

CUMBRIA PENSIONS COMMITTEE

Meeting date: 14 March 2023

From: Jo Moore, Interim Director of Finance (S151 Officer)

MONITORING REPORT FOR THE QUARTER ENDED 31 DECEMBER 2022 – PART 1

1.0 EXECUTIVE SUMMARY

1.1 *This detailed report advises Members of any material risk, administration, investment performance, governance, and policy issues of the Fund for the quarter ending 31 December 2022.*

1.2 *The report identifies any current governance issues and national regulatory changes and outlines the performance of the whole portfolio and estimated change of liabilities over the quarter to 31 December 2022.*

1.3 Risk Management (Section 4):

1.3.1 *The Cumbria Pensions Committee follows accepted best practice across Pension Funds (including the LGPS) in formally reviewing the key risks identified for the Fund.*

1.3.2 *The risk register (as presented in Appendix 1) outlines the key risks to the Fund. No new risks have been added to the register nor have any risks been removed from the register during the quarter. The risk score associated with pensions administration processes has been increased due to the performance levels currently being delivered by LPPA.*

1.3.3 *All other risks on the register have been reviewed over the past quarter with some minor amendments reflecting changes to risks and mitigations over the quarter.*

1.4 Pensions' Administration (Section 5):

1.4.1 *Combined performance against key performance indicators for Local Pensions Partnership - Administration (LPPA) was 92.5% for the quarter to 30 September 2022 falling short of the LPPA target of 95%.*

Performance was below the performance target for dealing with death cases (92.4%) but exceeded the target of 95% for new retirements (deferred members – 96.7% and active members – 96.6%).

1.4.2 *Five Administering Authority discretions were exercised relating to the payment of death grants and one exercised in respect of late combination of pension benefits in the quarter.*

1.5 *Investment Management (Section 6):*

1.5.1 *The value of the Fund has fallen by £28m to £3,090m over the quarter to 31 December 2022 (£3,118m at 30 September 2022) and the Fund's investment performance (net of fees) over the 12 month period ending 31 December 2022 was a negative return of -7.9%, lagging the fund-specific benchmark of -6.6%.*

1.5.2 *Long-term performance over the 5 years to 31 December 2022 is marginally ahead of the Fund's specific benchmark (4.3% per year net of fees against a benchmark of 4.2%) and, over ten years the Fund return (net of fees) of 7.8% per year is above the benchmark of 7.0%.*

1.6 *Oversight & Governance - Governance (Section 7):*

1.6.1 *The Fund has continued its role as a responsible shareholder by maintaining effective oversight of voting and engagement activity with companies in which it invests.*

1.7 *Oversight & Governance - Policy & Regulation (Section 8):*

1.7.1 *To help ensure the safe and legal transfer of the Cumbria Pension Fund as part of Local Government Reorganisation the report recommends that the Committee agreed to delegate to the Senior Manager – Pensions & Financial Services (Deputy Section 151 Officer - LGPS) the full range of powers including taking all decisions, implementing decisions and acting as the authorised signatory for the Council where it is necessary to ensure the safe transfer of the Cumbria Pension Fund assets and pension administration activities from Cumbria County Council to Westmorland and Furness on the 1 April 2023.*

1.7.2 *The report provides an update on the 2022 actuarial valuation of the Fund and notes that this is on track for formal sign off by the deadline of 31 March 2023.*

1.7.3 *The report also provides an update with regard to the regulatory amendments to the LGPS related to the McCloud remedy. No update has been provided during the quarter on implementation of the Pensions Regulator's consolidated Code of Practice for pension schemes.*

1.7.4 *The report provides details of the changes to the BCPP Responsible Investment Policy, Corporate Governance & Voting Guidelines and*

Climate Change Policy (which continue to be aligned with the underlying principles of the Fund's Investment Strategy Statement).

