

## **CUMBRIA PENSIONS COMMITTEE**

Minutes of a Meeting of the Cumbria Pensions Committee held on Tuesday, 24 September 2019 at 1.00 pm at State Street, Quartermile 3, 10 Nightingale Way, Edinburgh, EH3 9EG

### **PRESENT:**

Mr MH Worth (Chair)

### **County Councillors**

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

Mrs H Wall  
Mr LN Fisher  
Mrs HF Carrick

### **Employee Representatives**

Mr K James – GMB Union

### **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 and Insurance
Ms L Taylor	-	Finance Manager - Pensions Investments and Governance
Ms D Purvis	-	Finance Manager - Pensions and Treasury
Mr T Gardener	-	Independent Investment Adviser
Mr A Sutherland	-	Independent Investment Adviser
Mrs D Burnet	-	Chair of Cumbria Local Pension Board
Mr C French	-	KPMG
Mr J Livesey	-	Mercer Ltd
Mr M Wilson	-	Mercer Ltd

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

### **27 APOLOGIES FOR ABSENCE**

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

## **28 TERMS OF REFERENCE AND MEMBERSHIP**

The Terms of Reference of the Committee were noted.

Mrs H Carrick replaced Dr S Haraldsen as a member of the Committee for this meeting only.

It was noted that since the Pensions Committee meeting held on 11 June 2019, the following appointments had been made to the Committee:

- Mr James Keith had been appointed as the GMB Union Representative
- Mr John Mallinson had been appointed as the District Council Representative.

## **29 DISCLOSURES OF INTEREST**

Mr J Keith declared that he had family who were members of the Cumbria LGPS.

## **30 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:

12. Update on Developments with Border to Coast – Part 2
13. Update from Cumbria LGPS Local Pensions Board
14. Monitoring Report for the Quarter Ended 31 June 2019 – Part 2
15. Verbal Update – Emerging Issues
16. Presentation – 2019 Actuarial Valuation and Funding
17. 2019 Actuarial Valuation
18. Cumbria LGPS Investment Sub Group Activity Report to September 2019
19. Presentation: Introduction to Investment Tax, UK and Overseas
20. Closing Comments

### **31 MINUTES**

RESOLVED that, the minutes of the meeting held on 11 June 2019 be approved and signed as a correct record.

### **32 REPRESENTATION FROM NON COUNTY COUNCIL EMPLOYERS AND DISTRICT COUNCILS**

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

### **33 SCHEDULE OF FUTURE MEETINGS**

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

The Director of Finance (S151 Officer) highlighted that the Cumbria Pensions Committee meeting originally scheduled for 9 June 2020 would now take place on 23 June 2020.

The Chair advised that the venue for the 15 September 2020 meeting of the Committee would be confirmed in due course.

### **34 MINUTES OF THE BCPP JOINT COMMITTEE MEETING HELD ON 4 JUNE 2019 AND AGM ON 18 JULY 2019 MINUTES OF THE BCPP JOINT COMMITTEE MEETING HELD ON 4 JUNE 2019 AND AGM ON 18 JULY 2019**

The Minutes of the Border to Coast Pension Partnership Joint Committee Meeting held on 4 June 2019 and Annual General Meeting held on 18 July 2019 were received.

In presenting the minutes, the Chair reported on the annual election of Committee Chair and Vice Chair and advised that since publication of the minutes, Mr Douglas Mc Murdo and Mr Tim Evans had been appointed as Chair and Vice Chair respectively of the Joint Committee. The Chair commented on his recent vote for the Non-Executive Director role and on the appointment of John Holtby from East Riding of Yorkshire Council.

Members' attention was drawn to the final spend of £17,300 against the 2018/19 budget of £30,000. It was confirmed by the Senior Manager - Pensions and Financial Services that the actual spend was invoiced to Funds and therefore the Fund's allocation of the underspend was reflected in its budget.

In relation to the Climate Change Working Party, a Member highlighted that some Fund members had received significant pressure from climate change activists. The

Investment Adviser asked whether the twelve Local Authorities had a consensus view on climate change. The Chair reported that Cumbria County Council would shortly be coming to a view on climate change. The Senior Manager - Pensions and Financial Services reported on a request from the Chair for officers to revisit investment in carbon fossil fuels and to draft a position statement on responsible investment. A clear message from the Fund would then be published on its website.

RESOLVED that, the minutes of the Border to Coast Pension Partnership Joint Committee Meeting held on 4 June 2019 and Annual General Meeting held on 18 July 2019 be received.

