CUMBRIA PENSIONS COMMITTEE

Minutes of a Meeting of the Cumbria Pensions Committee held on Tuesday, 19 September 2017 at 11.00 am at Cumbria House, Carlisle

PRESENT:

Mr MH Worth (Chair)

County Councillors

Mr J Airey
Mr NH Marriner (Vice-Chair)
Mr J Crellin
Mrs H Wall
Mr DS Fairbairn

District Council Representative
Ms G Troughton

Employee Representatives
Mr K McDonald
Mrs T Barber

Other Representatives:-

Mr A Sutherland - Investment Advisor
Mr T Gardener - Investment Advisor

Also in Attendance:-

Mrs J Crellin - Assistant Director - Finance (s151 Officer)
Ms S McGill - Technical Finance Officer – Pensions & Investments
Ms F Miller - Senior Manager - Pensions & Financial Services
(Deputy s151 Officer – LGPS)
Ms D Purvis - Finance Manager – Pensions, Investments &Treasury
Mr P George - Group Finance Manager – Pensions, Investments &
Insurance
Ms L Taylor - Finance Manager – Pensions, Investments &
Governance
Miss H English - Democratic Services Officer
Ms G Welbourn - Technical Finance Officer – Pensions & Governance

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

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Mr P Thornton, Mr S Haraldsen and Mr S Collins.
2 TERMS OF REFERENCE AND MEMBERSHIP

The terms of reference and new membership following the County Council elections were noted.

The Chair welcomed new Members to the Committee and thanked the outgoing Members for their work on the board over the previous four years. The Chair also gave thanks to Mr S Collins as the previous Vice-Chair and welcomed the new Vice-Chair Mr N Marriner.

3 DISCLOSURES OF INTEREST

There were no disclosable pecuniary interests declared at the meeting.

4 EXCLUSION OF PRESS AND PUBLIC

RESOLVED, that the Press and Public be excluded from the meeting during consideration of the following agenda items on the grounds that they may contain exempt information as defined under Paragraph 3 of Part 1 Schedule 12A of the Local Government Act 1972 relating to the financial or business affairs of particular individuals:-

- Part two appendices discussion from agenda item 11 (Monitoring report for the period from January to June 2017)
- Part two appendices discussion from agenda item 15 (Implementation of BCPP Asset Management Company)
- Agenda Item 18 – Verbal Update on Emerging Issues
- Agenda Item 19 – Investment Sub Group Activity Report to September 2017 including Annual Governance Reviews
- Agenda Item 20 – Annual Performance Review

5 MINUTES

RESOLVED, that the minutes of the meeting held on 7 March 2017 were confirmed as a correct record and thereupon signed by the Chair.
6 REPRESENTATION FROM NON COUNTY COUNCIL EMPLOYERS AND DISTRICT COUNCILS

Nothing was raised on this occasion.

7 SCHEDULE OF FUTURE MEETINGS

The Committee noted future meetings, and highlighted the next meeting of the Pensions Committee would be held on 5 December 2017 at Cumbria House, Carlisle.

8 CUMBRIA LGPS BOARD UPDATE

The board received a verbal update from the Assistant Director – Finance (s151 Officer) which advised the Committee of recent work of the Cumbria Local Government Pension Scheme (LGPS) Board.

The Committee were informed that there had been no further meetings since the last meeting of the LGPS board and as a result there was nothing significant to report back to the Committee on.

Deirdre Burnet (Vice-Chair of Cumbria LGPS Local Pension Board) attended the Strategy Review briefing session held before this meeting and stayed for the rest of the meeting as an observer.

9 STRATEGY REVIEW RECOMMENDATIONS

A report was presented by the Assistant Director – Finance (s151 Officer) which informed Members of progress on the review concerning investment strategy of the Fund.

A briefing session was provided to all Committee Members prior to commencement of the public meeting to assist the Committee in its consideration of this agenda item.

Members were informed that Mercer Ltd had been appointed to undertake a review of the investment strategy of the Fund following a competitive tendering process. This was to provide an independent opinion as to whether the investment strategy remains fit for purpose following the triennial valuation.

