Pension Fund Committee: Minutes – Public

Date: 18th July 2024

Time: 10:00am – 12.15pm

Venue: New Shire Hall, Alconbury Weald

Present: County Councillors M Black (Vice Chair), A Costello, P McDonald, A Whelan (Chair) and A Wood (substituting for Councillor Batchelor); Fenland District Councillor Chris Boden and Huntingdonshire District Councillor Lara Davenport-Ray; Howard Nelson

Advisors: F Alves and C West (Mercer); S Gervaise Jones (bfinance)

203. Apologies for absence and declarations of Interest

Apologies were received from Councillors Batchelor (Councillor Wood substituting) and Sharp, and Liz Brennan.

204. Public minutes of the Pension Fund Committee meeting held 6th June 2024 and Action Log

The public minutes of the Pension Fund Committee meeting held on 6th June 2024 were approved as a correct record.

Noting the discussion in the minutes on the community wealth building debate, a Member commented that it had been suggested that this could be discussed further at a future meeting, and it was agreed that officers would pick this up as an action. Action required

The Action Log was noted.

205. Petitions and Public Questions

There were no petitions or public questions.

206. Multiple Investment Strategies

Members considered a report seeking approval for detailed modelling of the potential impact of having multiple investment strategies for Fund employers.

Following the 2019 triennial valuation, officers investigated and reported to the Pension Fund Committee the potential benefits of implementing a framework whereby the Fund offered multiple employer investment strategies to meet the different needs of the diverse groups of employers participating in the Fund. The modelling at that time concluded that there was no material improvement in funding outcomes for employers by introducing such a framework, but did suggest that it would be worth reviewing in the future.

Market conditions and the funding position of the Pension Fund were now sufficiently different to warrant this reassessment, and the Actuary had suggested that a further detailed review would be justified. Given the distinctive characteristics of each individual employer, the Actuary had proposed to initially model three different groups of employers, reflecting different needs and investment strategies. The modelling would consider the results that would be achieved from implementing those investment strategies, and any material improvements that could be made, including de-risking e.g. locking in a positive funding position. The cost of the modelling was £25,000 + VAT, which was less than the modelling costs in 2019.

A Member asked how this would work in practice. It was clarified that this was aimed at employers rather than scheme members, and it would provide employers the opportunity to influence the composition of their fund to match their requirements. Interested employers would be consulted on their best option from the three buckets offered. The Member observed that whilst the proposal did not offer much choice for employers, it was more than was offered currently, and a balance needed to be achieved in terms of what was manageable and practical for the Fund.

A Member asked if other local authority funds provided these type of options. Officers confirmed that a number of local government Pension Funds had offered multiple investment strategies for some years, with some Funds offering over 20 different options for employers. The modelling would identify the most suitable approach for the Cambridgeshire Fund. Attention was drawn to the distinctive characteristics of employers that the Actuary had proposed to model on initially.

A Member asked about the impact on the Pension team, specifically additional pressures on workloads and costs, and whether these pressures had been assessed. Officers confirmed that there would still be one investment strategy, but that beneath that there would be artificial buckets with individual rates of return. In 2019, unitisation was introduced with actual cashflows for each employer reported to the Actuary, in anticipation of potentially introducing multiple investment strategies at some stage in the future. The Fund’s Investment Strategy remained appropriate for the majority of employers, but some employers would be assisted with a different investment approach and risk appetite. The Member commented that it would be helpful to identify the impact that this would have on the Pension team as part of the modelling work.

A Member observed that there was a balance between the potential advantage to some scheme members and the costs involved, including the impact on the service. He also suggested that there was a broader issue on whether Committee Members should represent the majority of employers' interests, or whether they had a duty to all employers including potential outliers.

It was unanimously resolved to approve detailed modelling of the possible impact of having multiple investment strategies for Fund employers.

207. KPMG Audit Plan for Cambridgeshire Pension Fund 2023-24

The Committee received the Audit Plan from KPMG, which set out how they would audit the accounts. The audit had already commenced. Members noted the key risks, which included override of management controls, and Level 3 investments i.e. assets which were difficult to value such as the Cambridge and Counties Bank, Property and Private Equity, where there was an element of estimation or separate valuation.

Materiality was based on 1% of net assets, which at the time of the calculation was £42.3M and reported misstatements to be reported are £2.1M. These misstatements were corrected where they were identified.

Mr Iqbal, the external auditor, advised that work had already commenced, and most of the substantive work was expected to be completed in August and September, but this was somewhat dependent on when the previous auditor signs off the previous year's accounts. He outlined the significant risks and materiality levels.

A Member noted that the potential audit fee had effectively quadrupled, and asked if this would be the standard fee going forward, or if it reflected additional work during the first year, as a result of change in auditor and factors such as ISA 315. He acknowledged that the fees were set by PSAA and could not be negotiated. Mr Iqbal confirmed that as it was part of the PSAA contractual framework, KPMG had no control over the fee, which was set by PSAA on the basis of the submissions which firms had put forward, changes in reporting standards, etc. The fee formed the basis for the next five years. The specific ISA 315 costs would be a one-off fee for the current year. It was confirmed that the cost of the external valuation e.g. for Cambridge and Counties Bank, for audit purposes, was not significant. It was noted that officers had had sight of a spreadsheet detailing fees for external audit for all PSAA/Local government Funds, and Cambridgeshire's fees were average compared to other authorities.

