

LOCAL PENSION BOARD



CONFIDENTIAL MINUTES OF THE CAMBRIDGESHIRE LOCAL PENSION BOARD

Friday 15th February 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

R Sanderson - Democratic Services Officer

J Walton - Governance and Regulations Manager

M Whitby - Head of Pensions

Consultants:

Mary Lambe AON

Catherine Pearce AON

Time: 10.20 am to 12.15 pm

Place: KV Room, Shire Hall, Cambridge

70. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

ACTION BY

No apologies for absence were received. Democratic Services passed on a message that the Chairman would be late as he was having difficulty accessing the carpark due to a demonstration. It was agreed to delay the start of the meeting until his arrival.

There were no declarations of interest.

71. MINUTES & ACTION LOG – 19th OCTOBER 2018

Subject to:

- Including the attendance of Mary Lambe and Catherine Pearce from AON.
- Page 11 Minute 65. Annual Report and Statement of Accounts on the reference to page 29, List of Admitted Bodies, changing the person who had queried its completeness from the Vice Chairman to John Stokes

the minutes of the meeting of 19th October 2018 were approved as a correct record and signed by the Chairman.

Updates to the published Minute Action Log:

- **Page 19 Minute 61 - Pension Fund Annual Business Plan Update Report – request for the Board to receive a more in depth paper on the measures being proposed to retain staff at the February meeting.** As an update the Head of Pensions explained that this report had not been produced, as this had not transpired to be an issue for the Service. The original concerns were linked to fears of staff retention as a result of the budget issues at Northamptonshire County Council. This had not happened. If anything, the Pensions Service was seen by staff to be a more secure employment area. Staff retention would be looked at again as part of the Business Plan update at the end of March but it was unlikely that any action would be required. What officers could do was circulate a report on what the industry in general was doing to retain staff. **Action - It was agreed that the request for a paper on staff retention measures could be deleted and replaced with an action of officers sharing the Pensions and Lifetime Savings Association (PLSA) industry retention report.**
- **Page 24 - Minute 69 - ACCESS Asset Pooling Update** –request for background to the Joint Committee representation. *Post meeting note: This additional information had been provided in an e-mail to Barry O’Sullivan dated 8th February 2019 which was after the despatch of the agenda. It included providing a copy of the Inter Authority Agreement signed by every ACCESS partner. Action therefore completed.*

The Action log was noted with the above changes.

72. QUESTIONS TO THE CHAIRMAN OF THE PENSION FUND INVESTMENT SUB-COMMITTEE COUNCILLOR ROGERS

Further to the request by the Board at the last meeting, Councillor Rogers the Chairman of both the Pension Fund Committee and the Pension Fund Investment Sub Committee, had accepted an invitation to attend and help answer questions previously raised by Board members regarding issues around investments.

To aid understanding, the session commenced with a power-point slide show titled ‘Local Pension Board Investments presentation’ provided separately as Appendix 1 to these minutes.

Questions on Investment Strategy and Access Pooling and issues raised in discussion included:

- How would the new Access Pooling arrangements affect the investment strategy going forward? It was explained that there would

now be a manager who would manage the combined assets in the Pool but that the Fund would still make the strategic asset allocation decision.

- The Chairman's view on the Access Pool set up arrangements was to express frustration at the length of time it had taken to establish the Administration Support Team.
- A question was raised regarding the cost of the above team (£250k) and whether it represented value for money. In reply it was explained that the pool was now the biggest in the country with approximately £10 billion in liquid assets plus a further £10 billion in passive equities and while it had taken time to establish the Team, it was a very small team in terms of the value of the Fund.
- In response to a question on who set the Fund's benchmark this was the Investment Sub-Committee (ISC).
- A Member explained that he understood variations from year to year due to market fluctuations, but the reason for the original explanation request was due to the 10 year figures showing the Fund being in the bottom quartile for investment performance as set out in the Annual Report. He suggested that if the figures over a longer period were less than meaningful, perhaps there should be a note to this effect in the Annual Report. The Chairman of the ISC acknowledged that the 10 year performance of the Fund's investments had not been good, but that both Dodge and Cox and Jo Hambro had performed reasonably well and the further changes made the previous day were expected to improve performance going forward.
- In terms of a question on why the Cambridgeshire Pension Fund did not have an independent investment advisor, Councillor Rogers explained that the Cambridgeshire Fund had not felt it previously needed an independent investment advisor due to the collective skills of the Committee, including Councillor Hickford, a Financial Conduct Authority (FCA) .regulated financial advisor However, now that Councillor Hickford had stepped down from the Committee and Investment Sub-Committee, Councillor Rogers acknowledged that the position would need to be reviewed and could be revisited in due course.
- In that there were quarterly reports on Strategic allocations, Councillor Rogers invited Board Members to attend future board and ISC meetings to help gain a better understanding.
- In terms of the ACCESS Joint Committee attendance being only councillors of the administrating body for the whole meeting with other Board Members only be able to attend the public part of the meeting, Councillor Rogers was asked his opinion of this arrangement. In response he indicated that he was more than happy for the Board to be allowed to attend the whole of the meeting, but that was not a shared view of the other Chairmen. Their view was that with the number of members and officers already attending, this could be potentially unwieldy. The Chairman Councillor King clarified that the Board Members were not asking to participate, but to be able to observe the whole meeting. **The Chairman asked that the Board should be sent the dates of Committee and ISC meetings and also the Access Joint Committee. Action: Democratic Services.**

