

BOARD : **LOCAL PENSIONS BOARD**
DATE : **16 July 2019**
TIME : **10am**
VENUE : **Room 2.1, Nicholas House, Blackfriars, Chester**

LOCAL PENSION BOARD MEETING
10.00 – 12.30
AGENDA

PART A

1. PROCEDURAL MATTERS

- The Board will receive the minutes of the meeting on 7 May and 4 June 2019.
- Pensions Consultative Forum minutes 10 June 2019
- **Actions Tracker**
- **Declarations of interest**

2. REVIEW OF PENSION FUND COMMITTEE MINUTES

To receive the minutes from the Pension Fund Committee meeting of 7 June and Investment Sub-Committee minutes from 17 May.

3. PROJECT CHRYSALIS

The Board will receive a verbal update on progress with the Funds transformation project known as Project Chrysalis.

4. UPDATE FROM THE SCHEME ADVISORY BOARD

The Board will receive a verbal update following the Scheme Advisory Board and its sub-committee's meetings as outlined below:

Committee	Meeting Date/s
Scheme Advisory Board	8 July
Cost Management, Benefit Design and Administration Sub-Committee	3 June 2019
Investment, Governance and Engagement Sub-Committee	Date not yet arranged

5. PERFORMANCE MANAGEMENT FRAMEWORK QUARTER 1 – 2019/20

The Board will receive the Performance Management Framework covering the period 1 April to 30 June 2019 (along with the quarter 4 comparator – 1 January to 31 March 2019).

6. RISK REGISTER

The Board will consider the planned risk actions identified within the Board's Risk Register and determine a plan for how and when they can be implemented.

7. CASEWORK LIMITS / GMP

The Board will receive an overview of agreed limits within the Fund which are used to ensure the operational efficiency of the Fund and will be requested to endorse the approach. The Board will also receive an update on progress with the GMP project and will be requested to

consider a recommendation for the approach for any under/over payment of pensions as a result of GMP.

8. INTERNAL AUDIT ASSURANCE

The Board will receive a report from Internal Audit on their approach to assurance in relation to the Pension Fund.

9. THE PENSIONS REGULATOR'S CODE OF PRACTICE

The Board will receive a summary of the Fund's compliance against the Code of Practice.

10. DATA QUALITY

The Board will be presented with updated data scores for common and scheme specific data.

11. COMPLIANCE UPDATE

The paper also provides a summary of the Breaches Log for the period 1st April 2015 to 31 March 2019.

12. FEEDBACK FROM EVENTS

Board members will feedback from recent conferences and seminars attended, including

Future events:

- CIPFA/Barnett Waddingham – LPB Annual Seminar – 26 June 2019
- LGPS Central – SAB Training – 27 June 2019
- LGPS Central – Responsible Investment – 9 July 2019

13. REVIEW AND DEVELOP THE WORK PLAN FOR 2019/20

The Board will review the revised plan for 2019/20.

14. AOB

The next meeting will take place on 29 October 2019

Future meeting dates proposed for 2020 are as follows:

- 4 February 2020
- 5 May 2020
- 2 June 2020 – to review the Annual Report/Statement of Accounts
- 14 July 2020
- 27 October 2020

MINUTES OF LOCAL PENSION BOARD 7 May 2019
PRESENT

Board Members: Peter Raynes (PR) (Chairman), Geoff Wright (GW) (Unison), Neil Harvey (NH) (GMB) and Cllr Robert Bisset (RB) (CWAC)

Apologies: Adrienne Laing (AL) (The Challenge Academy Trust)

Officers: Heidi Catherall (HC), Dan Harte (DH) and Aaron Austin (AA)

1. PROCEDURAL MATTERS

The Board reviewed the minutes from the last meeting on 5 February having previously approved them by email.

Following a recommendation from the recent Governance Review, undertaken by Barnett Waddingham, the Board were presented with the minutes from the Pensions Consultative Forum (PCF) on 29 November 2018. The PCF minutes will be presented to the Board from now on.

PR is also the Chairman of the PCF, who are made up of representatives from the large employers and employer groups within the Fund. The PCF assist the Fund in dealing with matters relating to administration and communication.

The Board were presented with an update on the funds transformation programme and made a number of observations around the new telephony solution and website. It was agreed that officers would provide a further update at the meeting in July.

No declarations of interest were received.

2. REVIEW OF PENSION FUND AND INVESTMENT SUB COMMITTEE MINUTES

The Board reviewed the minutes of the Pension Fund Committee meeting which was held on the 15 March and the Investment Sub Committee which was held on the 15 February.

RESOLVED that**The Board:**

- **Noted the minutes from the Pension Fund Committee and Investment Sub Committee meetings.**

3. UPDATE FROM THE SCHEME ADVISORY BOARD

The Board reviewed the agenda of the Scheme Advisory Board (SAB) meeting on the 8 April, the Cost Management, Benefit Design and Administration (CMBD&A) Sub-Committee meeting which took place on the 5 February and the Investment, Governance and Engagement (IG&E) Sub-Committee meeting which took place 25 March.

The Board received verbal updates on a number of subjects:

- Good Governance Project - Hymans Robertson have invited over 300 funds to complete a short online questionnaire in order to understand the issues around governance in the LGPS and to obtain the views on four proposed governance models.
- Local Pension Board Survey II – A repeat of the 2017 LPB survey is to be launched later this year. The results from the 2019 survey will be used as an assessment of the further progress made over the past 2 years. PR had commented on a draft of the survey on behalf of SAB and the recommendations have been incorporated into the 2019 survey.
- MHCLG statutory guidance on asset pooling – MHCLG received 93 responses to the consultation which has now closed. The consultation responses will now be considered with a view to producing recommendations to take the project forward.

The Board received a one page handout summarising the topics discussed above which can be referred to as a useful reference document.

Board members discussed the Good Governance survey issued by Hymans, worked through each of the questions and shared feedback on each of the four proposed models.

PR will collate a response and circulate to Board members for comment before completing the online survey on behalf of the Board.

RESOLVED that

The Board:

- **Noted the minutes from the SAB, IGE and CMBDA meetings.**
- **Confirmed that a draft survey response would be upload by Friday 17th May**
- **Noted that the funds suggested amendments to the LPB survey have been adopted.**

4. PERFORMANCE MANAGEMENT FRAMEWORK Qtr 4 – 2018/19

The Board were presented with the Performance Management Framework (PMF) for quarter 4 (1 January to 31 March 2019), which also contained comparator information from the previous quarter/s.

Board members received updates on key areas of performance from across the Pension Fund.

Board members also received a further update on progress the Fund has made in producing retirement guides for members and employers and a pilot exercise that the Fund is running in conjunction with the Administering Authority in order to make the guides available to all staff. The guides will be available from within the Council's management toolkit known as iManage.

As well as producing the guides and making them accessible via links within existing guidance on the Council's Management policies and website, board members were advised that there also needs to be a promotional campaign to raise awareness amongst staff and employers. The Fund will work with the Council to raise awareness of the retirement's process.

NH raised the issue of a member who had experienced a number of issues when retiring recently. The majority of these issues related to the employer, however, it was agreed that would be used as a case study to see how the retirement process could be improved.

The Board were presented with a briefing note from ICAEW regarding assurance about internal controls. Whilst the document was principally aimed at trustees of private pension schemes the principles outlined within it relate to all pension Funds. The Board requested that representatives from Internal Audit attend the next meeting with a view to explaining their role in the internal control framework for the Fund.

The Board were informed that the Local Government Association has requested that Cheshire deliver a presentation on Day 3 of the 2019 Fundamentals course. Cheshire was asked due to its reputation within the LGPS as being an example of an effective Board.

RESOLVED that

The Board:

- **Reviewed the Performance Management Framework for quarter 4 (1 January to 31 March 2019).**
- **The Fund will use the recent retiree as a case study to help inform improvement requirements for the Fund and Employers.**
- **Board members will receive a demonstration of the iManage system, including the section on retirements.**
- **Internal Audit will be invited to the next meeting to discuss the role they play in providing assurance on the internal controls of the Fund.**

5. TERMS OF REFERENCE / CONFLICT OF INTEREST REVIEW

The Board reviewed the Terms of Reference and Conflict of Interest Policies and concluded that there were no changes required to either policy.

The Board discussed the recent Governance Review which was undertaken by Barnett Waddingham.

The Board considered and discussed the recommendations from the report and on balance determined that it was not an appropriate time to change the terms of reference at this time.

Along with the Governance Review undertaken by Barnett Waddingham there is also a national review of governance which is being undertaken by Hymans Robertson on behalf of

the Scheme Advisory Board. The Board determined that it was appropriate to wait for the outcome of this review before making any changes to the ToR.

RESOLVED that

The Board:

- **Reviewed the Terms of Reference and Conflict of Interest Policies and concluded that no amendments were required at this time.**
- **Considered the outcomes from the Governance Review and determined that no amendments to the ToR would be made at this time.**
- **Noted the national governance review and determined that no changes would be made to the ToR until the review had concluded.**

6. RISK REGISTER

The Board reviewed and approved the risk register which has been amended following changes identified at the meeting in February. The register will next be reviewed at the end of September.

The Board considered the planned risk actions which are required to mitigate each risk and will develop a plan and timeframe for completion by the next meeting in July.

RESOLVED that

The Board:

- **Approved the updated Risk Register and the review date of 30 September.**
- **Agreed the approach for planned risk actions and the timeframe for their implementation. A plan will be produced for the next meeting in July.**

7. THE PENSIONS REGULATOR'S CODE OF PRACTICE 14

The Board were presented with a progress report on the schemes compliance with the Pensions Regulators code of practice 14, following the review conducted in February.

The Board noted the progress that had been made in improving the funds overall compliance with the code which is now 85% (up from 81%).

PR proposed developing a data management strategy to outline the funds approach to addressing the data improvements and timescales required to attain compliance with the codes record keeping and provision of information to members sections of the code.

The Fund will also develop a plan to set out how all areas of non-compliance with the Code will be addressed at the next meeting in July.

RESOLVED that

The Board:

- **Noted the funds progress to attain full compliance with the code.**

- **Officers will develop and present project plan at the next meeting.**

8. DATA QUALITY and GENERAL DATA PROTECTION REGULATION

The Board received a report which provided an update on Data Quality and progress made in meeting compliance with Data Protection Regulations.

- Data Quality

The Board were presented with the updated TPR Data Scores for March 2019 along with an explanation of how the Fund have/will clear the errors identified from the report. The Fund completes this exercise on a quarterly basis and staff then clear as many queries as possible each quarter.

Some of the errors relate to more complex issues, such as members that the Fund has lost contact with, and the Fund is considering options to trace these members.

The Board were briefed on other actions that the Fund is undertaking in order to improve the quality of data held.

