

CUMBRIA PENSIONS COMMITTEE

Minutes of a Meeting of the Cumbria Pensions Committee held on Thursday, 16 June 2022 at 9.30 am at Conference Room A/B, Cumbria House, Botchergate, Carlisle, CA1 1RD

PRESENT:

Mr MH Worth (Chair)

County Councillors

Mr SB Collins

Mr NH Marriner (Vice-Chair)

Mr CP Turner

Mr CJ Whiteside

Mr M Wilson

District Council Representative

Mr J Mallinson

Other Representatives:-

- Mrs D Burnet - Chair Cumbria LGPS Local Pension Board
- Ms C Scott - Investment Advisor
- Dr A Swarup - Investment Advisor

Also in Attendance:-

- Ms A Clark - Senior Manager - Pensions and Financial Services (Deputy S151 Officer – Pensions)
- Mr P George - Group Finance Manager - Pensions, Investments and Insurance
- Ms A McGuinness - Finance Manager - Pensions Administration
- Ms D Purvis - Finance Manager - Pensions & Treasury
- Ms L Taylor - Finance Manager - Pensions Investments and Governance

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

57 APOLOGIES FOR ABSENCE

Apologies for absence were received from Ms T Barber, Mrs P Duke, Mr S Haraldsen and Mr P Thornton

58 TERMS OF REFERENCE AND MEMBERSHIP

The Committee's Terms of Reference and membership were noted.

The Chair introduced Dr Bob Swarup of CAMDOR Global Advisors. He was the new Investment Advisor to the Committee. The Chair hoped for a long lasting relationship between Dr Swarup and the Fund.

The Chair congratulated the members who had been elected onto the new Westmorland and Furness and Cumberland Local Authorities following the recent local elections. The Chair passed on his commiserations to those members who had stood but had not been elected onto the new authorities.

59 DISCLOSURES OF INTEREST

There were no disclosures of interest made at the meeting.

60 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 14. Provisional Budget Outturn 2021/22 and Delivery against Business Plan (Part 2)
- Item 15. Monitoring Report for the Quarter ended 31 March 2022 (Part 2)
- Item 16. Cumbria LGPS Investment Sub Group Activity Report to May
- Item 17. Verbal Update - Emerging Issues
- Item 18. Closing Comments

61 MINUTES

RESOLVED that, the Minutes of the meeting held on 18 March 2022 be approved as a correct record.

62 REPRESENTATION FROM NON COUNTY COUNCIL EMPLOYERS AND DISTRICT COUNCILS

There were no representations made at this meeting of Cumbria Pensions Committee.

63 SCHEDULE OF FUTURE MEETINGS

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

The Chair reminded members that the September meeting of the Committee would be held in Leeds.

64 MINUTES OF THE BCPP JOINT COMMITTEE MEETING ON 8 MARCH 2022

The Minutes of the BCPP Joint Committee meeting held on 8 March 2022 were presented to the Committee.

The Chair reported on the business conducted at the meeting. This included a discussion on the annual elections to the Joint Committee, the Joint Committee's budget and the 2021 Partner Fund Satisfaction Survey and Market Review.

Members were informed about the discussions held regarding the number of members required on the Joint Committee to make it quorate. A meeting in October had not been quorate so a change in quorum number was being sought to ensure that meetings could proceed. The Chair anticipated that 7 would be the future quorum number.

It was noted that there were no persistent absentees at the meetings, likely as Funds would want their members present to make representations.

An emergency report had been considered on Russia's invasion of Ukraine. It was noted that BCPP had decided not to make any further investments in Russia and Belarus and to review current investments which would be written down in value and withdrawn when possible.

RESOLVED that, the minutes of the Border to Coast Pension Partnership Joint Committee meeting on 8 March 2022 be noted.

65 UPDATE FROM CUMBRIA LOCAL PENSIONS 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 its recent quarterly meeting, held on 13 April 2022.

The Chair of the Board presented the report. The business conducted at the meeting was reported with a particular focus on the Work Plan. The Chair of the Board considered that this would give structure to future meetings and clarify the Board's areas of business until 31 March 2023.