In summing up the Chairman thanked Councillor Rogers and the Head of Pensions for what had been a very useful and informative session.

73. ADMINISTRATION PERFORMANCE REPORT

This report brought to each Board meeting set out a number of the key areas of administration performance for consideration by the Board to assist the Committee in ensuring effective and efficient governance and administration of the Pension Fund.

The table in Appendix 1 to the report provided:

- an update of the Fund Account, investment and administration income and expenditure against the cash flow projection outlined in the Business Plan agreed by the Pension Committee in March 2018.
- the percentage of employers in the Cambridgeshire Pension Fund who paid their employee and employer contributions and/or submitted their schedules on time or late for the period 1 October 2017 to 30 November 2018.

Section 2.4 of the report set out details of large overpayments that had been identified and the action being taken.

Details of late paying employers for August, September, October and November 2018 were set out in the confidential appendix 2 of the report.

Issues highlighted in discussion included:

- In terms of the key performance indicators for the period 1st September to 31st December the Fund had met all its targets with detail surrounding the performance of the Service included in Appendix 1 to the report. The amber rating for the key performance indicator in November for providing a maximum of one estimate benefits to employees per year on request, was an area with low volume and had been addressed as a training issue.
- Page 53 Confidential Appendix – one employer, as identified, had provided late payments for September and October but not for November or for December. The position going forward was being monitored.

Questions raised included:

- Asking why there was no reference to underpayments in the report. It was explained that underpayments tended to be highlighted as a result of project work and would be reported in the Data Improvement Plan Update.
- Concern was expressed by the Vice Chairman that on page 50 the note suggested that there had been an increase in the Fund's share of Access related costs from £30k to £130k. This related to

governance costs arising from the complexity of the arrangements and factors such as the need for additional legal advice. It was explained that £330k was the overall cost that would then be divided between the 11 authorities and that this very small team would help achieve hundreds of thousands of savings going forward.

The report was noted.

74. PENSION FUND ANNUAL BUSINESS PLAN UPDATE REPORT 2018-19

This report presented an update of the Pension Fund Business Plan.

Attention was drawn to Paragraph 2.1.3 'Implement Additional Posts to the Structure' with an oral update that the Communications Officer Post had been interviewed the previous day and that an appointment was expected to be made.

In terms of the Legal Services procurement, this was still ongoing to allow for the new framework refresh and launch. There was still ongoing discussions regarding the approach to be taken and the intention was that the Pension Committee would be advised of the preferred approach at their March 2019 meeting with this Board being provide with an update at the May meeting.

In discussion issues raised included:

- Page 59 paragraph 2.3 – CSEM1 Employment covenant monitoring – there was a request for an explanation of what this meant. This was to ascertain how strong an employer was financially.
- Page 60 CSEM3 Promotion of Member Self Service – whether the figure of 25% of active and deferred membership taking up service facility was good or bad compared to other Funds and whether further action was needed to improve the figure. In response it was explained that the figure was common across Funds as it was not something that members checked regularly, in the same way they might, their bank account. This was seen as one area that the appointment of the Communications Manager could make a difference to. **Action There was a request that there should be regular update in future Reports.**
- Page 62 Ops 2 Establish ESCROW account for 'out of scheme payments' - a question on how much was in it. Currently there was very little, as while the Fund was required to hold an account for potential unauthorised payments, the only reason it was required was for death grant payments of which there were very few.
- Page 63 Para 2.51 - Local Direct Investment – as an update, it was reported that a preferred manager to create a bespoke local investment fund for the Cambridgeshire Fund had been identified the previous day. In respect of this appointment, Councillor Payne highlighted the need to ensure transparency in investment decisions recommended / made and any relevant relationships that could have

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ramifications if not disclosed. He highlighted for example the potential for a conflict of interest should any company being recommended have a chairman or board member who was also, for example, a County Councillor.

