

CUMBRIA PENSIONS COMMITTEE

Minutes of a Meeting of the Cumbria Pensions Committee held on Friday, 18 March 2022 at 9.30 am at Conference Room A/B, Cumbria House, Botchergate, Carlisle, CA1 1RD

PRESENT:

Mr MH Worth (Chair)

County Councillors

Dr S Haraldsen
Mr NH Marriner (Vice-Chair)
Mr CP Turner

Mr CJ Whiteside
Mr M Wilson

Employee Representatives

Ms J Wear (GMB)

Other Representatives:-

Ms C Scott - Investment Advisor
Mr A Sutherland - Investment Advisor

Also in Attendance:-

Ms A Clark - Senior Manager - Pensions and Financial Services
(Deputy S151 Officer – Pensions)
Ms P Duke - Director of Finance (Section 151 Officer)
Ms A McGuinness - Finance Manager - Pensions Administration
Ms D Purvis - Finance Manager - Pensions & Treasury
Ms L Taylor - Finance Manager - Pensions Investments and
Governance
Mrs D Burnet - Chair Cumbria LGPS Local Pension Board

PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PUBLIC AND PRESS

38 APOLOGIES FOR ABSENCE

Apologies for absence were received from Ms T Barber, Mr S Collins, Mr J Mallinson and Mr P Thornton.

39 TERMS OF REFERENCE AND MEMBERSHIP

The Committee's Terms of Reference were noted.

The Chair welcomed Ms J Wear as the new GMB Union representative on the Committee. Ms Wear had replaced GMB Union representative, Mr J Keith. The Chair thanked Mr Keith for his contributions during his tenure on the Committee.

40 DISCLOSURES OF INTEREST

There were no disclosures of interest made at the meeting.

41 EXCLUSION OF PRESS AND PUBLIC

RESOLVED, that the press and public be excluded from the meeting during consideration of the following reports as they contain exempt information relating to the financial or business affairs of any particular person (including the authority holding that information) by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972:-

- Item 13 Border to Coast Pensions Partnership LTD (BCPP) Business Plan 2022-25 and Operating and Project Budgets 2022-23
- Item 14 Draft Pensions Fund Business Plan and Administration Budget 2022-23 (Part 2 items)
- Item 15 Monitoring Report for the Quarter Ended 31 December 2021- Part 2
- Item 16 Presentation – Local Government Review Update
- Item 17 Cumbria LGPS Investment Sub Group Activity Report to March 2022
- Item 18 Verbal Update – Emerging Issues
- Item 19 Closing Comments

42 MINUTES

RESOLVED, that the minutes of the meeting held on 10 December 2021 be approved as a correct record.

43 REPRESENTATION FROM NON COUNTY COUNCIL EMPLOYERS AND DISTRICT COUNCILS

There were no representations made at this meeting.

44 SCHEDULE OF FUTURE MEETINGS

The schedule of future meetings that had been published with the Agenda was noted.

45 MINUTES OF THE BCPP JOINT COMMITTEE MEETING HELD ON 23 NOVEMBER 2021

The Chair reported on the business conducted at the meeting. He reported on the discussions relating to the Responsible Investment Policies Annual Review 2021 and the question and answer session with Rachel Elwell. The Chair commented on the resignation of the Chief Investment Officer and noted that a replacement is being sought.

The Vice Chair queried whether the Responsible Investment Strategy would be thrown into disarray following Russia's invasion of the Ukraine. It was noted that the impact of Russia's invasion of the Ukraine would be covered later on the Agenda.

RESOLVED, that the minutes of the BCPP Joint Committee Meeting Held on 23 November 2021 be noted

46 UPDATE FROM THE CUMBRIA LGPS LOCAL PENSION BOARD

A report was considered from the Director of Finance (S151 Officer) regarding an update from the Cumbria LGPS Local Pension Board. The report summarised matters discussed by, issues arising from, and any recommendations made by the Cumbria LGPS Local Pension Board (CLPB) at the recent quarterly meeting, held on 21 January 2022. There were no areas of concern to highlight to Members.

