

CUMBRIA LOCAL PENSION BOARD

Meeting date: 15 July 2022

From: Pam Duke, Director of Finance (s151 Officer)

OVERSIGHT OF PENSIONS COMMITTEE DECISIONS AND OTHER MATTERS FOR CONSIDERATION

1.0 EXECUTIVE SUMMARY

- 1.1 *The role of the Board is to assist the Administering Authority in all aspects of the governance and administration of the Local Government Pension Scheme (LGPS).*
- 1.2 *Cumbria County Council, as Administering Authority for the Cumbria LGPS ('the Fund'), has delegated its functions, under Section 101 of the Local Government Act 1972 to the Cumbria Pensions Committee ('the Committee').*
- 1.3 *Section 4 of this report summarises the work conducted, and decisions made by the Committee at its meeting held on 16 June 2022, in order that Board Members can oversee the governance of these decisions as part of their legal responsibility to members of the Fund.*
- 1.4 *This report also advises Members of other matters arising, including regulatory changes, since last reported to the Board. Pension administration issues have been highlighted in a separate report in Part 2 of this meeting to allow for a more detailed focus on these items.*

2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS

- 2.1 *The purpose of the Fund is to pay Cumbria LGPS members' pension benefits in accordance with regulations and in a secure, affordable and sustainable manner over the short, medium and long term. To do this, the Fund seeks to:*
 - *ensure that sufficient resources are available to meet all liabilities as they fall due;*
 - *manage employers' liabilities effectively and enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the scheduled, resolution and admitted bodies;*

- *achieve and maintain Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future; and*
- *maximise the returns from investments within reasonable risk parameters taking into account the above aims.*

2.2 *Good governance and risk management will aid the Fund in ensuring its regulatory responsibilities are met, a good service is provided to scheme members, costs are controlled, and its required investment return is achieved. Cost control and the investment performance of the Fund will have a direct impact on the funding level and therefore all employers' contribution rates. This will have a direct impact on the Fund Employers' revenue budgets.*

3.0 RECOMMENDATIONS

The Board is recommended to: -

3.1 *Note the decisions approved and other matters considered by the Pensions Committee at the meeting held on 16 June 2022 and request further information and/or feedback to the Pensions Committee as appropriate.*

3.2 *Approve the draft Annual Report of the Cumbria LGPS Local Pension Board 2021/22 for inclusion in the Annual Report for the Cumbria LGPS 2021/22.*

4.0 PENSIONS COMMITTEE DECISIONS

4.1 The Cumbria Pensions Committee is the delegated decision-making body for the Fund, and as such its decisions are of particular relevance to the Cumbria Local Pension Board ('CLPB' or 'the Board'). It is the role of the Board to assist the Administering Authority of the Cumbria Local Government Pension Scheme to secure compliance with: -

- a) The regulations covering administration of a local government pension scheme;
- b) Other legislation relating to the governance and administration of the LGPS; and
- c) The requirements imposed by the Pensions Regulator in relation to the LGPS.

4.2 The Board is also required to assist the Administering Authority to ensure the effective and efficient governance and administration of the LGPS.

4.3 Pensions Committee papers are currently available through SharePoint for all Board members to access at the same time as they are sent out to Pensions Committee Members. This enables any questions/queries to be raised by the Board either at or before the relevant Pensions Committee meeting.

- 4.4 In addition to the quarterly monitoring reports Parts 1 & 2, the June meeting considered the following reports:
- Update from Cumbria LGPS Local Pensions Board;
 - Draft Unaudited Accounts to 31 March 2022;
 - Provisional Budget Outturn and Delivery against 2021/22 Business Plan; and
 - Investment Sub-Group Activity report to May 2022
- 4.5 The Committee also received a presentation by the Fund's actuary, Mercer Ltd, to provide training ahead of the 2022 Actuarial Valuation. All recommendations within the papers presented to the June meeting were agreed by the Committee. See Appendix 1 for additional commentary.