The Chair of the Pensions Committee expressed his concern regarding two queries noted in the report as having been raised during the Board meeting. The two

questions related to investment decisions made by the Committee and the Chair was concerned that, in raising them, the Board seemed to be overstepping its Terms of Reference and remit.

The Chair advised that any investment made had gone through a robust process and due diligence had been undertaken by officers and the Investment Advisors, all of whom were highly skilled people. He noted that details of proposed investments were presented to the Investment Sub Group who have many years' experience with the Fund and who undertake a thorough review of the proposals. The Pensions Committee were then either appraised of the decisions made or asked to provide a further review ahead of any decision and can exercise their strong degree of knowledge. The Chair asked that the Chair of the Board pass his comments back to the Board.

The Chair of the Board acknowledged the points made by the Chair, giving context on how the comments were made during the Risk Register item which was within the Board's remit. The Chair of the Board agreed to make the Board aware of concerns of the Chair of the Cumbria Pensions Committee.

RESOLVED that, the update from the Cumbria Local Pension Board be noted.

66 DRAFT UNAUDITED ACCOUNTS TO 31 MARCH 2022

A report was considered from the Director of Finance (S151 Officer) regarding the Draft Unaudited Accounts to 31 March 2022. The report presented to Members the draft (subject to audit) Accounts of the Cumbria Local Government Pension Scheme 2021/22 with a recommendation to submit the Accounts (subject to any final Audit amendments) to the Audit and Assurance Committee for approval on behalf of the Council.

The Finance Manager - Pensions Investments and Governance talked members through the report. Members were informed about the Constitutional role of the Committee in terms of submitting the accounts (subject to any final Audit requirements) to full Council for approval. This was expected to be approved on behalf of the Council by the Audit and Assurance Committee at its 30 September 2022 meeting. It would receive an update on the production of the Fund's accounts at its June 2022 meeting.

The change to the timescale for this year's accounts was detailed and a history of the temporary changes to publication deadlines over recent years was reported. The success of Cumbria LGPS meeting publication deadlines in the last two years compared to those of other Local Authorities was highlighted. As many local authorities had not met the deadlines, the Government had intervened, outlining how it would help tackle audit delays.

The Finance Manager - Pensions Investments and Governance was pleased to report that the draft LGPS accounts were expected to be published in June 2022, in advance of the statutory deadline date.

An update was given on Grant Thornton's (the Council's Auditors) intention to progress their audits in two phases with the Fund's audit being completed by September 2022. It was noted that there was currently no indication that the sign off of the accounts would not be achieved by September. Details were provided on a briefing session given to the Audit and Assurance Committee on the use of estimates and members were content with the level of scrutiny and the controls in place over the use of estimates.

The Finance Manager - Pensions Investments and Governance was pleased to report that the Fund's assets had increased over the year by £251m to £3,318m (at 31 March 2022) out-performing the Fund's 1, 3, 5, and 10 year benchmarks. This was due in part to the long term approach to investment and its diverse portfolio.

A summary of the Fund's key activities was reported. These included a review of the Fund's Investment Strategy, increased commitments to a number of alternative investments with Border to Coast to progress pooling of assets and work assessing and preparing for Local Government Reorganisation.

To conclude, it was reported that officers were working on the draft Annual Report which would be presented for approval to members at the 13 September 2022 Pensions Committee meeting.

The Chair welcomed the report and congratulated officers on publishing the Accounts to deadline. He commented that it proved the calibre of officers and Investment Advisors and showed how comprehensive their advice had been to the Committee over the past decade.

A member welcomed the report adding that there was uncertainty in the global economy and asset prices due to the war in Ukraine. He referred to staffing issues in BCPP and asked if officers were aware of any other issues that the Auditors may identify. He endorsed the Chair's comments on the calibre of officers and Investment Advisors.