A Member queried the value of retaining Cambridge and Counties Bank. Officers confirmed this had been discussed at previous meetings, including the potential for an exit strategy, and it was confirmed that there would be a further report at the next Investment Sub-Committee meeting.

A Member asked if the Committee would be notified of all misstatements, regardless of whether it was determined that they were material and required amendment, or not, as it was important that the Committee had oversight of that particular process. Mr Iqbal confirmed that all misstatements, including immaterial misstatements, would be reported to Committee and management as part of ISA 260.

A Member asked when the fees would be confirmed, especially for ISA 315. They asked what the process would be for the additional hours required. It was noted that the standard PSAA protocol would be followed for any fee variation, whereby the fee would first need to be agreed by management, specifically the Section 151 Officer, and would then be reviewed by PSAA, who would determine whether to approve the fee variation or not.

A Member queried the anticipated "moderate" impact of "Definition of Accounting Estimates – Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors". Mr Iqbal explained that any Level 3 investment was estimated, and similarly with pooled investments, where a valuation report was not available and there was a lag, an element of estimation was involved. The "moderate" judgement was because the substantive procedures were carried out in the summer, so by the time that work was being carried out, the 31st March 2024 valuation report would be available.

A Member asked why the 2022/23 financial statements had not been signed off. It was confirmed that this delay related to the County Council's accounts, which the Pension Fund accounts formed part of. The Executive Director for Finance and Resources advised that there would be an update on this to the Audit and Accounts Committee later in the month. The General Election had resulted in a delay in terms of an implementation of the backlog process. External auditors indicated they were unable to complete the 2022-23 audit, and further details would be available once confirmation had been received from MHCLG. This was a national issue, and all Councils were in the same position.

It was unanimously resolved to note the Audit Plan 2023-2024 and the presentation by KPMG.

Mr Iqbal left the meeting.

208. Pension Fund Statement of Accounts 2023-24

Members received a report on Pension Fund Statement of Accounts 2023-24.

The following points were noted:

- Contributions had increased substantially, as this was the first year of valuation process, so there were some employers which paid their 3-year secondary contribution in the first year;
- Benefits had increased, in line with inflation and membership;

- Transfers in and out, had also increased, but these are demand led;

- the Fund was cash positive by £35.3M, before Management Expenses. A review had recently been undertaken around the potential for the Fund to become cash negative, and that work suggested this would happen in 5-10 years. For this reason, there was an increased focus on assets that produced a cashflow;

- Investment assets had increased by £504M. Investment income had increased, and there was an increased focus on assets that produced a cashflow;

- on the Net Asset Statement, the investment liabilities resulted from a timing issue, relating to a transfer that had not gone through by the end of March. Current assets were generally contributions paid in April relating to March, and current liabilities were the reverse e.g. management fees which needed to be showed in the correct period.

Arising from the report:

- a Member queried Note 14a: reconciliation of movements in investments and derivatives, which indicated that 30% of the portfolio had changed during the year. He asked if this was an unusually high figure given the long term nature of the Pension Fund's investments. Officers confirmed that this mainly related to the Strategic Asset Allocation, reducing equities and increasing Fixed Income assets, and also new investments made via the ACCESS Pool e.g. BlueBay. It was confirmed that this level of churn would not be expected in future years;

- a Member was interested to see the information on derivative contracts, and asked what these were used for, assuming that losses were significantly offset by gains elsewhere. Officers confirmed this was the case and agreed to bring a report on derivative contracts to a future meeting; Action required.

- a Member noted the 11% return on investment, net of fees, compared to the 14% weighted benchmark, and asked how this compared to previous years, and whether there were any lessons learned on how to get closer to benchmark? Mercer advised that this would be covered later in the meeting, but commented that sometimes benchmarks were not achievable, and a balance needed to be struck between setting benchmarks that were achievable but challenging. The other factor was the market environment;

- a Member queried the £36K paid in taxes. Officers confirmed that this was because the Fund now held segregated equities, which was not the case in previous years;

- a Member queried the £187M change in year in market value for Bonds. Officers advised this reflected the transition to pooled investments, not a change in market value. The Member suggested that a Note on this point would be helpful. Action required.

It was resolved unanimously to note the Draft Statement of Accounts of the Pension Fund for the 2023-24 financial year.

209. Cambridgeshire Pension Committee Forward Agenda Plan

Members considered the Agenda Plan.

The AVC framework had not yet been released, and officers were also reviewing the impact of the pension dashboard on AVCs, so this would be rescheduled to a later meeting.

It was resolved to note the Committee Agenda Plan.

210. LGPS Efficiencies Response to Government

The Committee considered a report on the response to government on LGPS efficiencies. The only change to be made was to reflect the name change of the Department, from DLUHC to MHCLG, following the General Election. The letter was a response to Ministerial question on pooling and efficiencies, and was due to be submitted by 19th July 2024.

A number of Members commented that they were delighted to see officers had kept this letter to an appropriate level.

It was resolved to note the report.

211. 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).

212. Confidential minutes of the Committee meeting held 6th June 2024

The confidential minutes of the Pension Fund Committee held 6th June 2024 were approved as an accurate record.

213. Annual Investment Review

The Committee considered a report reviewing the performance of the Fund's Investment Managers for the year ended 31st March 2024.

It was resolved unanimously to note the Mercer presentation – Annual Investment Review.

214. Annual Investment Consultancy Provider Review

Members received an annual review report on the Investment Consultancy contract with Mercer.

It was resolved unanimously to approve the report recommendations.

[Chair]