5.0 OTHER MATTERS

Annual Report:

- 5.1 The Public Service Pensions Act 2013 requires the Fund to produce an annual report on the work of the Board. The draft Annual Report of the Cumbria LGPS Local Pension Board 2021/22 is attached at Appendix 2. This is published as a constituent part of the Fund Annual Report for the Cumbria LGPS. The Board are requested to approve this draft report for inclusion in the Annual Report for the Cumbria LGPS 2021/22.

Legal Breaches:

- 5.2 The Fund had no breaches during the quarter that were considered sufficiently material that they would require reporting to the Pensions Regulator. However, during the quarter the Fund received an application under its Internal Dispute Resolution Procedure relating to the release of personal information during the handling of an enquiry relating to a death grant payment. Investigation of the matter by officers identified that information provided to one of the beneficiaries of the death grant by LPPA constituted a breach of General Data Protection Regulations.
- 5.3 In accordance with their respective policies, LPPA and the Fund both reported the breach via their appropriate reporting channels. In both cases the respective Senior Information Risk Owners concluded that the breach was a "level 2" breach, with key factors being the isolated nature of the incident, the nature of the data disclosed (the names of two individuals and the amount of the death grant awarded to them), and the risk of the impact to the individuals. As such the breach didn't require reporting to the Information Commissioner's Office.
- 5.4 Nonetheless, the matter was still considered to be very serious. In recognition of this, an investigation into the matter was undertaken by LPPA. The conclusion of the investigation was that the error was made by an inexperienced member of staff and, to seek to reduce the risk of such an

incident recurring, LPPA have implemented additional training for relevant staff.

- 5.5 Non-compliance events arising from late payments of pension contributions and failure to provide the Fund with monthly member payroll data are presented in Paper 12 on this agenda.

Risk:

- 5.6 Risk management is a key element of good governance for any organisation. Officers of the Fund continually review and monitor risks bringing any significant emerging issues to Members' attention throughout the year, with Pensions Committee formally reviewing these at each meeting. This quarterly review process ensures consistent and timely Member oversight of risk monitoring and thereby provides enhanced due diligence in this regard.

- 5.7 The current risk register at July 2022 is presented at Appendix 3. Two risks have been added to the register over the past quarter:

- **New Risk in Q1: Ref 3.3 – Russian Invasion of Ukraine**

Impact of occurrence score	3
Likelihood of occurrence score	3
Total Risk Score	9 (Amber)

Russian invasion of Ukraine - There is a risk that the Russian invasion of Ukraine creates turbulence in the investment markets and assumptions used by the actuary as part of the 2022 valuation which could impact onto employer contribution rates payable to the Fund. This risk had previously been included in the risk register as an emerging risk.

The invasion of Ukraine by Russia has led to increased uncertainty and volatility on global financial markets. Furthermore, it is considered that sporadic illiquidity may persist in some markets. There is a risk that the impact of the invasion on financial markets may affect the value of investments within the Cumbria LGPS, however this risk is mitigated through the diverse portfolio of the Fund. Officers will continue to work with Advisors and investment managers to monitor this risk and report back to the Investment Sub Group, Pensions Committee and Local Pension Board on any developments.

- **New Risk in Q1: Ref 3.4 – Inflation**

Impact of occurrence score	3
Likelihood of occurrence score	3
Total Risk Score	9 (Amber)

Inflation - There is a risk that increased long term inflation in the UK and global economies may impact on investment returns and assumptions used by the actuary as part of the 2022 valuation which could impact on employer contribution rates payable to the Fund.

There is a risk that, if inflation over the long term was to rise sharply and asset values did not keep pace with any increases, the Fund's strong

funding position may weaken and impact on employer contributions. The Fund's review of its investment strategy in 2020/21 (approved by Pensions Committee in March 2021) increased allocations to assets that are more closely linked to inflation e.g. long lease property, index linked gilts and infrastructure equity and diversified private debt.

