MINUTES OF THE PENSION COMMITTEE

Date: Thursday 17th December 2015

Time: 10:00–11.50am

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; M Pink (of UNISON representing active LGPS members) and J Walker (of UNISON representing deferred and retired LGPS members)

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

Apologies: Councillors Seaton and Wisson; G Deeble

36. 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.

37. MINUTES OF THE PENSION FUND COMMITTEE 22ND OCTOBER AND ACTION LOG

The minutes of the Pension Fund Committee meeting held on 22nd October 2015 were approved as a correct record. The Action Log of the meeting was noted.

Arising from the Action Log, it was noted that all actions from the July and September meetings had been completed.

It was resolved to:

(1) approve the minutes of the Pension Fund Committee meeting held 22nd October 2015;
(2) note the Action Log of the Pension Fund Committee meeting held 22nd October 2015.

PUBLIC QUESTION

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

"I am a retired member of the Cambridgeshire Pension Fund and would like to ask the following question:

To what extent has the Cambridgeshire Pension Fund assessed the risk to its portfolio posed by climate change? The Bank of England governor Mark Carney, who is also chair of the G20 financial stability board, has identified three types of potential risk arising from climate change. These are:

- physical risks, for example to assets from extreme weather events linked to climate change
- liability risks resulting from those harmed by climate change seeking compensation from those they hold responsible, with carbon extractors, and their insurers, potentially being hit the hardest
- transition risks, which are the risks resulting from the transition to a low carbon economy, driven by policy or technology change, and resulting in the reassessment of asset value. (ref: Paris agreement)

Major investors across the world are starting to consider and respond to these risks. Notably the Dutch Pension Fund PFZW, the two biggest public pension funds in California and Germany's Allianz SE, one of the world's largest financial asset managers, have supported divestment, with, in the first instance, commitments to divest from coal.

Please could the committee comment on the extent of the risk assessment done to date in relation to these three types of climate risk and the pension fund's investment, and what further risk assessment is planned?

For reference, I used this Mark Carney speech as the source for the three types of climate risk:
http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx"

The Chairman asked officers to respond to the question (see attached summary at **Appendix 1**). Officers also advised that the Fund's Investment Consultant, Mercers, had also advised against divestment, stressing that divestment could give rise to a breach of fiduciary duty.

In response to a Member question, Ms Mooney advised that her information on major pension funds in other countries came from Mark Carney's September speech. Ms Mooney commented that there was considerable focus on divestment these days, not just from major pension funds but also faith groups, universities etc.

The Chairman thanked Ms Mooney for her question and for attending the meeting, and it was agreed that both Ms Mooney and Committee Members would receive a written copy of the response given.

38. 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 section on late payments and payment schedules by employers;
- actual administration and investment costs against the proposed forecast in the Annual Business Plan, showing the breakdown of expenses in each area. There was a variance of £55,000 due to staff vacancies;
- for the quarter 01/08/15-31/10/15, most Pension Service Key Performance Indicator (KPI) targets were either met or exceeded, with the exception of (i) providing estimates of benefits to employees, (ii) providing transfer quote to Members within 10 days and (iii) Employers submitting all new starters in a timely and accurate manner.

With regard to point (iii) above, Members noted the actions being undertaken to improve the percentage of new starters being submitted on time. Currently one large payroll provider was responsible for a lot of the shortfall, and this was mainly due to problems receiving the information. Further improvements were anticipated.

It was resolved to:

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

39. 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:

- KPMG had presented their findings on the different options for separation of the host authority (administering authority) from the Pension Fund;

- The recruitment for the remaining two vacancies on the Local Pension Board was completed in October 2015, with David Brooks as an employee representative and Ian Dewar appointed as employer representative;

- The DCLG Statistical Release provided interested information on the 81 Administering Authorities in England, giving details on changes in income and expenditure;

- The announcement in October that the Consumer Price Index (CPI) had a negative value (-0.1%) had potential implications for pensions accrued post 1.4.2015 – so far it had not been confirmed whether there would need to be a negative revaluation percentage applied to pension, which would clearly be undesirable and difficult to administer. It was hoped that it would be treated as a ‘no increase’ rather than a decrease;

- The government planned to proceed with the introduction of a public sector exit payment cap of £95K, although not all employers in LGPS would be affected. This would probably not become effective until July 2016;

- There would be a valuation training day, all day, on 3rd February at Girton College.