In summary Mercer Ltd had concluded that “the Fund’s investment strategy was in good shape with no material changes required”. However a number of options were proposed for consideration that may be of benefit to the Fund going forwards, including:
- Considering options for “banking” a proportion of recent funding level improvements;
- Maintaining the currently held index linked gilts despite the current high valuations;
- Increasing the speed of building up the defensive allocation;
- Adopting clearer definitions for the opportunistic and defensive portfolios.

RESOLVED, that the Committee;

(1) note the report and findings by Mercer Ltd which reviews the Fund’s Investment Strategy;

(2) direct Officers and Advisors to undertake work to assess, options to assess the management of the risk of potential employer contribution rate increases at the next valuation and in the longer term, and

(3) request the Investment Sub Group (ISG) review this work and recommend to the Pensions Committee in December 2017 a proposed course of action to address the risks.

10 TRIENNIAL VALUATION 2016 UPDATE

A report was presented by the Assistant Director – Finance (s151 Officer) which provided Members with a final update to the progress on the 2016 Triennial Actuarial Valuation of the Cumbria LGPS.

Members were informed that by the 31st of March 2017 the valuation process was complete and the Actuarial Valuation Report including the Rates and Adjustments Certificate by the Pension Fund’s contracted Actuary – Mercer Ltd was formally published.

Members were also informed that all employers within the Fund had now been informed of their actual contribution rates that became effective from 1st April 2017.

The Group Finance Manager explained that the County Council, together with ten other employers within the fund, elected to pay their 2017/ 2020 historic deficit contributions early, thereby enabling them to take account of a discount for early payment. In addition to this it was noted that the County Council and two other employers opted to pay an estimate of their 2017/18 future service contribution at the start of the financial year which therefore allowed them to take advantage of another discount for early payment (there will be a ‘true up’ of the values paid at the end of the financial year). Neither of these options were of detriment of the Fund or its other employers.

The Committee noted that there would be no further updates on this matter until preparations commence for the 2019 triennial valuation as the 2016 triennial valuation has now been finalised.
RESOLVED, that the Committee note;

(1) the publication of the Actuarial Valuation Report including the rates and adjustments certificate by Mercer Ltd, the Pension Fund’s contracted Actuary, and

(2) that all activities required to finalise the triennial valuation process have been completed in accordance with regulatory requirements and the timetable previously approved by Pensions Committee.

11 MONITORING REPORT FOR THE PERIOD FROM JANUARY TO JUNE 2017 (PART 1 ITEMS)

Consideration was given to a report by the Assistant Director – Finance (s151 Officer) which advised Members on material risks, administration, investment performance, governance and policy issues of the Fund for the two quarters ending 31 March 2017 and 30 June 2017, governance issues or national regulatory changes and an outline of the performance of the whole portfolio and movement in liabilities over that period.

The Committee was informed that due to the cancellation of the Pensions Committee meeting in June 2017, relevant business that would have been considered at that meeting had been included with the agenda today.

➢ Risk Management
Members were presented with a risk register that outlined 22 key risks to the Fund. It was advocated that there were no red risks, 6 amber risks and 16 green risks. In addition to this, the likelihood of risk relating to the implementation of Markets in Financial Instruments Directive (MiFID ii) had reduced following the publication of the FCA guidance.

It was also raised by Mr Gardener as an independent advisor that he considered the transition of assets to the Pool will present major risks and the clarification of asset transition arrangements to the company is an area of continuing development. The Senior Manager - Pensions & Financial Services (Deputy S151 Officer – LGPS) informed the Committee that management of the transition of assets to BCPP Ltd was a key issue on the agenda for the BCPP Officer Operations Group and would be a matter of priority for the Fund over the medium term.

➢ Pensions Administration
The Committee were informed that performance from Your Pension Service (YPS) had exceeded targets in 2016/17 and continued to progress in reviewing member data against the Guaranteed Minimum Payment Scheme. It was highlighted that discussions were underway with YPS to include additional performance indicators to review the whole system approach of member experiences in future. In addition to this there had been a number of employer movements between 1st January 2017 and 30th June 2017. As of the 30th June there were 132 employers in the Fund.
Investment Management
As at the 31st March 2017 the Fund had increased its funding level to 94.5%. The Fund value had increased to £2,493 million at 30th June 2017, showing performance ahead of benchmark in all periods.

