Agenda Item: 4

MINUTES OF THE PENSION FUND COMMITTEE

Date: Friday 9th October 2020

Time: 9.30am – 12.35am

Venue: Virtual Meeting

Present: County Councillors P Downes (part of meeting only), I Gardener (Vice-Chairman), T Rogers (Chairman) and M Shellens; Cambridge City Councillor R Robertson; Lee Phanco, Matthew Pink and John Walker

Officers: B Barlow, C Blose, D Cave, F Coates, M Oakensen, P Tysoe, J Walton and M Whitby

Apologies: Councillors Hay and Seaton

207. DECLARATIONS OF INTEREST

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

208. PUBLIC MINUTES OF THE PENSION FUND COMMITTEE MEETING HELD 23rd JULY 2020

The minutes of the Pension Fund Committee meeting held on 23rd July 2020 were approved as a correct record.

With regard to the Action Log, it was noted that an explanation on administration expenses had been circulated (item 200) and that the Administration Performance Report now included an explanation of the Red/Amber/Green ratings (item 201).

The Action Log was noted.

209. ADMINISTRATION PERFORMANCE REPORT

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

An Amber Key Performance Indicator (KPI) was noted in relation to maximum number of estimates, this assessment related to an absent report, and actions had been taken to ensure this did not happen again.

In terms of late payments to the fund, there had been few issues, although there had been discussions with the one small employer referred to in the confidential appendix.

In response to questions:

- A Member queried the slight reduction in the original timescale for action on unprocessed leaver records. Officers confirmed that despite maintaining the service pretty much as usual since the pandemic had commenced, some of the backlog of project work had not been dealt with as per the original timescale. There was a significant influx of additional cases since the end of August so this was likely to be Red rated;

- With regard to a similar reduction in relation to contracted liabilities, the issue was the same but this was a resource issue for HMRC, not the Pensions team;

- In response to a question on the £12M variance in investment income. It was confirmed that this should be listed as a negative figure, due to the decline in investment income;

- With regard to the "vacancy factor lower due to Covid 19" under staff related administration, it was confirmed that normally the budget allowed for three vacancies, but because of Covid-19, there was reduced staff turnover, and the team was carrying a fuller establishment than usual. This was offset to some extent by a reduction in agency staff.

It was resolved unanimously to:

Note the Administration Performance Report

210. PENSION FUND ANNUAL BUSINESS PLAN UPDATE REPORT 2020- 21

The Committee considered an update to the Business Plan for the period 1st April to 31st August 2020.

Members noted that progress had been made on many aspects of the Business Plan, especially around investment, but less progress had been made on some of the operational case work projects. Specifically:

- A full review of the business continuity plan was currently taking place;

- The administration and payroll contract with Heywood had been extended to 2024 so that all aspects of the contract were now coterminous;

- Work had been undertaken with regard to having multiple investment strategies to provide flexibility for the different scheme employers. This was scheduled for Committee in December;

- Although there had been a small reduction on unprocessed leaver forms, Aon had only commenced processing Tranche 2 of the backlog in August 2020, again due to the pandemic;

- Much of the strategic investment work was progressing in line with the original timeframe, including the development of the asset pool, and the strategic allocation to fixed income;

- Interviews had recently taken place for the post of Independent Advisor, and the Chairman advised that there had been a very strong field;

- Responsible Investment was an increasingly important area of the Fund's work, and the policy was being developed following the survey. There was clearly a lot of interest in this area, and Members were encouraged to contact officers if they received queries on Responsible Investment and related issues;

- A Member asked about the reference to the Digital Strategy review being carried out over a three year period, and asked whether everything would be presented at the end of the review, or whether there would be incremental changes as it progressed. It was confirmed that whilst some elements would take three years to complete, there were some parts of the Digital Strategy that would be brought back for consideration as and when completed;

- A Member pointed out that there were elections in May 2021, and this should be taken into consideration when training was being planned, as there could be significant changes to Committee membership. Officers thanked the Member and reassured the Committee that they were cognisant of this point, and they would be scheduling training so that Members were appropriately trained to make the decisions they were being asked to make.

It was resolved unanimously to:

Note the Business Plan Update to 31st August 2020.

211. 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 noted that good progress had been made with the Good Governance Review. Following the Information Day held in March 2020, the Scheme Advisory Board had requested that Hymans Robertson work on more detailed implementation proposals with the working group focussing on specific areas of the Good Governance review.

Following a Supreme Court ruling, the government recently decided that surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members would receive benefits equivalent to those received by widows of opposite sex marriages. A more recent case had highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme, where male survivors of female scheme members would now be entitled to a lower survivor benefit than a comparable same sex survivor. The government has concluded that changes are required to public service pension schemes to address this discrimination. The team would need to revisit all members who could be affected back to December 2005.