- Data Protection Regulations

The Board were advised that the Fund is waiting for the Data Retention Policy to be approved by the Data Protection Officer before any further work can continue. The DPO is being chased for a response.

RESOLVED that:

The Board:

- **Noted the Fund's data scores for March 2019.**
- **Noted the progress being made to improve the quality of data held by the Fund.**
- **Noted the progress made by the Fund to date in meeting compliance with DPA 2018 (GDPR) and the action plan to meet the recommendations contained with the Internal Audit Report.**

9. LOCAL PENSION BOARD ANNUAL REPORT AND OUTTURN 2018/19

The Board reviewed the draft 2019/20 Annual Report and approved its content.

RESOLVED that:

The Board:

- **Reviewed and approved the LPB Annual Report for 2018/19 which will now be published in the Fund's Annual Report.**

10. COMPLIANCE UPDATE

The Board were presented with a summary of the breaches log for the period 1st April 2015 to 31 December 2018, noting that a total of 247 breaches had been logged over the period.

The Board noted the actions that the Fund continues to take in chasing the employer who has outstanding contributions due to the Fund.

RESOLVED that:

The Board:

- **Note and comment on the cumulative summary of the Breaches Log for 1 April 2015 to 31 December 2018.**

11. FEEDBACK FROM EVENTS

Members of the Board provided feedback from the various events they had attended.

- CIPFA/Barnett Waddingham – LPB Chairs Spring Seminar – 20 February 2019
- LGPS Central – Stakeholder Day – 27 February 2019
- LGC Investment Seminar – 1-2 March 2019

RESOLVED that:

The Board:

- **When Board members attend events they will circulate copies of the slides to all members to help inform future agenda items.**

12. REVIEW AND DEVELOP THE WORK PLAN for 2019/20

The Board reviewed the work plan for 2019-20 and requested that officers update the plan to align actions to specific meetings.

RESOLVED that:

- **The Board reviewed the work plan for 2019/20 and requested that officers align tasks to specific meetings for the year.**

13. AOB

The AVC training session, which was planned to take place after this meeting, will now take place on 16 July.

The next meeting will take place on the 4 June where Board members will review the production of the Annual Report and Statement of Accounts.

The next main meeting is 16 July.

MINUTES OF LOCAL PENSION BOARD 04 June 2019**PRESENT**

Board Members: Peter Raynes (PR) (Chairman), Cllr Robert Bisset (RB) (CWAC) and Neil Harvey (NH) (GMB)

Apologies: Geoff Wright (GW) (Unison), and Adrienne Laing (AL) Bridgewater High School)

Officers: Heidi Catherall and Debbie Darlington

1. PROCEDURAL MATTERS

No declarations were received.

2. DRAFT STATEMENT OF ACCOUNTS 2018-19

The Local Pension Board has an important role in the governance process for the Statement of Accounts and undertook a thorough review of how the accounts were produced in order to ensure that:

- The accounts have been produced in compliance with statutory and best practice guidance, and;
- That the Pension Fund Committee discharges its duty of reviewing the accounts and recommending that they be presented to Audit and Governance Committee.

In order to satisfy the first requirement, members of the Board received a presentation from Officers confirming the detailed steps taken in order to produce the statement of accounts including a review of the completed disclosure checklist.

The Board raised on a number of queries on the accounts, as follows:

PR queried the how officers checked the veracity of valuation of the level 3 investments. Officers had regularly been in contact with the Managers concerned on this question and will provide a full response to the Board via email.

PR also queried the movement of £250m within Overseas Equity Listed within Note 13 of the accounts. DD explained that £250m had been transferred from Baillie Gifford into the LGPS Central Global Active Equity Fund mid-March 2019 and this transfer was now classed as Overseas Equity Listed within Pooled Investments as opposed to Overseas Quoted within Equities.

PR queried the reason for the decrease in total contributions receivable from £219m 2017-18 to £160m 2018-19 and the impact this will have had on the Funds cash flow position.

Officers explained that the year on year reduction was due to payments from Cheshire East Council (£45m), Warrington Borough Council (£10.4m) and Halton Borough Council (£6.7m)

who elected to pay their full 3 year deficit contribution relating to the period 2017-2020 as a lump sum in 2017-18.

Officers also explained that a regular cash flow update is now presented to the Investment Sub Committee on a quarterly basis. This update shows that, although benefit payments exceed contributions income received, overall cash flow remains positive once investment income is factored in. A copy of the March cash flow report will be circulated to the Board for their information.

The Board queried the potential issue of currency exposure as a result of Brexit. DD explained that the Fund holds bank accounts with its custodian, the Bank of New York, which are denominated in US dollars and Euro. Therefore the Fund has currency fluctuation protection for calls and distributions relating to private equity investments.

The Board also queried about the timing of the movement of funds over to LGPS Central and officers explained that this would take time and would progress steadily as LGPS Central expand their product offerings. In addition to the £250m which has been transitioned into LGPS Central Overseas Equities the Fund has also committed £22m in the LGPS Central Private Equity Fund. Existing private equity funds that the pension fund is invested in will continue through to maturity.

Board members were advised that the Fund produces the statement of accounts in accordance with the CIPFA Example accounts guidance. This guidance includes a checklist which allows Fund's to ensure that they have met all of the requirements.

Board members viewed the completed checklist and were shown the corresponding evidence within the draft accounts for a number of disclosures to confirm that the requirements had been met.

The Board were reminded of the timetable for the accounts which is set out in the table below.

Date	Action
4 June	The draft accounts will be reviewed by the LPB prior to review by the Pension Fund Committee
7 June	The Pension Fund Committee will review the draft accounts, provide comment and recommend the commencement of the audit
10 June	Grant Thornton will commence with the audit testing of the accounts
18 July	The audit will be completed by this date and Grant Thornton will produce their Audit Findings Report
19 July	The Audit Findings Report and Annual Report, including the audited Statement of Accounts, will be presented to the Pension Fund Committee
23 July	The Audit Findings Report and audited Statement of Accounts will be presented to the Audit and Governance Committee

In order for the Board to satisfy themselves that the Committee discharges its duty of reviewing the accounts and recommending commencement of the audit, Board members are invited to attend the Committee meeting on the 7 June or 19 July in an observer capacity.

3. DRAFT ANNUAL REPORT

The Fund's annual report is produced in accordance with the CIPFA Annual Report guidance. This guidance was fundamentally reviewed and updated and a revised version was issued to all Funds in March 2019.

The new guidance includes additional disclosures in a couple of key areas which Funds are now required to meet. These areas relate to Pooling and Administration.

The new guidance clarifies the role that Local Pension Boards have in reviewing the completion of the Annual Report.

The guidance states that the Board has an important role in the governance process for the Annual Report and should undertake a thorough review of how the Annual Report was produced in order to ensure that:

- The Annual Report has been produced in compliance with statutory and best practice guidance, and;
- That the Pension Fund Committee discharges its duty of reviewing the Annual Report.

In order to satisfy the first requirement, members of the Board received a presentation from Officers providing an overview of the key sections of the Annual Report. Officers went through the key changes this year to the report for increased disclosures around Pooling, changes to the Administration Report section and changes made to the Governance section to comply with more recent guidance from CIPFA/SOLACE on governance.

Officers explained that due to the changes in the guidance and timing of the guidance only coming out at the end of March that CIPFA have suggested that Fund's should comply with the guidance this year on a 'best endeavours' basis.

The guidance has been split this year to show what 'must', 'should' and 'may' be included within the report and officers presented the disclosure checklist to Board Members so they could assess the Fund's compliance.

The Board raised the following queries of the Annual Report:

The Board queried the frequency that the Fund's strategic risk register within the Annual Report is reviewed. Officers confirmed that the risk register is reviewed twice yearly and presented to the Pension Fund Committee. However, if there any material changes to risks during the intervening period the register would be updated and would be presented to the Committee.

The Board also queried how cost savings resulting from pooling will be measured and reported in the Annual Report. Officers confirmed that CIPFA has issued guidance on how this should be completed although the practical implementation of this guidance is still being worked through and will develop over the coming years.

In order for the Board to satisfy themselves that the Committee discharges its duty of reviewing the Annual Report Board members are invited to attend the Committee meeting on the 19 July in an observer capacity.

4. AOB

No matters were raised.

RESOLVED that

The board:

- **Resolved that in their opinion the draft Statement of Accounts for the year ending 31 March 2019 have been produced in accordance with statutory and best practice guidance.**
- **Resolved that in their opinion the draft Annual Report for the year ending 31 March 2019 has been produced in accordance with statutory and best practice guidance.**
- **Noted that Board members are invited to attend the Pension Fund Committee meeting on the 7 June and 19 July in an observer capacity.**

GROUP : **PENSION CONSULTATIVE FORUM**
DATE : **10/06/2019**
TIME : **10am**
VENUE : **Palatine Room, Town Hall, Chester**

Present:

Peter Raynes (PR)	Chairperson
Nick Jones (NJ)	Cheshire Pension Fund
Heidi Catherall (HC)	Cheshire Pension Fund
Jenny Brien (JB)	Cheshire Pension Fund
John Coombes (JC)	Cheshire Pension Fund
Ian Fullerton (IF)	Cheshire Pension Fund
Julie Hudson (JH)	Cheshire Pension Fund
Jennifer Lowe (JL)	Cheshire Pension Fund
Sarah Williams (SW)	Cheshire Pension Fund
Michael Nulty (MN)	Cheshire Constabulary
Gary Crowe (GC)	Birchwood Town Council
Chris Pleavin (CP)	T.S.C Recruitment and Pay
David Worrall (DW)	Cheshire East Council
Richard Rout (RR)	Halton
Yvonne Caldwell (YC)	Halton
Wayne Kelly (WK)	Warrington Borough Council
Gareth Deeble (GD)	Sanctuary Housing Trust
Shirley Sheen (SS)	Adoption Matters
Jan Draper (JD)	Guinness
Rosemary Hodgson (RH)	Cheshire West and Chester Council

Apologies:

Helen Barr	Warrington
Nicola Kane	Warrington
Wendy Bebbington	Cheshire Constabulary
Helen Woolley	Mottram St Andrew primary School
Jill Swift)	NW Fire Control
Andrew Wilson	Guinness
Jackie Weaver	Chalc
Mel Hayes	University of Chester
Louise Jenkins	University of Chester
Angela McBride	ANSA
Ruth Hind	ESAR
Richard Holmes	Engie
Mike Hobday	Brio
Matthew Phoenix	Cheshire Pension Fund

Introductions

The Chair highlighted a discrepancy between the start time of the meeting and the time quoted on the invitation. One which said 9.30 and the other 10am. This had meant that many members had been at the venue 30 minutes earlier than required.