Oversight and Governance
The Committee were informed that the class action against Royal Bank of Scotland had been settled. There were no legal breaches to report and four Fund discretions had been applied during the quarter.

Following a competitive tender process DLA Piper UK LLP retained the contract for specialist Legal Services for the Fund. The Fund was jointly tendering with Lancashire Pension Fund for the provision of Actuary Services at this time, with the contract due to cease at the end of September 2017.

Oversight and Governance – Policy & Regulation
The report noted that the Fund was working with YPS to ensure appropriate arrangements are in place to comply with the new European Regulations relating to General Data Protection from May 2018. A report had been prepared for the Scheme Advisory Board and the Department for Education by PricewaterhouseCoopers which set out considerations for academies in the LGPS. Members were advised that the Committee may be required to consider the implications of future policy changes in this area and the potential impact this may have on the Fund.

RESOLVED, that the Committee;

(1) receive and note the monitoring of the Fund for the period from 1st January 2017 to 30th June 2017,

(2) approve applications to join the Fund from Orian Solutions relating to their contract for the provision of cleaning services at Queen Elizabeth Grammar School and SLS Cumbria Ltd relating to their contract for the provision of cleaning services at Arnside Academy,

(3) increase the 2017/18 Fund budget from £5.784m to £5.814m to account for £0.030m of re-profiled costs associated with the development of BCPP Ltd, and

(4) continue with the current practice of delegating discretionary power associated with the payment of death grants to the S151 Officer in consultation with the Pensions Committee Chair and Vice Chair.
The Committee considered a report by the Assistant Director – Finance (S151 Officer) which presented the draft Annual Report and Accounts of the Cumbria Local Government Pension Scheme 2016/17. The report contained details of the management and financial performance of the Fund for the year to 31st March 2017 and the Fund’s governance arrangements.

Members were informed that the audit review by Grant Thornton was almost complete and a draft Audit Findings Report had been prepared. Once the final report is received and Accounts approved by the Audit Committee the final Annual Report and Accounts of the Cumbria LGPS 2016/17 would be published on the Council’s website.

The Chair thanked Officers for their hard work in preparing the report.

RESOLVED, that Members;

(1) submit to the Audit and Assurance Committee (subject to any final Audit amendments) the Cumbria LGPS Accounts 2016/17 for approval on behalf of the Council, and

(2) approve for publication (subject to any final amendments) the Cumbria LGPS Annual Report and Accounts 2016/17 (including the Governance Compliance Statement).

Consideration was given to a report by the Assistant Director – Finance (S151 Officer) that outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the Council, as Administering Authority of becoming a retail client on the 3rd of January 2018 when the regulation is enacted.

The Group Finance Manager explained that Members needed to be aware of the investment protections the Fund would inherit in January as a retail client, but that those same protections would not allow the current investment strategy to be implemented.

Members were therefore advised that the Administering Authority should, on behalf of the Fund, submit applications to opt up to “elective professional client” status, with all current managers promptly in order to ensure it could continue to implement an effective investment strategy. Members were also advised of the potential risks and benefits in doing so. The independent advisors indicated that they wanted it recorded that they both agree this is the correct course of action for the Fund. Members considered the issue and in agreeing the recommendations, requested that a further report be brought to the Committee in December to inform Members of work undertaken as a result of their decision made.
RESOLVED, that the Committee;

(1) note the potential impact on the Fund’s investment strategy of becoming a retail client with effect from 3 January 2018,

(2) agree that applications from the Administering Authority for opting up to elective professional client status should be made on behalf of the Fund with all current managers promptly in order to ensure it can continue to implement an effective investment strategy,

(3) choose to opt up for all services offered by each financial institution rather than individual services due to the efficiency of this approach and to enable the Fund to explore new products without future requirement to opt up with those managers,

(4) in opting up to elective professional client status, the Pensions Committee acknowledge and agree to forego the protections available to retail clients, and

(5) receive a further report in December 2017 which provides details of the progress made since the September 2017 meeting.