There was a discussion regarding the above and whether investing in local firms in another County via ACCESS Pooling e.g. Norfolk, would negate this as an issue. On the view that a Fund should not invest in its own area, there were many examples where investments locally had been very successful and also in terms of attractive investment opportunities, there were likely to be far more within Cambridgeshire. It was explained that the manager appointed would be completely independent and be able to make decisions on a wide range of companies.

It was resolved to:

Note the Pension Fund Business Plan Update.

75. GOVERNANCE AND COMPLIANCE REPORT

This report provided information on:

- Potential, new or amending legislation affecting the LGPS;
- On other pensions legislation;
- Activities of the LGPS Scheme Advisory Board and the Pensions Regulator;
- 4 On issues concerning the governance of the Local Government Pension Scheme (LGPS) on a national and local basis; and
- Skills and knowledge opportunities.

Issues particularly highlighted in the officer introduction included:

- **LGPS (Miscellaneous Amendment) Regulations 2018** - came into force on 10 January 2019 with the exception of:
 - Regulation 4 – a technical amendment to deliver the policy intent for deferred members of the 1995 scheme to be able to access their benefits without their employer's consent from age 55 which had been back dated to 17 April 2018.
 - Regulation 5 – provides for the back dating of a survivor's pension to 5 December 2005 in respect of a surviving civil partner of a scheme member and to 13 March 2014 in respect of a surviving spouse of a same sex marriage with a member.

Scheme Members were be informed of these changes in line with disclosure requirements. Both changes would be a significant extra administrative burden on the Service.

Scheme Advisory Board SAB- Cost Management Process Cost – A review of the public service pension scheme wide cost cap on future service costs was being undertaken. Most public service pension schemes would be

below the cap. As the target cost for future accrual was 19.5% and was currently 0.5% cheaper than it should be, the Scheme Advisory Board agreed recommendations to return the total cost back to the target with the detail set out in paragraphs 3.1.5. – 3.1.6. These had been forwarded to the Secretary of State. Since then, a Ministerial Statement had announced a pause in the cost cap process pending the outcome of the appeal of the McCloud case to the Supreme Court. If McCloud was upheld, the LGPS could be required to make further changes and these would need to be taken into account in a revised Scheme Advisory Board cost cap result. The outcome of the appeal might not be known until late 2019 or early 2020. Other paragraphs detailed the implications. The Board would be kept up to date with developments.

Section 3.2 set out details of the Government and Actuary Department's review on the treatment of academies within the Local Government Pension Scheme.

Paragraph 3.5 detailed progress on the Separation of Pension Funds from the Host Authority to reduce potential conflicts. The terminology had now changed in relation to this since the report was written, with 'governance review' and not 'separation' now the correct term to use.

Paragraph 4.3 Mandatory Annual Scheme Return set out the details of the submitted Fund data scores.

The officer was thanked for an excellent report with very clear explanation.

The report was noted.

74. DATA IMPROVEMENT PROGRESS REPORT

A Data Improvement Policy and a Data Improvement Plan had been established to demonstrate to the Pensions Regulator that the Fund reviewed the quality of its data. This report presented an update on progress made against the Pension Fund Data Improvement Plan with the intention that an update would be reported to every meeting. A summary of the items on the Data Improvement Plan were set out in appendix 1 to the report.

Key issues highlighted included:

Resolution of unprocessed leaver records – an update was set out in paragraph 2.1. From the baseline position, 816 unprocessed leaver cases had now been completed.