The Chair of the CLPB reported on the business conducted at the meeting. Attention was drawn to the update from the Operations Manager – Local Pensions Partnership Administration (LPPA) on Project PACE which relates to the replacement of the Pensions Administration system used by LPPA, the project is going well. CLPB had raised a concern over the issue of cyber risk and the Board will be getting a presentation on this at the next meeting. The Chair of the Board thought that this concern could be compounded by the invasion of Ukraine by Russia as there had been increased incidences of hacking since the invasion.

The Pensions Committee Investment Advisor Ms Scott had provided governance training which was well received and debated at the meeting which was attended by two new members of the CPLB.

The Chair proposed to the Committee that the report be noted. It was,

RESOLVED that, the Committee notes the update from the Cumbria Local Pension Board

47 CUMBRIA LOCAL GOVERNMENT PENSION SCHEME - FUND POLICY DOCUMENT - ANNUAL REVIEW

A report was considered from the Director of Finance (S151 Officer) regarding the Cumbria Local Government Pension Scheme Fund Policy Document - Annual Review. The report advised that it was a regulatory requirement that Fund Policy

documents were kept up to date and it was good practice for the Pensions Committee to formally review all aspects of management and governance of the Cumbria Local Government Pension Scheme (LGPS) at least annually. The report incorporated all changes to existing policies (last published in November 2021) to reflect current circumstances and regulation changes in 2021/22.

The Finance Manager - Pensions Investments and Governance talked Members through the report. Attention was drawn to the four key substantial changes to the Fund Policy Document. Members were given a detailed appraisal of the updates to the Administration Strategy and Communications Policy, the Investment Strategy Statement, the Admission and Termination Policy and the Training policy and Plan.

The Finance Manager - Pensions Investments and Governance also referred to the Fund's 2020-21 Stewardship report which had been published in October 2021 and submitted to the Finance Reporting Council (FRC) for assessment against the 2020 Stewardship code. She was pleased to inform the Committee that it had been confirmed that the requirements had been met and the Fund was now a signatory to the Code and the logo would be displayed on the front page of the Fund's Stewardship report.

Ms Scott, Investment Advisor emphasised to the Committee that the requirements to meet the 2020 Stewardship Code were onerous so it was a significant achievement to become a signatory to the Code. She thought the Fund should be proud of this achievement. The Chair thanked officers for their work on the document.

A Member talked about his hopes for future Pensions Committee training for Members of the two new shadow local authorities following the May 2022 elections.

Another Member asked why 'The potential use of equity protection to mitigate the risk of significant equity market falls' had been removed from the Investment Strategy. The Senior Manager - Pensions and Financial Services explained this was merely an exercise in reducing the size of and tidying up the document, as it is not currently under consideration and mention of it may be misleading.

The Chair proposed acceptance of the recommendations as set out in the report to the Committee. It was,

RESOLVED, that the Committee:

- 1 Approves the changes to the Administration Strategy and Communications Policy
- 2 Approves the changes to the Investment Strategy Statement, including to reflect the Fund's revised set of interim investment targets, detailed further at item 17 of the agenda

- 3 Notes that the Fund's Stewardship Report 2020/21 has been assessed by the Financial Reporting Council (FRC) as meeting the requirements of the FRC's UK Stewardship Code 2020
- 4 Approves the changes to the Admission and Termination Policy
- 5 Approves the updated Training Policy and 2022/23 Training Plan
- 6 Notes and approves the other minor amendments made throughout the Fund Policy Document.

48 MONITORING REPORT FOR THE QUARTER ENDED 31 DECEMBER 2021 - PART 1

A report was considered from the Director of Finance (S151 Officer) regarding the Monitoring Report for the Quarter Ended 31 December 2021 - Part 1 items. The report advised Members of any material risk, administration, investment performance, governance, and policy issues of the Fund for the quarter ending 31 December 2021. It also identified any current governance issues, national regulatory changes and outlined the performance of the whole portfolio and movement on liabilities over the quarter to 31 December 2021.

