

CUMBRIA PENSIONS COMMITTEE

Minutes of a Meeting of the Cumbria Pensions Committee held on Monday, 10 December 2018 at 9.30 am at Cumbria House, 117 Botchergate, Carlisle, Cumbria

PRESENT:

Mr MH Worth (Chair)

County Councillors

Mr SB Collins
Mr J Airey
Mr NH Marriner (Vice-Chair)

Mr LN Fisher
Dr S Haraldsen

District Council Representative

Mrs G Troughton

Employee Representatives

Mr K McDonald

Other Representatives:-

Mr A Sutherland - Investment Advisor

Also in Attendance:-

Mrs J Crellin - Director of Finance (Section 151 Officer)
Ms A Clark - Senior Manager - Pensions and Financial Services
(Deputy S151 Officer – Pensions)
Mr P George - Group Finance Manager - Pensions, Investments &
Insurance
Ms L Taylor - Finance Manager - Pensions Investments and
Governance
Ms D Purvis - Finance Manager - Pensions & Treasury
Ms S McGill - Technical Finance Officer – Pensions
Mr G Long - Border to Coast Pensions Partnership Ltd
Mr J Crawford - Your Pension Service, Deputy Pensions Director
Mr G Smith - Your Pension Service, Director of Strategic
Programmes

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, Ms T Barber and Mr T Gardner.

2 TERMS OF REFERENCE AND MEMBERSHIP

The Terms of Reference and Membership of the Board were noted by the Committee.

3 DISCLOSURES OF INTEREST

Mr K McDonald disclosed that members of his family are members of the Local Government Pension Scheme.

4 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 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 17. Appendix to the Half Year Update of the Pensions Administration Budget 2018 - 19 and Business Plan

Item 18. Update on the Developments with Border to Coast – Part 2

Item 19. Border to Coast Global Equity External Sub Fund

Item 20. Monitoring Report for the Quarter ended 30 September 2018 – Part 2

Item 21. Your Pension Service Performance

Item 22. Emerging Issues

Item 23. Cumbria LGPS Investment Sub Group Activity Report to November 2018

5 MINUTES

RESOLVED that, the minutes of the meeting held on 11 September 2018 be approved as a correct record.

6 REPRESENTATION FROM NON COUNTY COUNCIL EMPLOYERS AND DISTRICT COUNCILS

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

7 SCHEDULE OF FUTURE MEETINGS

The Committee noted the Schedule of future meetings that had been published with the Agenda.

8 MINUTES OF CUMBRIA LGPS LOCAL PENSIONS BOARD MEETING ON 8 OCTOBER 2018

The Committee received the Minutes of the Cumbria LGPS Local Pension Board meeting that was held on 8 October 2018, apprising the Committee of the business conducted at the meeting. There had been a presentation from the Fund's Group Finance Manager on the Risk Register. Members had highlighted the areas of greatest focus for the Board and made suggestions for improvement.

A report highlighting the main governance topics covered by the CIPFA Guide for Local Pensions Boards was received, together with reports providing a review of Pensions Committee decisions and a detailed review of Pension Administration matters.

In addition a presentation was received from the Head of Administration Services at Your Pension Service that detailed progress in recovering performance levels prior to those experienced before the April 2018 reorganisation.

RESOLVED that, the Minutes be received.

9 UPDATE ON DEVELOPMENTS WITH BORDER TO COAST

The Senior Manager – Pensions and Financial Services introduced a report from the Director of Finance (Section 151 Officer) which gave an update on developments with Border to Coast Pensions Partnership Ltd (Border to Coast). This included an update on governance matters, the development of investment sub-funds and the due diligence work undertaken by officers and the Independent Advisers on those sub-funds. The report also sought the comments of the Committee on the revised Responsible Investment Policy and Corporate Governance and Voting Guidelines.

The Senior Manager – Pensions and Financial Services reported that Daniel Booth had been appointed as the permanent Chief Investment Officer of Border to Coast and Graham Long had been appointed as the Head of External Investment Capabilities. She reported on the positive feedback received on the Border to Coast annual conference, highlighting that members would be invited to the October 2019 Annual Conference. A brief update was given on the Joint Committee budget and it was confirmed for Members that there would now be one non-voting scheme member representative on the Joint Committee, to be appointed from candidates sourced from the Partner Funds' Local Pension Boards.