Officers are liaising on a regular basis with the Fund's actuary to assess the potential impact of inflation on the valuation of the Fund. Where appropriate, Officers would give an early warning to employers if it were considered that this would have a material impact on the 2022 valuation of the Fund and will work with Advisors and the Investment Sub Group to consider any need to review the investment strategy. Updates will be provided to Pensions Committee and Local Pension Board

- 5.8 The risk associated with the COVID-19 Impact on fund investments has been removed from the risk register at July 2022 reflecting that this has been well managed throughout the pandemic and the Fund is now beyond the date at which assets will be valued for the 2022 actuarial valuation.
- 5.9 In addition to the risks detailed above, the comments associated with some risks have been amended to reflect progress over the past quarter. In particular, the current controls and measures to respond to risk 3.1, Investment Performance, has been reviewed and amended to clarify.
- 5.10 There is currently one risk assessed as "red" associated with information security arrangements. Additionally, there are 3 "amber" and 14 "green" rated risks.

Data Quality:

- 5.11 The Board has been tasked by the Pensions Committee with monitoring data quality improvement and actions taken to improve data quality.
- 5.12 Data held within Cumbria LGPS continues to be of a good quality. This is evidenced by the scoring mechanism as set out by the Pensions Regulator. The Local Pensions Partnership (LPPA) quarterly performance report (attached as Appendix 1 to agenda item 12) provides tPR data scoring information at pages 37 & 38 of that report. This notes that the Scheme reported 98% of its common data (e.g., NI number, address etc.) was present and accurate and the scheme specific conditional data (e.g., employment details, contribution history etc.) was scored as being 95.3% present and accurate, continuing the upward trend.
- 5.13 Ahead of the data cut for the 2022 Fund valuation, Officers have continued to focus attention on supporting scheme employers to ensure data is as up to date as possible. In September 2021, employers across the Fund had 1,408 leaver forms outstanding that were due to be submitted to LPPA. Targeted work by Officers has led to the number of outstanding leaver forms at the end of April 2022 reducing to 664. The SLA target for processing these forms is currently 10 working days however, given the large number submitted, it will not be possible for LPPA to meet the SLA target given the volume to be processed. LPPA have however committed to clearing these

leaver forms before the data cut is taken by the Actuary for the 2022 valuation. It should be noted that this will only affect the processing of leaver forms and key SLA targets such as retirements and deaths are expected to be unaffected.

- 5.14 The National Fraud Initiative (NFI) exercise continues to be carried out by the Fund at six monthly intervals. All cases previously identified and notified to LPPA have all been actioned. The latest cohort of results are expected in July 2022.
- 5.15 Scheme members signed up to My Pension On-Line are currently at 39%. This is higher than the average rate of other LPPA Funds using the Heywoods pensions administration system (including Cumbria) and recognises the positive promotion that the Fund and employers have given to this product. Scheme members will be required to sign up again to the on-line portal following transition to Civica – currently planned for December 2022 for the Cumbria fund.

Investment management and Fund Performance:

- 5.16 The Pensions Committee focus is the long term strategic asset allocation and overall long term performance of the Fund. Individual manager monitoring is undertaken by the ISG, with any matters of concern reported to the Committee in the quarterly ISG Report.
- 5.17 The Investment Sub Group (ISG) report from the May meeting was included in the reports to the June meeting of the Pensions Committee, with a summary in Appendix 1.
- 5.18 The Fund’s assets fell in value from £3,361m at 31 December 2021 to £3,318m at 31 March 2022 per the draft Unaudited Accounts¹ as markets experienced a difficult quarter. Russia’s invasion of Ukraine led to a spike in volatility which was exacerbated by rising inflationary pressures. The quarter proved challenging for almost all major asset categories with equities declining and bond yields rising. This was reflected in the Fund’s performance over the quarter to 31 March 2022 which was a negative return of -1.5%.
- 5.19 The performance against the Fund’s specific benchmark for 1, 3, 5 and 10 years is presented in the table below noting that long term performance continues to exceed the benchmark.