The Senior Manager - Pensions and Financial Services explained that risks were recorded in the Risk Register and that in terms of accounting, the Fund's Investment Strategy was as robust as possible. She considered inflation to be a key risk, however discussions with the Actuary regarding the initial findings of the 2022 Actuarial Valuation were positive and indicated that the Fund was in a strong position.

A member noted that the Accounts included a valuation of past service liabilities both on a valuation basis and on an IAS19 basis. The Member noted that that the latter was potentially confusing to the reader of the Accounts as it did not reflect the expected future return of the Fund assets. The Senior Manager - Pensions and Financial Services confirmed this but noted reporting on an IAS19 basis remained a requirement of the Code of Practice on which the Accounts were required to be prepared. She advised that after Local Government Reorganisation, Pension Committee members would receive training on the matter.

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

RESOLVED, that

- 1 Members submit to the Audit and Assurance Committee (subject to any final Audit amendments) the Cumbria LGPS Accounts 2021/22 for approval on behalf of the Council.
- 2 Members note that the completion of the Cumbria LGPS Annual Report and Accounts 2021/22 (including the Governance Compliance Statement) is progressing and will be reviewed by auditors for consistency with the Accounts. The full draft Annual Report will be presented to Members for review and approval for publication at the September 2022 Pensions Committee meeting.

67 TRAINING SESSION - ACTUARIAL VALUATION 2022

A training session was given by Mark Wilson from Mercer Ltd on the Actuarial Valuation 2022. The presentation covered the following:

- Valuation and Funding Basics
- 2019 Valuation Recap
- Funding Update
- 2022 Valuation – key themes
- Questions from members

The Group Finance Manager – Pensions, Investments and Insurance gave context for the presentation which was to remind members of the last Actuarial Valuation and identify the key themes for the 2022 Actuarial Valuation. The Committee's September 2022 meeting would agree the key assumptions used within the Valuation subject to consultation with scheme employers. There was a reminder that the next Pensions Forum meeting was scheduled in November 2022 which would give Pensions Committee members the opportunity to meet with representatives from scheme employers.

Throughout the presentation, members asked a number of questions.

A member asked who was ultimately liable if an employer became insolvent. Mr Wilson advised that if no employer guarantee was in place, any unrecoverable liabilities were funded by all other employers in the Fund.

Members noted that life expectancy, inflation and other factors kept changing and there were discussions around the kinds of assumptions that were built into the valuation process and what difference the range of assumptions can make.

A member queried how salary increases (which he considered had been poor over the past 10-20 years), and other social factors may impact on the life expectancy of Fund members. Mr Wilson noted that figures used by the actuary to reflect the

impact of salary increases on the Actuarial Valuation might seem higher than expected – this was because they included assumptions about promotions that an individual may receive as well as annual pay awards. Members were informed that the change in the LGPS in 2014 to Career Average Revalued Earnings (CARE) meant that an increasing amount of LGPS pension benefits were not linked to an employee's final salary and that pensions were driven by inflation. Members were reassured that salary increases did not materially impact upon the Actuarial assumption.

Reference was made by a member to Local Government Reorganisation (LGR) and the impact that it could have on leaver numbers. He thought that this may not have been forecast a few years ago. Mr Wilson commented on when a scheme member left the Fund, assumptions on their future pay were replaced with assumptions on inflationary increases and therefore liability costs were broadly the same. He advised he did not expect LGR to have a great impact on the Valuation.

Continuing the theme of LGR, a member highlighted that on 1 April 2023, there would be many people transferring in and out of the Fund particularly at a management level so queried if this would be a risk to taken into account. Mr Wilson considered that there would be minimal impact but Mercer Ltd would need to know actual numbers to ascertain the impact and this data would not be available until Vesting Day or later. Mr Wilson considered that in terms of the Actuarial Valuation, it would be something to review in the future.

Given the impact of the COVID pandemic on life expectancy rates, a member asked if Mercer Ltd expected there to be a peak in the number of deaths and then a return to pre pandemic numbers. Mr Wilson noted that mortality rates increased during the COVID pandemic but the long term impact wasn't yet clear. The assumptions within the Valuation were expected to reflect no long term material impact but this would be kept under review.