The Finance Manager - Pensions talked Members through the report. Members were informed of a new risk associated with Local Government Reorganisation as it may have a negative impact on the sustained quality provision of the Fund. This was the subject of the presentation later in the meeting. An emerging risk had been added to the risk register which was associated with Russia's invasion of Ukraine which had led to increased volatility on global markets and increased illiquidity for some associated assets. It was noted that the Fund had no scheme members living in Russia, Belarus or Ukraine where pension payments may have been affected.

The risk associated with the impact that COVID-19 may have on pensions administration had been removed from the register in the current quarter as it no longer represented a material risk to service delivery however, officers had reviewed the continued inclusion of the risk of COVID-19 on investment performance and concluded that it was appropriate to retain the risk in the register until at least 31 March 2022.

In terms of Pensions Administration performance, another good quarter of Local Pensions Partnership - Administration's performance against the key performance indicators was reported. Performance in the quarter was 98.6% against a target of 95%. Performance targets had been reviewed and it had been agreed that from April 2022, LPPA would work to a reduced timeframe for dealing with cases.

The Fund had focussed on improving the quality of data held especially in the run up to the 2022 Valuation. The key areas that officers had focussed on were detailed for the Committee, in particular, the support provided to employers to send outstanding forms associated with leavers to LPPA.

Focus then moved onto an update on Guaranteed Minimum Pension (GMP) Reconciliation. Members were informed about progress of the Fund with undertaking a Scheme Guaranteed Minimum Pension reconciliation and

implementing corrective action where required. Details were provided on the lack of HMRC guidance on how to deal with Pensions overpayments. To maintain consistency with the approach taken back in 2019, when the Pensions Committee gave approval to write-off previous overpayments, officers recommended that Members approve to write off these overpayments amounting to £47,000 and any future overpayments arising from GMP. This position was in line with other LGPS Funds.

The Finance Manager - Pensions was pleased to report that the value of the Fund had increased in the quarter to 30 December from £3.257 billion to £3.361 billion. However, it was highlighted that the Fund value in the current quarter would be subject to the volatile financial markets arising from Russia's invasion of Ukraine. Members were delighted to note that the Fund continued to exceed its long term benchmarks with the 10 year performance returning 9.7% per annum compared to the Fund specific benchmark of 8.7%.

The Committee was informed about how the Fund continued with engagement with investments through shareholder voting (undertaken on its behalf by Robeco). An update was provided on developments in Policy and Regulation over the past quarter and it was reported that Members would receive further information, when it was available, on the McCloud Resolution within the LGPS, the Pension Regulator's Consolidated Code of Practice and the Exit Payment Cap.

Discussion ensued regarding the write off of pension overpayments. A Member asked if this action would be an officer delegated decision or a Pensions Committee decision and whether this would cover the writing off of future overpayments. The Finance Manager – Pensions advised that there would be few and relatively minor overpayments. As such the intention was that, if the Committee agreed, the decision be delegated to Officers, with the amounts written off subsequently reported to the Committee.

It was agreed by assent of the Committee that Resolution 3, as set out in the report, be amended to read:

'Approve to write off £47,000 of historic accrued overpayment of guaranteed Minimum Pensions (GMP) payments for pensioners in the Fund, and to delegate to the Director of Finance (s151 Officer) the decision to write-off GMP overpayments subsequently identified, on the proviso that (a) the delegation is capped at a total of £75,000 for further write-offs and (b) the amounts written off under this delegation are subsequently reported to Committee.

The Director of Finance (S151) Officer advised that to ensure transparency, the figures for and future write offs would be included in the Performance report considered at each meeting of the Committee.

A Member suggested that inflation and the conflict in the Ukraine be added to the Risk Register. The Senior Manager - Pensions and Financial Services acknowledged these risks and advised that the Risk Register would be reviewed to ensure they are appropriately reflected. She commented on the discussions held

with the Committee's Investment Advisors about inflation. A Member commented in detail on the impact of the conflict in Ukraine on inflation and even the possibility of stagflation. It was considered that inflation should be a separate risk on the Register. A member urged officers to keep a watching brief on investments.