### **35 UPDATE ON DEVELOPMENTS WITH BORDER TO COAST**

A report was considered from the Director of Finance (S151 Officer) regarding an Update on Development with Border to Coast Pensions Partnership Ltd, including governance matters and other key developments.

The Senior Manager - Pensions and Financial Services guided members through the key developments that had taken place since June 2019 which included the company's Annual General Meeting and the completion of the year end process by the company. The report also set out proposals for the delegation of certain Shareholder decisions to the S151 Officer (in consultation with the Chair of the Pensions Committee).

The Senior Manager - Pensions and Financial Services reported that the accounts had been agreed unanimously and Border to Coast had worked closely with Partner Funds to provide information required for the publication of their accounts.

Members' attention was drawn to the detailed consideration of Border to Coast Shareholder decisions in Appendix 1 to the report. The Senior Manager - Pensions and Financial Services highlighted the importance of efficient decision making. She highlighted the proposals for the delegation of certain Shareholder decisions to the S151 Officer (in consultation with the Chair of the Committee) and the work undertaken so far by officers on this. In order to change these delegations, the proposals would be considered by the Constitution Review Group who would then make recommendations to full Council for a change in delegation. The Director of Finance (S151 Officer) confirmed that decisions requiring the agreement of all 12 Funds (i.e 100%) would remain with the Cumbria Pensions Committee. She added that proposals to changes to delegation were for mainly administrative tasks. Members were provided with an example of a decision and how the new delegated powers could speed up the decision making process.

RESOLVED that, the Committee:

- 1 Notes the progress on the development of Border to Coast
- 2 Approves the delegation of certain matters reserved to the Committee on behalf of the Council as shareholder in the Border to Coast Pensions

Partnership to the s151 Officer, in consultation with the Chair of the Committee, subject to consideration by the Constitution Review Group and adoption by full Council as part of the Constitution.

### **36 DRAFT ANNUAL REPORT AND ACCOUNTS 2018/19**

A report was considered from the Director of Finance (S151 Officer) which presented the draft Annual Report and Accounts of the Cumbria Local Government Pension Scheme 2018/19 (including the Governance Compliance Statement) and recommended that the Committee approved the document for publication (subject to any final presentational amendments) on the Pension Fund's website.

The Finance Manager - Pensions Investments and Governance reported that at the Pensions Committee's meeting June 2019 it had been resolved to refer the Annual Report for the Pension Fund to the Council's Audit and Assurance Committee for sign off of the completed and audited Accounts in order for them to be published on 31 July 2019. The positive feedback received on the Audit Findings for Cumbria Local Government Pension Scheme was reported.

The Chair of the Audit and Assurance Committee, Mrs H Carrick, attending as a substitute member at the meeting reported that at the Audit and Assurance Committee meeting which had considered the accounts, the External Auditor had provided different figures for the fees in an updated report which had been tabled at the meeting. She advised that the figures contained in the report before members may not be the final figures. The Director of Finance (S151 Officer) stated that final confirmation of fees had been requested from the External Auditor and that figures had been increased mainly due to the work on the McCloud judgement.

The Chair congratulated the Finance Team on their work undertaken the Accounts.

RESOLVED that, the Committee gives approval for publication, (subject to any final presentational amendments) of the Cumbria LGPS Annual Report and Accounts 2018/19 which contains the Fund Policy document at Appendix A to the report; subject to any amendments to the Funding Strategy Statement (section 6 of the Fund Policy Document), proposed amendments to which are detailed in item 17 of the agenda.

### **37 MONITORING REPORT FOR THE QUARTER ENDED 30TH JUNE 2019 - PART 1**

A report was considered from the Director of Finance (S151 Officer) which advised Members of any material risk, administration, investment performance, governance, and policy issues of the Fund for the quarter ending 30<sup>th</sup> June 2019. The report 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 provided a detailed briefing on risk management, pension administration, investment

management, oversight and governance – policy and regulation. Details were provided on the risk scores (none of which had changed). Members were advised that there was one emerging risk relating to the McCloud judgement, however, officers considered that it did not warrant being a separate risk on the Risk Register.

The Group Finance Manager – Pensions, Investments and Insurance reported that YPS performance against KPIs had reduced from 97% to 95% against a target of 95%. Officers had liaised with YPS and an explanation for the drop in performance had been provided. The Group Finance Manager – Pensions, Investments and Insurance had subsequently concluded that there had not been a systemic failure. The Group Finance Manager – Pensions, Investments and Insurance provided clarification on the term ‘death in service’. Officers were working with YPS to identify if there were more relevant KPIs which could be used to ascertain its performance.