Following an update on the Responsible Investment Policy and Corporate Governance and Voting Guidelines, members noted that Cumbria's policies were already aligned to the key underlying policy principles therefore it was not anticipated that any significant changes would be required. Members' attention was

drawn to the Policy and Guidelines included in the report which provided further detail and clarification not previously included and noted that the next formal Policy review would be in 2019.

Discussions took place on the detailed content of Border to Coast's proposed Responsible Investment Policy and the Corporate Governance and Voting Guidelines. Members expressed concerns about the specific targets for female recruitment of Board Directors, the disclosure of political donations and the decision to focus on climate change which they felt may be detrimental to the consideration of other risks.

After discussion it was agreed that the Section 151 Officer in consultation with the Chair and Vice Chair would provide written feedback to Border to Coast expressing the Committee's concerns.

Members requested that they be kept informed on the voting process and how Cumbria's view would be represented by the specialist proxy voting provider, Robeco.

RESOLVED that,

1. Progress on the development of Border to Coast be noted.
2. Comments on the Responsible Investment Policy and Corporate Governance and Voting Guidelines made by the Committee to be fed back to Border to Coast.

10 TRAINING UPDATE AND FUTURE PLANNED TRAINING

A report was considered from the Director of Finance (Section 151 Officer) which gave a Training Update and outlined future planned training. Members were updated on the progress to date against the Training Plan agreed at Committee in March 2018 as part of the Business Plan.

The Finance Manager - Pensions Investments and Governance informed members about the Training Policy which sought to ensure that members and officers had the appropriate skills and knowledge to demonstrate their responsibility for decisions. She explained that good progress had been made towards the delivery of the Training Policy and 2018/19 Training Plan and further courses and conferences had already been booked for the rest of the year.

Members were encouraged to return their training needs assessment by Thursday 13 December 2018. This information would help inform the 2019-20 Training Plan which would be brought to the Committee at its meeting in March 2019.

RESOLVED that, the progress toward delivery of the Training Policy and 2018/19 Training Plan be noted

11 MONITORING REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2018 - PART 1

The Committee considered the Monitoring Report for the Quarter Ended 30 September 2018 - Part 1 from the Director of Finance (Section 151 Officer) which advised members of any material risk, administration, investment performance, governance and policy issues of the Fund for the quarter ended 30 September 2018. It also identified any governance issues or national regulatory changes and outlined the performance of the whole portfolio and movement on liabilities over that period.

The Group Finance Manager – Pensions, Investments and Insurance drew members' attention to the performance of Your Pension Service (YPS). There had been an improvement over the previous quarter from 73% in the quarter to 30 June 2018 to 89% against the SLA target of 90%. Regular dialogue with YPS had taken place and representatives from YPS would be attending later on in the meeting to provide an update. The Group Finance Manager – Pensions, Investments and Insurance noted that, whilst YPS' performance had improved, the number of complaints in the quarter had risen. These complaints were due to the time taken to process requests. The Group Finance Manager – Pensions Investments and Insurance was pleased to report that there had not been any legal breaches during the quarter.

In relation to investment management, the Fund's assets had increased in size to £2,658m.

The Group Finance Manager noted that the Administration and Communications Policy had been reviewed and scheme employers had been consulted on the minor amendments to the policy. Members were recommended to approve the amended policy at today's meeting.

Members were advised that Cumbria Pension Fund had been selected by the Pensions Regulator as one of 10 Funds to be reviewed as part of a cohort review of the LGPS. It was reported that five monthly meetings with the Pensions Regulator had been scheduled. These meetings gave an opportunity to discuss with the Pensions Regulator how the Fund operated, its governance arrangements and internal controls associated with pensions administration. The Group Finance Manager – Pensions, Investments and Insurance provided insight on the business conducted at the two meetings that had already been held. The Senior Manager - Pensions and Financial Services welcomed the meetings, stating that they had been constructive.

RESOLVED that

- 1 The performance and monitoring of the Fund for the period from 1 July 2018 to 30 September 2018 be received and noted.
- 2 The issues relating to the governance of the Fund over the previous quarter be noted.

- 3 The revisions to the Fund's Administration Strategy and Communications Policy be approved.

12 HALF-YEAR UPDATE OF THE PENSION FUND BUSINESS PLAN AND ADMINISTRATION BUDGET 2018/19

A report was considered from the Director of Finance (Section 151 Officer) on the half year update of the Pension Fund Business Plan and Administration Budget 2018/19. The report advised on the progress toward the delivery of the 2018/19 Business Plan and the projected 2018/19 budget outturn for the Cumbria LGPS including variances against the budget.