LGPS amendment regulations had come into force in September, providing more flexibility for Funds to manage risk in 3 key areas: (1) Inter-valuation reviews of employer contributions; (2) spreading of exit debts; (3) Deferred Debt Agreements

Members noted the results of the LGPS National Knowledge Assessment. Financial markets and product knowledge had been the best area of Member knowledge, whilst actuarial methods standards and practices the worst, and Pension administration had also scored relatively poorly.

Members' attention was drawn to Appendix 3 of the report, which detailed forthcoming training events. It was noted that some events were being published by providers at short notice, but the pensions team always notified Members as soon as they were aware. There was a query about how Members determined whether a training event was worthwhile. Officers advised that events that were communicated via officers were always ones which were useful. However, some Members were also on providers' mailing lists and they sent through information directly – in those cases, Members could always contact Jo or Paul to see if those events would be useful.

It was noted that a new Knowledge and Skills Policy would be presented to the Committee within the current financial year.

Members considered a presentation on Exit Payment Reform in the LGPS. In 2015, the government announced plans to cap exit payments in the public sector. This included a proposal for a £95K cap on the total of all forms of compensation, including redundancy payments, pension strain, compromise agreements and special severance payments. "Pension Strain" was the cost to the employer of paying a member's accrued pension to the date of redundancy, without any early retirement reductions that would have otherwise applied. Pension strain could vary between £1,000 to £300,000 depending on the member's individual circumstances i.e. length of service, salary and time until normal retirement age.

Following a period of inactivity, a consultation was issued by the Treasury in 2019, and the response to the consultation was published in July 2020. On 07/09/20, MHCLG issued a consultation on reforming local government exit pay in the LGPS. The proposal could impact negatively on individuals aged 55+ who are made redundant, who would normally receive their accrued pension immediately and in full, as the employer would make a payment to the pension fund (the pension strain). The proposal from MHCLG would involve:

a) A maximum tariff for calculating exit payments of three weeks' pay per year of service;

b) A ceiling of 15 months (66 weeks) on the maximum number of months' or weeks salary that can be paid as a redundancy compensation payment, with discretionary lower limits;

c) A maximum salary of £80,000 on which a redundancy compensation payment can be based, to be reviewed on an annual basis using an appropriate mechanism.

The proposed Treasury regulations, if approved by Parliament, could come into force before the MHCLG has even finished its consultation. This could leave staff aged 55+ whose redundancy had already been agreed with effect from the end of October in an uncertain position. This was of immediate concern in Northamptonshire in particular, where significant redundancies were being actioned as the county moves to two unitary authorities, and the redundancy and pension estimates had been based on existing legislation. Worked examples were given showing the likely impact on individuals at different ages in different circumstances in terms of salary, service, etc.

The major concern was that this could take effect in the next few weeks. The Scheme Advisory Board has asked its legal advisors if it should be paying out on this basis before LGPS regulations change.

Members expressed grave concerns about the proposed new arrangements, which although originally aimed at addressed inequitable pay outs to high earners, appeared to have a disproportionately adverse impact on employees on more modest incomes, effectively making them choose between redundancy payments and maintaining their pension. It was noted that the Pension team were unable to provide financial advice to employees, they could only set out the options available. The regulations would be adding resource pressures and bureaucracy to what was already a difficult process. It was confirmed that in terms of cashflow for the Pension Fund, there should be no negative effect, as the proposals should be cost neutral. However, clarity was required for how the team should operate in the interim period.

A Member suggested that the impending changes needed to be communicated to scheme employees, but others suggested that clarity was needed before such communications were issued. Officers reassured the Committee that as soon as the new arrangements were actioned, scheme members would be informed.

A Member queried if the £95K cap would only apply to local government exit payments, i.e. it would not apply to employers who were not local authorities. Officers confirmed that the immediate focus was on local authorities and reforming local government exit pay, but given the language being used, it may have a wider scope in future. It was also noted that the exit cap was for "public sector employers", but the likelihood that would be applied to other admission bodies was quite low. The Member observed that there were a wide range of complex situations which would need to be considered individually e.g. where staff had been TUPE'd in, and smaller employers may need help in interpreting the new legislation.

The Chairman thanked officers for their presentation, particularly on the £95K cap issue, and asked them to keep the Committee informed as the situation unfolded.

It was resolved unanimously to:

Note the content of the report.

212. AGE DISCRIMINATION REMEDY IN THE LGPS (MCCLOUD) AND COST CAP MECHANISM (UPDATE)

The Committee considered updates on the age discrimination remedy in the LGPS as a result of the legal case brought by McCloud and on the paused cost control mechanism.