It was resolved to:

Note the content of the report.

40. EMPLOYERS ADMISSIONS AND CESSATIONS REPORT

The Committee received a report on the admission of one scheduled body and two cessations from the Fund.

It was noted that one of the cessations, Cheveley Parish Council, was somewhat unusual in that the last active member had chosen to transfer their pension benefits to their new employer, therefore there were no active, deferred or pension members, and all contribution payments were correct and up to date.

It was resolved to:

1) note the admission of the following admission body to the Cambridgeshire Pension Fund:
    - Action for Children (London Road)

2) note the cessation of the following bodies:
    - ABM Catering (Jeavons Wood)
    - Cheveley Parish Council

41. 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 August to 31st October 2015, a total of 40 individuals had been overpaid. Two cases were due to a delay in applying the correct Guaranteed Minimum Pension figures to the pensioner payroll records, and the total value of £55.42 was subsequently recovered through the payroll. £6,059.44 was due to scheme members dying and receiving overpayments, although £2,563.86 was written off due to the individuals' overpayments being less than £250. Invoices had been raised for the six cases pending recovery.

Members discussed the write off limit of £250, noting that this had been agreed earlier in the year when the Committee had considered the policy, and was an average of the limits applied by peer authorities.

It was resolved to:

Note the content of the report.

42. CIPFA PENSIONS ADMINISTRATION BENCHMARKING CLUB 2015

Members received a report on the results of the Pensions Administration CIPFA Benchmarking Club for 2015. It was noted that the Cambridgeshire Pension Fund had participated in the Benchmarking Club, which compared the performance of 45 authorities, for many years. It was noted that whilst useful, the results from the CIPFA Benchmarking Club were not a robust enough resource to be used in any analysis of the costs of running LGPS Pension Funds, as the questions could be ambiguous and the information provided was not always interpreted in the same way.

The net administration cost for Cambridgeshire was £19.44, just above the Club average of £19.17. This was primarily due to a higher than average Payroll cost (£4.25 per Cambridgeshire Member compared to a £1.85 Club average). The recent decision to move the *Oracle* to *Altair* payroll system should reduce this. In addition, the figure put forward for Actuaries was overstated.

It was noted that a high proportion of staff held no relevant qualification, but that the number of staff in training for a qualification was above the average.

In response to a question on the high numbers of deferred members, and whether this was due to outsourcing, officers advised that this was more likely to be related to the various employers in the Fund and their staff retention and redundancy rates; outsourcing required pension protection, so should not really impact on deferred membership. It was confirmed that deferred members were contacted before pensions became payable. Officers agreed to provide the Committee with information on how many deferred pensioners they had lost contact with. **ACTION: Mark Whitby.**

Members discussed the support available for staff training for professional qualifications, and the type of qualifications taken. Members were reassured by the numbers of staff undertaking appropriate training and qualifications and the support available to them.

A Member queried the low number of Cambridgeshire elected Members who were members of the scheme. It was suggested that this may be because the scheme was no longer open to elected Members.

A Member queried the large number of leavers unprocessed, compared to other authorities. Officers explained that this related to the Cambridgeshire and Northamptonshire teams transitioning into a single team, with a high vacancy rate. It was expected that this figure would improve next year.

Members were pleased to note the low sickness absence rates compared to peers, both short term and long term.

It was resolved to:

1) Note the report and the results of the 2015 Benchmarking Club.

43. PAYMENT OF EMPLOYEE AND EMPLOYER CONTRIBUTIONS POLICY

The Committee received a report on the draft Payment of Employee and Employer Pension Contributions policy.

The Policy set out a process that should be enforced by officers in order to seek resolution in cases of late payments, and ensure that future payments were made on time. Provision was made for both persistent late payers, and inconsistent/erratic payers. Members were asked if they considered the policy and fines appropriate. Members welcomed the policy, providing a robust or consistent approach to dealing with late payments. It was agreed that references to the “Chairman and Vice-Chairman” should be changed to “Chairman”, as in the absence of the Chairman, the Vice-Chairman would be consulted.