Action:

- **Officers will ensure that future meetings invitations convey the correct start time.**

1 Minutes of the Last Meeting
 The minutes from the 29 November meeting were reviewed and approved, having previously been circulated via email.

A number of the actions are addressed by topics on the agenda for this meeting., HC pointed out the current position on the remaining issues that had been discussed during the November meeting:

Action	Progress
CPF to gather information about the payroll systems being used by employers and share this information with all employers	<p>NJ fed back on the results so far. 40 employers use TSC as their payroll provider, the next largest are WBC and Bury. 33 payroll providers to the Fund each have only 1 employer.</p> <p>NJ will feedback the full stats for the number/name of payroll providers in the fund, the number of employers they work for and where they are up to with MI.</p>

Retirement Guides – HC updated forum members on the pilot which is ongoing with Cheshire West and Chester Council to implement the retirement guides and link to the retirement pack. Paper copies of the guides were circulated to forum members to provide them with an overview of what they contain, therefore Forum members will not have access to the live links within them.



Managers Guide.pdf



Employee Guide.pdf

The guides have been drafted specifically to align with the Council’s current systems and so will require minor redrafting before other employers can use them. It is intended to continue with the pilot before rolling the guides out with other employers.

Forum members were requested to provide feedback on the retirement guides.

- Actions:**
- **NJ will circulate a list of all payroll providers for employers in the Fund to Forum Members**
 - **Forum members to provide feedback on the retirement guides.**

2 Project Chrysalis Briefing

HC provided Forum members with an update on progress with the 4 workstreams of Project Chrysalis, the Funds transformation programme. Forum members received details of actions which are ongoing for each of the workstreams.

Project Area	Ongoing Actions Include:
Customer Service/Demand management	Developing a customer charter, introducing straight through processing to speed up the processing of casework, new website and exploring employer/member self-serve options.
Technology/Systems	Continuing with the implementation of Monthly Interfacing. This will lead on to straight through processing and then onto employer/member self-serve options.

	Team Development	Staff have completed a skills matrix and the results will be used to develop a plan to multi skilling, staff have attended customer service training and the fund is developing a streamlined approach to training staff.	
	Process Redesign	Each team within pensions have a rolling programme of efficiency improvements plans. Training around lean systems process review / re-engineering will be rolled out.	
The Forum will be kept informed of progress with the project.			
3	<p>Administration Strategy / Client Relationship Manager Role</p> <p>NJ reminded Forum members about the steps taken to arrive at the new Administration Strategy:</p> <ul style="list-style-type: none"> • Forum members had help shape the initial draft of the new strategy in 2018. • A draft of the new strategy was presented to employers at the January 2019 meeting. • The draft was then circulated to all employers for a consultation – regrettably the feedback was disappointing • The Pension Fund Committee approved then strategy at their meeting on 15 March 2019 <p>At the last Forum meeting we discussed a grace period that would be introduced before fines in the strategy were imposed. Initially we suggested 6 months, however, give that many of the measurable requirements in the strategy are dependent upon employers moving to MI it is reasonable for this grace period to be extended to cover the full 2019/20 year.</p> <p>NJ also outlined the approach to the Customer Relationship Manager (CRM) role. Meetings will be arranged with the main employers (those with over 100 members in the scheme) and those where the Fund is experiencing ongoing performance issues.</p> <p>It is intended that these meetings are strategic and allow the Fund and employers to discuss high level issues that need to be resolved, or to inform the Fund of any major changes such as TUPE transfers.</p> <p>This first tier of the CRM model will be rolled out from June onwards with the first meetings being combined with meetings planned to discuss the valuation, where relevant. It is expected that two such meetings will take place with employers in this current year.</p> <p>Forum members then broke out into smaller groups and considered a couple of specific questions:</p> <ol style="list-style-type: none"> 1. What support do employers require from the Fund to get to a position where they can deliver consistently against their responsibilities as set out in the strategy. 2. What would employers want to achieve from these meetings (i.e. what topics would you like to be discussed), how often would you like to meet and are there any specific times throughout the year that would be best to meet? <p>The feedback from the breakout sessions is enclosed:</p> <div style="text-align: center;">  <p>Item 3 - Administration Strateg</p> </div>		
4	<p>Year End Queries / Monthly Interfacing Update</p> <p><u>Year-End Queries</u></p> <p>JB presented an overview of the current position with the 2018/19 LGS50 returns. The table below</p>		

summarises the position on the returns at the time of the meeting.

Employer Returns	
295	Expected
(242)	Received
53	Outstanding

Of the 242 returns received 49 were received after the deadline of 26 April. In addition 108 of the returns contain errors that the Fund is now having to work through and resolve.

Although the number of returns received after the deadline has increased by almost 26% on last year the overall quality of the returns was generally better with an 8.5% improvement on those containing errors from the previous year.

Clearly, issues with the outstanding returns coupled with the data queries that the Fund will now have to resolve will impact upon the Fund's ability to extract accurate information for the valuation by the end of June, and will cause issues for being able to send Annual Benefit Statements (ABS) to members by the end of August.

Forum members were reminded that the ABS is a key focus area for the Pensions Regulator who expects the Fund to issue 100% of statements on time i.e. by the end of August. The ABS extract is due to be completed by 15 July which leaves little time for the Fund to resolve the outstanding data issues and chase employers who have yet to submit their LGS50 return.

Forum members were urged to treat any requests from the Fund as priority.

RH suggested that it would be a good idea for the Fund to develop an article that could be issues within individual employer publications, to inform staff of the ABS, what information it covers and what checks the employee should make upon receiving it.

JB made the point that once all the LGS50 queries are resolved the employer should then be in a position to move to MI. If employers cannot move immediately to MI then it would be beneficial to both sides if they could at least keep on top of starters, leavers and membership changes so that we can avoid having to clear up such queries when the employer does move to MI.

Actions:

- **The Fund will produce an article which outlines what information the Annual Benefit Statement contains and what employees should check once they receive it.**
- **The article will be shared with Forum members to include in their own staff publications.**

Monthly Interfacing

JC provided an update on the current position with the MI project. The aim of MI is tilt the balance workload between staff and the database (which is currently that staff undertake around 70% of the processing of casework whereas the database completes 30%). Once MI is embedded this will allow the Fund to introduce straight through processing which will then enable the Fund to reverse the 70/30 split with the system doing the bulk of the work.

To date there are 16 employers live on UPM covering over 700 employees.

The Fund has a soft target to get as many employers onto MI by September 2019 and all employers by

	<p>the end of March 2020.</p> <p>Clearly this will depend on when some employers can move to MI, given that they are changing their own back office systems.</p> <p>Forum members were asked to give an update on their own move to MI:</p> <ul style="list-style-type: none"> • Halton – have completed the data cleanse element of the project and are working with their software provider to develop the MI extract. They are 90% of the way there but have an issue with c150 employees who unique circumstances are causing an issue for the extract. • Police – are also changing their back office system which is due to go live in October. They expect to move to MI this calendar year. • Sanctuary – have also completed the data cleanse and are progressing with developing the MI file. • Birchwood -
<p>5</p>	<p>Website</p> <p>NJ explained how the Fund are redesigning their website to make it user friendly for stakeholders. This should not only improve the experience for members but also reduce demand on the Fund by reducing the number of calls.</p> <p>There will be a dedicated section for members and one for employers.</p> <p>Forum members then broke out into smaller groups and considered a couple of specific questions:</p> <ol style="list-style-type: none"> 1. What are the main reasons you visit the Cheshire Pension Fund website? 2. What do you think makes a good website? <p>The feedback from the breakout sessions is enclosed:</p> <div style="text-align: center;">  <p>Item 5 - Website Activity PCF 10.6.2019</p> </div>
<p>6</p>	<p>Valuation</p> <p>NJ presented an overview of the valuation process for 2019 along with a high level timeline.</p> <p>NJ also updated on recent national developments, including the McCloud appeal case, which had potential implications for the future benefit structure and funding plans. Given the current level of uncertainty about the outcome of these issues, SAB had advised that liabilities for the purpose of the valuation, should be assessed on the basis of the current benefit package.</p>
<p>7</p>	<p>Regulatory Update</p> <p>NJ provided Forum members with an overview of two consultations.</p> <p>The proposed changes to LGPS Regulations and other pension related legislation recently issued for consultation by HM Treasury and the Ministry of Housing, Communities and Local Government (MHCLG).</p> <p>The Treasury proposals relate to the introduction of a cap of £95,000 on exit payments in the public sector. This includes both payments to an individual employee, and also any early retirement strain costs paid by the employer to eliminate the actuarial reduction due as a result of the early release of pension.</p>

	<p>This would mean that the cap could be triggered not only by high earners and those with generous severance packages (which is the explicit policy intention); but also by those with relatively modest earnings, but long local government service.</p> <p>NJ also outlined a number of administrative complications which could arise in individual cases, due to the complex interaction between the proposed regulations and existing scheme rules relating to member choices on retirement. The lack of a common methodology for calculating early retirement strain costs also presents practical issues in terms of implementation.</p> <p>The MHCLG proposals address two key issues; firstly changes to the local fund valuation cycle to bring it in line with other public sector pension schemes, and the Government Actuary’s national quadrennial LGPS valuation; and secondly additional flexibilities with regard to the collection of exit payments from employers leaving the scheme.</p> <p>NJ commented that in principle, the transition to a four year valuation cycle should not be problematic (particularly given the proposal to allow greater flexibility for Funds to commission interim valuations, should the need arise), there are however, mixed views on the best way of implementing the transition.</p> <p>The proposals to allow exiting employers to spread or defer exit payments (rather than settling in full at the date of exit), are welcomed. In practice, many Funds (including Cheshire), have already adopted this approach as a sensible and pragmatic way of reducing risk and the changes proposed would helpfully, regularise the position.</p> <p>MHCLG proposals to refine the regulations (introduced last year), relating to the payment of exit credits to employers who leave the scheme with a funding surplus, are also welcomed. The changes proposed will allow employers to take into account a scheme employer’s exposure to risk when calculating the value of an exit credit, which will remove the possibility of employers admitted under ‘pass through’ arrangements accruing ‘windfall’ gains.</p> <p>Finally, the Government are proposing to remove the current obligation on further education corporations, sixth form college corporations and higher education corporations to offer membership of the LGPS to their non-teaching staff. This would bring current regulations in line with most other legislation, which now officially categorises these bodies as non-public sector. Current employees would continue to have protected membership status.</p>
<p>8</p>	<p>Round Table Briefing</p> <p>RR raised the issue of social care housing which is experiencing numerous changes which may impact upon the Fund.</p> <p>NJ advised that the latest Employer Newsletter has been issued and there will be an update each quarter from now on.</p> <p>NJ also advised that the Deferred ABS has been issued and the accompanying newsletter contains a link where members can feedback on their experience of the Fund.</p>
<p>8</p>	<p>AOB</p> <p>The next meeting will take place on 20 September 2019.</p>

MINUTES OF PENSION FUND COMMITTEE 7 June 2019**PRESENT**

Cheshire West and Chester:	Cllrs Hogg (Chairman), Gahan, Williams and Gould
Cheshire East:	Cllrs Corcoran and Findlow
Halton	Cllr Wharton
Warrington:	Cllr Mitchell
Apologies:	Paul Matthews (GMB)
Observers:	Cllrs Stott and Bulman (Cheshire East) Jen Lowe (Cheshire Pension Fund)
Actuary:	Gemma Sefton – Hymans Robertson
Investment Advisor:	Joanne Holden – Mercer
Grant Thornton:	Stuart Basnett
Officers:	Mark Wynn, Chris Mann, Heidi Catherall, Steve Wilcock, Nick Jones and Debbie Darlington

1. PROCEDURAL MATTERS

The Minutes from the Pension Fund Committee meeting on the 15 March 2019 were reviewed, having previously been agreed by email.