The McCloud case relates to the transitional protections given to scheme members of the Judges and Firefighters' Pension Scheme, who in 2012 were within ten years of their normal retirement age. The protections were introduced as part of the public service pension schemes reform. However, in 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified. Members who had been discriminated against would need to be offered appropriate remedies to ensure they were placed in an equivalent position to the protected members. Such remedies would involve raising the benefits of unprotected members rather than protected members' benefits being reduced. The report set out the detail of the specific actions required.

Aon had been commissioned to undertake a high level initial analysis of the likely impact on scheme members as a result of the likely remedy. Their analysis showed that nearly a quarter of members would be impacted by the remedy, comprising around 17,500 active, deferred and pensioner members of the scheme. The Fund has the records on hours and service breaks for its scheme members, but this relied on accurate information being provided by employers, some of whom were no longer in the scheme. The appendix to the report highlighted the likely issues in implementing the McCloud remedy, which included additional governance, training, software and administration requirements. In terms of timescales, the administrative impact from McCloud could be open-ended.

The Public Service Pension Schemes Act 2013 required public service pension schemes to include an employer cost control mechanism to protect the taxpayer from unforeseen increases in scheme costs. Preliminary valuations of new schemes established 'employer cost caps' in each public service scheme expressed as a percentage of pay. In the LGPS the cost cap was set at 19.5% of which 13.5% of pay represented the employer cost and 6.5% of pay was the scheme member cost. However, following McCloud case, the government announced a pause to the cost control element of the 2016 valuations in January 2019, due to the uncertainty around member benefits arising from the court judgements making it impossible to assess the value of the schemes to members with any certainty.

Discussing the implications of the McCloud case, individual Members:

- Observed that there was a considerable burden on the fund in terms of administration. Officers agreed, advising that the requirement for the current year was data collection, the majority of which was already available. Next year there would be considerable work updating that data;

- Queried how much the average pension payment may change in response to McCloud for those affected, i.e. whether it would have a significant impact on the Fund in terms of cashflow. Officers confirmed that the actual difference in benefits was minimal, with few scheme members receiving an uplift as a result of the remedy. In future, more scheme members may come into the scope of McCloud, although the values involved in these uplifts were generally very low, but the administrative burden was considerable;

- Observed that the administrative burden of McCloud and the Exit Payment Reform on the Pensions team's resources was considerable, but there were legal requirements that must be complied with;

- Asked what would happen if e.g. an employer had ceased trading. Officers confirmed that they were seeking clarification on issues such as employers who had ceased trading, and it may be the case that an estimate would need to be provided in those cases.

It was resolved unanimously to:

Note the report

213. UPDATE TO FUNDING STRATEGY STATEMENT

The Committee considered a report on changes required to the Funding Strategy Statement and Discretions Document.

The Funding Strategy had been updated to reflect new regulations in terms of the Administering Authority exercising discretion when an exit credit was payable, and set out the process that would be applied in those circumstances. The government had issued backdated legislation giving the Fund discretion to take into account a number of factors when determining whether an exit payment should be paid, and if so, the level of those payments, depending on factors such as changes in market conditions, contributions paid, risk sharing agreements, etc. The proposed exit payment policy outlined the process that would be followed in those cases.

Arising from the report:

- one Member asked for clarification as to whether the wording of the proposed amendment was standard to all LGPS funds. Officers advised that the wording was unique to the Cambridgeshire Fund, as it took into account the local policy, although most Funds would have similar wording, depending on the advice of their actuarial and legal advisors;

- a Member queried what would happen if there was a shortfall rather than an exit payment. It was confirmed that this was already covered within existing regulations and policies. The default position was to expect recovery in the event of a shortfall if the risk sat with the exiting employer, unless there was an arrangement where the risk sat with another body.

It was resolved to

1. approve the amendments to the Funding Strategy Statement;

2. approve the updating of the Administering Authority Discretions document to reflect the new policy.

214. CAMBRIDGESHIRE PENSION FUND 2020-21 COMMUNICATIONS STRATEGY

The Committee considered the Cambridgeshire Pension Fund Communications Strategy for 2020-21. The Strategy had been reviewed and updated and the main changes to the document were set out within the report.

It was resolved unanimously to:

approve the Communications Strategy

215. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2019-20

The Committee considered the Draft Annual Report and Statement of Accounts of the Pension Fund for the 2019-20 financial year. Revised documents had been circulated with a number of non-material changes, prior to the meeting.

The Fund's auditors, EY, had completed their audit fieldwork of the Pension Fund Statement of Accounts but have not yet fully completed their review work. EY had issued a draft ISA260 report which confirmed that no issues were identified during their fieldwork.