Contracted-out liabilities reconciliation - To compare contracted-out liabilities held on scheme records with that held by Her Majesty's Revenue and Customs (HMRC). The reconciliation stage of this activity required to be completed by 31 December 2018. Details were provided indicating that the data reconciled with HMRC might result in 382 underpaid and 630 overpaid pension records. Where data was different from HMRC, this would generally result in an overpayment resulting from an inaccurate application of Guaranteed Minimum Pension and should be written off, the

approach taken by most public service pension schemes. A report would be going to the Pension Fund Committee in March to ask for approval for ITM to undertake the next stage of the project due to the volume of work involved.

Pensioner Payroll v Pensions Administration Reconciliation and Rectification

This set out the progress on the number of underpayment cases to be processed and provided details of the overpayment cases and the progress against them. Many of the overpayments were as a result of the incorrect application of GMP. Since the reports publication, the number of underpayments to be processed had fallen from 85 to 82 with the expectation that some of these would prove to have been correctly paid.

A question was raised regarding whether there was a percentage of overpayments that were not collected. This only applied for any under £100, or in the case of a death £250, otherwise it was business as usual to pursue and collect all overpayments. Revisions of the thresholds were undertaken at regular review periods. Any disputes arising from an overpayment were assessed on a case by case basis.

The report was noted

75. RISK STRATEGY AND RISK REGISTER

The current Risk Strategy was approved in March 2016 and the current Risk Register was approved on 20 October 2016. It was deemed appropriate to review both documents to ensure risks and approach to risks remain relevant and manageable and to make any recommendations for any changes on to the March Committee.

The reviewed Risk Strategy was set out in appendix 1 of the report having been strengthened to support the risk analysis section. The impact and likelihood assessments now included more detailed explanations of how the risk analysis should be undertaken. The revised risk register was set out in appendix 2 of this report, the main changes to the register listed in Section 3 of the report:

- Reduction of risks from 54 to 25 – to be more concise and high level with the detail encompassed in the controls to allow for easier monitoring;
- Not split into service areas as in the previous version with each risk now having a responsible lead to demonstrate accountability;
- Risks were ordered in priority to allow for focus and easier monitoring;
- Revised criteria for assessing the impact and likelihood of a risk occurring, increasing detail to make a more accurate assessment; and
- Providing a summary sheet designed to allow for an overview of the risks which showed priority, risk rating with Red, Amber, Green, (RAG) status, the responsible lead and associated objectives.

Following approval the intention was to provide this Board with a monitoring report on a quarterly basis with the Pension Fund Committee receiving

updates bi-annually to include any comments from the Local Pension Board. Both to have a focus on any red and amber risks.

In discussion there was a request that future reports should be provided with appropriate initials rather colours as the agenda was printed in black and white.

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It was resolved:

To note the report and endorse the Strategy and Register as set out without any material changes.

76. LOCAL PENSION BOARD EFFECTIVENESS REVIEW

The Chairman agreed to take this report as the next item of business as one of the board members needed to leave by 12 noon.

The need to regularly review the effectiveness of the Cambridgeshire Local Pension Board was considered good governance. In addition to the annual self-review, Aon (Senior Public Sector Benefits and Governance Consultants) had been commissioned to conduct an impartial review. The Board were invited to review the report and engage in discussion to determine a plan of action to address the recommendations made.

The purpose of the review had been to establish whether, based on Aon's observations, the Local Pension Board was fulfilling its role to support the Administering Authority in meeting its regulatory requirements. Sixteen key areas were reviewed under the categories of governance structure, knowledge and skills and behaviour. The findings were summarised in the tables in section 2.1 of the report. There were no negatives arising from the review, with the report concluding that the Board undertook its roles and responsibilities in an effective manner with its Members engaged and overall showing good participation.

The following areas were recommended by Aon as suggestions to improve the effectiveness of the Board with the detail set out in appendix one to the report.

- Scheme of Delegation
- Link between the Pension Committee and Pension Board
- Key Performance Indicators
- Reviewing Breaches
- Demonstrating Training taking place
- Training discussions
- Board member questions/challenge

As part of the oral presentation they noted that steps had already been take to provide closer links with the Committee through having the Pension Committee minutes included on the agenda and having a slot on the current agenda to discuss finance issues with the Pension Fund Committee Chairman. They suggested this was a good innovation that could be utilised

for other future Board meetings to provide a training element to the meeting.

It was resolved:

That a further report should be presented to the Board meeting in May with the formalised plan responding to the review recommendations.

77. INTERNAL DISPUTE RESOLUTION PROCEDURE

This report presented an outline of the working of the four stage Internal Dispute Resolution Procedure to the Pension Board with the detail as set out in the report and the appendix.

