

MINUTES OF THE PENSION COMMITTEE

Date: Thursday 7th July 2016

Time: 10:00–12:55

Place: Room 128, Shire Hall, Cambridge

Committee Members

present: Councillors P Ashcroft, R Hickford (Chairman), N Kavanagh, G Kenney, M Leeke (Vice Chairman); L Brennan, G Deeble and M Pink

Officers: D Cave, S Heywood, M Oakensen, S Pilsworth, P Tysoe, J Walton and M Whitby

Others in attendance: G Nathan (Hymans) and Councillor M Shellens

Apologies: Councillors A Fraser and D Seaton; J Walker (L Brennan substituting)

The Chairman extended a special welcome to new members.

64. DECLARATIONS OF INTEREST

Matthew Pink declared a personal interest as both he and his wife were active members of LGPS.

Liz Brennan and Steven Pilsworth declared personal interests as active members of LGPS.

65. MINUTES AND ACTION LOG OF THE PENSION FUND COMMITTEE 26TH MAY 2016

The minutes of the Pension Fund Committee meeting held on 26th May 2016 and were signed by the Chairman.

The Committee noted the Action Log.

PUBLIC QUESTION

A Member of the public, Dr James Smith, asked a public question. The required notice had been given. The text of the question was as follows:

“My name is James Smith. I’m a Cambridge resident and public health doctor concerned about the threat of climate change locally. I was present in December when the committee discussed its approach to climate change related risks. So I understand that an ‘engagement’ approach has been adopted to reduce climate risk and that this strategy has been informed by expert investment advice.

I have been trying to understand why there appears to be a gap between the advice being given by investment experts, such as in the Mercer’s report ‘Investing in the Time of Climate Change’ and the opinion of leading climate scientists, such as Professor Kevin Anderson of Manchester University. I think the gap must come from the underlying models and assumptions made.

A strategy of engagement with fossil fuel companies appears to be a higher risk strategy than simply selling investments so being confident in the advice which has informed this strategy is particularly important.

Please can I ask:

Has the committee scrutinised the assumptions underlying the advice given on climate risk and if not will they agree to do so?

Specifically please could the committee comment on or agree to find out what assumptions have been made about:

- the total amount of fossil fuels which can be used globally given international climate change targets,
 - the use of carbon capture and storage technology,
 - the uptake of electric vehicles, and
 - the risk of environmental tipping points being reached,
- and how would altering assumptions related to these influence the strategy used to reduce climate change related risk in the portfolio?”

The Chairman commented that the Pension Fund Committee did scrutinise itself, and the Local Pensions Board scrutinised the activities of the Pension Fund Committee and Investment Sub-Committee.

The Chairman asked officers to respond to the question (see attached summary at **Appendix 1**). It was noted that the Environment Agency were central to the work being undertaken by the cross-pool group.

The Chairman commented that one of the issues with green technology was that performance tended to lag behind other markets. The Pension Committee’s primary role was to make a return. Whilst responsible investing had a role, the necessary work had not yet been undertaken, nor had the regulations been issued. However, the Committee to do all it could to promote responsible investing.

A Member asked Dr Smith if his concern was primarily that the Fund was making poor investment decisions e.g. because returns to oil, etc, would ultimately be diminishing, or because he felt that the Committee was not making a sufficiently considered view on climate change. Dr Smith explained his involvement related to ethics, but in trying to unpick responsible investment, it also related to future risk returns: the views on the future from climate scientists was different to the investment view.

In discussion, it was noted that some other Councils and major employers were stepping back from investing in fossil fuels, including the Environment Agency, who had made a partial commitment to responsible investment.

Officers reassured Dr Smith that responsible investing issues would be explored in depth by the cross-pool group, but that it was inappropriate at this stage to provide a detailed response, as more work was required. The cross-pool group had a target date of March 2017 for completing their work. Members discussed the potential “tipping points” for new technologies.

The Chairman thanked Dr Smith for his question.

66. GOVERNANCE AND LEGISLATION REPORT

The Committee received a report on governance issues concerning the Local Government Pension Scheme (LGPS), including new and amended legislation.

Members noted:

- the LGPS Annual Report had been published, based on information collated from the Annual Reports and audited Financial Statements of the LGPS funds in England and Wales to 31st March 2015;
- on 23rd March the Pensions Regulator launched a revamped scorpion campaign to warn individuals of the dangers of being scammed out of their retirement savings;
- officers of the Fund had received notice that the scheme return would be sent shortly and there would be a six week turnaround on this.

It was resolved to note the content of the report.

