Agenda Item no. 3

# Public minutes of the Pension Fund Committee

Date: Thursday 25th March 2021

Time: 10:00am – 12:45pm

Venue: Virtual Meeting

Present: County Councillors P Downes, I Gardener (Vice-Chairman), A Hay, T Rogers (Chairman) and M Shellens; Cambridge City Councillor R Robertson; Peterborough City Councillor D Seaton; Lee Phanco, Matthew Pink and John Walker

Officers: C Blose, D Cave, E Reyman, J Walton and M Whitby

Advisors: P Gent (Mercer)

Apologies: Sarah Heywood

## 233. Declarations of Interest

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

John Walker and Councillor Downes both declared interests as retired members of the pension scheme.

Matthew Pink declared an interest an active member of the pension scheme.

Lee Phanco declared an interest as Chairman of Trustees of the Sports Hall Cambridge Trust.

Councillor Gardener declared an interest as a Governor of Kimbolton School.

## 234. Public minutes of the Pension Fund Committee meeting held 8th December 2020

The minutes of the Pension Fund Committee meeting held on 8th December 2020 were approved as a correct record.

The Action Log was noted.

## 235. Public Question

A Question had been received from Mr Richard Potter. Mr Potter was invited by the Chairman to present his question:

"Divesting from fossil fuel companies: On behalf of Cambridge Green Party. At the meeting on 18th June 2020 we urged action so that the Cambridgeshire Pension Fund joins other Local Authorities in divesting from fossil fuel companies. What action has been taken?"

At the invitation of the Chairman, Mark Whitby, Head of Pensions, responded:

Since June 2020 Fund Officers and professional advisors have surveyed the responsible investment beliefs of the Pensions Committee and Local Pension Board Members and from this developed a significantly enhanced Responsible Investment Policy. This draft policy has been approved by the Investment Sub-Committee and would be presented to the Pensions Committee for their consideration later during the exempt part of the meeting.

It would be reasonable to expect the policy to contain a statement around support for the Paris Agreement, support for a "just transition", recognition of the threats and opportunities presented by the green transition, as well as a significantly enhanced monitoring and reporting regime with regards to climate risk, such as through carbon reporting and scenario analysis.

The revised Policy would be subject to a consultation with stakeholders, including scheme members, once approved, and will be a document that is regularly updated over time.

The Fund's position on divestment recognised the fiduciary responsibility of the Members of this Committee. The Pension Committee Members have a duty to act in the best interests of the pension scheme beneficiaries at all times, with a duty to act prudently, conscientiously and with good faith in their decision making, not taking undue risks and ultimately ensuring pensions can be paid when they fall due.

The Committee required all of its investment managers to integrate both financial and non-financial factors, including environmental, social and governance issues, in their decision making. This would include climate risks and, for example, the risk of fossil fuel companies being left with stranded assets.

The revised Responsible Investment Policy had been drafted on the basis of a general policy of engagement over divestment, whilst divestment of individual stocks clearly remains an option of last resort.

In terms of divestment from fossil fuels specifically, three substantive points were highlighted that had fed into the long-term development of the responsible investment policy:

1) The Minister for Pensions, Guy Opperman, concurred with a long held belief of the Committee that you achieve nothing in passing assets from responsible asset owners to owners without the same environmental concerns: On 9th March 2021 he

stated ”I oppose totally…blanket divestment and it seems to me that the way ahead is proper stewardship” and “how you hold stocks that are influencing [climate change] is utterly key”. It should also be remembered that the majority of the world’s oil supply is under the control of state owned companies which cannot be influenced in the same manner as public companies.

2) There is going to be a prolonged sunset for fossil fuels even when achieving net zero by 2050. Whilst there will be, according to Lord Adair Turner, Chair of the Energy Transition Commission, a 95% reduction in thermal coal, and an 80% reduction in oil, natural gas usage will reduce by just 50% as it plays a significant role as part of the transition to a net zero economy. Immediate divestment from companies playing a key role in reaching net zero commitments may be self-defeating.

3) Divestment may be at odds with the Committee’s belief in a “just transition” to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of industrial change.

Mr Whitby also highlighted the commitment to undertake annual monitoring of the Fund’s equity portfolio to calculate the carbon intensity of the holdings, as well as the potential emissions (i.e. existing fossil fuel reserves). The first iteration of this monitoring took place in 2020 and will form a key starting point on which future decarbonisation plans will be based and climate risks will be quantitatively managed.

The Committee welcomed Mr Potter’s response to the consultation once published and officers and would notify him once the consultation was live.

