Minutes of the Pension Fund Committee

Date: 13th December 2021

Time: 2:00pm – 3.25pm

Venue: New Shire Hall, Alconbury Weald

Present: County Councillors I Gardener, A Hay (substituting for Cllr J Schumann), E Murphy, C Rae (Vice-Chair), A Sharp, A Whelan (Chair); Matthew Pink (attended virtually) and John Walker

Officers: D Cave, S Heywood (attended virtually), C Blose, J Kent, M Oakensen and M Whitby

23. Apologies for absence and declarations of Interest

Apologies were presented on behalf of County Councillors J Schumann (Councillor Hay substituting), A Coles and C Boden, and Lee Phanco. Matthew Pink was attending the meeting virtually.

John Walker declared a personal interest (i) as a retired member of the Local Government Pension Scheme (LGPS), (ii) his son and daughter-in-law were deferred Members of the LGPS.

Matthew Pink declared a personal interest as both he and his wife were active members of the Local Government Pension Scheme (LGPS).

24. Public minutes of the Pension Fund Committee meeting held 30th September 2021 and Action Log

The minutes of the Pension Fund Committee meeting held on 30th September 2021 were approved as a correct record.

The Action Log was noted.

25. Petitions and Public Questions

Seven representations were considered by the Committee, and these, plus the officer response, is appended at Appendix 1.

The Chair thanked all those who had submitted representations for taking the time to present their views, which was very helpful to the Committee in understanding views. She advised that a written response would be sent to all those who had submitted public questions.

26. Administration Performance Report

The Committee considered a report which set out a number of key areas of administration performance in the period 1st August to 31st October 2021.

It was noted that during the period there had been a number of resource and system issues that had impacted performance, particularly relating to the payment of retirement benefits. The corporate network had been unavailable for a few days in August, and following changes made to the firewall, there had been intermittent responsiveness issues on the West Northamptonshire hosted pensions server until mid/late October. This had impacted on all casework teams to varying degrees.

Additionally, the retirements team has managed two vacancies over the period June to October, with associated training implications following successful recruitment, and contended with Covid sickness absences and seasonal leave. This has meant that at various points during the review period only half of the team had been available. There had also been an increase in the volume of deferred pensions coming through for payment, which had put extra pressure on the team.

The receipt of employer contributions by the statutory deadline continued to be very good, with 100% achieved in August, and all breaches in law had been resolved. Members noted cases which had gone through the Fund's Internal Dispute Resolution Procedure, and that the ongoing cases had largely been resolved. Officers were pleased to report that the Pensions Service had successfully undertaken the annual assessment required to maintain the accreditation for the Customer Service Excellence Standard.

A Member queried the red rating against all months for payment of pension benefits from deferred membership status in Appendix 1. It was confirmed that the pensions were already calculated so they were easier to process, but there was a growing volume of deferred pension requests coming through, and it was unclear at this stage if this was a temporary phenomenon or would be sustained. It was confirmed that the resourcing issue would be kept under review, and that this was a fairly new indicator. There had been a 50% increase year on year for this indicator, but it had reduced over the last month. It was confirmed that continuity of income issues were always immediately prioritised.

In response to a Member question, it was confirmed that the system issues all related to an outage to the WNC network, which lasted a few days, but had an impact in the short term, especially where there were five day turnarounds. As a result there had been a firewall issue caused by the original corporate outage which had subsequently been resolved.

With regard to employers not submitting information in time, officers confirmed that they did work with employers, but reassured the Committee that there was no material impact on scheme members. It was noted that there was also an escalation process with employers, so these issues were picked up and action taken, where appropriate.

It was unanimously resolved to note the Administration Performance report.

27. Cambridgeshire Pension Fund Annual Business Plan Update report 2021-22

The Committee considered an update to the Business Plan for the period 1st August to 31st October 2021.

Members noted:

- The investment consultancy and custodian contracts had been completed;
- The draft Business Continuity Plan had been completed and would be considered at the next meeting of the Local Pension Board;
- Work continued on the GMP rectification, and this would probably appear in next year's Business Plan too;
- McCloud had become far more complex and resource intensive than originally anticipated, as the number of contacts with scheme employers required had increased. Rectification would be carried out next year in line with other schemes in country;
- The numbers of "Undecided leavers" had regrettably increased, as this area had been under-resourced. An additional officer had been added to the Business As Usual (BAU) team, and there had been a number of vacancies in that team. This had impacted on other projects, so two further people (one per fund) were being recruited, with a view to reducing the backlog;
- With regard to the Property Review, it had been agreed with the Chair and Vice Chair to defer this to a later meeting of the Investment Sub-Committee.