The Group Finance Manager – Pensions, Investments and Insurance was pleased to report that all aspects of the Business Plan were on target which was a very positive position to be in. The impact of additional work relating to Pension Regulator discussions and Border to Coast was highlighted. There was a projected overspend of £0.029m for the year.

RESOLVED that,

- 1 Progress against the approved Business Plan be noted
- 2 The 2018/19 half year projected outturn position against budget for the Cumbria LGPS and forecast overspend of £0.029m (less than 0.5% of the budget) be noted.

13 PREPARATIONS FOR 2019 TRIENNIAL VALUATION

A report was considered from the Director of Finance (Section 151 Officer) on the preparations for the 2019 Triennial Valuation. The report advised that Cumbria County Council was responsible for the administration of the Cumbria Fund on behalf of 128 scheduled and admitted bodies including the County Council (as at 30th September 2018). It set out the key areas of work being undertaken to prepare for the valuation and outlined some of the key decisions that members would be required to make at future meetings as part of the 2019 valuation.

The Group Finance Manager – Pensions, Investments and Insurance reported that the next valuation would take place on 31 March 2019 and planning for this was on schedule. Officers had met with the Actuary. Members' attention was drawn to the timetable of activities in preparation for completion of the triennial valuation. A report would be brought to each meeting of the Committee and Cumbria LGPS Pension Board from March 2019.

A member commented on the significant change to move away from a triennial valuation and to align with a national wider public sector quadrennial valuation. The Senior Manager - Pensions and Financial Services stated no final decision had yet been made on this and Members would be kept updated on any developments in this area.

RESOLVED that, the actions taken to prepare the Fund for the 2019 Triennial Valuation be noted.

14 REVIEW OF CUMBRIA PENSION FUND RISK REGISTER

A report was considered from the Director of Finance (Section 151 Officer) on a review of the Cumbria Pension Fund Risk Register. The report provided a refresh of the Fund's risk register to make it consistent with the format of the Corporate Risk Register. The register included a number of new risks, removed risks that were not key to the Fund and the consolidation of others; reducing the number of risks from twenty two to fifteen. The impact and likelihood of risks occurring had also been reviewed.

The Group Finance Manager - Pensions Investments & Insurance advised that Cyber Crime/Digital Information Security was now identified as a key risk. Risks had been aligned to corporate risks where appropriate. The pensions' administration process risk had been escalated in September and October 2018 which led to a 'red' direction of travel, however this would be reviewed in March 2019 to determine if this could be de-escalated. Details of new risks, risks that had been removed from the register and those risks that had been consolidated as part of the refresh were outlined for members.

A member raised the new risk of Regulatory Changes which could mean that the LGPS may be mandated to invest in particular markets or other regulatory changes which could impact upon the sovereignty of the Fund. The Group Finance Manager - Pensions Investments and Insurance confirmed that the Fund continually scanned the horizon to assess any emerging issues that impact on the Fund. The Director of Finance (Section 151 Officer) noted the risk to the Fund of being directed by Government to invest in particular projects (e.g. infrastructure).

Continuing this discussion, a member raised the potential for issues arising out of the separation of Funds from its administrating authority and the implications on information and security arrangements, together with his concerns around the consolidation of short and long term cash flow, questioning whether they should be separated. The Group Finance Manager - Pensions Investments and Insurance commented that administering authority separation was not included as a specific risk as this would be managed by the mitigation set out within the risk in the register related to regulatory changes. With regard to cash flow, he had considered this risk but felt that the control mechanisms were broadly similar for both and that it was monitored on a daily basis.

It was raised by a member that in relation to Cyber Crime/Digital Information Security, the controls were in place but there was scant reference to recovery. She highlighted the risk of using a single technical specialist in the Fund (for example an actuary). The Group Finance Manager - Pensions Investments and Insurance acknowledged the importance of this issue and stated that this would be strengthened in the Risk Register.

The Director of Finance (Section 151 Officer) commented on the relationship between the Fund and Employers and stressed the importance of the Fund receiving appropriate and correct data from the Employer in order to allow Your Pension Service to operate effectively. She highlighted the important role of the Employer in the Pension administration function.

RESOLVED that, the revisions to the risk register of the Fund and the controls in place to mitigate Fund risks be noted.

There was a recess at this point in the meeting from 11.14am to 11.26am

15 REVIEW OF COMPLIANCE WITH THE PENSION REGULATOR'S CODE OF PRACTICE 14

A report was considered from the Director of Finance (Section 151 Officer) regarding a review of compliance with the Pension Regulator's Code of Practice 14. The report advised members of how the Fund complied with the Code and concluded that the Fund was compliant but that procedures should be documented as to the Fund's internal controls and how contributions payable to the Fund are monitored.