The minutes from the Local Pension Board Meeting which took place on the 7 May 2019 were noted.

Councillor Gould declared his membership of Cheshire West and Chester Council's Audit and Governance Committee.

There were no other declarations of interest.

2. STANDING ITEMS**2a Changes to Employers**

The Committee received a report detailing the new employers who had been admitted into, or exited the Fund over the period 1 March 2019 to 31 May 2019 (inclusive). The Committee was advised that:

- In total 12 members were transferred to new employers over the period 1 March 2019 to 31st May 2019.
- 12 members transferred to 1 new Academy which remains open to new LGPS membership
- 1 employee became a member of a Parish Council.
- 3 employers left the scheme, 2 due to contract expiry and 1 as a result of the last active member leaving.

The Committee:-

- **Noted the update on admitted bodies that have entered and exited the Cheshire Pension Fund over the period 1 March 2019 to 31 May 2019.**

2b Funding Level Update

The Committee received an update from the actuary on the funding levels for the four investment strategies. The method and assumptions used to calculate the updated funding positions were consistent with those used in the 2016 valuation, although the financial assumptions had been updated to reflect known changes in market conditions. The Committee noted that the further away from the valuation date the updates are, the more approximation is used to arrive at the funding level position.

The Committee was advised of funding levels changes since the 2016 valuation as set out below, noting that strong investment market performance had been the main contributory factor.

Strategy	30 April 2019	31 Mar 2016
A	86.7%	80.3%
B	96.1%	93.3%
C	71.0%	69.0%
D	131.8%	108.9%

The Committee:-

- **Noted the Fund's estimated funding position as at 30 April 2019.**

2c COMPLIANCE UPDATE

The Committee was presented with a summary of the breaches log for the period 1st April 2015 to 31 March 2019, noting that a total of 269 breaches had been logged over the period.

The Committee was advised that an invoice totalling c£1,110, due from an employer who continually fails to send contributions income to the Fund remains outstanding. It is hoped that the invoice will be paid once it reaches the stage of debt collection proceedings.

The Fund will continue to raise invoices for this employer if they fail to pay contributions income due to the Fund.

The Committee was advised of another employer who has been added to the log with an amber breach. The breach relates to non-payment of contributions for the period March 2018 to March 2019. The employer had not previously been included in the breaches log as they have not yet signed an Admission Agreement with the Fund, and so had not technically been admitted.

In view of the fact that the employer had made contribution payments for the period prior to March 2018, thereby recognising their responsibilities to the Fund; legal advice was that they should be treated as any other admitted body' and a breach recorded.

If the non-payment of contributions is not rectified, the employer will be reported to the Pensions Regulator.

Officers are also reviewing admission procedures in order to reduce the risk of this situation arising with any other employer in the future.

The Committee:-

- **Noted the cumulative summary of the Breaches Log for 1 April 2015 to 31 March 2019.**

2d Business Plan 2019/20

The Committee were presented with the revised version of the Business Plan, covering the period 2019/2023. At the last meeting Members requested that a minor change be made to the key statistics table to include investment income and this change has subsequently been made.

Members pointed out a couple of typographical errors within the Business Plan which will be amended by officers.

The Committee were presented with the Action Plan Tracker for quarter 1. The tracker outlined that of the 31 actions that the Fund had planned to undertake in quarter 1, 30 were categorised as green, meaning they are on track to be achieved and one was categorised as amber.

The amber breach relates to the Fund's requirement to update its Responsible Investment Policy. This action has been delayed whilst the Fund awaits the revised UK Stewardship code which is now scheduled to be published in July, and for the Scheme Advisory Board guidance which is expected imminently.

This action will be carried forward into quarter 2.

The Committee was also presented with a summary of the updated Risk Register. The Risk Register had last been presented to the Committee in December 2018. Following a review by officers, the Committee was informed that the scores for two of the risks have increased, one had decreased and the rest remained the same.

The score for risk number two (data quality and casework backlogs); had increased to recognise the current position on administration casework backlogs. However, although the score has increased the overall risk remains categorised as amber.

The score for risk number eight (exploiting opportunities presented by the Council's major change programmes to maximise operational efficiency); had also increased to recognise the impact of the delayed implementation of the Council's new back office system, known as Business World, which has meant that this risk is now categorised as red.

In addition, due to the Council's new back office system implementation there is now a requirement for the Pension Fund to find a solution to implementing the annual Pensions Increase within the Funds administration database by March 2020. The Committee were advised that a project group has been set up to develop a solution to this issue with representatives from the Fund, the administration database provider, the Transactional Service Centre and the B4B team (who are managing the implementation of Business World).

The risk register will be formally reviewed in September and will be presented to the Committee for an update.

The Committee:-

- **Noted the changes to the Key Statistics table within the 2019/23 Business Plan.**
- **Noted the position of the Action Plan Tracker for 2019/20 and actions for quarter 1.**
- **Noted the changes to the Risk Register and undertake the next review in September.**

2e REGULATORY UPDATE

The Committee received an update on proposed changes to LGPS Regulations and other pension related legislation recently issued for consultation by HM Treasury and the Ministry of Housing, Communities and Local Government (MHCLG).

The Treasury proposals relate to the introduction of a cap of £95,000 on exit payments in the public sector. This includes both payments to an individual employee, and also any early retirement strain costs paid by the employer to eliminate the actuarial reduction due as a result of the early release of pension. This would mean that the cap could be triggered not only by high earners and those with generous severance packages (which is the explicit policy intention); but also by those with relatively modest earnings, but long local government service.

Officers also outlined a number of administrative complications which could arise in individual cases, due to the complex interaction between the proposed regulations and existing scheme rules relating to member choices on retirement. The lack of a common methodology for calculating early retirement strain costs also presents practical issues in terms of implementation.

The MHCLG proposals address two key issues; firstly changes to the local fund valuation cycle to bring it in line with other public sector pension schemes, and the Government Actuary's national quadrennial LGPS valuation; and secondly additional flexibilities with regard to the collection of exit payments from employers leaving the scheme.

Officers and the Fund Actuary advised that in principle, the transition to a four year valuation cycle should not be problematic (particularly given the proposal to allow greater flexibility for Funds to commission interim valuations, should the need arise), there are however, mixed views on the best way of implementing the transition.

The proposals to allow exiting employers to spread or defer exit payments (rather than settling in full at the date of exit), are welcomed. In practice, many Funds (including Cheshire), have already adopted this approach as a sensible and pragmatic way of reducing risk and the changes proposed would helpfully, regularise the position.

MHCLG proposals to refine the regulations (introduced last year), relating to the payment of exit credits to employers who leave the scheme with a funding surplus, are also welcomed. The changes proposed will allow employers to take into account a scheme employer's exposure to risk when calculating the value of an exit credit, which will remove the possibility of employers admitted under 'pass through' arrangements accruing 'windfall' gains.

Finally, the Government are proposing to remove the current obligation on further education corporations, sixth form college corporations and higher education corporations to offer membership of the LGPS to their non-teaching staff. This would bring current regulations in line with most other legislation, which now officially categorises these bodies as non-public sector. Current employees would continue to have protected membership status.

The Committee was advised that subject to their comments and feedback, officers will consult with advisors to formulate consultation responses. Draft responses will be circulated to Committee members prior to formal submission.

The Committee commented on the following consultation proposals:-

- **"Restricting exit payments in the public sector: consultation on implementation of regulations", issued by Her Majesty's Treasury on 10 April 2019 and**
- **"Changes to the Local Valuation Cycle and the Management of Employer Risk", issued by Ministry of Housing, Communities and Local Government (MHCLG) on 8 May 2019**

3. DRAFT STATEMENT OF ACCOUNTS

The Committee received a report which provided an overview of the draft Statement of Accounts for the Cheshire Pension Fund for the year to 31 March 2019.

The Committee was reminded that the Local Pension Board has an important role in the governance process for the Accounts. The Board's role is to ensure that:

- The accounts have been produced in compliance with statutory and best practice guidance, and;
- That the Committee discharges its duty of reviewing the accounts and recommending them to Audit and Governance Committee.

The Committee were informed that the Local Pension Board had reviewed the Accounts at their meeting on 4 June 2019 and confirmed that in their opinion the Accounts had been prepared in accordance with statutory and best practice guidance.

The Committee was informed of the timetable for the production and approval of the Statement of Accounts as set out in the table below:

Date	Action
10 June	Grant Thornton will commence the audit testing of the accounts
18 July	The audit will be completed by this date and Grant Thornton will produce their Audit Findings Report
19 July	The Audit Findings Report and Annual Report, including the audited Statement of Accounts, will be presented to the Pension Fund Committee
23 July	The Audit Findings Report and audited Statement of Accounts will be presented to the Audit and Governance Committee

Officers outlined the main changes to the draft Statement of Accounts from the prior year, which included an increase in the value of the Fund's net investment assets from £5.162bn to £5.473bn.

The Committee also received details of the final outturn for the 2018/19 administration budget, which shows an underspend of £248k. This underspend results from a variety of factors including staffing vacancies throughout the year and further savings on a number of supplies and service contracts which were lower than originally anticipated.

The Committee:-

- **Commented on the Cheshire Pension Fund draft Statement of Accounts for the year ending 31 March 2019, and recommended that they are presented to the Audit and Governance Committee following completion of the audit.**
- **Noted the outturn position for the Fund in 2018-19.**

4. LGPS GOVERNANCE REVIEW AND VALUATION UPDATE

The Committee received a presentation from the Fund Actuary outlining progress on the Scheme Advisory Board's (SAB) national review of LGPS governance arrangements, including the outcome of an initial survey of stakeholder views. The findings from the survey are due to be reported back to SAB in July, with final recommendations likely to be issued later this year. The indication so far, is that there is no single preferred governance model, and that the consensus was in favour of an approach focussed on the delivery of good governance 'outcomes', rather than a prescribed governance structure.

