CAMBRIDGESHIRE LOCAL GOVERNMENT PENSION FUND

Some members of the Corporate Governance Committee (CGC) received a presentation about the Cambridgeshire Local Government Pension Fund on 27 September 2013, immediately before the Committee started its formal meeting. This report highlights the key issues arising from that presentation.

Why does this matter?

The pension fund is very important to SCDC:

(a) 1,116 of the Council's current and former Officers (including a number of Councillors) depend on the pension fund. This comprises:

- 392 active 'contributors' (current employees, who make contributions to the fund as a deduction from their gross pay and for whom the Council also pays into the fund);
- 312 'deferreds' (former employees not yet receiving their pension due to not having reached pension age or through personal choice); and
- 412 'pensioners' (former employees, in receipt of pension payments).

(b) Last year (2012/13) the Council paid for £2.3m into the fund, or 21.7% of the salaries of our current employees. We also set aside a further £0.3m in our accounts as a provision towards the deficit.

The pension fund is therefore a very big financial and social commitment for SCDC.

Background

Our staff are members of the "Cambridgeshire Local Government Pension Fund". The rules for the scheme are set by the Government under national legislation.

This is a massive scheme, for over 57,000 current and former employees of: the County Council: six District Councils: the Fire, Police and Probation services; over 40 sixth-form colleges, academies and schools; over 40 town and parish councils and internal drainage boards; and over 60 charities and other similar bodies, including contractors who have had Council staff transferred to them under TUPE .

Governance

The "Administering Authority" of the pension fund is Cambridgeshire County Council, which means that it is in the driving seat for all management and decisions, though it does involve others to a certain extent.

The governing body is the "**Pensions Committee**" which has 11 members:

- 6 County Councillors, selected under the same rules as a committee of the County Council, i.e. chosen at each annual meeting under rules of political proportionality. They currently are Steve

Count (Chair)*; Peter Ashcroft*; Roger Hickford*; Maurice Leeke*; John Reynolds; Ashley Walsh. (see below for why certain names have been asterisked).

- 2 Councillors from Peterborough City Council, the six District Councils and other local authorities. All Leaders were written to and asked to make nominations; the Chief Executives then made the choice. They currently are Nick Guyatt* (Huntingdonshire District Councillor) and David Seaton* (Peterborough City).
- 1 person representing the universities, colleges and other employers. There are two 'employer forums' each year where the pension fund is discussed, and the representative was elected at one of these. This is David Brooks.
- 2 people, one representing staff who are currently employed (currently Matthew Pink), and one representing former employees (John Walker*). Both are nominated by Unison.

It appears that only a very few of these people have detailed professional knowledge of pensions or investments, although all members are provided with training before they are able to participate on the Committee.

The Pension Committee sets strategy, e.g. investment strategy, administration strategy, communications strategy.

The **Investment Sub-Committee** carries out the investment strategy. It has 7 members, all drawn form the Pensions Committee: 4 of the 6 County Councillors, 2 of the 3 representatives of the other employers, and 1 of the 2 Unison representatives. They are the people mentioned above who have an asterisk by their name. From the presentation we were given, it was not immediately apparent to the Corporate Governance Committee that all of these people were especially knowledgeable in investment matters. The CGC was surprised that there were no non-executive, co-opted or advisory members who were especially knowledgeable in investment matters, e.g. perhaps because they worked in that industry.

Administration

The administration work is carried out by a body called LGSS. This is a shared-service body, which manages two pension funds: Cambridgeshire's and Northamptonshire's. The head is Steve Dainty, who was the person who kindly presented to the Corporate Governance Committee. Note that he was awarded the prestigious title "Pensions Manager of the Year 2012" by UK Professional Pensions Awards 2012, which encompasses both public and private funds. The CGC took great comfort from this and from meeting Steve.

LGSS employs about 60 staff (full-time equivalents), most of them handing all the calculations and administration needed for the over-100,000 members of both funds. But note that, in governance terms, the two funds are run totally independently of each other.

Financial position

The financial position of Cambridgeshire Local Government Pension Scheme is in bad shape, with a continuing deficit between its assessed liabilities (what the fund is liable to pay out) and its assets. Partly, this has arisen from poor investment performance over recent years. The following figures are for the year to 31 March 2012.

- It has **£1.6 billion of assets**: mainly stocks, shares and bonds
- On an actuarial assumption of how long its pensioners will live etc, it is estimated that the present value of its **liabilities is £2.1 billion** (i.e. the pensions that it will have to pay out)
- So **its assets are only 73% of its liabilities**.
- This is why SCDC and all the other employers are having to pay so much into the fund each year – to try to make up this deficit year-by-year over the next 20 years.
- Employees make contributions of 5.5% to 9.5% of their salaries (higher paid staff pay a bigger proportion than those on lower salaries)
- SCDC currently provides a further 25% of employees' salaries to meet this liability, totalling £2.6m last year. Roughly, this comprises a 17% contribution to meet the future liabilities of the fund, and a 8% contribution towards the deficit.
- The Actuary is currently reassessing the assets and liabilities as part of a fundamental 3-yearly review. We will have the results of this assessment in early 2014.

Investments

The pension fund's £1.6 billion of assets are invested as follows:

- 34.5% in a Schroders multi-asset fund
- 25.5% 'passive' or 'index tracking', invested by State Street Global Advisers and M&G in UK equities, global equities, index-linked gilts and bonds
- 12% in a Newton global fund
- 12% in an Amundi European fund
- 11% in a Schroders property fund
- 4% in a private equity fund
- 1% elsewhere

Recent re-organisation

It is important to note that the governance and administration arrangements described above are new, and date from 2011, and that Mr Dainty only arrived at that time. It seems that matters were less organized before then. This is important in the context of the next section.

Performance

The fund has under-performed its benchmark, and underperformed the average local authority fund, over the past year (meaning 2011/12), 3 years, 5 years and 10 years. Over 10 years, our investments have risen by an average of 5.0% pa, whereas the benchmark has risen by 5.8% pa and the average local authority pension fund by 5.7% pa.

Other matters to note

We didn't cover this in our meeting with Steve Dainty but the other reasons the fund is running at a deficit are:

- It used to be Government Policy that Local Government pension funds should run at a deficit and, accordingly, contributions were set artificially low.
- The Pension Fund's investment returns were severely impacted by the change to the treatment of tax on dividend pay outs.
- The global economic downturn has impacted on investment returns generally.
- We are all living longer, so the actuary is assuming that more pensions will be paid out over longer periods.
- Councils, in the past, made decisions on allowing early retirements without taking account of the "strain" this caused the fund as pensions were paid out before normal pension age.

The Government is changing the rules of the pension scheme in April 2014. These rule changes will help to manage down the risk of future structural deficits being created but will have no impact on reducing the historical deficit.

Francis Burkitt

Chairman, SCDC Corporate Governance Committee