Members also referred to the impact of delayed diagnosis of other serious illnesses arising from the pressures on the NHS from COVID, together with the escalating cost of living crisis, particularly heating costs and the potential impact this may have on life expectancy. Mr Wilson advised that Mercer Ltd reviewed trends and at present, there was not enough data available to make an informed analysis on this.

Dr Swarup asked if the inflation sensitivity of 4.5% was an assumption. Mr Wilson confirmed that it was. Dr Swarup recommended that inflation divergence (where inflation rises faster than the return on investments or as investment returns are falling) be reflected in the Risk Register, this was agreed by assent of the Committee.

In considering the 2019 Valuation recap, a member referred to the funding level surplus calculated by the Government Actuary's Department (GAD) as part of its Section 13 review work. He stated that Fund members may look at the surplus and ask what was being done with it. Mr Wilson explained that the surplus figure quoted by GAD was calculated using the "Scheme Advisory Board (SAB) standard basis" methodology. The SAB methodology did not include the same degree of prudence

as Mercer Ltd; if Mercer Ltd had not included prudence, the funding level would have been higher than 99%. He noted that even with a surplus, the Scheme was not risk free. The Chair commented on the contribution holidays which had taken place in the 1990s and urged caution on how any surplus that may be identified as part of the 2022 Valuation should be managed. A member commented on past contribution holidays, stressing how it was important to have a financial cushion and to be prudent so that contribution rates did not need to be increased at future valuations.

Following Vesting Day on 1 April 2023, a member asked the if the assumption that Mercer Ltd was working on was that there would be the same employer contribution rate for each of the 2 new authorities. Mr Wilson talked members through how there would be an assessment of the current 7 authorities and their contribution rates. He noted that the contribution rate may not be the same for each authority but did not anticipate that the rates would be significantly different.

Mr Wilson from Mercer Ltd was thanked by the Chair for his informative presentation and time spent answering member questions.

RESOLVED that,

- 1 Inflation divergence be added to the Risk Register
- 2 The presentation be noted.

68 MONITORING REPORT FOR THE QUARTER ENDED 31 MARCH 2022

A report was considered from the Director of Finance (S151 Officer) regarding the Monitoring Report for the Quarter ended 31 March 2022. The report advised Members of any material risk, administration, investment performance, governance, and policy issues of the Fund for the quarter ending 31 March 2022. It also identified any current governance issues and national regulatory changes and outlined the performance of the whole portfolio and estimated change of liabilities over the quarter to 31 March 2022.

The Group Finance Manager – Pensions, Investments and Insurance talked members through the report. He detailed the two new risks that had been added to the Risk Register. In terms of the Russian invasion of Ukraine, he reassured members that the Fund had a diverse portfolio and the situation would be monitored. With regard to increasing inflation, this may impact on the value of the Fund and global economies. Inflation Divergence would be added to the Risk Register as agreed by assent by members during the Mercers Ltd presentation. He was pleased to report that risk associated with COVID's impact on pensions investments had been removed from the Risk Register and was now business as usual. No risk scores had changed.

The Group Finance Manager – Pensions, Investments and Insurance was pleased to report that the Local Pensions Partnership Administration (LPPA) SLA performance was 96.4% against a target of 95%. Members were provided with performance data relating to processing death cases and retirements from deferred

status and retirements of active members. It was noted that LPPA and the Fund had reviewed performance targets. These were outlined for members.

An Investment Management update was provided. Members were informed about asset allocation changes and Fund performance. The Group Finance Manager – Pensions, Investments and Insurance stressed the importance to focus on long term performance and reported that the Fund's long term performance continued to exceed the 1, 3, 5 and 10 year benchmark.

In terms of Oversight and Corporate Governance, members were advised of Class Actions, Shareholder Voting and Global Tax Recovery. An update was provided on Regulatory changes which included the McCloud resolution and the Exit Payment Cap. It was reported that officers were currently awaiting revisions to the Pensions Regulator's Code of Practice. The Group Finance Manager – Pensions, Investments and Insurance reported on a recent release of personal information which had resulted in a breach of Data Protection Regulations.