The Fund Actuary also reminded the Committee of the timeline for delivery of the 2019 valuation, and updated on recent national developments, including the McCloud appeal case, which had potential implications for the future benefit structure and funding plans. Given the current level of uncertainty about the outcome of these issues, SAB had advised that liabilities for the purpose of the valuation, should be assessed on the basis of the current benefit package.

The Committee noted the update on the SAB national governance review and the 2019 valuation.

5. CALENDAR OF MEETINGS

The Committee received dates for all Committee dates, along with dates for Investment Sub Committee meetings and joint training sessions for 2019/20.

At the request of members the summary also included dates for meetings and events in LGPS Central.

Members were also made aware of two additional events:

- 9 July – LGPS Central is holding a Responsible Investment event in Birmingham – if Members wish to attend they can let officers know and a place will be secured for them.
- 12 July – The Fund will be delivering an Induction session for new members – invitations will follow in due course.

Once all new Committee members are confirmed in post, officers will issue online calendar invitations.

6. AOB

No matters were raised

PART B – NOT FOR PUBLICATION

The Committee resolved that:

The details of the following items remain confidential on the grounds that they/it involves the likely disclosure of exempt information as defined by Paragraph 3 Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) and that the public interest would not be served in publishing the information.

7. PROCEDURAL MATTERS

The Minutes from the Investment Sub-Committee meeting which took place on the 17 May 2019 were reviewed, having previously been agreed by email.

8. AOB

The Committee reviewed various options for managing the forthcoming actuarial re-procurement exercise and advised officers of their preferred approach.

Mark Wynn informed the Committee that Chris Mann would be retiring from her position as Pension Fund Manager at the end of June. The Fund is working to find a replacement for Chris and the Committee will be informed once this recruitment has been completed.

The Committee thanked Chris for her professionalism and support over her recent tenure as Pension Fund Manager, and also her contributions to the Pension Fund Committee in previous roles held in Cheshire County Council.

The Committee wished Chris all the best for her retirement.

PART 2: NOT FOR PUBLICATION

MINUTES OF PENSION FUND INVESTMENT SUB COMMITTEE 17 MAY 2019

PRESENT:

Cheshire West:	Cllr Hogg (Chair) and Cllr Gahan,
Cheshire East:	Cllr Findlow and Cllr Corcoran,
Halton:	Cllr Wharton,
Employee Rep:	Paul Matthews (GMB)
Officers:	Steve Wilcock and Chris Mann,
Apologies:	Cllr Bowden (WBC)

INVESTMENT SUB COMMITTEE

ITEM 1 - PROCEDURAL ITEM

1. The Investment Sub Committee (The Committee) approved the minutes of the Investment Sub Committee meeting on 15 February 2019. It was noted that Mike Weston, the recently appointed CEO at LGPS Central Ltd would attend the Pension Fund Committee meeting on 13 September 2019.

ITEM 2 - INVESTMENT PERFORMANCE REPORT

2. The Committee received a report on the Fund's performance for the period ending 31 March 2019.
3. The Committee noted that in the quarter ending 31 March 2019:
 - Total assets under management increased by £294m to close the quarter with a market value of £5.583bn.
 - The Fund performance (+5.3%) was ahead of its benchmark during the quarter (+4.4%).
 - The Fund is ahead of, or in line with its benchmark over all other time periods.
 - There was one primary trigger breach caused by the departures of a key individual. Winton announced that Sir David Walker will be standing down as Chairman of the Winton Group at the end of July 2019. As David Walker is listed as a key individual for this strategy, a review meeting will be held with Winton to assess any potential impact on the mandate.
 - There were no primary trigger breaches from manager underperformance during the quarter.
 - There were no changes to Mercer's ratings during the quarter.

- Two review meetings were held during the quarter with Janus Henderson and Blackstone. The Janus Henderson meeting was triggered by the departure of a key individual from the manager and by a downgrading of the strategy from an A to a B rating by Mercer, while the Blackstone meeting was triggered by an underperformance breach. The Committee noted the key issues and outputs of the Janus Henderson meeting as follows:
 - Ryan Mulliner had recently departed the company and his position as co-portfolio manager of the Total Return Bond Fund to pursue the opportunity to run his own strategy with another investment firm.
 - He had been replaced by Chris Diaz who is an experienced and senior fixed income manager with over 8 years' experience at Janus Henderson. Diaz will work in partnership with Andrew Mulliner and they should complement each other's strengths with Mulliner focusing on Europe and Diaz on the United States.
 - The favourable view of the two co-portfolio managers was shared by Mercer; their decision to downgrade the strategy from an A rating to a B was prompted by the broader organisational changes at the firm and they wanted time to consider how the fixed income team as whole settled down.
 - The recent personnel change and the Mercer rating downgrade were not sufficient reason to change the mandate at present. The Total Return Bond Fund was currently defensively positioned to protect capital and had further flexibility to make further defensive changes to reflect any further deterioration in global credit markets.
- The Committee noted the key issues from the underperformance trigger meeting with Blackstone as follows:
 - Over the 12 months the Blackstone Partners Fund has delivered growth of 1.7% (gross of fees), below its performance target of 6.9% for the same period.
 - The Fund has been impacted by the significant differential that now existed between US and UK interest rates and the associated cost of hedging USD denominated fund units back to GB sterling. This factor was reducing performance returns by approx. 1.7% pa.
 - The Fund's performance during 2018 had been significantly impacted by the two months of October and December 2018 when global equity markets had fallen by 7% and 8% each month respectively. Given the scale of these drawdowns the Manager had only been able to partially mitigate the negative impact on returns.
 - Over the longer term, the Manager's long term strategy of protecting capital as far as possible and delivering idiosyncratic growth equivalent to approx. one third of general equity returns was delivering as expected.
 - Since inception the Blackstone Partners Fund had delivered an annual return of 4.2% (net of fees) and is the best performing manager within the Absolute Return portfolio.
- The asset allocation for Strategy B to Illiquid alternatives is below the control range set by the Pension Fund Committee at the end of the quarter. Recent

commitments to private equity funds and Patrizia's advanced plans to purchase two properties should help to ensure the actual asset allocation moves back towards the centre of the agreed control range.

- Seven of the Fund's active managers achieved their performance target during the quarter; Baillie Gifford Global Alpha, Baillie Gifford Long Term Global Growth, Janus Henderson, Bluebay, M&G, Patrizia Inflation-linked and Blackstone.
- Five of the Fund's active managers underachieved against their performance target during the quarter; Patrizia Core Portfolio, Arrowgrass, Winton, the Darwin Leisure Property Fund and the Darwin Leisure Development Fund.
- LGPS Central's Global Active Equity Fund became operational on 12 March 2019 and in the short period to 31 March 2019 the new fund was marginally below its benchmark for the period.

ITEM 3 LGPS CENTRAL TRANSITIONS

4. The Committee received a report which updated them on progress with transitioning assets across to LGPS Central. The transition of assets into the LGPS Central Global Active Equity Sub Fund was now complete with the three new managers starting to manage their portfolios from 12 March 2019. At the time of the decision to invest, the Committee were informed that total transition costs could total £873,000 for Cheshire. The final cost, once all trading was completed, was £818,000 and the collaborative approach of working in partnership with other funds had saved the Cheshire Pension Fund approx. £400,000 versus an approach in which the Fund transitioned in isolation.
5. Following decisions taken by the Committee on 15 March 2019 two further transitions (into the Sustainable Equity Fund and the Low Carbon Factor Index Fund) are now in the planning phase. The key actions and deadlines in respect of the Low Carbon Factor Index Fund were:
 - End of May – LGPSC submit proposal for sub fund to Financial Conduct Authority (FCA) for approval and partner funds involved in initial transition (likely to be Cheshire and the West Mids Fund) indicate assets likely to transfer.
 - Early June – Transition Manager appointed by LGPSC from the national LGPS framework
 - End of June – Transition Manager carries out analysis of assets to transfer and produces estimate of likely transition costs.
 - Early July – Low Carbon Factor index fund receives FCA accreditation.
 - End of August – Partner Funds transition assets to LGPSC in readiness for trading activity.
 - Mid-September – Rebalancing concluded and LGPSC start to manage the sub fund to track the FTSE All World Climate Balanced Comprehensive Factor Index.
6. Planning in respect of the Sustainable Equity Fund is less advanced, as the legal agreements underpinning the procurement framework need to be finalised first.

Members of the Committee would receive a further update once a transition plan was in place.

Recommendations:

the Committee:

- **Noted the final position with regard to the transition of assets into the LGPS Central Global Active Equity Sub Fund;**
- **Considered and endorsed the high level plan to transition assets into the Central Low Carbon Factor Index Fund.**

ITEM 4 RESPONSIBLE INVESTMENT UPDATE

7. The Committee received a report which updated them on discussions with LGPS Central to agree a set of stewardship engagement themes for the forthcoming financial year and also reviewed responses from Baillie Gifford regarding its voting policy and practice in comparison to LGPS Central Ltd.
8. Officers from the Cheshire Fund have been working with the LGPS Central Responsible Investment Working Group (RIWG) to develop stewardship proposals with the objective of protecting and enhancing the assets of partner funds over the long term. There is a strong desire amongst partner funds and LGPS Central to be at the fore-front of current topical issues and to be smart in their selection of engagement themes, focusing on areas where there are signs of traction and a good chance of being able to report progress during the year.
9. The outcome of discussions between partner funds and LGPS Central was that the following four engagement themes were recommended as the strongest candidates for 2019/20:
 - Climate change
 - Single-use plastics
 - Technology and disruptive industries risk
 - Tax – transparency and fair tax payment
10. Executive Remuneration – The Committee had previously reviewed the Fund's engagement and voting record with regard to executive remuneration and received a report which showed that LGPS Central were voting against company resolutions on this matter more regularly than Baillie Gifford. Baillie Gifford had provided a response which argued that comparing the voting record of a passive fund with that of an actively managed fund could be misleading; Baillie Gifford only invested in a small number of companies and it was a pre-requisite that they had a high degree of faith and conviction in the management of each company. In cases where they were unhappy with a proposal from the company on executive pay, they would address this through engagement rather than simply by voting against.
11. Members of the Committee discussed this point and agreed that Baillie Gifford be asked to provide some examples where they believed an engagement approach had

led to a company moderating their proposals for executive pay. Officers agreed to continue the dialogue with Baillie Gifford and report back to the next meeting of the Committee.

