MINUTES OF THE PENSION COMMITTEE

Date: Thursday 22nd October 2015

Time: 10:00am–11.35am

Place: Kreis Viersen Room, Shire Hall, Cambridge

Committee Members present: Councillors P Ashcroft, S Count (Chairman), A Fraser, R Hickford (Vice Chairman), N Kavanagh, M Leeke, D Seaton and J Wisson; M Pink (of UNISON representing active LGPS members) and J Walker (of UNISON representing deferred and retired LGPS members)

Officers: C Blose, D Cave, S Heywood, M Oakensen, J Walton and M Whitby

In attendance: Councillor M Shellens

Apologies: Tim Woods and Gareth Deeble

22. DECLARATIONS OF INTEREST

John Walker declared a personal interest as a retired member of the LGPS and that his son and daughter-in-law were deferred members.

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

Councillor David Seaton declared an interest as his father was a retired member of scheme.

23. MINUTES OF THE PENSION FUND COMMITTEE 30TH JULY AND ACTION LOG

The minutes of the Pension Fund Committee meeting held on 30th July 2015 were approved as a correct record. The Action Log of the meeting was noted.

Arising from the Action Log, Councillor Seaton asked about ethical investment, which was currently being reviewed by Peterborough City Council. The Chairman advised that he had also been lobbied extensively recently on ethical investment, and officers added that there had been an increase in Freedom of Information requests on this issue. Another Member asked if it was possible to have information on all the companies the Pension Fund invested in. It was noted that this was difficult, as it was a fluid situation, and given the move to pooled funds/national framework, it was likely that the entire LGPS landscape would change: if the agenda moved forward as anticipated, the decision makers would be very different. The Chairman pointed out that the Pension Fund Committee's ultimate responsibility was to members of the Pension Fund and their financial security. It was agreed that the Head of Pension would email Members explaining why it would be difficult to provide information on all companies invested in. **ACTION: M Whitby.**

It was resolved to:

(1) approve the minutes of the Pension Fund Committee meeting held 30th July 2015;
(2) note the Action Log of the Pension Fund Committee meeting held 30th July 2015.

24. PENSION FUND ANNUAL BUSINESS PLAN UPDATE REPORT 2015-16

Jo Walton presented the second Business Plan update for the 2015-16 financial year.

Members noted the following points:

- the Pension Regulator's Code of Practice continued to be embedded through the year within existing processes to strengthen controls in such areas of contribution monitoring and skills and knowledge. A revised Knowledge Management Policy would be presented to a future meeting of the Pension Fund Committee;
- Customer Service Excellence Standards continued to be embedded;
- two Employer Forums had been arranged for 3rd November at Girton College, and 5th November in Northamptonshire;
- as part of the August 2015 benefit statements sent by post, members had been advised that future statements would be issued via Member Self Service, with an option to opt out of the electronic statement if they advise in writing. To date only 65 members had opted out.

The Committee noted the section of the report on contribution reporting, which gave information on the number of Scheme employers that pay their employee and employer contributions late. There were six employers who were reported as paying late more than once within the quarter, and the background and outcome on each case was noted, including those which had been escalated.

Members felt that stronger action would be taken, and suggested that the Director of Finance should write to the relevant Employers. Members also felt that they action should be taken sooner, as the situation relating to some Employers had been ongoing for many months. It was suggested that in future the Committee should be presented with the outcome of comprehensive actions undertaken to address the late payments, so that they could then make the appropriate decision in each case. Members also asked what the financial penalties were for late payment, and whether any of the bodies had guarantors. Officers advised that it was a mixed picture with regard to guarantors. Officers also acknowledged the point about tightening up on processes going forward, cautioning that if a cessation was forced, it could result in no funding being forthcoming. It was confirmed that employers would have made employee contribution deductions.

The Committee concluded that a lot more tightening up needed to take place, especially for those employers without guarantors behind them. It was noted that the penalty for late payment was an administration charge plus interest, but currently there was no policy in place on this. Members pointed out that this was not just an administration issue, there was also an issue of the opportunity cost of investment i.e. the total amount available for investment was less than expected. Members suggested that more punitive charges should be made, in order to achieve greater compliance going forward.