Mr Sutherland talked about the situation in Ukraine, acknowledging that it had affected the value of investments and there is a concern whether it will have a medium to long term effect, which could impact on the Investment Strategy going forward. The Chair commented on the extraordinary volatility of the markets and how some sectors would do well whilst others would struggle.

A Member expressed his concerns about the risk relating to Local Government Review, in particular how the Fund would likely remain as it was but that the Pensions Committee may split. The Chair noted that this was a matter of speculation at the moment, until the two new authorities were constituted.

The Chair proposed acceptance of the recommendations as set out in the report to the Committee including the amended recommendation 3 (as set out above in the minute). It was,

RESOLVED, that the Committee:

- 1 Receives and notes the performance and monitoring of the Fund for the period from 1 October 2021 to 31 December 2021
- 2 Notes issues arising relating to the governance of the Fund
- 3 Approves to write-off £47,000 of historic accrued overpayment of Guaranteed Minimum Pensions (GMP) payments for pensioners within the Fund, and to delegate to the Director of Finance (s151 Officer) the decision to write-off GMP overpayments subsequently identified, on the proviso that (a) the delegation is capped at a total of £75,000 for further write-offs and (b) the amounts written off under this delegation are subsequently reported to Committee.

49 DRAFT PENSIONS ADMINISTRATION BUSINESS PLAN AND BUDGET 2022/23

A report was considered from the Director of Finance (S151 Officer) regarding the Draft Pensions Administration Business Plan and Budget 2022/23. The report advised on the Draft Business Plan for 2022/23 and set out the Pension Fund's proposed work plan for the year. It also advised on the Draft Budget 2022/23 required to deliver the proposed Business Plan for the Cumbria Local Government Pension Scheme (the Fund).

The Senior Manager - Pensions and Financial Services talked Members through the report. It was expected that 2022/23 would be similar to 2021/22 in that it would be challenging so whilst the Plan sought to address the challenges, flexibility may be needed with any changes being brought before the Committee.

Members were informed that there were a number of key objectives in the Plan which related to three areas of the Fund's activities: administration, investment management and oversight and governance. Areas of work which were drawn to Members' attention included the investigation and implementation of suitable investment options for the Fund with an important aspect being the continuation of work with BCPP, an appraisal of the work to be undertaken on the Triennial Valuation and preparing the Fund for Local Government Reorganisation in Cumbria. Reassurance was given that officers would be closely monitoring investment markets in light of the Russian invasion of Ukraine.

Members were then informed about the Cumbria LGPS budget. The proposed budget was reported and a number of key changes since the 2021/22 budget were outlined. One change related to staffing which had increased by £90k, the reasons for the increase were detailed for the Committee. These included changes to National Insurance; the 2020/21 and assumed 2022/23 pay award; and one additional post to support increased governance and reporting requirements for the LGPS. Another change related to administration which was due to the increase in the number of scheme members and a slight increase in the cost per member charged by LPPA.

Discussion ensued on whether the Pensions Team had adequate resources to meet the demand of the workload. The Senior Manager - Pensions and Financial Services talked to Members about the new officer post in the Team which would help with capacity but advised that there would be challenges ahead due to Local Government Reorganisation.

The Chair proposed acceptance of the recommendations as set out in the report to the Committee. It was,

RESOLVED, that the Committee approves:

- 1 The draft Business Plan for 2022/23
- 2 The draft budget required to administer the Cumbria LGPS of £7.478m for 2022/23 (which has been constructed in support of the activities outlined in the Draft Business Plan).

50 BORDER TO COAST PENSIONS PARTNERSHIP LTD (BCPP) BUSINESS PLAN 2022-25 AND OPERATING AND PROJECT BUDGETS 2022/23

A report was considered from the Director of Finance (S151 Officer) regarding the Border to Coast Pensions Partnership Ltd (BCPP) Business Plan 2022-25 and Operating and Project Budgets 2022/23. The report set out details of the BCPP Strategic Business Plan 2022-25 (which covered the financial years 2022/23 to 2023/25). The Plan was a continuation of BCPP's current strategy to ensure that the Company continues to build an organisation that is sustainable and financially resilient for the longer term.