1.7.5 *There were no breaches reported to the Pensions Regulator during the quarter to 31 December 2022.*

2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS

2.1 *The purpose of the Fund is to pay Cumbria LGPS members' pension benefits in accordance with regulations and in a secure, affordable and sustainable manner over the short, medium and long term. To do this, the Fund seeks to:*

- ensure that sufficient resources are available to meet all liabilities as they fall due;*
- manage employers' liabilities effectively and enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the scheduled, resolution and admitted bodies;*
- achieve and maintain Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future; and*
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.*

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

2.3 *Content that can be reported within the public domain is presented within this Part 1 report to Pensions Committee with commercially sensitive information and information not for public disclosure being presented in the Part 2 Quarterly Monitoring report elsewhere on this agenda.*

2.4 *This report has been structured to consider risks associated with the Fund, followed by monitoring information presented in the broad format of the Business Plan, i.e. Pensions Administration, Investment Management and Oversight & Governance. This structure will enable Members monitoring of Fund activity to align to the objectives set out within the Business Plan of the Fund.*

2.5 *There are no direct equality implications arising out of the recommendations in this report.*

3.0 RECOMMENDATION

It is recommended that the Pensions Committee:

- 3.1 ***Delegate to the Senior Manager – Pensions & Financial Services (Deputy Section 151 Officer - LGPS) full range of powers including taking all decisions, implementing decisions and acting as the authorised signatory for the Council where it is necessary to ensure the safe transfer of the Cumbria Pension Fund assets and pension administration activities from Cumbria County Council to Westmorland and Furness Council on the 1 April 2023;***
- 3.2 ***Receive and note the performance and monitoring of the Fund for the period from 1 October 2022 to 31 December 2022;***
- 3.3 ***Note issues arising relating to the governance of the Fund; and***
- 3.4 ***Note changes to the Border to Coast Pensions Partnership Ltd (BCPP) Responsible Investment Policy, Corporate Governance & Voting Guidelines and Climate Change Policy which continue to be aligned with the underlying principles of the Fund’s Investment Strategy Statement.***

4.0 RISK

- 4.1 Risk management is a key element of good governance for any organisation. Officers of the Fund continually review and monitor risks bringing any significant emerging issues to Members’ attention throughout the year, with Members formally reviewing these at Pensions Committee. This quarterly review process ensures consistent and timely Member oversight of risk monitoring and thereby provides enhanced due diligence in this regard.
- 4.2 The current risk register at March 2023 is presented at Appendix 1. No new risks have been added nor have any risks been removed from the register in the past quarter.
- 4.3 The scoring of the risk associated with pensions administration processes has been increased to reflect the current performance levels of LPPA as detailed further in section 4.5 and 5.1 of this report.
- 4.4 All other risks have been reviewed with a number of minor amendments being made during the quarter for current mitigations and planned improvements in controls.
- 4.5 There is currently one risk assessed as “red” associated with information security arrangements. Additionally, there are 5 “amber” and 13 “green” rated risks.

- **Change in Risk Score in Q4: Ref 1.2 – Pensions Administration Processes**

Impact of occurrence score	3
Likelihood of occurrence score	3 (increased from 2)
Total Risk Score	9 (Amber) - increased from 6 (Green)

Pensions Administration Processes – The risk score associated with Pensions Administration Processes has been increased to reflect the performance of LPPA in Q2 and Q3 as reported to the Pensions Committee in December and in section 5.1 of this report.

The low levels of adherence to LPPA performance standards increases the risk of delays in scheme members entering into pension or receiving other services from the Fund in an untimely manner. This increased risk has been mitigated by enhanced monitoring of LPPA performance including monthly reports being received by the Fund. In recognition of the poor performance over the past two quarters, and concerns as to performance in the future, senior officers will take a more active role in managing the relationship between the Fund and LPPA.

It is recognised that performance of LPPA in Q3 was a significant improvement from that experienced in Q2 however there remain concerns associated with the performance of LPPA and this risk score will not be reduced until such time that the Fund is comfortable with the sustained adherence to agreed targets by LPPA.

