CONFIDENTIAL MINUTES OF THE PENSION FUND COMMITTEE

Date: Thursday 18th June 2020

Time: 10.00am – 1.05pm

Venue: *Meeting held remotely in accordance with The Local Authorities (Coronavirus) (Flexibility of Local Authority Meetings) (England) Regulations 2020*

Present: County Councillors P Downes, I Gardener, A Hay, T Rogers and M Shellens; Cambridge City Councillor R Robertson; Lee Phanco, Matthew Pink and John Walker

Officers: B Barlow, C Blose, D Cave, P Gent (Mercer), S Heywood, M Hodgson (Ernst Young), M Oakensen, R Sultana, P Tysoe, J Walton and M Whitby

Apologies: None

184. NOTIFICATION OF CHAIRMAN AND APPOINTMENT OF VICE-CHAIRMAN

It was noted that Councillor T Rogers had been appointed as Chairman of the Pension Fund Committee at the full Council meeting held on 19th May 2020.

Having been duly moved and seconded, it was unanimously resolved to appoint Councillor I Gardener as the Vice Chairman of the Pension Fund Committee.

185. DECLARATIONS OF INTEREST

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

186. APPOINTMENT OF INVESTMENT SUB-COMMITTEE

Having noted that as set out in the County Council Constitution the Chairman and the Vice Chairman of the Committee (Councillors Rogers and Gardener) automatically became the Chairman and Vice Chairman of the Investment Sub-Committee, the following appointments were agreed as set out below from those relevant to take part in the approval process.

Cambridgeshire County Council (CCC) Members – four

The following four Councillors listed below had been proposed by Full Council taking into account political proportionality but required the approval by the Committee.

Automatically appointed as a result of their appointment as Chairman and Vice-Chairman:

Chairman Councillor Terry Rogers (Conservative)
Vice Chairman: Councillor Ian Gardener (Conservative)

It was resolved to confirm the following County Councillors as one of the other two appointments to the Pension Fund Investment Sub-Committee:

Councillor Mike Shellens (Liberal Democrat)

There was currently one County Councillor vacancy (Labour).

All other employers – two

Two places were required to be drawn from the two Committee member places representing 'all other local authorities, police and fire' and the one Committee member place representing 'all other employers'. It was confirmed that Peterborough City Councillor David Seaton would be appointed to one of these vacancies, whilst the other appointment was currently a vacancy.

The Committee resolved to endorse this appointment:

- Councillor David Seaton

Scheme member representative – one

This appointment was required to be drawn from either the one Committee member representing Active Scheme Members or the one Committee member representing deferred and pensioner scheme members. The appointee was John Walker. Mr Walker advised that he had been further appointed by UNISON to serve until 2022.

It was resolved to endorse this appointment: John Walker.

187. PUBLIC QUESTIONS

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

"On behalf of the Cambridge Green Party.

"Greening Finance is one element of the Climate Change and Environment Strategy. It states that '*The Council and its Local Authority partners, together, are well placed to drive emission reductions*'.

"On 9th October 2019 the Guardian Newspaper reported 20 Companies identified by Richard Heede at the US Climate Accountability Institute. These '*have contributed to 35% of all energy-related carbon dioxide and methane worldwide, totalling 480bn tonnes of carbon dioxide equivalent (GtCO2e) since 1965.*'

"Will the Council take action so that the Cambridgeshire Pension Fund joins those of other Local Authorities in divesting from fossil fuel companies? Other Councils including the Cheshire Pension Fund, the West Midlands Pension Fund and Waltham Forest are already doing this."

At the invitation of the Chairman, the Head of Pensions provided the following response:

The Pension Fund strongly believes in responsible investing, reflecting an overriding fiduciary and public law duty to act in the best long-term interests of its stakeholders, including scheme members and employers, to achieve the best possible financial return, with an appropriate level of risk.