ITEM 5 – CASH FLOW UPDATE

12. The Committee received a report which updated them on the latest position with the Fund's cash flow position. The report showed that each month there is a shortfall between income received from contributions and the amount paid out in pensioner benefits. For the year to 31 March 2019 this shortfall amounted to £19.2m though this shortfall was more than covered by the Fund's investment income of £34.4m to leave an overall positive cash flow position of £15.2m for 2018-19. The Committee would receive an updated cash flow report on a quarterly basis from this point on.

Recommendation:

The Committee:

- ***Considered the contents of the cash flow report and agreed that it contained all the information they required to monitor the position in future.***

ITEM 6 – ANY OTHER BUSINESS

13. The Committee received a verbal update on the latest position with regard to Fund's retail property in Grimsby and the House of Fraser chain. A further update on Patrizia's proposals for the property, including a potential change of use, will be brought to the next meeting of the Committee in September.

Cost Management, Benefit Design and Administration Committee

DATE:	03 June 2019
VENUE:	Room 1 & 2, 18 Smith Square, London SW1P 3HZ
TIME:	1.00PM – 3.00PM

AGENDA

Item		Page(s)	Timings
1	Welcome, introductions, apologies and declaration of interests	-	1:00
2	Matters arising -	Paper A	1:05
3	Scheme Advisory Board Cost Management Process – Update		1:15
4	95K Cap - Update		1.25
5	Academies, 3 rd Tier Employers and Good Governance projects – Update		1.40
6	Late Retirement Factors - Update		2.00
7	Local Pension Board Survey II	Paper B	2.10
8	Forfeiture Regulations	Paper C	2.30
9	TPR scheme return - Conditional Data - Update		2:50
10	AOB and date of next meeting		2.55
	a) HE/FE Consultation – Glyn Jenkins		

Scheme Advisory Board Update
Cost Management & Benefit Design Committee
3rd June 2019

Cost Cap/McCloud –

- Cost Management process paused in January 2019 due to legal challenge relating to Judicial and Firefighter schemes. Decision was appealed.
- SAB issued survey to administering authorities in relation to the preferred approach to 2019 valuation. Results in favour of receiving guidance from SAB.
- On 14th May SAB published guidance which sets out the proposed approach to the 2019 valuation and confirms that if there is no outcome on the Cost Cap by 31 August that the scheme benefit design used should be as it is currently set out.
- CIPFA have also provided a separate Briefing Note on accounting
- SAB commissioned GAD to prepare figures on the basis of a worst case scenario for the potential legal remedy.
- Government's request for an appeal in the McCloud case denied by Supreme Court

<p>This is the quarterly pack of Pension Fund performance information which is based on the period 1 April to 30 June 2019 and includes a comparison to the previous quarter - 1 January to 31 March 2019.</p> <p>The overall assessment for Quarter 1 is Green.</p> <p>A summary of performance for each area is shown below including a RAG status. There is also a detailed worksheet for each of the subjects which contains more detailed information.</p>	Qtr 1 (Apr-Jun 2019)
	Summary position:
	This Quarter - 1 Apr to 30 Jun 2019
	GREEN
	Last Quarter - 1 Jan to 31 Mar 2019
	GREEN

Subject	Comment	RAG Status
Administration Casework	The completion of casework against the CIPFA benchmarking statistics during the quarter illustrate that the SLA's were met in all but three areas deferred casework, retirements and lump sums. The RAG status is amber to denote the total number of cases outstanding.	AMBER
Breaches	There were 15 new breaches in quarter 1 of 2019/20, which actually covered breaches that related to March, April & May (compared to 13 in quarter 4 of 2018/19). The majority (10) of the breaches in Qtr 1 were contribution related however there were 4 new Administration related breaches. These relate to the late notification to leavers of their rights and options. There was also 1 Disclosure breach which related to late disclosure of one amendment to the LGPS regulation There were no breaches reported to the Regulator during quarter 1.	AMBER
Compliance	The Fund did not identify any material compliance issues in Quarter 1.	GREEN
Contributions Monitoring	The Fund has an internal KPI to receive 98% of contributions income on time. For each of the months between April and May 2019 the Fund received well above the 98% of income on time.	GREEN
Financial Performance	The Pension Fund is currently forecasting a net nil position.	GREEN
HR (absence)	The service lost 102 days through sickness during quarter 1 of 2019/20 which equates to an annual average of 4%. This compares to 215 days lost in quarter 4 which is an annual average of 9%. There were 64 sickness days lost in the 4th quarter relating to work related stress.	GREEN
Debt Recovery	The Pension Fund has £119k of debt outstanding at the end of Quarter 1 of 2019/20, some of which relates to prior years (which typically relates to overpayments which are being repaid by installments). A large proportion of the Quarter 1 debt (£34k) is made up of debt which is up to 31-90 days old. This relates to debt owed in relation to an Early retirement strain recharge and the Fund has received confirmation from the relevant employer that the invoice will be paid in full. The RAG status is Red to reflect the fact that the value of debt outstanding which is over 30 days old is above 50%.	RED
Business Plan Progress	There are 31 actions identified for quarter 1 of 2019/20. 30 have been met and 1 has been classed as amber denoting a minor delay in completion. The amber action will be rolled forward into the next quarter.	GREEN
Feedback from External Sources	The Board receive feedback from various external sources on a variety of issues.	GREEN
Investment Manager Qualitative and Quantitative Performance	Fund investment returns remain ahead of the asset performance assumptions contained within the actuarial valuation over a rolling 3 year period. Returns are also ahead of the tailored benchmark return and CPI.	GREEN

LPB RISK REGISTER

Introduction

1. The Board reviewed and approved the Board specific risk register at the last meeting in May and determined that it would next be formally reviewed in September.
2. The Board also considered the planned risk actions which have been identified as being required in order to further mitigate each risk identified in the register. Board members resolved to review the planned risk actions and develop a plan and timeframe of actions to implement at this meeting.

Planned Risk Actions

3. Appended to this report in Appendix A is the Risk Register for the Fund. The register outlines the planned risk actions which have been identified in order to further mitigate some of the risks.
4. The Board now need to identify the specific actions which can be taken in order to implement/embed the planned risk actions.
5. Appendix B summarises the five planned risk actions and the Board will work through each one to determine what specific actions are required for each one and develop a timeframe for implementation.

Recommendation

The Board are asked to:

- **Identify the specific actions which are required in order to implement/embed the planned risk actions identified in the risk register.**

Objective / Priority	Risk No	Risk / Opportunity	Gross (without any controls)			Current Mitigating Controls (in place and effective mitigation of risk)	Current / Net (as it is now)			Risk Owner	Planned Risk Actions	Timescale	Target / Aspiration (When all Actions in Place)			Status of Risk (←, ↑, ↓, ☀)	Next Review Date
			Likelihood	Impact	Total Risk Score		Likelihood	Impact	Total Risk Score				Likelihood	Impact	Total Risk Score		
Securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS	1	Failure to identify (Board members') conflicts of interest results in failure to act in the best interests of the Fund leading to challenge/cost.	2	4	8	<ul style="list-style-type: none"> The Board has a conflict of Interest Policy The Conflict of Interest policy is reviewed on an annual basis All Board members sign a declaration upon appointment to confirm there are no conflicts which would prevent them from undertaking the role Annual declarations of interest are completed by Board members and are published on the Fund's website Declarations of Interest are requested at the start of each Board meeting Information supplied to the Board is anonymised to allow them to make recommendations free from any unconscious bias 	1	4	4				1	4	4		30-Sep-19
	2	Failure to maintain a Competent Board with adequate skills and knowledge, results in failure of Board members to properly exercise their functions as a member of the Pension Board.	3	4	12	<ul style="list-style-type: none"> All Board members receive an induction upon joining the Fund and are required to read all statutory Fund documents within a short timeframe of being appointed All Board members attend training events delivered by Pensions Experts such as the LGA, PLSA and CIPFA All Board members have access to accurately maintained core documents and policies Board members attend quarterly joint training sessions with the Pension Fund Committee in accordance with the Fund's Training Policy Each member has agreed to adopt the knowledge and understanding policy framework The Chair of the Board has a role to ensure that the terms of reference are adhered to by all Board members 	2	4	8		<ul style="list-style-type: none"> The knowledge and skills of the Board will be regularly reviewed and any training requirements will be addressed Board members will complete the TPR Toolkit training online Board members will take every opportunity to attend external events and training sessions 		2	4	8		30-Sep-19
	3	Change of membership of the Board leading to loss of knowledge and skills, resulting in inability to fulfil its obligations under the Terms of Reference	3	4	12	<ul style="list-style-type: none"> 5 Board members are appointed for a term of 3 years, with the option to extend where a member leaves during that term a recruitment process is undertaken by the Fund to replace them Every 3 years the Fund will seek expressions of interest for suitably qualified and experienced members to join the Board and/or extend the tenure of existing members Terms of office have been staggered to avoid a cliff edge scenario of all members leaving on the same date. 	2	4	8		<ul style="list-style-type: none"> The Board will consider whether they can introduce any steps to assist with succession planning The Board also has the option of co-opting additional members to provide support on either specific issues, or general matters. 		2	4	8		30-Sep-19
	4	Failure of the Board to implement the correct mechanisms in order to effectively monitor the compliance of the Fund leading to the inability to undertake their role efficiently	2	4	8	<ul style="list-style-type: none"> The Pension Fund's Governance Policy clearly outlines the role of the Board and the Pension Fund Committee Board members review the Pension Fund Committee papers and minutes and attend joint training sessions so have a detailed understanding of the decisions the Committee are asked to make The Board's Terms of reference provides the framework for how the Board should perform their duties The Board receive a comprehensive set of standard performance reports on a regular basis which allow them to monitor the performance of the Fund The Chair of the Board also holds regular liaison meetings with the Chair of the Committee and Board minutes are a standing item on the Committee agenda allowing any recommendations by the Board to be escalated The Board continually reviews systems and processes and implement regular changes to improve efficiency The Board constantly review their systems and processes and make incremental changes throughout the year or at annual reviews The Board adhere to national guidance from The Pensions Regulator and the Scheme Advisory Board and ensure that they are monitoring performance against high risk areas. 	1	4	4				1	4	4		30-Sep-19

Objective / Priority	Risk No	Risk / Opportunity	Gross (without any controls)			Current Mitigating Controls (in place and effective mitigation of risk)	Current / Net (as it is now)			Risk Owner	Planned Risk Actions	Timescale	Target / Aspiration (When all Actions in Place)			Status of Risk (←, ↑, ↓, ☀)	Next Review Date
			Likelihood	Impact	Total Risk Score		Likelihood	Impact	Total Risk Score				Likelihood	Impact	Total Risk Score		
	5	Failure of the Board to receive the required support from The Fund resulting in the inability of the Board to carry out its functions	2	4	8	<ul style="list-style-type: none"> A key officer is appointed to provide support to the Board Additional officer support is available from within the Fund Officers attend network groups in order to share ideas to help facilitate the Board The Board has its own budget and so can appoint external advisers if required Two career grade posts have been implemented by the Fund and are providing support to the Board 	1	4	4				1	4	4		30-Sep-19
	6	Failure of the Board to be aware of national developments or have inadequate links with outside bodies resulting in failing to assist the Fund with efficient and effective management.	4	2	8	<ul style="list-style-type: none"> LGPS Central - Local Pension Board Chairs meeting - where common issues are discussed and developing links with the Scheme Advisory Board Regular attendance by Board members at national conferences and seminars Undertaking additional training such as the TPR Trustee Toolkit 	1	2	2				1	2	2		30-Sep-19

Planned Risk Actions

Local Pension Board
 16-Jul-19
 Item 6 Appendix B

Risk/Oppportunity	Planned Risk Actions	Actions
Failure to maintain a Competent Board with adequate skills and knowledge, results in failure of Board members to properly exercise their functions as a member of the Pension Board.	<ul style="list-style-type: none"> • The knowledge and skills of the Board will be regularly reviewed and any training requirements will be addressed • Board members will complete the TPR Toolkit training online • Board members will take every opportunity to attend external events and training sessions 	
Change of membership of the Board leading to loss of knowledge and skills, resulting in inability to fulfil its obligations under the Terms of Reference	<ul style="list-style-type: none"> • The Board will consider whether they can introduce any steps to assist with succession planning • The Board also has the option of co-opting additional members to provide support on either specific issues, or general matters. 	