5.0 PENSIONS ADMINISTRATION

5.1 Local Pensions Partnership Administration (LPPA) Performance

5.1.1 To enable the Committee to perform appropriate governance and oversight of Fund administration, the quarterly report to 31 December 2022 has been attached at Appendix 2.

5.1.2 Membership numbers in the LPPA report: The membership information included within the LPPA performance report notes that, as at 31 December 2022, there were 61,769 scheme members within the Fund. The report notes that this figure includes 20,463 active members. However this figure includes 2,368 “pending leavers”. These are members that are not actively contributing to the Scheme and are therefore assumed to have left the Scheme but whose case has not yet been processed or finalised. Consequently, the membership numbers in the report at Appendix 2 need to be adjusted as follows:

Membership status	Figures shown in Quarterly report	Adjustment required for pending leavers	Adjusted total membership
Actives	20,463	-2,368	18,095
Deferred	22,557	+2,368	24,925
Pensioners	18,749	0	18,749
Total	61,769	0	61,769

5.1.3 In the quarter to 31 December 2022, LPPA delivered 92.5% of caseload within the agreed timeframes against their standard target of 95%. Due to LPPA’s implementation of a new pensions administration system “UPM”, relaxed SLA targets had been previously agreed for the months of

November, December and January. These revised targets were for 90% of death and retirements cases to be processed within the usual 5 days and 70% of all other cases completed within the usual timeframe.

- 5.1.4 Performance in the quarter to 31 December has significantly improved on the previous quarter (70.1%) however, Officers are working with LPPA to review any backlog of cases and how this may affect future reported performance.
- 5.1.5 Processing of death cases across the quarter fell below the 95% target with 92.4% of cases dealt with within the 5 day target (although it is noted that for two months in the quarter, the relaxed target of 90% was applicable). Nine of the 13 cases that fell outside of the 5 day target were responded to within 7 days (i.e. 2 days over the target) however the other 4 cases were significantly late with 2 cases taking between 11 and 15 days to resolve and the other two cases taking 16 and 17 days.
- 5.1.6 On investigating these cases further, the case taking 16 days beyond the agreed performance target was a result of incorrect time keeping within LPPA. The case was not put on hold whilst further information was sought from the solicitor. This case should have correctly been included in the report as having met the performance target of being completed with 5 days.
- 5.1.7 The case that took 17 days beyond the agreed performance target was related to a death in pension. No further payments were due to the scheme member's nominated beneficiaries.
- 5.1.8 Processing of retirement cases has significantly improved from last quarter with 96.7% of retirements from deferred status being managed within 5 days (up from 70.9% in Q2) and 96.6% of retirements from active status being managed within 5 days (an increase from 69.3% in Q2). However, of the 10 cases that were outside of the 5 day target, 1 case took 16 days to resolve and 2 cases took 24 days to resolve. These three cases took significantly longer than the agreed performance target due to work volumes within LPPA associated with the transition to the new pension administration system.
- 5.1.9 Unfortunately the performance in January further reduced to 79.5% of cases being completed within LPPA's performance target. It is noted that this month was the last month on which the relaxed targets were in operation. Particularly disappointing is the performance of high priority caseload with 71.4% of bereavements, 71.3% of retirements from deferred status and 76.7% of retirements from active status completed within the 5 day target. This compares to the relaxed target of 90% for these high priority cases.
- 5.1.10 From February, the target for all cases will revert to 95% completion within the agreed timeframe. However, LPPA have stated that performance targets for retirement cases will continue to be adversely affected as the retirement team clears the outstanding backlog of work.
- 5.1.11 As previously reported to Pensions Committee, LPPA implemented a new pensions administration system "UPM" on 5 December. This new system will aid caseload management within LPPA as well as giving scheme members

a new portal on which to access their own pension records (“Pension Point”). As noted within Appendix 2, as at 31 December 2022, 1,486 (2.4%) scheme members had registered with Pension Point. Whilst this appears as a low figure, it is noted that scheme members were not formally advised of the new system and the process for registration until January 2023. As at 24 February, this figure had increased to 13,948 (22.6%). LPPA and the Fund will continue to strive to increase this take up over the coming months.