In response to a Member question, it was confirmed that any employee excluded as a result of the policy would not have a detrimental impact on the scheme members for that employer i.e. members would not be penalised because of the inefficiencies of actual scheme administrators.

It was resolved to approve the Payment of Employee and Employer Pension Contributions Policy provided in the appendix to the report.

44. 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.

APPENDIX 1

Cambridgeshire Pension Fund. [The Fund]

1. The Pension Fund Committee is aware of the recent dialogue on the investment implications of climate change and carbon emission management.

2. As a long term investor charged with looking to the interests of beneficiaries over many decades into the future, we recognise climate change amongst the key risk factors for our pension fund investments.

3. The Fund's policy on Responsible Investment is set out in the Statement of Investment Principles which can be found on the Fund's website.

4. The policy includes the following statements:-

   1) *"The Fund recognises that effective management of ESG issues can enhance long-term financial performance of investments, and therefore ESG factors should be a feature of investment analysis and management. This aligns with the best interests of the Fund's beneficiaries and is consistent with fiduciary duty."*

   2) *"The Fund adopts the view that it should seek out investment opportunities on the basis that they meet the needs of its long-term investment strategy and the nature of its liabilities."*

   3) *"In line with this policy and the Fund's commitments to responsible investment, the Fund recognises that it must do this whilst considering ESG issues whenever they are relevant."*

   4) *"The Fund has adopted a policy of engagement rather than exclusion."*

5. The Fund is working with the LGPS National Frameworks to implement a framework to provide external consultancy to assist LGPS funds in monitoring ESG issues and risks.

6. The Fund is stepping up its scrutiny of Environmental, Social and Governance risks and recently joined the Local Authority Pension Fund Forum ("LAPFF") to strengthen engagement. LAPFF represents a current membership of 66 local authority pension funds in particular Environmental, Social and Governance issues.

7. The Fund has not specifically addressed the three types of risk identified by Mark Carney, however is engaging through LAPFF to better understand the issues to develop an informed and balanced approach.

8. The Fund supports the work of LAPFF to promote a strategy of pushing for an "orderly transition" requiring companies to identify and tackle carbon risks in their business models.

9. The Government proposals for the aggregation of LGPS funds' investments into larger asset pools, will facilitate the opportunity for more focused, dedicated resources to assess ESG risks to the fund's investments.

The Local Authority Pension Fund Forum. [LAPFF]

10. LAPFF believes that active engagement with company management as representatives of asset owners is more effective than adopting a policy of disinvesting from companies.

11. Members of the Pension Committee recently attended the annual conference of LAPFF and received presentations on carbon transition management from executives of:

    - Carbon Tracker Initiative, an independent think tank which provides in-depth analysis on the impact of climate change on capital markets and investments in fossil fuels;

    - Energy Strategy & Government Affairs, Siemens plc, who described the progress towards renewable energy targets for the UK electricity generation industry;

    - The Environment Agency Pension Fund, who have been a leader in pension fund responsible investment;

    - Greater Manchester Pension Fund, who have identified investible opportunities in renewable energy.

11.1 The consistent messages were, continue to engage as shareholders and adopt a patience persistent but long term approach to effective engagement.

12. LAPFF has encouraged companies to adopt and implement effective environmental management policies through proactive engagement with company management on a one-to-one basis and posing questions to company boards at Annual General Meetings. Examples of successes have been:

    - Engagement with BG as long ago as 2008 resulted in setting a carbon emissions reduction target.

    - Filing resolutions which were carried by support of over 98% of shareholders at both BP and Shell Annual General Meetings requesting that the companies assess their asset portfolios for resilience against a number of International Energy Agency (IEA) scenarios including remaining within two degree temperature increase limits.

13. LAPFF members echo the views expressed by the public services union, UNISON:

    - “The first duty of the LGPS is to pay the staff their pension benefits when they retire”;

    - “Divesting in carbon assets without having found renewable investment returns would create huge economic uncertainty”; and

    - “It would be irresponsible to begin any programme of divestment in fossil fuels that threatened in any way the ability of the funds to pay people’s pensions.”