A Member observed that the last four months were worse than previous months, and asked if this was cyclical or represented a more gradual trend. Officers advised that there was no cyclical or other trend, other than there being an increase in the diversity of employers the Fund was working with. In response to a suggestion as to whether it would be appropriate to contact employees directly and tell them their contributions had not been paid in to Fund, officers advised that whilst feasible, those employees' pensions were secure and it would be inappropriate to alarm them. The Chairman commented that e.g. for Parish Councils, it may be appropriate to inform the Parish Councillors, who may be unaware of the late payments.

Turning to Key Performance Indicators (KPIs) it was noted that the majority of these were on or around target. With regard to the provision of estimates to scheme members, whilst this was slightly under (87% provided within ten working days, against a 90% target), the number of estimates requested had increased by 80% from last year. This increase was similar to that of neighbouring authorities, and officers are considering ways in which members can access this information more quickly. With regard to issuing annual benefit statements (97.83% against a 100% target), it was noted that the shortfall was due to late, inaccurate or non-submission of year end data from the relevant employers. Various actions were being put in place to resolve this in future. Cambridgeshire (and Northamptonshire were 2 of 7 Funds to have produced any statements by the statutory date of 31 August out of a total of 89 Funds.

It was resolved to:

1. Note the Pension Fund Business Plan second update for the 2015-16 financial year.

25. GOVERNANCE AND LEGISLATION REPORT

The Committee received a report on governance issues concerning the Local Government Pension Scheme (LGPS) on a national and local basis.

The following points were noted:

- the three options for separation of the host authority (administering authority) from the Pension Fund were set out in an appendix to the report;
- the two vacancies on the Pension Fund Board had been filled by Ian Dewar (Sutton Parish Council) and David Brooks, a former member of the Pension Fund Committee.

It was resolved to:

Note the content of the report.

26. EMPLOYERS ADMISSIONS AND CESSATIONS REPORT

The Committee received a report on the admission of one scheduled body and to gain approval for five admission bodies to join the Cambridgeshire Pension Fund, and also on four cessations from the Fund and their final cessation payments.

The Head of Pensions reminded Members that at the last Committee meeting, the suspension of Hemingford Grey Parish Council's cessation due to a potential new clerk joining the LGPS had been reported. The suspension was being extended and would be reviewed again.

Huntingdonshire Citizens Advice Bureau (CAB) had been voluntary liquidised on 31/12/12, with a deficit payment due of £271,000. This body would now be pooled with other ceased employers in the 'No Active Members' pool and monitored.

Further investigations had been undertaken with regard to Mepal Outdoor Centre, following their last active member leaving the Fund on 30/09/12. Regrettably there was no provision under Clause 38 of the Local Government Pension Scheme (Administration) Regulators 2008, which were the relevant regulations under which Mepal Outdoor Centre ceased to be an employer in the Fund, which allowed for the recovery of an exit payment over a period of time. Even if the regulations had permitted the recovery of an exit payment over a period of time, the employer would need to contribute a minimum payment of £30,810.00 per annum to cover the accumulating interest on the deficit. For this reason it was preferable to deal with such liabilities by separating them from the rest of the Fund via the "No Active Members" pool.

In response to a Member question, it was confirmed that so far the Greater Peterborough University Technical College only had two employees.

A Member observed that when the bodies in question had joined the scheme and been active members, the employer and employee had made the required contributions. The 'deficit' was essentially notional due to the method of valuation for the Fund, because of the increase in liabilities. In this respect the deficit was largely outside the control of the employer.

It was resolved to:

1) note the admission of the following scheduled body to the Cambridgeshire Pension Fund:

- Greater Peterborough University Technical College (UTC)

2) approve the admission of the following admission bodies to the Cambridgeshire Pension Fund:

- Accent Catering Services Ltd
- Alliance in Partnership Ltd
- Churchill Contract Services Ltd
- Smart Kidz Play and Learn Ltd
- Sports Leisure Management Ltd

3) note the update on the cessation for the following bodies:

- Hemingford Grey Parish Council
- Huntingdonshire Citizens Advice Bureau (CAB)
- Mepal Outdoor Centre
- ABM Catering

27. OVERPAYMENTS REPORT

The Pension Fund Committee considered a report on overpayments that had occurred, which included an analysis of action taken.