5.1.12 The Fund has been closely monitoring how the implementation of UPM has impacted employers. Although over 80% of employers have been able to successfully access and upload data to this new system for the first 2 months of operation, the Fund is aware that some employers have experienced initial issues with uploading monthly member data to the employer portal. Officers have been working with these employers to understand where the issues have arisen and to assist the employers where they have faced difficulties.

5.1.13 During the quarter to 31 December, LPPA received 20 complaints (the same number as the previous quarter). The majority of these related to complaints about delays and general service.

5.2 Employer Issues from 1 October 2022 to 31 December 2022

5.2.1 One employer, FCC Environment terminated from the Fund during the quarter decreasing the total number of employers within the Fund at 31 December 2022 from 130 to 129.

5.3 Fund discretions applied

5.3.1 During the quarter to 31 December 2022 there were 5 administering authority discretions exercised in relation to payment of death grants and one exercised in respect of late combination of pension benefits. All were approved by the Fund’s Discretions Panel

6.0 INVESTMENT MANAGEMENT

6.1 Asset allocation changes

6.1.1 The Pensions Committee is responsible for approving the investment strategy and the target asset allocations for the Fund. In addition to this the Investment Sub Group is responsible for assisting the Section 151 Officer in the implementation of certain decisions relating to the implementation of the investment strategy as set out in Part 20 of the Council’s Constitution.

6.1.2 Details of movements towards the strategic asset allocation this quarter are provided in the Investment Sub Group Report elsewhere on this meeting’s agenda.

6.2 Fund Performance

6.2.1 The Pensions Committee focus is the long term strategic asset allocation and overall long term performance of the Fund. Individual manager monitoring is undertaken by the Investment Sub Group (ISG), with any matters of concern reported to the Committee in the quarterly ISG Report.

6.2.2 **Quarterly Performance** - The Fund's assets fell in value from £3,118m at 30 September 2022 to £3,090m at 31 December 2022 during a quarter which was predominantly a positive one for global equity markets as inflation showed signs of peaking. Despite this much needed boost to equity markets, volatility remained in the market and falls in the value of gilts and a weakness in Sterling during the quarter contributed to the Fund underperforming with a negative return of -0.6%, lagging the fund-specific benchmark which returned a positive 0.8%.

Investment performance is detailed in the ISG report presented in Part 2 of this meeting but, in summary, the largest contributors to performance came from within the Border to Coast equity funds, with the externally managed Global Equity Alpha strongly outperforming its benchmark whilst the Aberdeen property portfolio underperformed in the quarter against its benchmark.

6.2.3 **Longer term performance** - performance against the Fund's specific benchmark for 1, 3, 5 and 10 years is presented in the table below noting that long term performance continues to exceed the benchmark.

	31 Dec 2022		
	Cumbria Performance	Bespoke Benchmark	Variance to Benchmark
1yr performance	-7.9%	-6.6%	-1.3%
3yr performance	3.4%	3.0%	0.4%
5yr performance	4.3%	4.2%	0.1%
10yr performance	7.8%	7.0%	0.8%

7.0 OVERSIGHT & CORPORATE GOVERNANCE

7.1.1 Good governance sets the framework within which pension funds can achieve and demonstrate good performance, sound management, the effective stewardship of funds and delivery against the standards and regulations placed upon them.

7.1.2 This section of the report sets out the formal review of governance by the Pensions Committee.

7.2 Local Government Reorganisation (LGR)

7.2.1 Work is continuing at pace to facilitate the vesting of the Administering Authority from Cumbria County Council to Westmorland & Furness Council on 1 April 2023. This includes the transition of investments to the new Administering Authority and the final sign off of the legal documentation supporting the Delegation of Functions arrangement with Lancashire County Council for the provision of pension administration arrangements.