The Chairman thanked Mr Potter and advised that he would receive a written response within the next ten working days.

## 236. Administration Performance Report

The Committee considered a report which set out a number of key areas of administration performance in the period 1st November 2020 to 31st January 2021.

Members’ attention was drawn to the following areas:

- In terms of Employer contributions, all Employers had paid on time;
- A number of non-material breaches of the law resulting from the legislation which was due to be amended;
- The outcome of an Internal dispute resolution procedure from an individual seeking reinstatement after having transferred out of the scheme in 2015. The claim, managed by a Claims Management Company, had originally been received in 2019, but had taken time to process due to the information required. Claims made via

Claims Management Companies was a new area of work for LGPS Pension funds, and this was the first such complaint received by the Cambridgeshire Fund, other authorities had received more. Following legal advice, the decision had been reached that this claim would not be upheld, but the claimant had the option to progress to the second stage of the Internal Dispute Resolution Procedure, and a number of claims at other authorities had been progressed to the Pensions Ombudsman.

A Member asked if the types of claims alluded to were in the Risk Log. Officers advised that scams were in the Risk Log, but they would review the Risk Log and update if appropriate, and circulate a note to the Committee.

It was resolved unanimously to:

Note the Administration Performance Report

## 237. Pension Fund Annual Business Plan Update report 2020- 21

The Committee considered an update to the Business Plan for the period 1st November 2020 to 31st January 2021.

There had been further work on the section about Cybercrime, following concerns raised by a Member at the last meeting. The Pensions team had undertaken training with Aon, who had been commissioned to do some work for Q1 on data flows and data held by third parties.

A Member queried the volume of queries coming from HMRC with regard to contracted out status. It was confirmed that this related to every scheme member who was contracted out of SERPS in the period from 1978 to 1997, and required a check to compare the Fund's records to HMRC's. Officers were confident that the new timetable would be achieved.

A Member queried key milestones around the HMRC reconciliation, specifically whether the data had been received from ITM Ltd in November 2020. Officers confirmed that they had received the data, but the resources had not been available in the previous 3-4 months to work on this due to staff absences, so this action still had an amber status.

The Chairman requested that where there were tables of figures (e.g. Appendix 2) in future reports, that officer use annotations so that they were easier to read.

A Member if the figures presented for unprocessed leavers was a net figure? Officers advised that this was the gross figure and that there would always be unprocessed leavers, which meant that numbers would increase. A distinction should be drawn between the backlog (greater than 6 months) and 'business as usual' (less than six months). The numbers had not reduced as the third party work carried out by Aon had to stop for several months. In tandem with this process, all employers were being migrated to monthly submission of information through the iConnect portal, and officers outlined how this was increasing the apparent backlog in activity. Whilst the Head of Pensions was pleased with progress in most areas during the pandemic, this was an area which had not progressed as well as anticipated, but Members were reassured that there was a dedicated team working on backlogs, and the main focus was on genuine leavers

A Member queried what comprised Governance expenditure. It was noted that this did not just cover the governance team but also consultancy costs, so was demand led and therefore difficult to estimate accurately. The Member requested a breakdown of that budget, and it was agreed that it would be circulated to the Committee. Action required.

A Member commented that the issue of non-availability of staff for specific projects had previously been reported to Committee as an issue. He suggested that it would be helpful going forward to provide a line in the report showing average availability of staff against budget, e.g. for the previous three months. Action required. Officers advised that they would always highlight any staffing issues, and that currently the team was at full capacity, with just one person on long term sick leave. The Pandemic had helped the team retain staff.

It was resolved unanimously to:

Note the Business Plan Update to 31st January 2021.

## 238. Pension Fund Annual Business Plan and Medium-Term Strategy 2021/22-2023/24

The Committee considered the Annual Business Plan and Medium Term Strategy which detailed the Fund's key areas of activity for the period 2021/22 to 2023/24. The main focus of the Plan was for the coming year (2021/22) but the Plan also identified a number of issues coming forward in future years.

The first part of the Plan was in a similar format to the previous year, setting out objectives and the usual business of the team. The Structure of the service would be slightly different to that set out in the Plan, enabling the team to better deal with projects, but that was dependent on completion of the service review programme being finalised following the unitary process in Northamptonshire. Expenditure would be reported to Committee through normal business plan update process.