The Group Finance Manager - Pensions Investments and Insurance drew members attention to the Pension Regulator's Code of Practice 14 and the Fund's Compliance with it.

A member asked about the processes for escalation and whether it related to existing documents or had the process changed and whether the Terms of Reference would have to be reviewed as a consequence. Members were reassured that the work involved documenting current internal processes which was not an onerous task and would not impact significantly on existing workload.

The Director of Finance commented on the reciprocal working relationship with the Pension Regulator, the importance of compliance and sharing of information with the Pension Regulator so it could understand the views of the Fund. She welcomed the statement of compliance.

The GMB Union Representative stated that the internal dispute resolution procedure was not well known or advertised in the County Council. He thought that this could be improved. The Group Finance Manager - Pensions Investments and Insurance took this on board and advised that any correspondence to a scheme member did make reference to this. The Director of Finance (Section 151 Officer) undertook for officers to liaise with the GMB Union Representative to take this forward.

RESOLVED that

1. It be noted that the Fund complies with the requirements of the Pensions Regulator's Code of Practice 14.
2. The Action Plan to develop documented procedures to ensure that

compliance with the Code can be fully evidenced be noted.

16 CUMBRIA LGPS DATA QUALITY REVIEW

A report was considered from the Director of Finance (Section 151 Officer) regarding the Cumbria LGPS data quality review. The report summarised the actions being undertaken to improve data quality within the Fund.

The Group Finance Manager – Pensions Investments and Insurance reported that as a Fund, the quality of data was of a good standard however, officers were striving for excellence and had identified actions for improvement. Members were directed to the Data Quality Improvement Plan 2018/19 included with the report and advised that the Pension Regulator had highlighted that there were previously no metrics included. This had now been resolved with performance targets included within the plan.

The work being undertaken around pending leavers was outlined and members were advised that work continued with all employers on providing complete and accurate information. In terms of reviewing the outcome of the next National Fraud Initiative work, officers now compared the difference in data sets with other public sector organisations every six months. Extensive work would also be undertaken on member tracing, through a 3rd party organisation. A review was currently being undertaken on the readability of member correspondence and Dr Haraldsen offered to review the correspondence and provide feedback to officers.

A member raised that there should be sensitivity in obtaining data from deferred members and the partners of members who had died. Challenges in obtaining data from members of staff who had worked in multiple local authorities and had transferred in and out of different schemes was noted.

RESOLVED that, progress towards further improving the quality of data held by the Fund be noted.

17 APPENDIX TO HALF YEAR UPDATE OF THE PENSIONS ADMINISTRATION BUDGET 2018-19 AND BUSINESS PLAN

Appendix 1 to Item 12, Half Year Update of the Pensions Administration Budget 2018-19 and Business Plan considered earlier in the Agenda was received by the Committee.

RESOLVED that, the 2018/19 Projected Outturn for the Investment Fees Budget as at 30 September 2018 be noted.

18 UPDATE ON DEVELOPMENTS WITH BORDER TO COAST - PART 2

An update report was considered from the Director of Finance (Section 151 Officer) on developments with Border to Coast. The report gave an update on the

development of investment sub funds by Border to Coast Pensions Partnership Ltd together with proposals for the ongoing budgetary requirements and other matters.

The Senior Manager – Pensions & Financial Services apprised members of the developments of sub-funds during the period and were provided with a Border to Coast budget update and performance of the Fund's global equities.

Members asked questions on the legal structure of private market investment partnerships, how the proposals linked to our strategic asset allocations and commented on the potential saving of fees in the pooling arrangements.

Discussion also focussed on overseas equity, the links to currency volatility, how Border to Coast may allow access into different markets and that currency hedging was expected to continue to be considered at a Fund rather than Pool level.

Following careful consideration of the report, the Border to Coast Global Equity Externally managed sub fund presentation and taking into account the information presented by officers, it was.