In discussing Investment Management and Fund performance over the quarter, the Investment Adviser talked about the importance for the future of having a good combination of complimentary portfolio managers who performed on different cycles in the Border to Coast Pension Partnership (BCPP).

When reporting on oversight and governance – policy and regulation, the Group Finance Manager – Pensions, Investments and Insurance stated that the Good Governance in the LGPS report from Hymans Robertson had set out a range of governance proposals that were now with the Scheme Advisory Board for consideration. Members’ attention was drawn to the work undertaken by officers to identify the professional advice and guidance that Independent Advisers provided to the Fund and the work undertaken on drafting a set of Strategic Objectives which aimed to ensure the requirements for Investment Consultant services was met when it came into effect on 10 December 2019.

Following an explanation of Equitable Life’s proposal to transfer its business to Utmost Life and Pensions Ltd, a Member queried how the Pension Fund was involved with Equitable Life. The Group Finance Manager – Pensions, Investments and Insurance reported on the mechanism for individuals to pay into Equitable Life and that the value of Additional Voluntary Contributions (AVCs) did not form part of the assets or liabilities of the Pension Fund.

Discussion ensued on the proposed changes to the County Council’s Public Participation Scheme and the integration of the process for representation at Cumbria Pensions Committee. The reasons for introducing a formal and structured process for representation and the research undertaken to arrive at the proposals were explained.

A Member proposed that a 30 minute limit for representations be introduced rather than 10 minutes as this was the same as the Scheme for meetings of full Council. He considered that there may not be any representations for a long period of time then a number may come in at once, therefore, a 30 minute limit would be prudent. It was moved by Mr Airey and seconded by Mr Collins that the Public Participation Scheme limit for representation be 30 minutes. This was agreed by assent of the Committee.

A Member expressed her concern that in relation to the agreement by YPS to review the performance indicators used to assess the performance of the pensions administration service, there was a move from quantitative to qualitative performance indicators. She stated that speaking from experience, there should be a balance of performance indicators. The Group Finance Manager – Pensions, Investments and Insurance concurred and advised that this had been raised with YPS.

A Member referred to the term ‘understandable advice’ in the draft Strategic Objectives for Investment Consultant Services. She considered that not everyone had the same levels of understanding. Another member suggested the word ‘comprehensible’. The Director of Finance (S151 Officer) stated that careful consideration had been given to wording but invited members to provide different wording.

A short discussion took place on the current age range for retirement and the notice required to advise YPS when a member wanted to retire and receive their pension.

A Member raised the moving political landscape in the country and how this could affect investment performance. The Senior Manager - Pensions and Financial Services talked about the Fund’s diversified portfolio and equity protection, adding that there was a risk that there could be volatility around currency in future.

RESOLVED that, the Committee

- 1 Receives and notes the performance and monitoring of the Fund for the period from 1<sup>st</sup> April 2019 to 30<sup>th</sup> June 2019.
- 2 Approves the draft Strategic Objectives for Investment Advisers in compliance with the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.
- 3 Supports the proposed changes being presented to the Constitution Review Group for further consideration, with an amendment to state that the Representation item is limited to 30 minutes.
- 4 Notes issues arising relating to the governance of the Fund in the past quarter.

### **38 UPDATE ON DEVELOPMENTS WITH BORDER TO COAST - PART 2**

A report was considered from the Director of Finance (S151 Officer) which updated members on the development of investment sub-funds by Border to Coast Pensions Partnership Ltd (Border to Coast).

The Senior Manager - Pensions and Financial Services provided members with details on operational sub funds, the development of sub-funds, alternatives, fixed income sub funds and Global Equity other potential sub-funds.

Following careful consideration of the report and taking into account the information presented by the Senior Manager - Pensions and Financial Services it was

RESOLVED that, the report be noted.

### **39 UPDATE FROM CUMBRIA LGPS LOCAL PENSIONS BOARD**

A report was considered from the Director of Finance (S151 Officer) which summarised matters discussed by, issues arising from and any recommendations made by the Cumbria Local Pension Board at the quarterly meeting, held on 4 July 2019.

In order to enhance the governance structure of the Cumbria LGPS Pension Scheme, the Chair of the Cumbria LGPS Local Pension Board was in attendance to talk members through the work of the Board. This included an update on the Training Policy and Plan and two areas of work that the Pension Committee had requested the Board to undertake which related to the data quality improvement plan and recommendations from the Pensions Regulator.