After referring to the potential of a large number of staff retiring after Local Government Reorganisation (LGR), a member asked officers to ask LPPA to make appropriate provision for the impact that it would have on their service. The Group Finance Manager – Pensions, Investments and Insurance explained that LGR would impact greatly on LPPA and its workload would increase. He reassured members that officers were liaising with LPPA to ascertain the implications of LGR.

A member talked about Russia's invasion of Ukraine and added that cyber-attacks were an ever increasing risk in local authorities. He queried whether the Risk Score should be increased to reflect this. The Group Finance Manager – Pensions, Investments and Insurance explained that the Local Pension Board had been reviewing this risk and AON had been commissioned to assist in the review. The Local Pension Board would be receiving a presentation at its July 2022 meeting on this matter. The same member asked if a review would be undertaken on LPPA's security as most data was held by LPPA. Members were informed that the Risk Register was owned by the Committee so it would be for the Committee to review the Risk score. The Group Finance Manager – Pensions, Investments and Insurance added that the Pensions Committee would be briefed on the findings of the work undertaken by AON on cyber risk at the September 2022 meeting.

The Chair talked about the removal of the COVID 19 risk and thanked officers, the Committee and Investment Advisors for the work they had undertaken on ensuring Pension Committee meetings continued to take place during the COVID lockdown periods.

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 performance and monitoring of the Fund for the period from 1 January 2022 to 31 March 2022.
- 2 Notes issues arising relating to the governance of the Fund.

69 PROVISIONAL BUDGET OVERTURN AND DELIVERY AGAINST 2021/22 BUSINESS PLAN

A report was considered from the Director of Finance (S151 Officer) regarding the Provisional Budget Outturn and Delivery against the 2021/22 Business Plan. The report advised Members of the work undertaken during 2021/22 to deliver the Business Plan and provided a provisional outturn for the Fund including variances against the budget.

A document which showed the provisional 2021/22 outturn was tabled. This document showed further work on the allocation of Investment Manager fees between reporting lines. In recognition of the updated figures, the Committee was asked to agree a revised Recommendation 2. It now read:

(2) Note that the provisional 2021/22 outturn for Cumbria Pension Fund was an overspend of £0.183m against a budget of £6.467m.

The Senior Manager - Pensions and Financial Services talked members through the report and detailed the changes to Recommendation 2 as set out in the tabled document. She was pleased to report that all targets in the 2021/22 Business Plan had been achieved. A number of key activities were highlighted such as the successful work undertaken on data quality, particularly relating to pending leavers. There had been a sense check on Investment Management Strategy. In terms of Oversight and Governance, a number of documents had been updated and officers continued to ensure that new Members had an effective training package to assist them with their work on the Committee.

Members were advised that LGR was having an impact on the work of the team and this would continue into 2022/23.

The changes to Investment Manager Fees and how they impacted on the second resolution of the Committee were explained.

It was noted that, excluding Investment Manager Fees, staffing had the biggest variance against the budget. The Senior Manager - Pensions and Financial Services advised that a vacancy within the Pensions Team had been recruited to during the year and this would help with resilience in the Team. It was noted that legal fees on employer issues were variable but the provision of legal advice was necessary in complex cases.

The underspend on Investment consultancy fees for professional advice on pooling/transition management was explained. This had been expected as it could be variable each year and there had not been as much activity requiring additional advice in 2021/22 as had been budgeted for.

Actuarial fees and Legal and Tax figures were outlined with the reasons for spend being explained. The latter had been overspent due to the need for specialist legal advice which had been part of due diligence work on a proposed change to one of the Fund's investments.

There were no member questions or discussion on this item.