In response to Member questions on the impact on staffing of the McCloud review, officers commented that it depended on what the McCloud rectification involved: if it became a detailed manual project, additional resource may be required. It was confirmed that the new BAU team member was full time, and this should be sufficient to cover the workload.

It was resolved unanimously to note the Business Plan Update to 31st October 2021.

28. Risk Monitoring Report

Members received the Risk Monitoring report which was considered by Committee twice a year. The report was also considered by the Local Pension Board, and recommendations had been made by that Board. These proposed changes to the Risk Register were detailed in the appendix.

There were a number of short term risks relating to continued impact of pandemic and administrative pressures. The report also highlighted the loss of knowledge from the Pension Fund Committee and Pension Fund Board following the elections in 2021, and stressed the need to ensure members had the required skills and knowledge to fulfil their duties. The Chair urged all Members to complete their training within the timeframe.

There was a discussion on Pension scams affecting scheme members. A Member asked what checks and balances were in place when there was a request to transfer out of the pension scheme. Officers advised that new regulations were in place that gave the Fund more control, especially in terms of preventing potentially suspicious transfers. Investigations were undertaken when there were transfer requests, especially if funds were being transferred overseas. New regulations meant that the Fund could stop a transfer if it was believed to be a scam. Committee Members were heartened to hear that there was robust protection was in place for vulnerable pensioners and future pensioners.

It was resolved unanimously to review the current risks facing the Fund.

29. 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. Members were asked to contact officers if they anticipated a delay in meeting the 31/12/21 deadline on training.

It was resolved unanimously to note the content of the report.

30. Cambridgeshire Pension Fund Training Strategy Review

The Committee considered a report on the Pension Fund’s Training Strategy. It was noted that the existing Training Strategy had been in place for five years, and it was felt appropriate to review the effectiveness of that Strategy. Some of the guidance had been updated to ensure that it was fit for purpose, and some information, such as the national Good Governance Review, was still awaited.

One of the most significant changes was to the system for measuring Member training and knowledge. The current credit system was, on review, was not the most effective strategy, as it was possible to have sufficient credits but not have the breadth of required knowledge. A matrix system covering CIPFA core competencies was proposed.

Members spoke favourably on the proposed approach. A number of Members indicated that they were still working through the training modules. It was noted that the Aon modules would be kept live until at least 31/03/22.

It was resolved unanimously to:

approve the Cambridgeshire Pension Fund Training Strategy.

31. Employer Admissions and Cessations report

The Committee received a report on the admission of three admission bodies, two of which were backdated, and the cessation of three bodies. In one of the exits, a deficit needed to be paid, and the body had asked for the period to be extended for that deficit.

Member noted what happened if there was a default in the agreed payment plan, and no problems were envisaged with the current case.

It was resolved unanimously to:

1. note the admission of the following admitted bodies to the Cambridgeshire Pension Fund and approves the sealing of the admission agreements:

    - Caterlink
    - Compass Contract Services
    - Excellerate Services UK Limited

2. Note the cessation of the following bodies from the Cambridgeshire Pension Fund:

    - Compass Contract Services
    - Feldale Internal Drainage Board
    - VHS Cleaning Services

32. Exclusion of Press and Public

It was resolved unanimously that the press and public be excluded from the meeting on the grounds that the following items contain exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed information relating to the financial or business affairs of any particular person (including the authority holding that information).

33. Cyber Resilience

The Committee considered an update on progress against actions arising from the Cyber Strategy, which had been agreed at the September meeting of the Committee.

It was resolved unanimously to:

1) Note the progress made against the action plan (appendix A).

34. ACCESS Update

The Committee considered a report on ACCESS Asset Pooling. The report summarised the discussions that had taken place at the 6th September ACCESS meeting.

It was resolved unanimously to

1. note the report;
2. approve in principle the draft ACCESS Pool Responsible Investment Guidelines.

35. Investment Strategy Statement

Members considered the final draft Investment Strategy Statement including the of the Responsible Investment (RI) policy, which reflected feedback received from the Committee and Local Pension Board, and from scheme employers and members following consultation.

It was resolved unanimously to:

1. Approve the Investment Strategy Statement for publication on the Fund's web pages; and

2. Approve the summary of feedback from the consultation that will be published on the Fund's web pages.

Public Questions to be presented under item 3 at the Pension Fund Committee meeting on Monday 13th December.