The Fund recognises the importance of how environmental, social and governance (ESG) factors can impact on financial performance and specifically with regards to climate risk, have recognised in our risk register that climate risk has the potential to significantly alter the value of the Fund's investments.

The Fund requires all investment managers to take account of both financial and non-financial factors in their investment decisions, including around the selection, retention and realisation of investments. Managers are challenged on their engagement activities in connection with ESG issues, including climate risk, and must report regularly on their compliance with our policy.

A considerable amount of each discussion with an investment manager, both at a Fund and asset pool (the ACCESS asset pool) level, is dedicated to ESG, and where necessary further dedicated meetings have been convened.

The outcome of this policy within the Fund equity holdings has been a reduction in fossil fuel holdings from 5.4% of the Fund in 2017-18 to 2.4% of the Fund in December 2019, I should stress that that is all equities, including passive.

The Fund does not restrict an investment manager's stock selection by reference to these factors, except where restrictions have been put in place by Government. Instead the Fund believes in long-term investing with active engagement with company management to promote good corporate governance principles to protect and enhance shareholder value.

Finally, and perhaps most importantly, the Fund is undertaking a detailed analysis exercise to take a deeper dive in this area over Summer 2020 and is also undertaking a programme of reviewing its responsible investment beliefs with a view to revising the Funds Responsible Investment Policy later this financial year. The revised policy will be subject to full consultation with stakeholders.

Mr Potter thanked the Chairman and officers, and commented that he appreciated that it was a complex area in terms of the sums and strategies involved, but he hoped that the review would come back with a positive answer.

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

188. MINUTES OF THE PENSION FUND COMMITTEE MEETING HELD ON 14th JANUARY 2020 AND ACTION LOG

The minutes of the Pension Fund Committee meeting held on 14th January 2020 were approved as a correct record and were signed by the Chairman.

The Committee noted the Minute Action Log.

189. CAMBRIDGESHIRE PENSION FUND AUDIT PLAN - YEAR ENDED 31 MARCH 2020

The Committee considered Ernst & Young's audit plan for the Cambridgeshire Pension Fund's Statement of Accounts for the year ended 31 March 2020. Officers explained that the Audit Plan would usually be presented to the Committee in March, but this presentation had been delayed due to the Covid-19 pandemic. The main part of the Audit had been completed, and officers' view was that it had gone very well. The draft accounts were now ready, and would be presented to the Audit & Accounts Committee in July.

Mark Hodgson, representing Ernst & Young, presented the Audit Plan. He advised that due to the pandemic, the timetable for production of the accounts had been revised, and the accounts now needed to be laid by 31/08/20, and published before 30/11/20. He raised the following key points:

- In terms of the audit risks and areas of focus, the detail of the fraud risks identified were the same in any audit plan;

- There continued to be a significant risk to the Fund around the Cambridge & Counties Bank, given that it was a 'non routine investment'. All such Level 3 investments were difficult to value as these were not based on market prices. An estimate was provided in the draft accounts, but a specialist valuation would be obtained and the final audit would be based on that;

- Noted the impact on cashflow forecasts going forward, if investment balances had dropped. Pensions officers had been preparing this information.

- In terms of materiality, there was a £31.9M reporting materiality threshold (1% of the Fund's net assets), and any audit adjustments above £1.59M would be reported back to the Committee later in the year;

- Fieldwork had started in late May, and the audit had gone very well, with the majority of planned procedures already completed;

- The impact of the pandemic would need be assessed on an actuarial basis. Mr Hodgson paid tribute to the pensions team for their full cooperation, especially Ben Barlow and Fiona Coates. The final plan would be brought to future meetings of both the Pension Fund Committee and the Audit & Accounts Committee.

Councillor Shellens, speaking as Chairman of the Audit & Accounts Committee, advised that the report reflected some of the information that that Committee received, confirming the very good performance of Pensions, in particular in terms of producing straightforward, simple audits. He expressed his thanks for all the work being done.