RESOLVED that

- 1** The report be noted
- 2** The Chair of the Pension Committee, in his capacity as the Council's shareholder representative for the company be authorised to sign the Shareholder Resolution agreeing to the creation of the legal structure to deliver the alternatives capability (including the formation of subsidiaries of Border to Coast as well as the determination of the composition, governance and limits of authority of subsidiaries, and the approval to form partnerships); such authorisation to be subject to the receipt of advice from the Section 151 Officer that it is in the shareholder's interests to approve the resolution.
- 3** It be approved in principle that, subject to satisfactory completion of due diligence work, the transfer of all or part of the Fund's 20% allocation to actively managed Global equities into the Border to Coast externally managed Global Listed Equity Alpha Fund; and
- 4** It be noted that, if the due diligence work on the Global Listed Equity Alpha Fund presents information which requires further consideration, a special meeting of the Committee may be called in early 2019; and
- 5** Authority be delegated to the Director of Finance (s151 Officer), in consultation with the Chair of the Committee and the two independent Advisers, to approve that the transition be effected once they are satisfied that the due diligence work is complete, the sub-fund arrangements are appropriate for the requirements of the Fund and the arrangements for transition are appropriate; and
- 6** Authority be delegated to the Director of Finance (s151 Officer) to give Nordea and Loomis Sayles (the current managers of the Fund's Global actively managed equity

mandates) at least one months' notice to terminate the mandate in preparation for the transition

19 BORDER TO COAST GLOBAL EQUITY EXTERNAL SUB FUND

A presentation was received from the Head of External Management Border to Coast on the Global Equity External Sub Fund.

The Committee were informed about the members of the Sub Fund team, the Global Equity Alpha – externally managed fund and what it was working towards, an explanation of how the team worked, what the objectives of the Fund were and the timescales involved.

Following careful consideration of the report and taking into account the information presented by officers, it was.

RESOLVED that, the position be noted.

20 MONITORING REPORT FOR THE QUARTER ENDED 30TH SEPTEMBER 2018 - PART 2

The Committee considered the monitoring report for the quarter ended 30 September 2018 from the Director of Finance (Section 151 Officer). The report advised members of any matters that were considered to be exempt from publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 which had arisen during the quarter ending 30 September 2018. These mainly related to either governance or employer issues.

Members were advised of the work undertaken in the period to resolve a number of payment issues with specific employers in the Fund.

Following careful consideration of the report and taking into account the information presented by officers, it was.

RESOLVED that, the quarterly monitoring part 2 items of the Fund for the period to 30 September 2018 be received and noted.

21 YOUR PENSION SERVICE PERFORMANCE

Members received a presentation from the Deputy Pension Director and Director of Strategic Programmes at Your Pension Service (YPS).

Members received an apology for the dip in performance and were apprised of how YPS was resolving the performance issues. The reason for the reorganisation of YPS was explained and the ramifications this had on YPS's performance were noted. It was acknowledged that the decline in service was not acceptable to scheme members and employers. The actions taken to improve performance were

noted and the Committee's future expectations of the YPS were stressed by a number of members.

Members and officers welcomed the explanation and stressed the need for performance improvement.

RESOLVED that, the position be noted.

22 EMERGING ISSUES

The Committee received a verbal update from the Senior Manager – Pensions and Financial Services on a number of emerging issues pertinent to the work of the Committee which included the Scheme Advisory Board letter to the Pensions Regulator, the expectations for the Code of Cost Transparency, the Public Sector Cost Cap Mechanism and the CIPFA Consultation on the Annual Report.

RESOLVED that, the position be noted.

23 CUMBRIA LGPS INVESTMENT SUB GROUP ACTIVITY REPORT TO NOVEMBER 2018

A report was considered from the Director of Finance (Section 151 Officer) on the Cumbria LGPS Investment Sub Group Activity Report to November 2018. The report outlined activities since the Investment Sub Group meeting on 31 August 2018, any decisions made by the Section 151 Officer and the proposed future work schedule in respect of the investment Sub Group.

Following careful consideration of the report and taking into account the information presented by officers, it was,

RESOLVED that,

- 1 The progress of the Investment Sub Group from September 2018 to November 2018 be noted, including the Group's support for the proposed new investment commitments and the agreement of the Section 151 Officer, under her delegated powers, that these investment decisions be enacted.
- 2 The performance of the Fund over the quarter be noted and that the corporate bonds portfolio manager will be put 'on watch' be noted
- 3 The Committee agrees that the two long-lease property funds should both be reflected in the 'other defensive' asset allocation, due to their inflation-linkage and defensive nature; and
- 4 The Committee agrees the proposed work programme of the Investment Sub Group for the next reporting period, including completion of the interim

investment strategy 'sense check' and the short-listing of further investment opportunities.

The Chairman informed the Committee that Tim Gardener was unwell and asked that the good wishes of the Committee were conveyed to him.

The meeting ended at 2.35 pm