1. Question from Cambridge City Councillor Hannah Copley:

Dear Chair (Cllr Alison Whelan) and members of this Committee can I draw to your attention the following:

- In 2020 Bath & North East Somerset Pension Fund Committee looked at climate change modelling work undertaken by the Fund as part of the 2019/20 investment strategy review leading to a series of climate change objectives and asset allocation changes
- In July 2020 Calderdale Council's Cabinet agreed requested the West Yorkshire Pension Fund disinvests from fossil fuel companies.
- In September 2020 the Cheshire Pension Fund became one of the first in the country to report on the carbon footprint of its £6 billion investment portfolio.
- From Devon County Council "The Devon Pension Fund believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to the Fund's investments, unless action is taken to mitigate these risks."
- For the East Riding (Yorkshire) Pension Fund the Committee recognises the significance and importance of Climate Change and the Fund's Investment Strategy Statement and Responsible Investment Policy cover the extent to which social, environmental, and ethical considerations including climate change are taken into account in the selection, retention and realisation of investments.
- Glasgow has asked the pension fund committee to formally commit to ending fossil fuel investment before the city hosts the major climate change conference, COP26.
- The Greater Manchester Pension Fund "are committed to reducing the environmental impact that our investments have. We aim for all our investments to have net zero carbon emissions … in line with the Paris agreement on climate change."
- Islington Council decided to decarbonise their Pension Fund's investments by 2022, by reducing the fund's exposure to carbon emissions and reducing the fund's equities exposure to fossil fuel reserves.
- The South Yorkshire Pensions Authority reviewed its responsible investment and climate change policies at a meeting last week, in which it set a goal to become carbon neutral … It called on the Authority's officers to come up with an action plan within six months.
- Waltham Council's decision to divest from fossil fuels helps tackle climate emergency and create a better environment.
- NEST is a public corporation. It is accountable to Parliament through the Department for Work and Pensions and is the largest pension scheme in the UK by membership with 9 million savers. It has a Climate Change policy to decarbonise its investment portfolio. Nest's CIO: "No-one wants to save throughout their life to retire into a world devastated by climate change"

A recent Chatham House Climate Risk Assessment Report from September 2021 stated that

"The world is dangerously off track to meet the Paris Agreement goals. The risks are compounding. Without immediate action the impacts will be devastating in the coming decades". It is clear that business as usual is failing us. At every stage as individuals, communities, organisations and as members of local government we need to be doing absolutely everything within our power to rapidly decarbonise as part of a fair transition. As a society, we are suffering from the effects of the Coronavirus pandemic whilst in the background fossil fuel companies are orchestrating a mass greenwash exercise whilst simultaneously attempting to extract as much short term profit from our planet for as long as possible. The International Energy Agency says we can't have any new oil, gas or coal development, yet fossil fuel companies are spending tiny fractions of their investing in renewables as compared to new oil and gas investments.

I cite the following three main reasons for divestment. Firstly, I put to you that divestment is a moral imperative. Secondly, I put to you that divestment promotes necessary societal and political change in the face of widespread greenwashing and lack of proportional change in behaviour from fossil fuel companies. Shareholder engagement with fossil fuel companies has not, and will not, lead to change on the scale and in the timeframe necessary. Finally, I put to you that investments in fossil fuel companies make poor financial sense. Overall, continuing to hold these investments in the fossil fuel industry is failing those alive now and future generations by not doing everything within the power of the committee to encourage the necessary social and political change both from fossil fuel companies and from wider society.

Will members of the Pension Fund Committee agree to support full divestment of the pension fund Fossil Fuel industry in order to send a strong signal to the fossil fuel industry and residents of the county of their commitment to climate action and their willingness to make a stand against the widespread greenwashing?

2. Question from Mr Jethro Gauld, Co-Chair of the East Cambridgeshire Climate Action Network:

Some of the big fossil fuel majors are recognising that the writing is on the wall for oil, coal and gas. Last year, BP announced a £14billion asset write-down acknowledging a shift towards renewable energy. There is a real risk of remaining invested in assets that will become *stranded assets*; the ownership of oil reserves that will now have to remain in the ground. In 2015, UK local authority pension funds lost nearly £700milion when the market for coal collapsed. Mark Carney, the governor of the Bank of England, issued a blunt warning in 2015 that investors, like pension funds faced *"potentially huge"* losses as action on climate change could make vast reserves of oil, coal and gas *"literally un-burnable"*. Other companies have show how the transition to clean energy can create new business opportunities and support high skilled jobs in the process. In just over a decade, the Danish energy company Ørsted has shifted from a predominantly coal based energy business to being a world leader in renewables particularly offshore wind, creating a multi-billion dollar business in the process.