The Chair proposed acceptance of Recommendation 1 as set out in the report and Recommendation 2 as set out in the tabled Provisional 2021/22 Outturn document. It was,

RESOLVED, that

- 1 Members note that business of the Pension Fund in 2021/22 was completed in accordance with the Business Plan approved in March 2021.
- 2 Note that the provisional 2021/22 outturn for Cumbria Pension Fund was an overspend of £0.183m against a budget of £6.467m

70 PROVISIONAL BUDGET OUTTURN 2021/22 AND DELIVERY AGAINST BUSINESS PLAN (PART 2)

A report was considered from the Director of Finance (S151 Officer) regarding the Provisional Budget Outturn and Delivery against the 2021/22 Business Plan. The report advised Members of the work undertaken during 2021/22 to deliver the Business Plan and provided a provisional outturn for the Fund including variances against the budget.

A document entitled '2021/22 Outturn for the Investment Management Fees of the Cumbria LGPS' was tabled. Year-end work had identified that certain Border to Coast Pensions Partnership Ltd investment management fees were shown against incorrect lines in the table on page 313 of the document pack. The tabled document set out the amended provisional outturn figures following correction of the allocation.

The Senior Manager - Pensions and Financial Services talked members through the report which related to Investment Management costs and Custody fees.

Members asked questions on the Investment Management fees. Dr Swarup briefly talked about how the budget for Investment Management fees was dealt with in other Funds.

The Chair proposed acceptance of the recommendations as set out in the tabled 2021/22 Outturn for the Investment Management Fees of the Cumbria LGPS. It was,

RESOLVED that, members note that the provisional outturn against its budget for investment management fees (excluding Alternative- Pooled fees) is an overspend of £0.246m

71 MONITORING REPORT FOR THE QUARTER ENDED 31 MARCH 2022 (PART 2)

A report was considered from the Director of Finance (S151 Officer) regarding the Monitoring Report for the Quarter ended 31 March 2022 (Part 2). 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 March 2022. These matters were generally in regard to either governance or employer issues.

The Finance Manager – Pensions Administration talked members through the report which included reports on Pension’s Administration, Investment Management and Oversight and Governance.

A member commented on the fees paid to date in relation to global tax recovery claims and added that they should be monitored to ensure the spend would benefit the employers in the Fund.

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 March 2022.
- 2 Notes that the Fund has elected to withdraw from the Manufactured Overseas Dividends (MODs) test case seeking to recover withholding tax on dividends from HMRC and will continue to monitor other ongoing cases to ensure that its participation continues to be in the best interests of the Fund.

72 CUMBRIA LGPS INVESTMENT SUB GROUP ACTIVITY REPORT TO MAY

A report was considered from the Director of Finance (S151 Officer) regarding the Cumbria LGPS Investment Sub Group Activity Report to May. The report outlined activities of the Investment Sub Group (ISG) meetings on 26 May 2022, including any decisions made by the Section 151 Officer (none this quarter) and the proposed future work schedule in respect of the Investment Sub Group (ISG).

The Finance Manager - Pensions and Treasury talked members through the report which focussed on the business conducted at the ISG meeting held on 26 May 2022 which included asset allocation and performance monitoring and the work programme.

There were no member questions on this item. The Chair commented on the volatility of the markets following Russia’s invasion of Ukraine.

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

RESOLVED, that the Committee

- 1 Notes the progress of the Investment Sub Group from March to May 2022;
- 2 Notes the performance of the Fund over the quarter to 31 March 2022; and

- 3 Agrees the proposed work programme of the Investment Sub Group for the next reporting period, including supporting the s151 Officer 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.

73 VERBAL UPDATE - EMERGING ISSUES

A verbal update was given by the Senior Manager - Pensions and Financial Services. This covered an update on expected consultations and Local Government Review from the Pension Fund perspective.

There were no questions or comments on this item.

RESOLVED that, the position be noted.

74 CLOSING COMMENTS

The Chair asked members that even if they had not stood or been elected in the recent local elections, they use their influence in their political groups to encourage members with an interest in or experience with Pensions to become members of the Pension Committee following Local Government Reorganisation.

The Chair thanked members and officers for their attendance.

The meeting ended at 12.30 pm