- 7.3 To help ensure that this transfer of the Cumbria Pension Fund is safe and legal the Committee is recommended to agreed to delegate to the Senior Manager – Pensions & Financial Services (Deputy Section 151 Officer - LGPS) the full range of powers including taking all decisions, implementing decisions and acting as the authorised signatory for the Council where it is necessary to ensure the safe transfer of the Cumbria Pension Fund assets and pension administration activities from Cumbria County Council to Westmorland and Furness on the 1 April 2023.
- 7.4 It is currently anticipated that such decisions will include agreeing and authorising actions required to resolve tax matters relating to the BCPP Authorised Contractual Scheme (ACS): BCPP has indicated that the transfer of the Fund from Cumbria County Council to Westmorland & Furness Council has potential tax implications for the BCPP ACS which would impact on both the Fund and other investors in the ACS. Officers, BCPP and external tax and legal specialists are currently working on a solution to this matter. At the time of writing the details of this had not been finalised.
- 7.5 **2022 Triennial Valuation - Update**
- 7.5.1 In accordance with LGPS Regulations, the Administering Authority is required to obtain an actuarial valuation of the assets and liabilities of the Fund on a triennial basis by a recognised qualified professional. The purpose of the triennial actuarial valuation is to calculate the value of the assets and the liabilities of the Fund and to set employer contribution rates for the next three-year period to ensure the future solvency of the Fund and to achieve long term cost efficiency.
- 7.5.2 Throughout the year, training and regular updates on the valuation have been provided to Pensions Committee and Pension Board members.
- 7.5.3 All employers have been advised of the outcome of the valuation including details of their employer contribution rates for 2023/24 through to 2025/26. Additionally, S151 Officers of the new Councils have agreed an interim measure for allocating assets and liabilities to permit the actuary to assess the employer contribution rate for each of the new Councils from 1 April 2023 to March 2026. A full review of assets and liabilities of each Council will be conducted as part of the 2025 valuation.
- 7.5.4 As part of the valuation feedback, Mercer Ltd will provide a climate change scenario analysis through the use of a broad range of scenarios and long-range projections on how the climate crisis could impact funding and investments, from a rapid transition that limits warming to 1.5°C to a failed transition with warming above 4°C. Details of this scenario testing will be reported to Pensions Committee as the information becomes available.
- 7.5.5 The valuation is continuing to progress in line with the timetable originally presented to the Committee and is on schedule for formal sign off by the actuary on or before 31 March 2023.

7.6 **Shareholder Voting**

Border to Coast Pensions Partnership Ltd (BCPP)

7.6.1 BCPP produce a quarterly Integrated Proxy Voting report, which provides details of all voting outcomes at each company meeting across all equity funds, in addition to the individual summary UK/Global/Overseas Developed Fund Proxy Voting reports. The integrated report can be viewed on the Fund's website at:

<https://www.cumbriapensionfund.org/media/aetokchu/2022-q4-border-to-coast-integrated-detailed-proxy-voting-report.pdf>

UK Equity

7.6.2 The BCPP UK Listed Equity Proxy Voting report can be viewed on the Council's website at:

<https://www.cumbriapensionfund.org/media/uh2dnebj/2022-q4-border-to-coast-uk-summary-proxy-voting-report.pdf>

7.6.3 In summary, Robeco exercised shareholder votes at 18 UK AGM meetings on the Fund's behalf, with a total of 224 votes cast. Of these 207 votes were 'for' the respective Board's proposals, there were 17 votes 'against', and no abstentions.

7.6.4 Voting highlights included two shareholder proposals filed by the Australian Centre for Corporate Responsibility (ACCR) at the BHP Group Ltd AGM. BCPP voted against a shareholder proposal regarding lobbying activity alignment with the Paris Agreement. Although they supported this in principle it was felt to be too broad and ambiguous.