14 BCPP JOINT COMMITTEE MINUTES

The Chair introduced the minutes of the Border to Coast Pension Partnership meeting held on 6 June 2017, the Committee noted the minutes.

15 UPDATE ON POOLING OF PENSIONS ASSETS ACROSS THE LGPS - UPDATE VII

The Committee was provided with a report by the Assistant Director – Finance (S151 Officer) which updated Members on the progress made following the decision on 16 February 2017 at Council that Cumbria join the Border to Coast Pension Partnership Ltd (BCPP) as its chosen approach to meet the regulatory requirement to pool assets in the LGPS.

The Senior Manager - Pensions & Financial Services (Deputy S151 Officer – LGPS) informed Members of progress made including:

- Completion and enactment of the required legal documentation to bring the Joint Committee into being as a formal legal entity and the incorporation of the BCPP Ltd Company.

- The holding of the first Joint Committee meeting on 6 June 2017.
The progression of recruitment of the BCPP Ltd executive team, with the appointment of Company Chair and the selection of an approved candidate for the position of Chief Executive Officer.

The appointment of the company’s bankers, payroll providers and the progression of the procurement to secure the provision of BCPP Ltd’s main service providers.

Progress towards completion of the FCA advice permissions application pack.

Members were advised that further work was required to support the development of BCPP Ltd and to ensure the Fund has the most appropriate governance and transition management processes in place.

RESOLVED, that the Committee note the progress on development of the BCPP.

16 UPDATE ON POOLING OF PENSIONS ASSETS ACROSS THE LGPS - UPDATE VII (PART 2 APPENDICES)

Members received the Part Two appendices for item 15 – Update on Pooling of Pension Assets across the LGPS.

RESOLVED, that the appendices be noted.

17 MONITORING REPORT FOR THE PERIOD JANUARY TO JUNE 2017 (PART 2 ITEMS)

The Assistant Director – Finance (S151 Officer) presented the Part Two items from the Monitoring Report for the period January to June 2017.

The report provided details of recorded non-compliance events which arose from late payments and late data submission.

RESOLVED, that the Pensions Committee receive and note the quarterly monitoring part 2 items of the Fund for the period 1 January 2017 to 30 June 2017.

18 VERBAL UPDATE - EMERGING ISSUES

The Committee were advised that other than the agenda items there were no other emerging issues to report.
19 INVESTMENT SUB GROUP ACTIVITY REPORT TO SEPTEMBER 2017
INCLUDING ANNUAL GOVERNANCE REVIEWS

A report was presented by the Assistant Director – Finance (S151 Officer) which outlined activity of the Investment Sub Group, any decisions made by the S151 Officer and the proposed future work schedule in respect of the Investment Sub Group.

RESOLVED, that the Committee

(1) Note the approval of an uplift in the property manager’s limit to help ensure the strategic allocation to property stays within the agreed range of 8-10% per the Investment Strategy Statement;

(2) Note the bond manager’s portfolio limit for Tier 2 investments remain limited to 5% at this time;

(3) Note the overall performance of the Fund from January 2017 to June 2017 and that, at a specific manager level, while one manager remains on watch there are no matters of significant concern to warrant escalation from the individual manager performance reviews;

(4) Approve the proposed work programme of the ISG for the next reporting period, adding the additional work agreed at minute 9; i.e. that the Investment Sub Group (ISG) recommend, to Pensions Committee in December 2017, a proposed course of action to address the risk of potential employer contribution rate increases at the next valuation and in the longer term.

20 ANNUAL PERFORMANCE REVIEW - PRESENTED BY MARK PHILIP OF STATE STREET

The Committee received a presentation from a representative of State Street – the Funds independent performance measurement Analysts which provided the annual performance review for the period end March 2017.

The presentation provided information on:-

- Market Background
- Strategic Benchmark
- Market Data
- Total Fund Analysis
- Manager Analysis
- Performance Targets and Information Ratios

RESOLVED, that the presentation from State Street be noted.
21 CLOSING COMMENTS

The Chair of the Pensions Committee thanked Officers and Advisors for their hard work in preparing the detailed and informative reports.

The meeting ended at 14:30pm