During the period from 1st April to 31st July 2015, a total of 123 individuals had been overpaid. 90 of the incidences, collectively totalling £193.09, were due to a delay in completing quality assurance checks that would ensure the pensions increase uplift was applied correctly. Processes had been amended to ensure those checks were carried out before the payroll runs each April. The errors identified involved only small amounts of individual overpayments, with the highest individual overpayment amount made being £12.93.

One case of a £173.72 overpayment was down to an isolated administration error and was in the process of being recovered.

It was resolved to:

Note the content of the report.

28. OVERPAYMENTS OF PENSION POLICY

Members received a report on the Overpayment of Pension Policy. Members were reminded that the set of principles was agreed at the Pension Fund Committee meeting on 25th June 2015. By way of background, Members were reminded that it had been agreed to develop an Overpayments Policy, partly due to the reconciliations taking place between Her Majesty's Revenue and Customs (HMRC) and the Fund's administration.

Observing the very small amounts of overpayments referred to in the previous report - 90 incidences totalling £193.09 – a Member queried whether the cost of recovery was not more expensive than the amounts involved? Officers confirmed that that was the case, which was why those amounts had been written off. Members took comfort in the overpayments identified to date being so small.

It was resolved to:

1) approve the overpayment of Pension Policy;
2) delegate to the Deputy Head of Pensions in consultation with the Chairman and Vice Chairman any immaterial amendments to the Overpayment of Pension Policy.

29. JULY BUDGET – ASSET POOLING AND THE LGPS

The Committee received a report on issues arising from the Chancellor's announcement in the July 2015 budget.

Members were advised that Paul Tysoe was working on the regional workstream of a national project being led by Hymans Robertson, and further reports would be provided for future meetings. Government aimed to have pools in place, although not necessarily with the funds transferred, by the end of the current parliament. As well as the national project, officers had been working with neighbouring authorities, and a meeting had recently been held with 14 other authorities. A training session was planned on the afternoon of the next Investment Sub-Committee meeting. It was estimated that the size of pools would be in the region of £25-30Billion.

A Member asked if the Fund would be able to buy into pools, or whether they would automatically become part or a pool. It was noted that at the Conservative Party Conference, the Chancellor had alluded to six regional wealth funds, although the DCLG had subsequently advised that those funds would not necessarily have to be *regional*. It was also noted that whilst infrastructure had not been specifically raised in discussions with the Treasury and the DCLG in August, it had been put firmly back on the table during the Conservative Conference in a statement made by the Chancellor.

The likely governance structure following pooling was discussed. Strategic decisions would still be taken by Pension Fund Committees, and whilst there would be some strategic control on investment (i.e. risk, style), there would be less control on specific investment mandates. There was strong desire from officers for pooled fund investment committees to be made up of representatives from member pension funds. Where the newly formed local pension boards sat within the new structure was not clear, that would clearly depend on the new structure e.g. whether it was a CIV or a structure managed by a custodian. A Member commented that if the new pooled committees were decision making, they should be subject to the same degree of scrutiny as the current governance structure. It was agreed that this point, along with the issue of representation on investment bodies in pooled structures, would be fed back to Paul Tysoe to stress in his work with the Hymans project.

There was a discussion on infrastructure investment under pooled arrangements, and the importance of investing in investment grade infrastructure.

It was resolved to:

1. note the briefing on implications of the July 2015 Budget.

2. note that Officers were:-

   2.1 consulting with DCLG and LGA on asset pooling criteria to be published in November 2015;

   2.2 working with other Funds in a Hymans led project to provide credible proposals for Government approval;

   2.3 collaborating with other funds to discuss specific collaboration to address the Government proposals.

30. CESSATION FUNDING CONSIDERATIONS AND TREATMENT OF ORPHAN LIABILITIES

Members received a report on the potential liability that could fall on the whole Fund if a scheme employer ceases, and any deficit on exit could not be recovered from them. This issue had been raised by Members when discussing the cessation of employers who were unable to afford their outstanding deficits e.g. Mepal Outdoor Centre. The report set out how the Fund was protected for the different Employer Types, and Members noted that the main risk exposure was primarily “old style” admission bodies, and possibly Parish Councils. The usual solution was to transfer those bodies to the “No Actives” pool. It was also noted that much of the notional deficit resulted from the historically low gilt yields, and a small increase in gilt yields would dramatically reduce that notional deficit. However, the actuary had to be prudent, which was why a payment to cover potential liabilities was sought.