7.6.5 BCPP supported the second shareholder proposal that requested the company include climate sensitivity analysis in its financial statements. They acknowledge that BHP's disclosures are generally good, but believe that quantitative substantiation of scenario analysis could be improved by third-party verification.

7.6.6 Neither proposal was adopted, with the shareholder proposal on lobbying receiving 13% support and the shareholder proposal on climate accounting and audit received 19% support. BCPP will continue to engage with the Company through the Net Zero Carbon Emissions engagement theme being conducted by Robeco.

Global Equity

7.6.7 The BCPP Global Equity Alpha Proxy voting reports, can be viewed on the Fund's website at:

<https://www.cumbriapensionfund.org/media/w32pbqw0/2022-q4-border-to-coast-global-summary-proxy-voting-report.pdf>

7.6.8 In summary, Robeco exercised shareholder votes at 23 AGM meetings on the Fund's behalf, with a total of 200 votes cast. Of these 170 votes were 'for' the respective Board's proposals, there were 29 votes 'against', and there was one abstention.

7.6.9 At the Microsoft AGM the agenda included six management-opposed shareholder proposals. BCPP highlighted four of these including a proposal requesting tax transparency in line with the Global Reporting Initiative's Tax Standard. This was supported by BCPP along with 23% of other shareholders.

Overseas Developed Equity

7.6.10 The Overseas Developed Equity voting reports, can be viewed on the Fund's website at:

<https://www.cumbriapensionfund.org/media/q23ngzny/2022-q4-border-to-coast-overseas-developed-summary-proxy-voting-report.pdf>

7.6.11 In summary, Robeco exercised shareholder votes at 38 AGM meetings on the Fund's behalf, with a total of 304 votes cast. Of these 275 votes were 'for' the respective Board's proposals, there were 29 votes 'against', and no abstentions.

7.6.12 Voting highlights, in addition to Microsoft and BHP above, included supporting two shareholder proposals at the National Australia Bank. Activist group Market Forces submitted these proposals, as part of a broader campaign that aims to hold the big four Australian banks accountable for their lending activities to the fossil fuel sector, in light of their climate commitments.

Stewardship Newsletter

7.6.13 The Quarterly BCPP Stewardship Newsletter, which provides a high-level overview of voting and engagement activity across *all* equity funds is attached at Appendix 3 for information.

7.6.14 It details that BCPP have recently re-appointed Robeco through a public procurement process to continue to provide stewardship support to meet their active ownership requirements on behalf of Partner Funds. BCPP have also recently appointed a Stewardship Manager to strengthen their team and were awarded Best Approach to Responsible Investment at the 2022 Local Authority Pension Fund (LAPF) Awards 2022.

7.6.15 During the quarter BCPP voted at 124 meetings, covering 1,044 agenda items. In 44% of meetings there was at least one vote cast against management recommendations (primarily in relation to board composition and excessive remuneration).

7.6.16 Over the quarter, 279 company engagements were carried out on a variety of topics. The most common area discussed was environmental impact, specifically in relation to climate strategy.

Legal & General (L&G): Passive Equity

7.6.17 L&G manage a global passive equity portfolio on behalf of the Fund including voting at shareholder meetings. During the quarter to 31 December 2022 L&G exercised votes at 892 meetings globally, registering 1,340

oppose votes and 157 abstentions; of which the main reasons related to Director's appointment and remuneration. They held 891 engagements with 665 companies globally, with the main engagement topics being climate change, remuneration and gender diversity.

Local Authority Pension Fund Forum (LAPFF)

7.6.18 The Fund is a member of LAPFF - a collaborative shareholder engagement group which seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility. During the quarter to 31 December, LAPFF engaged with 26 companies to discuss a variety of issues, with climate change, human rights and governance at the forefront on agendas.

7.6.19 An officer and Pensions Committee Member attended the LAPFF Annual Conference in December. Although there was a heavy focus on human rights and climate, a wide range of other topics were discussed, including electric vehicles, executive remuneration and Levelling up.