The report also noted that the Shareholder resolutions for the remuneration of BCPP's two Executive Directors for 2022/23 were expected to be received outside the Committee cycle, and officers sought approval to delegate the required decision to the Director of Finance (Section 151 officer) in consultation with the Chair and Vice Chair of the Committee.

The Senior Manager - Pensions and Financial Services talked Members through the detailed report.

Members discussed the working culture at the BCPP, salary levels and comparative salary increases (private and public sector), financial benefits for officers, personnel changes at BCPP, and whether the company demonstrates value through its performance.

Discussion took place on investments, the role of Investment Managers including BCPP, how Fund investments were highly regulated, and the importance of fiduciary duty and the Fund's Investment Strategy.

The Chair proposed acceptance of the recommendations as set out in the report to the Committee. It was,

RESOLVED that,

- 1 The Committee notes the proposed BCPP Operating and Project Implementation budgets for 2022/23 and Business Plan 2022-25
- 2 The Committee supports the Chair of the Pensions Committee, in his capacity as the Council's Shareholder representative for the Company, to authorise the vote to approve the BCPP Strategic Business Plan for 2022-25 and the Operating and Project Implementation budgets for 2022/23.
- 3 The decision to either approve, not approve or abstain from the vote on the Shareholder resolutions relating to BCPP Executive Director remuneration and thereby agree how the Fund's votes on those resolutions be cast, be delegated to the Director of Finance (Section 151 Officer), in consultation with the Chair and Vice Chair of the Committee.

51 DRAFT PENSIONS FUND BUSINESS PLAN AND ADMINISTRATION BUDGET 2022-23 (PART 2 ITEMS)

A report was considered from the Director of Finance (S151 Officer) regarding the Draft Pensions Fund Business Plan and Administration Budget 2022-23 (Part 2 Items). The report provided details of the Fund's investment management fees budget for 2022/23, which, due to their confidential nature, were not reported publicly.

The Senior Manager - Pensions and Financial Services talked Members through the detailed report. There were no Member questions on this item.

The Chair proposed acceptance of the recommendations as set out in the report to the Committee. It was,

RESOLVED that, the Committee notes the detailed 2022/23 budget for investment management fees as summarised in the 2022/23 Draft Business Plan and Administration Budget report presented in Part 1 of the meeting.

52 MONITORING REPORT FOR THE QUARTER ENDED 31 DECEMBER 2021 - PART 2

A report was considered from the Director of Finance (S151 Officer) regarding the Monitoring Report for the Quarter Ended 31 December 2021 - Part 2 items. The report advised Members of any matters that were considered to be Part 2 (due to the inclusion of exempt information relating to commercially sensitive matters of third parties including employers in the Fund, tax recovery cases, class actions and fraud cases), and therefore excluded from public disclosure, arising during the quarter ending 31 December 2021. These matters were generally in regard to either governance or employer issues.

The Finance Manager – Pensions Administration talked Members through the report.

Members asked questions on Class Actions, the number of employers in the Scheme and about an employer who had failed to pay within the statutory deadline.

The Chair proposed acceptance of the recommendations as set out in the report to the Committee. It was,

RESOLVED that, the Committee

- 1 Receives and notes the quarterly monitoring Part 2 items of the Fund for the period to 31 December 2021.
- 2 Supports the approval by the Section 151 Officer of the applications for admission to the Cumbria Fund from four companies providing services to Scheme employers in the Fund, on the basis that a guarantee is provided by each relevant Scheme employer.

53 PRESENTATION - LOCAL GOVERNMENT REVIEW UPDATE

The Director of Finance and Senior Manager - Pensions and Financial Services gave a detailed update on Local Government Review (LGR).

Members asked questions on the statutory obligations of the new authorities, the information available on the LGR website, stakeholder engagement and connections to health organisations, Cumbria Fire and Rescue Service, decisions delegated to officers and the Section 24 Notice.