It was resolved unanimously to:

1) Note the presentation of the audit plan by Ernst & Young, the Fund's Independent External Auditors

190. INTERNAL AUDIT REPORT 2019-2020

The Committee considered a report from the Audit and Risk Manager on the findings of Internal Audit work during 2019-20. Members were pleased to note that the Internal Audit Report assessed the processes in place as providing the highest level of assurance available, concluding that effective systems were in place, with no weaknesses identified. The Report also gave “Good” assurance on Compliance.

Members noted that two of the actions identified in the Action Plan had already been implemented. Prompt action was being taken in relation to the third action, which related to unreconciled items between Pensions and the Payroll team, and a process was in place to complete that review. Given the scale of this review, it was not possible to judge how quickly these actions would be completed.

Officers were thanked by the Committee for their hard work on this issue.

It was resolved unanimously:

1) To note the Internal Audit work during 2019-20.

191. PENSION FUND ANNUAL BUSINESS PLAN AND MEDIUM-TERM STRATEGY 2019/20 TO 2021/22

The Committee considered the Annual Business Plan and Medium-Term Strategy, which detailed the Fund’s key areas of activity over the period 2020/21 to 2022/23. It was noted that a revised version of the Business Plan had been circulated to Members, but that the changes in that document were very minor. It was stressed that the Committee was being asked not only to approve the Business Plan, but also the associated expenditure and activities. Activities had been reprofiled in the light of the Covid-19 pandemic.

It was noted that in terms of Administration, the pandemic was not having a significant impact on administration costs, but officers were unsure what the shape of the recovery would be, and the impact this would have on cashflow.

The majority of the total investment expenses were now incurred within the pool, which was the reason for the ongoing reduction in these expenses. The cost of investment consultancy under governance costs was reflected in the increased 2019/20 figure. Staff related costs were broadly the same, but because the team had started the pre-Covid period at full establishment, and there had been very little staff turnover during that period, this figure was expected to be slightly over estimate by the end of the period.

Arising from the report:

- A Member queried the relationship between the County Council overheads and LGSS administration costs, specifically as the future of LGSS was uncertain? Officers responded that some of the overheads related to LGSS and other corporate areas, and were all captured within that one line. In terms of where the Pensions team sits, Northamptonshire County Council was moving to a lead authority model, but the impact from the Committee and scheme members' perspective would be negligible, as it would be the same team, but positioned in a different structure;

- Responding to a question on the extension of the existing payroll software, Heywood Altair, it was noted that the contract included the ability to extend for a further three years from 2021. Because of the various issues currently, including the pandemic, lead authority and other IT and business system issues, it was not a good time to undertake a full tender, as at least a year would be required to transition, so it was proposed to take up that extension. The proposal to extend the contract was set out in the Business Plan, and it was confirmed that the Heywood Altair software was used by the majority of local authorities, and officers were satisfied with its functionality;

- The Committee noted that as a result of the McCloud case nationally, there may be a requirement to collect data relevant to the transitional period. This piece of work could expand considerably, and advice was being taken so that that could be properly scoped;

- Regarding OPS1 (Resolution of unprocessed leaver records), the Committee was advised that officers had sought the agreement of the Chairman and Vice Chairman to outsource a further tranche of this casework to Aon. A Member asked if it was possible to pass the cost of this on to Employers, because if all employers provided notifications on time, these costs would not be incurred. Officers advised that the cost ultimately goes back to employers through their administration costs. Going forward, there had been changes to the way the team were notified of leavers, and the new process was explained. It was noted that an exercise had been undertaken after the year end process last year, and employers had been advised what the charges would be if the team chose to recover them;

- Members noted the further work on Responsible Investing, and that this would be the theme of the virtual training day on 15th July, which would include practical examples of both impact and factor investing. This training would be followed up with a beliefs survey and then a consultation. It was confirmed that the training day on 15th July was a bespoke training session aimed at Pension Fund Committee and Local Pension Board Members from Cambridgeshire and Northamptonshire.