Members noted the following points:

- The investment consultancy advisor procurement was being finalised, as was the global custodian procurement. Longer term issues included reprocurement of actuarial services and the software platform;

- With regard to the Business continuity plan, a complete review had taken place at the beginning of the pandemic, but needed to be reviewed in light of the unitary arrangements;
- The timeline of the Pensions Administration Standards Association (PASA) accreditation had been reprofiled, but this remained an aspiration for the team;
- In 2021/22 the team would be getting data in from employers for McCloud, with rectification will take place in subsequent years;
- The valuation date was March 2023, but there was a lot of work on run up to that process;
- The liability reduction exercise flowed over from previous year, but was less of a priority in light of higher profile activities that needed to be undertaken;
- Hymans were working on the modelling as agreed by Committee on Multiple Investment Strategies. This would be considered at the next Committee meeting;
- Detailed analysis was being taken with regard to Employer Covenanting, and that work would go in tandem with valuation;
- The asset pool was still the major investment activity, with work on pooled illiquid investments to be undertaken in the coming year;
- The Responsible Investment policy should be going out to consultation following the meeting;
- The Property strategy was a priority as the pooled solution was somewhere down the line.

One Member queried the significant variance in income. It was noted that the estimate had been based on the actuary's growth assumption, and this was updated during the year if there was information that it would be materially different. Investment income was extremely difficult to predict.

A Member noted that the planned activities listed in the Business Plan were on top of "business as usual". Given that there would be significant changes in the Committee, the Member commented it would be helpful to summarise what "business as usual" entailed, as the Pensions teams dealt with huge volumes of work across two Pension Funds. It was agreed that this would be factored in to the training plan. Officers briefly outlined the training arrangements for Committee Members in the first six months following the elections. It was noted that core areas of work would be undertaken in-house, and there was a preference for virtual training events.

There was a discussion regarding the many offers of external training events which Committee Members received. It was noted that the Pensions Team could always be contacted to see if events were worthwhile, as some may not be appropriate.

It was resolved unanimously to approve the Pension Fund Annual Business Plan and Medium-Term Strategy.

## 239. 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.

With regard to the Public Sector Exit Cap, Members noted that this had been brought into force on 4th November 2020, but had subsequently been revoked on 25th February 2021. The reason for the revocation was that the Exit Cap had resulted in unintended consequences. Fortunately, the Fund had not processed any relevant benefits in that period. The Treasury had advised that there would be a new version of the exit cap in form of a consultation, which the team would respond to.

The Pensions Regulator had launched a campaign to stop pension scams, which the Fund was in the process of signing up to. This involved a number of activities around ensuring robust processes, regular communications to scheme members and signposting to the Financial Conduct Authority's ScamSmart website and reference materials. Officers, Committee and Board members were also encouraged to undertake the scams module within the Pension Regulator's trustee toolkit.

The outcome of the public service pensions governance and administration survey for 2019, undertaken by the Pensions Regulator, had been published in November 2020. This was an anonymous survey which the Fund had responded to, focusing on six key processes. It was noted that there had been a reduction in the number of respondents who had a process for documenting and managing risks, but it was suggested that this may be due to a change in how the question was framed.

A consultation on TPR's singular code of practice was expected to be launched in March 2021. The new Code combined many differing codes of practice and was quite a cumbersome document, being very difficult to read and understand.

Work had been ongoing with regard to the Scheme Advisory Board's Good Governance Review. The report built upon the recommendations agreed in 2019 with further input from a range of scheme stakeholders. A full set of recommendations had been presented to MHCLG to consider.

A refreshed CIPFA Skills and Knowledge Framework is due to be released in April, and this would embedded within the Fund's Training Strategy.

Attention was drawn to the list of seminars and training events appended to the report, which was continually updated with recommendations on the most appropriate events to attend. There would be a new training strategy in the new financial year. It was noted that the credits available for each course would be reviewed in the new financial year, and the current credit system may not necessarily the best approach.

It was resolved unanimously to:

Note the content of the report.

## 240. Update to Funding Strategy Statement

The Committee considered a report which presented a number of amendments to the Funding Strategy Statement, for consultation with scheme employers. The various changes to LGPS Regulations and their impact on the management of the Fund were noted. Essentially, these formalised a number of flexibilities in the LGPS scheme around employer exits, changes to contribution rates and Deferred Debt Arrangements (DDA).

A Member asked if these changes were being applied universally across LGPS funds. Officers advised that the team had consulted with the Fund actuary, and the changes were being dealt with fairly uniformly across the LGPS scheme, but individual Funding Strategy Statements would reflect each Fund's individual approach, and it was noted that some funds may not be as flexible.