Following careful consideration of the report and taking into account the information presented by the Cumbria LGPS Local Pension Board, it was

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

### **40 MONITORING REPORT FOR THE QUARTER ENDED 30TH JUNE 2019 - PART 2**

A report was considered from the Director of Finance (S151 Officer) which advised members of any monitoring matters that were considered to be Part 2 (due to the inclusion of exempt information relating to the financial 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 30 June 2019. The matters were generally in regards to either governance or employer issues.

The Group Finance Manager – Pensions, Investments and Insurance advised members on pensions administration, investment management and oversight and governance.

Members gave careful consideration to the report and after taking into account the information presented by the Group Finance Manager - Pensions, Investments and Insurance it was

RESOLVED that, the quarterly monitoring Part 2 items of the Fund for the period to 30 June 2019 be received and noted.



#### **41 VERBAL UPDATE - EMERGING ISSUES**

The Committee received a verbal update on a number of emerging issues pertinent to the work of the Committee which included recent work with the Pensions Regulator and resources in the Pensions Team.

RESOLVED that, the position be noted.

#### **42 PRESENTATION - 2019 ACTUARIAL VALUATION AND FUNDING**

A presentation was received on the 2019 Actuarial Valuation and Funding from John Livesey and Mark Wilson from Mercer Ltd. The presentation covered the following:

- A recap on 2019 and the existing funding strategy
- The Investment Strategy and Discount Rate
- What had changed
- The current position
- Other issues to consider

Members asked questions on solvency funding levels, full funding levels, deficit payments, employer contributions, return expectations, demographic assumptions, member contributions.

RESOLVED that, the position be noted.

#### **43 2019 ACTUARIAL VALUATION**

A report was considered from the Director of Finance (S151 Officer) regarding the 2019 Actuarial Valuation. The report asked members to make an informed decision regarding the Fund's Actuary recommendations on the key parameters to be used to determine the 2019 Actuarial Valuation and asked members to review the updated Funding Strategy Statement and approve its distribution to interested parties for consultation, in accordance with regulatory requirements.

Members were provided with the background to the 2019 Actuarial Valuation, the McCloud judgement and the cost cap mechanism by the Senior Manager - Pensions and Financial Services. The Committee gave careful consideration to the report and after taking account of the information presented by the Senior Manager – Pensions, and Financial Services, it was

RESOLVED that, the Committee

- 1 Agrees with the key parameters proposed by the Actuary, subject to consultation with scheme employers), of:
  - Discount rate for past service of CPI + 1.25%
  - Discount rate for future service of CPI + 2.00%
  - Average deficit recovery period of 12 years

- 2 Notes that no explicit adjustment will be included within the valuation to reflect the potential outcome of McCloud and the cost cap unless further national guidance is issued.
- 3 Notes that, once the outcomes of the cost cap mechanism and McCloud judgement are known, the Fund will consider the need to re-visit employer contributions.
- 4 Approves the draft Funding Strategy Statement (FSS) for distribution to meet the regulatory requirement for consultation with interested parties.

#### **44 CUMBRIA LGPS INVESTMENT SUB GROUP ACTIVITY REPORT TO SEPTEMBER 2019**

A report was considered from the Director of Finance (S151 Officer) which outlined activities since the previous Investment Sub Group (ISG) on 21st May 2019, 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 further detail provided on the business conducted at the 21 May 2019 meeting, it was

RESOLVED that, the Committee:

- 1 Notes the progress of the Investment Sub Group from May to September 2019;
- 2 Notes that work is in progress on the full Investment Strategy Review, including review of the Fund's asset allocation and Investment Strategy Statement;
- 3 Notes the performance of the Fund over the quarter, and notes that the corporate bonds portfolio manager will remain 'on watch';
- 4 Agrees the proposed work programme of the Investment Sub Group for the next reporting period, including the work on the Investment Strategy Review and additional meeting.

#### **45 PRESENTATION: INTRODUCTION TO INVESTMENT TAX, UK AND OVERSEAS**

An information presentation was received on an Introduction to Investment Tax, UK and Overseas from Colin French of KPMG. The presentation covered the following:

- UK tax treatment of local government pensions
- Overseas tax and tax treaties
- EU laws on tax reclaims.

## **46 CLOSING COMMENTS**

The Chair thanked everyone for their attendance at the meeting.

The meeting ended at 4.55 pm