CASEWORK LIMITS AND GMP

Introduction

1. The Board will receive an update on the Fund's progress in completing the GMP project and will be requested to approve the approach to under and over payments.
2. The Board will also be presented with a summary of casework limits which the Fund work's to in order to ensure operational efficiency. Again, Board members will be requested to approve this approach and recommend to the Pension Fund Committee that they are adopted..

Guaranteed Minimum Pension (GMP)

3. With the introduction of the Single tier state pension in 2016, the LGPS will no longer be contracted-out of the state second pension. With contracting-out coming to an end, HMRC will no longer track contracted-out rights and have issued closure schedules to pension schemes to enable them to compare the GMP figures held on their systems to that of HMRC. This is known as the GMP reconciliation.
4. The project is in two phases. Phase 1 is the reconciliation of all data held by HMRC to that held by the Fund. Phase 2 will then deal with the rectification i.e. any cases where there is a discrepancy to the GMP.
5. GMP values are held on a member's records (where they have qualifying service). However, the GMP itself does not come into effect until the member reaches state pension age.
6. The Fund has now completed Phase 1 of the project, having reconciled c 126,000 records. This was achieved by working with a company called Intellica, who have provided sophisticated data analytics tools in order to group members into categories of queries.
7. The Fund was then able to sample check these queries and evidence to HMRC that a liability to the Fund no longer existed, for instance if the member had transferred their service to another LGPS Fund when they changed jobs.
8. Now that Phase 1 is complete the Fund now needs to complete Phase 2 and rectify any records with the GMP value does not match. The Fund has c8,000 such cases to investigate.
9. It is expected that the majority of these cases will be ones where the member has not yet reached state pension age and as such, any GMP rectification can be made without any impact upon the member.
10. However, for a small number of members, who have attained state pension age there may be a requirement to amend their pension payment. There may also be an historic under or overpayment of pension to deal with.
11. As outlined in Appendix A, HM Treasury have suggested some recommendations for how Funds should deal with any under or over payments. Any significant overpayments have already been dealt with by the Fund and are not included in the c8,000 members highlighted above.

12. This means that of the members where rectification is required, and who have attained state pension age is expected to be relatively small and the variances should be relatively modest.
13. The Fund does intend to put right any pensions where the member has been underpaid as a result of an incorrect GMP.
14. The Board, therefore, are requested to approve the approach outlined below for dealing with both under and over payments associated with the GMP exercise.

Rectification Type	Fund's Proposed Approach
Underpayment	The Fund will rectify all instances of underpaid pensions identified as part of the GMP reconciliation exercise. The underpayment shall be backdated to the date that the GMP payment commenced
Overpayment	<p>The Fund will not seek to recover any overpayments which were made to the member in the past and the future pension will be amended to the correct figure as soon as possible.</p> <p>This is the same approach that has been taken by the Civil Service Pension Scheme.</p>

15. It is through no fault of their own that the members pensions have been paid at the incorrect value and so the approach above seems to be the fairest approach to rectify the GMP discrepancies.
16. The Board are requested to provide their support to the approach outlined above and to recommend to the Committee that they approve the approach.

Casework Limits

17. Attached to this report in Appendix A is a table of the minimum limits that have been set by the Fund. These low limits assist the Fund with the smooth operation of the administration casework and to help reduce caseload.
18. In order to make a payment to members the Fund has to calculate the balance due to the member and then contact them in order to obtain bank details. More often than not members do not respond to such letters as the value of the payment is so small and so the Fund is left with a raft of casework that it cannot bring to a conclusion.
19. However, in all cases, where a member contacts the Fund to request the payment of their benefit the Fund will honour that payment.
20. Equally the Fund will not seek to recover overpayments from members who pass away during the month or where the overpayment is less than £250.
21. The Board are requested to provide their support of the casework limits and to recommend that the Pension Fund Committee approve them.

Recommendation

The Board are requested to:

- **Provide their support for the approach to under and over payments of GMP's and recommend that the Pension Fund Committee approve it.**
- **Provide their support for the approach to casework limits and recommend that the Pension Fund Committee approve it.**

GMP Project - Background

1. Prior to April 2016, contributing members of the Local Government Pension Scheme (LGPS) paid lower rate National Insurance contributions as they were “contracted out” of the Additional State Pension which has previously been known as S2P, the state second pension or the State Earnings-Related Pension (SERPS). LGPS employers also paid reduced rate National Insurance contributions in respect of their employees who were in the LGPS. Contracting out ended on 5th April 2016 as part of the Government’s introduction of a single-tier basic state pension.
2. Between 1978 and 1997 contracting out of the Additional State Pension was undertaken on a Guaranteed Minimum Pension (GMP) basis. This required contracted out pension schemes to offer pension benefits for the period of contracting out that were worth at least as much as the benefits the additional state pension would have provided. Contracted out pension schemes had to record the relevant contracted out earnings for that period and supply HMRC with details of these. HMRC retained a record of contracted out earnings and GMP entitlement for each individual and then advised pension schemes of GMP entitlements when the individuals reach state pension age.
3. There are complex regulations regarding annual inflationary increases to the GMP element of an individual’s pension and the dates at which it becomes payable to the scheme member. The Government decided that with effect from 6 April 2016 contracting-out would be abolished, coinciding with the introduction of the new single tier pension, and as a result HMRC are providing a one off service to enable schemes to reconcile the GMP figures they hold with those held by HMRC.
4. It is important to reconcile the GMP element recorded on the pension fund administration system, as well as the pensioner payroll system with that held on the HMRC database, to ensure that pensions coming into payment, together with those already in payment, are paid at the correct amount, and that the liabilities of the pension scheme, so far as GMP values are concerned, are represented accurately at each future valuation.
5. GMP reconciliation is the process of comparing the Pension Fund’s GMP information with that held by HMRC. It investigates any discrepancies between the two sets of figures so that the Fund and HMRC end up with consistent GMP data and benefit records. HMRC’s starting position is usually that its data is automatically correct (although this is not always the case) unless the pension fund can prove otherwise. This puts the investigative responsibility and costs fully onto the pension fund. The reconciliation has involved considerable investigative work, reviewing data and benefit accrual.

6. The HM Treasury working group also provided the following recommendations on how any discrepancies identified through reconciliation process should be dealt with:

- Pensioners that have been underpaid should receive their pension arrears in full, with interest in accordance with scheme rules.
- Cases where pensioners have been overpaid should be considered in the context of the overall extent of any overpayments, and a view taken over whether there will be value for money recouping overpayments
- Where discrepancies are small, for example if a service period discrepancy is less than a year, or if the discrepancy in weekly GMP amount is no more than £2, schemes should use the data provided by HMRC in respect of any individuals who have not reached state pension age, or the data held by the scheme in respect of any individuals who have reached state pension age.

7. The Local Government Pension Committee (LGPC) has recommended the following approach to post 5 April 1997 contracted out data:

- Where contracted-out records appear on HMRC records but no corresponding LGPS pension records exist within its fund, LGPS Administering Authorities should investigate all cases.
- Where dates of contracted-out service differ, each LGPS Administering Authority should only investigate those cases where in its view there is a significant risk to LGPS benefits or process.
- Where contracted out records do not appear on HMRC records but an LGPS pension record exists within the fund, each LGPS Administering Authority should notify HMRC of the discrepancy but only investigate those cases where in its view there is a significant risk to LGPS benefits or process.

8. The LGPS views this approach as representing a cost effective means of minimising risk of incorrect benefits while avoiding unnecessary and costly duplication of the work already undertaken to ensure records are accurate.

Cheshire Pension Fund - Table of Administration Casework Limits

Case Type	Explanation	Casework Limit	Detail	Additional Information
Refunds	A member who has left employment but has not built up enough service to receive a pension and so they are due a refund.	£10	Payments below £10 are not refunded unless a request is received from the member	Where the member specifically requests the payment the value will be paid to them.
Preserved Refunds	As above except the Fund has been unable to make contact with the member to effect the payment	£25	Payments below £25 are not refunded unless a request is received from the member. Members with payments below £25 will not be included in any tracing exercises.	The member will be contacted initially as part of the refunds process but if they do not respond and the value is less than £25 they will not be chased a second time. Where the member specifically requests the payment the value will be paid to them.
Balance of pension payments on death	In the event of the death of a member during a month who is in receipt of their pension and were due an element of that months pension	£10	No payments are made if the value is below £10	
Deferred benefits into pay	A member who has left employment and has built up enough service to receive a pension which has been held by the Fund until the member is old enough to retire.	£10	No payment is made if the annual pension totals less than £10 per annum.	Where the member specifically requests the payment the value will be paid to them.

Recalculation of retirement benefits and deferred benefits	If pay details or date/reason for leaving is amended after benefits have been calculated then the benefits may be recalculated and adjusted.	£50	A pension recalculation will not be made if the value of final pensionable pay is less than £50.	
Overpayments of deceased pensioners pension payments	In the event of the death of a member during a month who is in receipt of their pension.	£250	The Fund will not recover an overpayment of pension for the month of death or if the overpayment is less than £250.	The Fund already has an overpayment policy confirming this limit which was approved by the Committee some years ago.

Local Pension Board

Date of report: 3rd July 2019

Report of: Jim Dean
Audit Manager

Internal Audit – Assessment of Internal Controls

1. Purpose of the paper

This paper provides a brief overview of Internal Audit and its approach to assessing Cheshire Pension Fund's internal control framework.