A Member noted that some of the bodies in the “No Actives” pool were in surplus, not deficit. Officers advised that this could be because they paid a pooled rate, and surpluses could not be returned.

Members commented that they found the report very reassuring, and thanked officers for their hard work in producing this very clear report, which gave them confidence going forward.

It was resolved to:

- note the contents of the report and the approach to dealing with orphan liabilities in the Cambridgeshire Pension Fund.

31. REPORTING BREACHES OF THE LAW TO THE PENSIONS REGULATOR POLICY

The Committee considered a draft policy for “Reporting Breaches of the Law to the Pensions Regulator”. The aim of the policy was to ensure that those with a responsibility to report breaches of the law were able to meet their legal obligations, by analysing situations effectively in order to make an informed decision on whether a breach had been made.

It was stressed that the policy affected both officers and Members, and there was a legal obligation to report such breaches. The policy set out how to identify breaches and what should be done in each example. Attention was drawn to the appendix to the policy, which set out examples of possible breaches, and action which should be taken in each scenario.

It was resolved to:

approve the Reporting Breaches of the Law to the Pensions Regulator Policy.

32. REVIEW OF THE PENSION FUND OBJECTIVES

Members received a report on a review of Pension Fund objectives. Members were reminded that a number of the previously agreed objectives had been deemed to be no longer appropriate, and it had been agreed that more objectives were required to ensure good governance was fully achieved. A list of 20 objectives had been developed, and the Committee’s views were sought on the suitability of those objectives.

In response to a Member question on how performance would be measured against those objectives, it was noted that a report would be considered at a future meeting on measurement.

It was resolved to:

approve the Pension Fund Objectives.

33. LGSS PENSIONS PAYROLL PROVISION

Members received a report outlining options for an IT refresh of the LGSS Pensions payroll system.

Members were advised that the LGSS Pensions Service currently used the *altair* pensions administration software solution which is licensed, hosted and managed externally. Payroll for the LGSS Pensions Service was managed and provided separately from this on the Oracle ERP platform by LGSS Payroll Services. The default position of LGSS would be to move the pensions payroll function onto the *Agresso* system. However, the *Agresso* charge for licences was significantly higher than the charge for *altair* payroll licences.

Considerable work had been undertaken by the Head of Business Systems on a business case to look at the advantages and disadvantages of *altair* versus *Agresso*. The preferred option, both financially and non-financially, was *altair*. The major benefit of the *altair* system was that it effectively automated pension calculations, as well as providing the payroll functions, and little additional training was required. It was confirmed that both Cambridgeshire County and Peterborough City Councils used *Agresso* for their payroll functions, but this did not impact on this decision i.e. there was no reduced cost resulting from those authorities already using *Agresso*. It was confirmed that John Kane (LGSS Managing Director) had endorsed the proposal to move to *altair*, and Chris Malyon (Cambridgeshire County Council Section 151 Officer) was also aware of the proposal.

Following discussion, it was agreed that the issue of licences should be investigated further to establish if the costs were accurate. As Members were keen not to delay processes, it was agreed that the Head of Pensions would consult with the Chairman on reasons for the difference between licensing costs, and the Chairman would in turn email the Committee. **ACTION: M Whitby and Councillor Count.**

It was resolved to:

1. review and ratify the recommendation for the replacement solution for the provision of pensions payroll;
2. agree the required funding for the IT Refresh Project for Pensions Payroll;
3. delegate the selection of provider to the Head of Pensions, in consultation with Chairman of the Cambridgeshire Pension Fund Committee.

34. AMENDMENT OF POLICY FOR ADMISSION BODIES, SCHEME EMPLOYERS AND BULK TRANSFER

Members received a report on the revised Admission Bodies, Scheme Employers and Bulk transfer Policy which had been developed as a result of new Regulations. Members noted that there were no major changes in the policy resulting from the Regulations, except for the removal of references to Community and Transferee Admission Bodies. Different types of employers were now referred to according to the relevant clause of the Regulations which permitted their entry to the scheme.

It was resolved to:

> approve the Policy for Admission Bodies, Scheme Employers and Bulk Transfer of Members provided in the Appendix to the report.

35. DATE OF NEXT MEETING: 10.00am on 17th December 2015