	31 March 2022		
	Cumbria Performance	Bespoke Benchmark	Variance to Benchmark
1yr performance	9.7%	8.6%	1.1%
3yr performance	7.9%	7.5%	0.4%
5yr performance	6.9%	6.7%	0.2%

¹ The figure per the draft Unaudited Accounts is different to the figure reported to the ISG (£3,306m) because the Accounts were produced after the report to the May ISG meeting. The Accounts incorporate a handful of additional confirmed valuation figures as at 31 March in private markets (alternative) investments which weren’t available at the time of the production of May’s ISG report

	31 March 2022		
	Cumbria Performance	Bespoke Benchmark	Variance to Benchmark
10yr performance	9.1%	8.2%	0.9%

6.0 REGULATORY CHANGES

- 6.1 This section of the report provides a summary for Members on recent and proposed future changes to legislation and regulations that will impact on the LGPS.

McCloud Resolution

- 6.2 As previously reported to the Board, the Department for Levelling Up, Housing and Communities (DLUHC) has consulted on the proposed resolution for the LGPS to the McCloud age discrimination case. DLUHC are expected to release its response to this consultation shortly. A further consultation and guidance are now expected in Autumn 2022. Pensions Committee and the Local Pension Board will be advised when further information is available.

Exit Payment Cap

- 6.3 As previously reported to the Board, the Government intend to re-legislate to limit the amount public sector employers can pay to exit an employee from their employment. Pensions Committee and Local Pension Board will be briefed on the implications of this to the LGPS when details are announced by Government.

Other Regulatory Changes

- 6.4 There have been no further regulatory changes of note that affect the LGPS since the last meeting of the Board in April. However, there are a number of matters that the Fund is maintaining a watching eye on including:

Pensions Regulator - Code of Practice

- 6.5 As previously reported to the Board, the Pensions Regulator has consulted on a proposed new Code of Practice which consolidated 10 of the 15 existing Codes of Practice (including CoP14 - Governance and Administration of Public Service Pension Schemes) into one new Code.
- 6.6 Following this consultation, the Pensions Regulator is currently drafting revisions to the Code of Practice based on the responses received from the consultation. The new Code is not expected to become effective before summer 2022. Pensions Committee and the Local Pension Board will be kept advised on developments in implementing this new Code.

Future meeting dates

- 6.7 The next scheduled Board meeting is due to take place on Tuesday 4 October 2022, at 1pm.

7.0 OPTIONS

- 7.1 To either note the work undertaken by the Cumbria Pensions Committee and the decisions made at their meeting on 16 June 2022 or request further information on the governance arrangements under which decisions were made by the Pensions Committee.

8.0 RESOURCE AND VALUE FOR MONEY IMPLICATIONS

- 8.1 Improved governance aids the Fund in running efficiently and effectively, controlling costs and helps to achieve its actuarially defined investment returns. Cost control and the investment performance of the Fund will have a direct impact on the funding level and therefore all employers' contribution rates. This will have an impact on the Fund Employers' revenue budgets.

9.0 LEGAL IMPLICATIONS

- 9.1 There are no direct legal implications arising from the report. The information contained within the report is for the Board's information. The Board's function is to assist the Administering Authority in all aspects of the governance and administration of the LGPS.

10.0 CONCLUSION

- 10.1 The Board's remit is to provide oversight of the governance of the Fund. To do this effectively the Board needs to be aware of the work undertaken and decisions made by the Pensions Committee, and of current issues and matters arising. Access and ability to review all papers which demonstrate the governance structure surrounding decision-making processes help Board members provide assurance that the Fund's governance is robust and fit for purpose.

Pam Duke
Director of Finance (s.151 Officer)

15 July 2022

APPENDICES

Appendix 1: Decisions made by the Cumbria Pensions Committee on 16 June 2022.

Appendix 2: Draft Annual Report of the Cumbria LGPS Local Pension Board for 2021/22

Appendix 3: Risk Register for Cumbria LGPS at July 2022.

Electoral Division(s): All

Executive Decision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	No
Key Decision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	No
If a Key Decision, is the proposal published in the current Forward Plan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	N/A
Is the decision exempt from call-in on grounds of urgency?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	No
If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	N/A
Has this matter been considered by Overview and Scrutiny? If so, give details below.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	No
Has an environmental or sustainability impact assessment been undertaken?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	N/A
Has an equality impact assessment been undertaken?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	N/A

PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS

Decisions made by the Cumbria Pensions Committee on 16 June 2022 are included at Appendix 1.

REPORT AUTHOR

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