officer conclusions as set out in paragraph 2.1 of the report.

112. MONITORING AND MANAGING OUTSOURCED PROVIDERS

Members considered a presentation on monitoring and managing outsourced providers.

The Fund had undertaken a procurement exercise for actuarial services, and appointed Hymans Robertson in 2018. The contract was procured through the National LGPS Framework, which saves the Fund considerable time and money, especially on OJEU work. The Hymans contract will run up until 31st March 2023, and the services it covered were noted, including triennial valuation, calculation of employer contribution rates, assets, liabilities and cessation payments; advice on Funding Strategy Statement, admission agreements; Cash flow modelling, covenant analysis.

AON had been appointed on 1st April 2018 to provide Benefits and Governance Consultancy services, focusing on advice on administration and governance. AON were also currently processing undecided leaver cases.

ITM had been appointed to undertake the Guaranteed Minimum Pension Reconciliation and Rectification on 1st June 2017. This work could not have been undertaken in house as the resource was not available. Progress reports were provided every two weeks.

The Pensions Administration Software, 'Altair', was currently provided by Aquila Heywood. At the time that contract had been procured, Aquila Heywood had been the only provider in the market, but there were now more providers, as the market had been opened up to a lot of competition. The current Contract would run out in 2021. Altair provided the Fund with a Pensions administration platform, Pensioner payroll platform, i-Connect and Member Self Service and Employer Self Service.

Member Data Services were provided by Accurate Data Services. It was difficult to judge performance as it was still early days. A Cost Benefit Analysis would be provided in future to establish how the effectiveness of this contract.

Western Union was used for proof of existence for overseas pensioners. This contract was supposed to start on 1st July 2019, but not enough reassurance had been given on GDPR issues. The project would not go ahead if they did not sign the GDPR Addendum.

Generalist legal services were currently provided by LGSS Law, which was now a separate company to LGSS. Eversheds Sutherland were used for specific administration advice e.g. overpayment of pensions. This contract would be retendered over the summer. In response to a query, it was confirmed that there was no compulsion or contractually obligation to use LGSS Law, but they were very reasonably priced for generalist work

For Data Auditing, the Pensions Regulator allowed the Fund to use a smaller data set for scheme specific data. Officers were working with ITM on this so that there was a standard set of data.

In response to a Member query, officers outlined how national frameworks for procurement work, and the benefits they conferred not only to founder members, but all those that use them, eliminating a lot of costs, and benefitting from considerable expertise and experience.

It was resolved:

a) To note the report.

113. ACCESS ASSET POOLING UPDATE

The Board considered an update on asset pooling through the ACCESS asset pool. All reports that were considered by the ACCESS Joint

Committee had been circulated to Board members, and officers stressed the confidentiality of these reports not just to the Cambridgeshire Pension Fund, but to partner authorities. The reports had been shared to provide full transparency to the Board on the activities of ACCESS pool, to enable a full informed discussion to take place.

Members noted:

- that Kent County Council were doing an excellent job supporting the Joint Committee;

- the Annual Report template, which had been endorsed by all eleven member authorities;

- all asset pools were being invited to talk to the government minister about progress. The ACCESS Pool were pleased with progress, believing it was progressing faster than most and delivering an efficient and effective asset pool. Three County Councillors representing the ACCESS Joint Committee, plus various officers were meeting with the government minister on 5th July;

- an update on the management of the Link contract by the ACCESS Support Unit;

- the challenges faced appointing a director to the Access Support Unit, and the likelihood that there was an excellent internal candidate coming through. A Member observed that this would result in a succession planning issue for the authority in question;

- Monitoring Officers of all partner authorities had reviewed the Governance Manual and endorsed the Inter Authority Agreement for progression through their respective governance processes. A view was being taken collectively by the Monitoring Officers as to whether this included material changes which required approval e.g. by each authority's full Council meetings;

- Exempt Appendix D in the reports, which demonstrated some of the benefits ACCESS arrangements had brought to date. £477K savings had been achieved in investment management costs through the appointment of a new passive mandate (UBS), which included some of the revised passive and Smart Beta options which would be much more expensive outside of the ACCESS contract, and this blended return approach had outperformed UK equities by 3.2%, and using North American indices global equites in excess of 1.5%, generating additional returns net of fees in excess of £10M over the previous market capital approach. It was stressed that the ACCESS arrangements were not just about fee savings, but more importantly should be measured against value for money, which in essence is returns net of fees over a five to seven year duration. The issue of transparency was raised, and officers advised that many fees had been taken at source, whilst the Code of Transparency (CoT) was aiming to ensure integrity and consistency on how fees are shown. All equity and fixed income investment managers would be providing CoT statements during the 2019-20 financial year:

Noting Exempt Appendix D, a Member asked about the story widely reported in the news about the Kent Pension Fund's investment in Neil Woodford's Equity Income Fund, and how this fitted in with the ACCESS arrangements. Officers confirmed that this was outside of the pooling arrangements and only affected the Kent Pension Fund. ACCESS was launching more sub-funds, and there could be up to 35 sub-funds in total: however, all sub-funds had to meet VFM and size criteria, and critically, all eleven ACCESS member authorities had an input. A number of passive and active sub funds had been introduced to date but ultimately 75% of fee savings would arise when ACCESS ventured in to illiquids (infrastructure, property etc) which represented 25% of total Fund investments. However the illiquid agenda would take many years to transition due to the nature of long term commitments, for example existing arrangements requiring time to come to term and new arrangements which are invested through numerous years, a typical illiquid duration exceeds 10 years.