In discussion:

- As a response to a query on whether regular update reports on the number of complaints received were submitted to the Board or to the Committee, it was clarified that currently this information was only included as part of an annual report.
 - It was explained that adjudication at Stage 1 prevented many of the disputes going further, as some were misinterpretations of the regulations rather than officers doing something incorrectly.
 - A question was raised on whether there was a feel for how many complaints there were. As already indicated this information was included in the Annual Report, but it was a low number. It was overpayments that tended to generate disputes due to the need to claw back the overpayment sum.
 - In reply to an enquiry regarding how much work would be involved in including details in the Performance Report, **officers agreed they could provide the number of cases in future Reports.**
- Action**

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The report was noted.

78. VALUATION OF THE PENSION FUND

This report provided a brief update on the Pension Fund Valuation which was to be calculated on the 31st March. It provided information covering:

- Communication and engagement with employers,
- Pre-valuation activities including details on:
 - data reconciliation,
 - updating of the Employer Database and Employer Risk Register,
 - an outline proposal for the analysis of two the two key assumptions (discount rate and long term future salary increases) As the next Pension Committee would be looking at these key assumptions The Board was invited to attend the meeting. **Action: Democratic Services were asked to check**

whether the Board currently received the Papers for the Pension Fund Committee as a link.

- the application of the Hymans Robertson Asset Tracker and the current planning and preparation activity.
- The training day held for officers and members of the Pension Committee and Local Pension Board on 12 September.
- Potential disaggregation of the two employer pools. (Small Admitted Bodies Pool and a Designating Bodies Pool). These were originally created to protect from large shocks such as ill health retirement and the death of an active member. Since being set up, alternative arrangements had been put in place for managing the risk associated with ill health retirements. As a result, the appropriateness of continuing this pooling arrangement was being reviewed, and consultation on the proposal would be undertaken with the employers.

The Board noted the Valuation Update.

79. EXCLUSION OF PRESS AND PUBLIC

It was resolved to:

Exclude the press and public from the meeting for the following items of business on the grounds that they contained 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)).

80. ACCESS ASSET POOLING UPDATE

This report updated the Board on ACCESS Asset Pooling and key issues from the meeting of the ACCESS Joint Committee on 10th December including.

- Discussion on the issue of Local Pension Board/scheme member representation on the Joint Committee.
- Approving delegated powers to implement decisions in respect of the business plan and budget approved by the AJC to the relevant officer or Council, in consultation with the Chair.
- A general update being provided by Hymans which considered asset pooling progress and challenges. In this section the Chairman fed back to the AJC in regard to his meeting with the Minister.
- In recognition of the unique nature of the asset pooling agenda, it was agreed to review the adequacy of the Inter Authority Agreement, revise the governance manual and develop training material.
- Approval to an ACCESS communications plan

- On the creation of an ACCESS Support Unit, a contract Manager had now been appointed.
- Agreeing to receive a report collating the status of each Funds' Responsible Investment Policies with a view to considering whether a joint policy for ACCESS would be appropriate.
- Receiving information regarding a consultation from the Ministry of Housing Communities and Local Government on proposed new statutory guidance on LGPS asset pooling. MHCLG have invited views from interested parties, including Local Pension Boards.

Regarding the above consultation response, as a draft was not available for the February meeting cycle, it was recommended that a draft response should be circulated to the Board and Committee for input and the final version to be approved by the Chairmen of the Pension Fund Committee and Local Pension Fund Board. A change was required to the delegation recommendation set out in the report to make the delegation to the Head of Pensions rather than the Investment and Accounting Manager. In discussion the Board agreed the delegation should be extended to include the Board Vice Chairman.

It was resolved to note:

- 1 the asset pooling update;
- 2 the exempt minutes attached to the confidential report from the ACCESS Joint Committee meeting of the 19th September 2018;
- 3 the consultation on asset pooling and approve the delegation the of the final version to the Head of Pensions in consultation with the Chairman and Vice Chairman of the Local Pension Board, to be subsequently circulated to all Board Members.

81. FORWARD AGENDA PLAN

The latest Forward agenda plan was noted subject to the inclusion of items identified in the course of the meeting.

82. DATE OF NEXT MEETING – FRIDAY 3RD MAY 2019

Chairman
3RD May 2019