7.7 Global Tax Recovery

7.7.1 In recognition of the slow moving nature of global tax claims updates on tax recovery activity are reported annually to the Committee each June. Members were last fully updated at the June 2022 Pension Committee and the report covered tax recovery activity to the end of March 2022. Members were provided with an interim update on the progress of the withdrawal of our Manufactured Overseas Dividend (MODs) claims at the December 2022 Pension Committee.

7.8 During the three months to December 2022 there were no withholding tax (WHT) repayments and there have been no significant updates on the status of the outstanding FIDs and Manninen claims. Details on the status of withholding tax claims is not in the public domain as it is classed confidential, however an interim progress update on the MODs withdrawal is included in the part 2 monitoring report to this meeting.

8.0 OVERSIGHT & CORPORATE GOVERNANCE - POLICY & REGULATION

8.1 Regulatory Changes

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

8.1.2 McCloud Resolution

8.1.2.1 As previously reported to Pensions Committee, work continues within the Department for Levelling Up, Housing and Communities (DLUHC), on the steps to rectify the McCloud discrimination as it affects the LGPS in

England and Wales. It is expected that the Government will publish its response to this consultation and updated version of the draft regulations implementing the McCloud. The regulations are expected to be made later in 2023 and are scheduled to come into force on 1 October 2023.

8.1.2.2 Pensions Committee and the Local Pension Board will continue to be advised when further information is available.

8.1.3 Exit Payment Cap

8.1.3.1 As previously reported to Pensions Committee, the Government intend to re-legislate to limit the amount public sector employers can pay to exit an employee from their employment. Officers are currently awaiting an update from Government on developments with the Exit Payment Cap and will brief the Pensions Committee and the Local Pension Board on the implications to the LGPS and the Fund when available.

8.1.4 Task Force on Climate-Related Financial Disclosures (TCFD)

8.1.4.1 In September the long anticipated consultation on the governance and reporting of climate change risks was published by the Department for Levelling Up, Housing and Communities (DLUHC). As expected, the proposals set out in the consultation are broadly consistent with the requirements recently introduced in the private sector. Officers drafted and submitted a comprehensive response to this technical consultation by the required deadline of 24 November 2022.

8.1.4.2 Pensions Committee will be advised further when the resulting regulations and guidance are issued and the implications of this for the Fund.

8.2 **Other Regulatory Changes**

8.2.1 There have been no further regulatory changes of note that affect the LGPS since the last meeting of the Committee in September. However, there are a number of matters that the Fund is maintain a watching eye on including:

8.2.2 Pensions Regulator - Code of Practice

8.2.3 As previously reported to the Pensions Committee, the Pensions Regulator has consulted on a proposed new Code of Practice which consolidated 10 of the 15 existing Codes of Practice (including CoP14 - Governance and Administration of Public Service Pension Schemes) into one new Code.

8.2.3.1 Following this consultation, the Pensions Regulator is currently drafting revisions to the Code of Practice based on the responses received from the consultation.

8.2.3.2 Pensions Committee and the Local Pension Board will be kept advised on developments in implementing this new Code.

8.3 **Border to Coast Pensions Partnership Ltd's (BCPP) Responsible Investment Policy, Corporate Voting Guidelines and Climate Change Policy**

8.3.1 In line with good practice BCPP has undertaken an annual review of its Responsible Investment Policy, Corporate Voting Guidelines and Climate Change Policy. The Policy and Guideline documents were considered by the BCPP Joint Committee at its meeting on 30 November. The Joint Committee supported taking the revised policies to partner funds for them to consider adoption of the principles for their own RI policies.

8.3.2 In light of timings and resourcing and as the underlying principles set out in BCPP's RI and Corporate Voting documents remain consistent with the Fund's Investment Strategy Statement, these were reviewed by officers and the Chair of the Pensions Committee. The review concluded that the changes (which are summarised in Appendix 4) do not materially alter the content of the documents. As such, as in previous years, the underlying principles set out in BCPP's RI and Corporate Voting documents remain consistent with the Fund's Investment Strategy Statement.