In response to a Member question it was confirmed that all eleven partners were actively working on a Responsible Investment Statement, and Members were reminded that there had been an Information Day where ESG issues were explored in detail.

It was resolved to:

a) Note the asset pooling update;
b) Note the agenda, minutes and public reports from the ACCESS Joint Committee meeting held 11th June 2019;
c) Note the value for money asset pooling update.

114. REPORTS PRESENTED TO THE PENSION COMMITTEE ON 13TH JUNE

Following the review by AON, it had been agreed to bring all the reports that had been presented to the most recent Pension Fund Committee as one item. Members were asked to let officers know if they preferred this new format or would rather receive information by individual report.

Business Plan Update: with regard to the Guaranteed Minimum Pension Reconciliation project, HMRC had still not provided all the information required, and informally it had been suggested that this was because HMRC were dealing with a large volume queries.

Data Improvement Plan Progress Report: referring back to the earlier discussion, it was noted that the Committee had focused on overpayments but had not really addressed underpayments. Officers confirmed that they had dealt with all underpayments and paid all amounts owing. The way in which underpayments were identified was explained, through comparing variances between Payroll and Administration.

Councillor Meschini indicated that she preferred to receive reports electronically, and it was confirmed that this was not a problem. **Action required.**

Democratic Services

Members considered an update on actuarial issues, which focused on the Funding Strategy, the contribution rate modelling and Employer pooling. The benefits that scheme members receive had to be balanced against the income to the Pension Fund, specifically investment returns and contributions. The only controllable variable on the asset side was employer contribution rates. Therefore it was important to get a prudent assumption of the cost of benefits and income from investments and member contributions so that the employer contribution rate could be ascertained.

Different contribution rates were set for different employers, e.g. Councils, Academies, Colleges, Contractors, charities, based on the differing targets, timescales and risks of those Employers. For example, charities in particular were short term and potentially high risk, so contributions were set based on a more prudent target. Ultimately the Funding Strategy governs how contribution rates are determined, and this would be considered at the December meeting of the Pension Fund Committee, following consultation.

When assessing contribution rates for the large scheduled bodies, the Actuary considered a wide range of economic scenarios and their impact on Employers funding over time. The focus was on the likelihood of meeting funding targets, set against worst case scenarios. Employers were then grouped and a proxy was selected, usually an outlier so that what works for the proxy, works for the whole group. Looking at the example given, it was noted that Fenland District Council was high maturity, which was why it was in a group of its own.

A meeting had been held with Chief Finance Officers/Section 151 Officers in May 2019, where they had been informed of the contribution options available and asked to let officers know their preferred contribution strategy. So far most had expressed a preference for paying more now than in the future, and none had asked for a reduction.

Employer pooling was a major piece of work which officers had previously considered and now judged the time to be right. The issue with the pooled employers was that there were no guarantors behind them and they were vulnerable to major funding risks given their small size. Small admitted bodies, Parish Councils and Drainage Boards were separated into two pools to mitigate those risks – these were typically Employers with only one or two members, and strain costs from ill health retirements or death of an active member could significantly damage funding levels. Pooling these employers reduced the volatility of contribution rates. Retaining the status quo was not seen as the preferred option, as analysis suggested that action was required. However, in practice, disbanding the pools could result in huge increases in contribution rates for a small number of Employers. Options included removing only the outliers, disbanding each pool and allocating Employer assets based on the average pool funding level or disbanding each pool and allocating employer assets based on each employers individual fund position. In addition “walk away” options could be considered for pool members.

In the discussions to date with Employers, the principles had been set out, and preferences requested, but individual levels had not been shared as that would result in a stalemate. This issue would be considered by Pension Fund Committee in October. It was confirmed that the decision on this matter was in the Committee’s gift – it did not require the consent of individual employers.

A Member commented that Parish and Town Councils were identical to District and County Councils, and should be treated the same, and this should be reflected with the evenness of contributions. He also noted that the consultation had gone out to Town and Parish Councils in the last few days, asking for response by end of month, when some Parish Council only met once every two or three months. Whilst these issues had been discussed at the Employer Forum, not that many Parish Councils were present. Moreover, this was a complex issue, and Parish and Town Councils may not have individuals with the requisite knowledge to understand the issues involved. Responding, officers commented that Parish and Town Council do not have the same ability to raise money, having relatively modest precepts. They also outlined the timescales and constraints involved and why the consultation had to be relatively short. Officers agreed to send an explanation on why the consultation may not fit in with their cycle of meetings when they emailed a reminder about the consultation response. **Action required.** **C Blose**

In terms of the format of the report, it was concluded that it was preferable to receive Pension Fund Committee reports individually.

The report was noted.

115. CAMBRIDGESHIRE LOCAL PENSION FUND BOARD ANNUAL REPORT 2018-19

The Democratic Services Manager presented the Annual Report. It was noted that the Annual Report had been reviewed by the Chairman, and would be submitted to full Council in October, and would also be published on the Pension Fund website.

It was resolved:

> To note the Annual Report.

116. AGENDA PLAN

The Agenda Plan was noted.