This Council has declared a climate and ecological emergency. We now know Investments in fossil fuels are not only harmful to the environment but also put the sustainable future of pensions at risk. Other pension funds such as Oxfordshire and Cardiff have already committed to fossil fuel divestment.

Will the pension fund committee commit to full divestment of the pension fund from investments with exposure to fossil fuels and set a date for this to be completed by?

3. Burwell Environmental Group endorse the comments made by the East Cambridgeshire Climate Action Network

4. Question from Ms Lara Davenport-Ray:

On November 24, the Combined Authority Board resolved to implement the recommendations of the Independent Commission on Climate. The Commission's second recommendation states that climate change assessments should be undertaken for all decisions.

The management of Combined Authority staff pensions is overseen by this committee.

Given the Combined Authority Board's resolution to reduce the creation of carbon emissions, how can continued investment in fossil fuels, on behalf of Combined Authority employees, be acceptable?

5. Question from Ms Danette O'Hara:

As a pension fund member, I find continued investment in fossil fuels both morally untenable and financially imprudent.

As has been stated to me in previous correspondence, this committee considers a general policy of engagement over blanket divestment from fossil fuels.

What actions have this board undertaken with regards to engagement? Has this committee approached every organisation they hold investments with that is directly and indirectly involved with fossil fuels and, if not, which organisations have been excluded and why?

What was the intended outcome of the actions, how has the success of this engagement been measured and, by your criteria, has it been successful?

6. Mr Stuart Middleton, Chair, Peterborough in Transition:

The financial argument to divest is becoming increasingly salient. Fossil fuel divestment is a practical, legal and responsible way for pension funds to respond to the climate crisis and address the financial risk caused by continuing to invest in stranded assets.

Nationally, at least 6 local councils, 86 universities and the UK's biggest pension fund (NEST) have all committed to divest, not to mention countless respected institutions across the globe, including the cities of San Francisco and Oslo, as well as New York State. Recent analysis found that local government pension funds had suffered a £2 billion hit to oil investments since 2017. As the value of fossil fuels continues to decline, continuing to invest public money in this failing industry is becoming financially riskier and the imperative to divest from fossil fuels is ever more urgent.

Further, in the face of extraordinary economic challenges ahead, we need to reset and create a new economy that places the health of us all above the wealth of a few. Local councils must play a part in this by moving the money they manage out of fossil fuels and into socially useful investments in the local economy.

On behalf of Peterborough in Transition I ask what steps this committee is taking to end fossil fuel investments and invest in a green and equitable recovery for Cambridgeshire and Peterborough?

7. Question from Cambridge Friends of the Earth

Given the numerous statements made by the Councils making up the Combined Authority, regarding the steps they taking to mitigate Climate Change, how can it justify maintaining investments in the fossil fuel industry? Given the continued investment in the fossil fuel industry by the Combined Authority's Pension Fund, why should we believe any statements made by them regarding their proposed Climate Change mitigation measures?

Officer response:

The Pensions Committee are today considering a revised Responsible Investment (RI) Policy that is the culmination of over a year of deliberation and has been subject to consultation with each scheme employer in the Fund and tens of thousands of scheme members.

The proposed RI Policy is suitably ambitious, lending support to the Paris Agreement, support for a 'just transition' to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of industrial change and includes the setting of a net zero target. The Policy would lead to significant decarbonisation of the Fund and significant improvements in climate and stewardship reporting. The Fund is taking a lead role in working alongside other Funds in the ACCESS Pool, where the majority of the Fund's assets are held, to ensure these RI ambitions can be met.

In early 2022 the Committee is expected to be finalising plans to decarbonise the Fund's portfolio. The intention is for these plans to be fully aligned to an appropriate transition pathway and to have clearly expressed carbon reduction targets as milestones.

The Committee's fiduciary responsibility means that the primary purpose of such action is to manage the climate and carbon risk within the Fund's holdings. However, the Committee believes that keeping a global temperature rise this century to well below 2ºC relative to pre-industrial levels is entirely consistent with securing strong financial returns.

The Committee's approach is one of engagement over blanket divestment of any sector or region. This is entirely consistent with the Paris Agreement and a 'just transition', as even the most ambitious transition pathways require a fuel mix that includes oil and gas decades into the future.

The Fund expects each of its investment managers to appropriately manage environmental, social and governance risks alongside financial risks, and constructively engage with investee companies on any issues identified. Should these issues not be addressed satisfactorily, selling or divesting from the individual stock remains an option.