Individual Members raised the following issues:

- Noting that a number of companies had halted their dividend payment, asked what impact the reduction of dividend payments would have on investment income for 2020-21.

Officers advised that there was no firm indication at this stage with respect to dividend payments for the year. Performance over the previous quarter has been reported back to the Investment Sub-Committee, and there were pressures currently on all assets allocations;

- Noted that the draft accounts had been published on website prior to 1st September 2020. The Annual report would be published by 1st December;

- Discussed performance after the final quarter, when performance had fallen away. In terms of liquidity, the Pension Fund's asset allocation remained highly liquid, but had been moving assets into more illiquid assets such as Alternatives recently. It was difficult to look at the assets in isolation, as investments are quite fluid, and reduced returns from investments was a very different situation to the Fund being 'cash flow negative', and there being a need to use funds that were invested to subsidise benefits. It was noted that the 'investment income' line could be quite misleading. The Member acknowledged this point, but commented that it was necessary to have contingency policies sorted out soon. Officers commented that whilst it had been a testing year in terms of extreme liquidity stress since March 2020, cash was still held on account and the Fund was not at risk;

- A Member suggested that it should be made clear that the equity protection and currency hedging, referenced in the Chairman's Forward, was for risk management purposes;

- In response to a Member query, it was clarified that the 'primary rate' was determined retrospectively by the actuary from all costs, including administration and consultancy;

- Observed that the annual pensioner payroll write off amount was 0.07% over the last four years, but this was a total of £200K;

- Despite reducing the allocation to equities over recent years, in 2019/20 it increased by 2%. It was suggested that there were various reasons, including the relative performance of asset classes, so if equities performed well compared to other assets, the proportion held would increase accordingly;

- Noted the investment return compared to LA universe indicated that the Fund's equities were better than LA universe;

- Councillor Shellens requested a colour version of chart showing the Fund's performance compared to benchmark returns and the average investment return achieved by the Local Authority Universe over 1, 3, 5 and 10 year periods. ACTION REQUIRED**;**

- Queried the reduction in Sterling in the Currencies section. Officers agreed to investigate and respond. ACTION REQUIRED;

- Queried the expectation of strong growth in 2021, in the light of the current Covid-19 situation. It was agreed that this statement needed to be revisited.

It was resolved unanimously to:

Approve the Draft Annual Report and notes the Statement of Accounts of the Pension Fund for the 2019-20 financial year.

216. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

The Committee received a report on the admission of six admission bodies, and the cessation of twelve bodies. It was confirmed that none of the admission bodies were discretionary. There were no deficit payments required to be collected in relation to any of the cessations.

In response to a Member question, it was clarified that Peterborough Limited was a subsidiary of Peterborough City Council that had been set up as a trading arm.

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:

- ABM Catering (x 3)
- Easy Clean Contractors
- Lunchtime Company Ltd
- Peterborough Limited

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

- ABM Catering (x2)
- Alliance in Partnership Ltd
- Aspens Ltd
- Caterlink
- Easy Clean Contractors (x2)
- Lunchtime Company Ltd (x3)
- Pabulum Ltd
- Visit Cambridge & Beyond

217. EXCLUSION OF PRESS AND PUBLIC

It was resolved that the press and public be excluded from the meeting on the grounds that the agenda contains 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).

218. STRATEGIC ASSET ALLOCATION – MULTI ASSET CREDIT

The Committee considered a report which recommended a change in the strategic asset allocation to Fixed Income (Multi Asset Credit) from 7% to 10% and the reduction in the allocation to Equities from 58% to 55%.

It was resolved unanimously to:

1) Notes the report;

2) Approves the increase in strategic allocation to Fixed Income (Multi Asset Credit) from 7% to 10% and the reduction in the allocation to Equities from 58% to 55%;

3) Instructs the Head of Pensions with the support of Mercer to take all practical steps to implement the decision.

219. ACCESS ASSET POOLING UPDATE

Members considered a report on ACCESS Asset Pooling. The reports for the most recent ACCESS meetings had been circulated recently.

It was resolved to:

1. Note the minutes from the ACCESS Joint Committee meeting of the 17th July 2020;
2. Note the asset pooling update following the JC meeting of the 7th September 2020;
3. Approve an amendment to the Operator agreement to accede to Link’s request to relax the Standard & Poor’s credit rating requirement of their Professional Indemnity and Crime insurance cover to A- as part of a package to include the incorporation of additional KPIs, to be negotiated by the Contracts Manager; and
4. Approve an amendment to Schedule 4 of the Operator Agreement to incorporate specified additional KPIs as negotiated by the Contracts Manager.