It was resolved unanimously:

1) approve the Business Plan and Medium-Term Strategy attached to the report.

192. GOVERNANCE AND ADMINISTRATION RISK MANAGEMENT IN LIGHT OF THE CORONAVIRUS PANDEMIC

The Committee considered a report which provided an update on the measures in place to ensure the continued governance and administration operations of the Cambridgeshire Pension Fund. The report included a risk log for the Coronavirus pandemic.

Members were reassured that since Lockdown, Pensions staff had been working from home, but there had been no interruption to how the Fund operated. The output of casework had been maintained at the same level, and there had been no significant levels of sickness.

A Member asked about the risk of fraud in relation to the deaths scheme members who were resident abroad. Officers advised that the pandemic had not added to that risk. There was a general problem of deaths abroad, as each nation had its own processes, and extensive work had been undertaken by the pension team in recent years to tighten up on these processes, including an overseas 'proof of life exercise' which would be repeated. The Committee was reassured that additional measures were taken with overseas pensioners, and there were only around 500 overseas pensioners in the Cambridgeshire Fund, many of whom had quite small pensions.

In terms of the level of fraud, it was noted that there were few cases and the amounts involved were negligible.

It was noted that there was one additional control added to the Risk Register, which was increased engagement with investment managers.

The Vice-Chairman thanked all officers for all their hard work in what has been a very challenging period for everybody.

It was resolved unanimously to:

> Note the report.

193. UPDATE TO FUNDING STRATEGY STATEMENT

The Committee considered a report on required changes to the Funding Strategy Statement. The Funding Strategy had to be updated to reflect the 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. Discussions were ongoing with legal and actuarial advisors, and the final version of the Statement would be presented to the Committee following consultation. Each case would be reviewed on an individual basis.

In response to a Member question, it was confirmed that the Statement would not include specific examples, but provide a broad outline of how the process would work to ensure that it was fair. It would also set out the process if for example, an existing employer owed money to the Fund.

It was resolved unanimously to:

> provide delegated authority to the Head of Pensions, in consultation with the Chairman of the Committee, to approve draft amendments to the Funding Strategy Statement.

194. EMPLOYER ADMISSIONS AND CESSATION REPORT

The Committee received a report on the admission of five admission bodies, and the cessation of seven bodies.

It was noted that most of the seven admission bodes related to catering and cleaning functions previously coming under the remit of the Council service (CCS), and also one Care Home. It was confirmed that the Fund had no discretion in admitting these bodies.

One Member expressed concern about the number of small employers joining the Fund, as each employer carried a cost in terms of administration. He asked if it was possible to segregate the Fund so that administration was more simplified for small employers. Officers confirmed that initial administration costs were recovered, along with proportional administration costs on an ongoing basis, and outlined the other safeguards that were in place to reduce risk for the Fund.

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
- Busy Bee Cleaning Services
- Easy Clean Contractors (2 admission agreements)
- Pabulum Ltd (2 admission agreements)
- Radis Community Care
- Taylor Shaw
- VHS Cleaning Service Ltd

2. Note the cessation of the following bodies from the Cambridgeshire Pension Fund:
- Advanced Cleaning Services (ACS) Ltd
- Aspens Ltd
- Chilford Hundred Trust
- Holmewood and District Internal Drainage Board
- Leisure Provisions Ltd
- P3 – People, Potential and Possibilities
- Pabulum Ltd
- Wisbech Grammar School

3. Approve, in principle, the proposal to agree a repayment plan with Wisbech Grammar school

195. EXCLUSION OF PRESS AND PUBLIC

It was resolved unanimously:

> 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 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.

196. INVESTMENT UPDATE

The Committee received a presentation from Peter Gent of Mercer on the Fund's Investment performance.

It was resolved unanimously:

Note the report.

Chairman