67. PENSION FUND ANNUAL BUSINESS PLAN UPDATE REPORT 2016-17

Michelle Oakensen presented the first Business Plan update for the 2016-17 financial year.

Progress continued to be made on the reconciliation between the Guaranteed Minimum Pension (GMP) and Pensioner Payroll, and work continued to address the remaining unreconciled records for disparities of greater than £100 a year. The Chairman observed that the 'manageable level' still seemed quite high, and the required man hours onerous. Officers advised that this project had taken a back seat as the new payroll system was being introduced, but that the problems were largely to do with the administration system not being as up to date with the payroll system. It was noted that the £100 threshold was quite low/risk averse compared to peers, and was judged to be appropriate by Audit colleagues. It was also noted that the Cambridgeshire Fund's approach was well ahead of many peers. Once the GMP reconciliation had been completed, the focus would turn to genuine overpayments.

The only significant overpayments in the period were unavoidable, and were related to death cases rather than administrative errors.

Members noted performance against Key Performance Indicators (KPI).

Four employers had paid contributions late, and two had not paid. Officers explained that these late payments were taken very seriously, and were followed up immediately. It was confirmed that these late payments were not first instances, and the employers were aware that they were unacceptable. Once internal processes were exhausted, officers had the option of seeking recourse via the Pension Regulator, which they had done in the past. The main 'late payment' issue related to cheques no longer being accepted i.e. all payments had moved to BACs, but there was a problem with some of the smaller employers such as Parish Councils.

It was resolved to:

Note the Pension Fund Business Plan update for the 2016-17 financial year.

68. CAMBRIDGESHIRE PENSION FUND 2016-17 COMMUNICATION PLAN

Members considered the proposed Cambridgeshire Pension Fund Communication Plan for the 2016-17 financial year.

The major issues to communicate in the coming year would be the actuarial valuation and the move to electronic benefits statements.

Steven Pilsworth advised that the Chief Finance Officer briefings had been very useful, and he suggested having more briefings at key points throughout

the year. Officers advised that they were already in discussion with Hymans about this.

It was resolved to approve the Communication Plan.

69. ANNUAL REPORT OF THE LOCAL PENSION BOARD

Members considered the first Annual Report of the Local Pension Board, which set out activities to date, and the work undertaken throughout the year.

It was resolved to note the first annual report of the Local Pension Board.

70. EXCLUSION OF PRESS AND PUBLIC

It was resolved:

That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business (item 10) on the grounds it contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information which is likely to reveal information relating to the financial or business affairs of any particular person) and that it would not be in the public interest for this information to be disclosed.

71. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

The Committee received a report on the admission and cessation of a number of bodies to the Cambridgeshire Pension Fund.

It was resolved to:

1. note the admission of the following academies to the Cambridgeshire Pension Fund:
 - Eyrescroft Primary School (Peterborough)
 - Netherhall School
 - Elm Road Primary School
2. note the cessation of the following bodies:
 - Indigo Spa Management
3. approve the proposal to reduce the exit payment required from Red 2 Green.

72. ASSET POOLING

The Committee received an update on Asset Pooling.

It was resolved, by a majority, to:

1. note the progress made on the Asset Pooling proposal and approve the submission.
2. note approval of the final version of the submission has been delegated to Chairman in consultation with the Head of Pensions, as agreed at the 24th March Pensions Committee.

73. VALUATION ASSUMPTIONS

Geoff Nathan from Hymans gave a presentation on the key points as the Fund approached its triennial valuation, as at 31 March 2016.

It was resolved to note the contents of the report and the associated verbal briefing by the Scheme Actuary.

74. DATE OF NEXT MEETING: 28 July 2016 (10am)

The Fund's fiduciary responsibilities require responsible investment to be considered as set out in the Fund's Statement of Investment Principles. The Fund's objective in addressing Responsible Investment and related issues is to influence and encourage best practice. The Local Government Pension Scheme (LGPS) nationally hold significant voting power.

Replacement investment regulations, expected to come into force later this year, will include provision for administering authorities to publish their policies on responsible investment in a new format, (known as an Investment Strategy Statement), planned to be presented to the March 2017 Pension Committee for approval.

The Government's initiative regarding asset pooling will require a pool wide policy on Responsible Investment. Cambridgeshire, as part of the ACCESS pool, is fully engaged with representatives of asset pools nationally to develop understanding of Responsible Investment issues and to promote consistent engagement. Pooling assets will deliver not only cost savings, but also a governance premium, for example to improve Responsible Investment resourcing, participation and understanding throughout LGPS Funds, which will inform the Funds Investment Strategy Statement for March 2017.