8.3.3 The Committee is asked to note the BCPP RI Policy, Corporate Voting Guidelines and Climate Change Policy which continue to be aligned with the underlying principles of the Fund's Investment Strategy Statement (ISS) i.e. the maximisation of the long-term return on the Fund's investments within acceptable risk parameters (including, but not limited to, environment, social and governance (ESG) factors). To minimise the size of the pack and printing costs the final published policies have not been included with these papers. Instead they can be accessed via the following links:

Responsible Investment Policy	https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Responsible-Investment-Policy-2023-1.pdf
Corporate Governance & Voting Guidelines	https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Corporate-Governance-Voting-Guidelines-2023.pdf
Climate Change Policy	https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Border-to-Coast-Climate-Change-Policy-2023-1.pdf

8.4 **Legal breaches recorded / reported during the quarter**

8.4.1 All individuals with a role in the LGPS have a duty to report breaches of law to the Pensions Regulator when they have reasonable cause to believe that a breach of material significance has taken place. However, where a breach is not deemed material there remains a requirement to formally record the breach. To comply with this requirement the Fund maintains a register detailing every breach regardless of the size or extent of the breach.

8.4.2 In line with good governance and the Fund's policy and procedure on reporting breaches of the law, Pensions Committee are advised quarterly of:

- all legal breaches, including those reported to the Pensions Regulator and those unreported, with the associated dates;
 - details of what action was taken in relation to each legal breach, and the result of any action (where not confidential);
 - any future actions for the prevention of the legal breach in question being repeated; and
 - highlights of new legal breaches which have arisen since the previous meeting.
- 8.4.3 Breaches by employers relating to late payment of pension contributions and failure to provide the Fund with monthly member payroll data are presented in the Part 2 Monitoring Report to this Committee.
- 8.4.4 The Fund had no breaches during the quarter that were considered sufficiently material that they would require reporting to the Pensions Regulator

9.0 OPTIONS

9.1 Pensions Committee may either:

9.1.1 Note the information presented within this quarterly monitoring report; or

9.1.2 Request further information relating to the performance, monitoring and governance of the Fund for the quarter ending 31 December 2022.

10.0 RESOURCE AND VALUE FOR MONEY IMPLICATIONS

10.1 Good governance and risk management will aid the Fund's control costs and help achieve its defined actuarial investment returns. Cost control and the investment performance of the Fund will have a direct impact on the funding level and therefore all employers' contribution rates. This will have a direct impact on the Fund Employers' revenue budgets.

11.0 LEGAL IMPLICATIONS

11.1 The Director of Finance has the full range of powers necessary to discharge the Council's functions in relation to pensions, including taking decisions which are not specified in the Constitution or in law as having to be taken by elected members or another officer, however it they are required to be taken by elected members committee can formally delegate to the Section 151 or Deputy Section 151.

12.0 CONCLUSION

12.1 The total Fund value fell to £3,090m at 31 December 2022 (£3,118m at 30 September 2022).

12.2 Despite lagging its benchmark for the twelve months to December 2022, the Fund continues to exceed its bespoke benchmark for the longer-term periods of three, five and ten years.

12.3 The Fund has experienced no breaches during the quarter that were considered sufficiently material to report to the Pensions Regulator.

Jo Moore
Interim Director of Finance (S151 Officer)

14 March 2023

APPENDICES

Appendix 1	Cumbria LGPS Risk Register (March 2023)
Appendix 2	LPPA Performance 1 October 2022 to 31 December 2022
Appendix 3	BCPP Quarterly Stewardship Newsletter 1 October 2022 to 31 December 2022
Appendix 4	Summary of changes to the Border to Coast Pensions Partnership Ltd's Responsible Investment Policy, Corporate Voting Guidelines and Climate Change Policy

Electoral Division(s): All

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

PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS

No previous relevant decisions.

REPORT AUTHOR

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