Members discussed which local unitary authority would administer the Fund and that the Government would need to support any proposal.

RESOLVED that, the position be noted.

54 CUMBRIA LGPS INVESTMENT SUB GROUP ACTIVITY REPORT TO MARCH 2022

A report was considered from the Director of Finance (S151 Officer) regarding the Cumbria LGPS Investment Sub Group Activity Report to March 2022. The report outlined activities of the Investment Sub Group (ISG) meetings on 3 February 2022 (special meeting) and 3 March 2022, including any decisions made by the Section 151 Officer and the proposed future work schedule in respect of the Investment Sub Group.

The Finance Manager - Pensions and Treasury talked Members through the detailed report. Members talked about their concerns relating to inflation.

The Chair proposed acceptance of the recommendations as set out in the report to the Committee. It was,

RESOLVED that,

- 1 The Committee approves that the Director of Finance (Section 151 Officer) action the following investment commitment:
 - Up to £200m to the BCPP Private Credit fund Series 2a, subject to assurances on the size of the BCPP fund and associated investment manager diversification – this would form part of the Fund's 14% long-term target strategic allocation to private debt (c.£471m at 31 December 2021).
- 2 The Committee notes an updated set of interim investment allocation targets, as follows;

Implementation of long-term Target Strategy via temporary holdings	Interim aim (from 16/2/22)	Interim aim (from 1/4/23)	Target long-term aim
<i>Public Equity - UK active</i>	4.5%	4.5%	4.5%
<i>Public Equity - Global active</i>	20.0%	20.0%	20.0%
<i>Public Equity - Overseas active</i>	4.5%	4.5%	4.5%
<i>Public Equity - Global passive</i>	6.0%	6.0%	6.0%
Total Public equity	35%	35%	35%
Private Equity	7%	7%	7%
Infrastructure equity	10%	11%	12%
Equity subtotal	52%	53%	54%
Private Debt/Credit	5%	8%	14%
Multi Asset Credit	14%	11%	5%
Debt subtotal	19%	19%	19%
Government Index-Linked Bonds	18%	17%	16%
Commercial property	8%	8%	8%
Residential property	1%	1%	2%
Inflation-linkage subtotal	27%	26%	26%
Strategic Cash / Other	2%	2%	1%
	100%	100%	100%

- 3 That the Committee asks the ISG to continue implementation of the tactical changes required to achieve the Fund's Target Investment Strategy, including assisting the Section 151 Officer to approve opportunities for investment.
- 4 With regards to the recruitment of a new Independent Advisor, the Committee notes the progress of the appointment process for an Independent Advisor to the Committee.
- 5 The Committee notes the progress of the Investment Sub Group from December 2021 to March 2022;
- 6 The Committee notes the performance of the Fund over the quarter to 31 December 2021
- 7 The Committee agrees the proposed work programme of the Investment Sub Group for the next reporting period, including to continue planning and implementation of the changes required and research of available opportunities for investment to enable the Fund to achieve the Target Investment Strategy.

55 VERBAL UPDATE - EMERGING ISSUES

The Senior Manager - Pensions and Financial Services gave a verbal update on the appointment to the Investment Advisor position to replace Mr A Sutherland. Mr

Sutherland was thanked for his support and challenge to the Committee over many years.

Members were informed about the Public Service Pensions and Judicial Offices Act and the implications for Cumbria LGPS of the Russian invasion of Ukraine.

Members asked questions on the aims of the Judicial Offices Act and on the implications for the Fund of the Russian invasion of Ukraine.

RESOLVED, that the position be noted.

56 CLOSING COMMENTS

The Chair thanked Mr Sutherland for his support to the Committee for many years. He commented on the big changes faced by the Committee during the Chair's tenure, how the Committee respected and trusted Mr Sutherland's advice and views and how he had helped members understand a number of complex issues.

Mr Sutherland thanked the Committee and commented on the calibre of Members and officers. He added that Cumbria Pensions Committee was one of the most effective he had worked with.

The meeting ended at 12.45 pm