A Member observed that Fund employers included a large number of small organisations, other than Councils and Academies. Officers confirmed that the changes applied to all employers. Councils and Academies were the least likely to require these arrangements, and they were most likely to apply to admitted bodies. However, the Fund had asked the actuary to extend the cover to all employers.

In response to a Member question, it was confirmed that the recommendation was <u>for consultation with employers</u>, and the final policy would be reported back to June Committee for approval.

A Member asked what happened if a Scheme employer/former employer could not afford the exit payments, and if there was any quantification of this risk i.e. what would happen if an employer went bankrupt. Officers advised that they could not quantify this risk, but this issue had been reviewed around five years previously, and the level of risk exposure was determined to be immaterial. Security from all new employers was requested to cover the event of bankruptcy, and any outstanding contributions would be prioritised in the event of bankruptcy.

In response to a question on whether the changes to the Funding Strategy Statement had any implications for employees in what were previously local authority maintained schools, officers confirmed that there would no impact on any employees, as their pensions were guaranteed by the Regulations. The changes to the Funding Strategy Statement only related to employers.

A Member asked if there was a more fundamental risk, given the financial stability of the administering authority, the County Council, could be seen to have been undermined, especially over the last twelve months. Officers advised that if an administering authority failed, an alternative administering authority would be set up by government, as was the case in Northamptonshire.

It was resolved unanimously to:

Approve the amendments to the Funding Strategy Statement for consultation with employers.

## 241. Review of the effectiveness of the Pension Fund-Committee

A report was considered on Members' views of the adequacy of current arrangements for the Committee and its operation. A survey had been carried out, for which there was a 60% return rate. The full analysis of responses was attached as Appendix 1 to the report.

Two particular areas of concern were virtual meetings and the lack of paper copies. Differing views were expressed on the effectiveness of virtual meetings, and whether they should continue once physical meetings were permitted. Strong support was also expressed for paper copies of the agendas. Members were reminded that the County Council's Group Leaders had agreed in 2020 that no paper agendas would be produced for Members. A number of Members commented that it was difficult to interpret and follow reports electronically, and that paper agendas should be reinstated. Others commented that paper agendas and physical meetings were against the whole direction the Committee was taking in terms of minimising the Fund's impact on the environment. There was general agreement that virtual training saved a great deal of time and expense and should be the default option going forward.

It was resolved unanimously to:

Note the feedback and approve the plan of action to improve the effectiveness of the Pension Fund Committee in the areas identified.

## 242. Employer Admissions and Cessations Report

The Committee received a report on the admission of three admission bodies, one designating body, and the cessation of seven bodies. None of the admission bodies were discretionary.

It was noted that one of the bodies had owed backdated contributions when it had joined the scheme, and these contributions had since been paid in full.

Attention was drawn to ADEC, which had a funding surplus. As ADEC was an unattached employer, the surplus had been paid to that body as required by the legislation.

A Member suggested that reports could include annually whether there had been a net increase or decrease in the number of employers.

A Member asked what happened to employees or former employees of the bodies which cease. Officers outlined the different possibilities depending on the individual circumstances – in most cases, employees were TUPE'd to new contractors; in some cases, they became deferred members.

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 Limited
    - Stevenage Leisure Limited
    - YTKO Limited

2. Note the admission of the following designating body to the Cambridgeshire Pension Fund:
    - CMAT Educational Services Limited

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

    - Carers Trust (Caring Together Charity)
    - Kingdom Services Group
    - Lunchtime UK Limited x 3
    - Chartwells Catering
    - Easy Clean Contractor Limited
    - Adec (Arts Development in East Cambridgeshire)

## 243. 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).

## 244. Investment Strategy Statement

The Committee considered a report which presented the revised Investment Strategy incorporating the Fund's draft Responsible Investment Policy, as recommended by the Investment Sub Committee.

It was resolved by a majority to:

1. Note the report and draft Investment Strategy Statement;

2. Approve the draft Investment Strategy Statement for consultation with stakeholders and the timetable for finalisation and publication of the Investment Strategy Statement.

## 245. ACCESS Asset Pooling Update

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

It was resolved to:

Note the attached minutes from the ACCESS Joint Committee meeting of 12 November 2020;

Note the asset pooling update following the JC meeting of 13 January 2021.

As it was his last meeting of the Committee, the Chairman thanked Members, including those stepping down at the forthcoming elections, and all officers involved in the Committee for their support over the years, commenting that a lot of work went into producing the reports for Committee. Committee Members thanked the Chairman for all his hard work, calm and knowledgeable chairing, and ability to include all Members. The Head of Pensions thanked the Chairman and commented that his support to officers had been extraordinary.