2. Introduction to Internal Audit

Internal Audit is an independent, objective assurance and consulting service designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The requirement for an Internal Audit function is implied by section 151 of the Local Government Act 1972, which requires authorities to "make arrangements for the proper administration of their financial affairs". Regulation 5 of the Accounts and Audit Regulations 2015, more specifically requires that "a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

The Internal Audit function for Cheshire Pension Fund is delivered by Cheshire West and Chester Council's Internal Audit team, headed by the Audit Manager. As providers of internal audit services to local authorities the team is required to comply with the Public Sector Internal Audit Standards (PSIAS) and accompanying Local Government Application Note. The PSIAS cover:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing

In accordance with PSIAS internal audit activity is defined in an internal audit charter that is consistent with the definition of internal audit, the code of ethics and the standards.

3. Assessment of Cheshire Pension Fund's internal control framework

The pension fund's internal control framework comprises the systems, arrangements and procedures in place to ensure compliance with the scheme regulations and to

protect the fund from any adverse risks. It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

Internal Audit review systems of internal control for the pension fund, on an agreed basis, as part of the delivery of its risk-based annual audit plan. In determining where to focus resource, Internal Audit reviews the Fund's risk register which highlights the key risks critical to the scheme and its members and uses intelligence gathered from discussions with senior management and External Audit (Grant Thornton) regarding the pension fund's risks, operations, systems and priorities for the year. The audit plan is developed in March each year but is flexible and can be adapted as new risks and issues emerge. The Pension Fund Manager is a member of the Council's Finance Management team and, as such, has direct access to the Audit Manager to raise any areas of concern or requests for support on an ongoing basis.

In addition, assurance is obtained on an annual basis through Internal Audit's reviews of Cheshire West and Chester Council's key financial systems which are also used by the Fund, in particular the payroll, accounts payable and accounts receivable systems.

4. Internal Audit reporting arrangements

For each audit terms of reference are prepared, discussed and agreed with relevant managers. The terms of reference establishes the objectives, scope and timing of the assignment and its resource and reporting requirements.

Audit work is allocated to staff with the appropriate skills, experience and competence and is subject to an appropriate internal quality review process to ensure that sufficient evidence has been obtained and recorded to support the opinion, conclusions, recommendations and action plans. On completion of the audit an opinion report is issued to management that includes:

- the engagement's objectives and scope;
- applicable findings, conclusions, recommendations and agreed management action plans; and
- an internal audit opinion on the control environment for the area under review that is based on the results of audit work and their significance.

During 2018/19, the CPF Implementation of General Data Protection Regulation (GDPR) audit was undertaken and the Internal Audit assessment was that key internal controls were generally in place but some fine tuning was needed to improve their effectiveness and ensure CPF's full compliance with GDPR. Following the issue of the final report, all agreed actions have now been completed and are considered implemented by Internal Audit.

Audit work delivered so far in 2019/20, currently in progress or scheduled for the remainder of the year, is as follows:

- Asset Pooling first transition review – Internal Audit was asked to give an opinion on the approval of a £250m investment in the LGPS Central Global Active Equity Fund. This work was completed in quarter 1;

- Guaranteed Minimum Pension (GMP) – CPF have requested that Internal Audit provide a sense check to the approach being taken to GMP. This work is scheduled to begin during quarter 2;
- Asset Pooling – work which began in 2018/19 is currently still ongoing and it is anticipated that this stage of the work will be completed during quarter 2. Cheshire West Internal Audit is part of a group of auditors from all pension funds that is collectively assessing the risks and controls of LGPS Central;
- Retirements – review to be carried out during quarter 3 and will include assessing the progress of relevant actions raised in the 2018/19 audit of the Council's Leavers processes.

Moving forwards, Internal Audit has agreed to provide support to Cheshire Pension Fund via a 5-year rolling programme of reviews of the Fund's key functions, beginning with the audit of Retirements referenced above. This audit will take place during quarter 3 of 2019/20 and is to be the first audit carried out under the rolling programme of review. The five areas which will be covered in future years are as follows:

- Retirements
- Deaths
- Transfers in / out
- Refunds
- Non-payment processes, such as AVCs

The order in which these reviews will be conducted, and the timing and scope of each, will be agreed between Internal Audit and Cheshire Pension Fund on a yearly basis, and may be subject to change as needed following discussions between the two parties.

For further information:

Officer: Jim Dean, Audit Manager

Tel No: 01244 972075

Email: jim.dean@cheshirewestandchester.gov.uk

THE PENSIONS REGULATORS CODE OF PRACTICE

Introduction

1. This report provides the board with an update on the funds progress in attaining full compliance with the pension's regulators code of practice number 14.
2. At the last meeting Board members were presented with a paper illustrating the funds progress resulting in the number of outstanding amber actions reducing from 27 (19%) to 21 (15%) out of the 141 requirements. This has raised the funds overall compliance level to 85% (up from 81%)
3. It was resolved at the last meeting in May that officers would develop and present a project plan at the 16 July meeting to address the remaining amber actions.

Update

4. Following our last meeting Officers reviewed the remaining amber actions and identified that, for some of the areas, once one action is completed it would resolve multiple amber actions for the Fund.
5. The table below provides an illustration of the remaining amber actions with details of the actions required.

Section	Topic	Remaining Amber Actions	Comment
A	Knowledge and Understanding	4	Completion of trustee toolkit and updating of the boards individual training records will complete two of the requirements. The updating of the joint training policy to reflect new committee members will resolve the remaining actions.
D	Internal Controls	5	The remaining amber actions are linked to the funds development of an internal control framework.
E	Scheme Record Keeping	9	The remaining amber actions can be resolved through the development of data retention policy which complies with GDPR and the introduction of a Data improvement plan
G	Providing information to members	3	The remaining amber actions can be resolved through the development of data retention policy which complies with GDPR and the introduction of a Data improvement plan

6. Work to develop and implement these actions has commenced but due to competing priorities there has been insufficient time to effectively develop and finalise them prior to the July meeting.
7. It is proposed that officers will continue to work on the remaining areas of compliance and provide a further update to the Board in October.
8. This will provide additional time for officers to develop and implement the required actions to progress to compliance.

Recommendation

The Board are requested to:

- **Agree the proposed reporting timescales for the next compliance update to be provided in October.**

DATA QUALITY

Introduction

1. This report provides the Board with the quarterly update on the TPR data quality scores.

Data Quality

2. Enclosed below is a table showing the data scores for common and scheme specific data for the last four quarters. As Board members will recall the Fund now produces data scores, based on the Pensions Regulators criteria, on a quarterly basis. These scores, along with an update on actions taken by the Fund to clear the queries, will be produced and presented to the Board on a quarterly basis.
3. The table below summarises the data scores as at 1 September and 1 December 2018, along with the 1 March and 1 June 2019.

	01-Sep-18	01-Dec-18	01-Mar-19	01-Jun-19
Common Data	98.1%	97.87%	97.72%	97.66%
Scheme Specific Data (SSD)	68.8%	68.76%	76.48%	77.87%

4. As the Board can see, the common data score is 97.66% and this equates to c2,350 data queries which the Fund needs to resolve. Examples of the data queries include missing addresses, National Insurance numbers and titles etc.
5. As Board members are aware, around 2,200 actually relate to members who ceased working for their employer, who is a member of the Fund, and so is due to refund of the contributions they made whilst they were an employee. In order to make the refund the member is required to complete a form to confirm that they do wish to receive the refund and to confirm their bank details.
6. For many of the 2,200 queries identified, the Fund may no longer hold the correct address for the members and so a task is being undertaken to write to all affected members to establish if the Fund holds the correct address and to see if the member can complete the necessary form in order to affect the refund.
7. For those members where the Fund does not have the correct address a member tracing company will be required and the Fund is exploring the possibility of appointing these services through an existing framework.
8. The Board will be kept informed of progress with this task.
9. The scheme specific data score for March is 77.87%. Board members will recall that, in the absence of any national guidance to confirm what is actually meant by the term Scheme Specific Data, the Fund introduced its own method of recording what it has termed 'foundation data'. That is, the basic data that is required in order to calculate a pension.
10. Over recent months the Scheme Advisory Board (SAB) have implemented a working party to develop a common data standard for Scheme Specific Data. The standard data set, if implemented, should mean that all Funds will be reporting on a common basis.

11. This may, however, have implications for the year on year comparison of the Fund's scores as for the 2018 Pensions Regulators Scheme Return the Fund simply measured the score based on its own approach to what it termed 'Foundation' data, which the Board approved.
12. The SAB should be issuing a draft of the data set to all Funds in the near future so that we can assess whether the data can be extracted from our administration database. The Fund will only be able to move to this approach if all of the data is held on data fields in the database and can be extracted and measured.
13. The Board will receive regular updates on the TPR data scores along with progress on developing the standard scheme specific data set.

Recommendation

The Board are requested to:

- **Note the Fund's data scores for June 2019.**
- **Note the SAB's approach to developing a standard data set for Scheme Specific data.**

COMPLIANCE UPDATE

Introduction

1. This paper provides the Board with a cumulative summary of the Breaches Log for the period 1 April 2015 to 31 March 2019.

Breaches Log

2. In accordance with the Breaches Policy, both the Board and the Pension Fund Committee review the Log on a quarterly basis, in order to identify any trends that may require further action.
3. A summary of the breaches included on the log between 1 April 2015 and the 31 March 2019 is shown in Table 1 below. The table includes the 12 month periods for 2015/16, 2016/17, 2017/18 and 2018/19. The table also includes the details of the number of breaches which have been categorised between Red, Amber or Green in each of the four years.
4. Red breaches are those which require reporting to the Pensions Regulator. Amber breaches are where the Fund has highlighted an issue with the Employer which requires further monitoring. Green breaches are those where following investigation, no further action is deemed necessary.

Table 1 – Summary of the Breaches Log

	Contributions	Year-End Returns	Overpayments	ABS	Administration	Total	Status		
							Red	Amber	Green
2015/16	43	5	4	1	1	54	0	2	52
2016/17	40	1	1	1	1	44	0	1	43
2017/18	60	0	0	0	26	86	1	3	82
2018/19	64	0	0	1	20	85	0	20	65
Sub-totals	207	6	5	3	48	269	1	26	242

5. As can be seen from Table 1, the majority of breaches on the log relate to late payment of contributions. The majority of these cases relate to Employers who have joined the Fund in year and are in the process of setting up their payment systems, and/or Employers who have small numbers of staff and so are easily affected by unexpected staff absences and so are not considered a major risk.
6. Aside from contributions, the Fund has also identified 20 breaches relating to administration casework during the year. These breaches relate to historic cases caught up in the Fund's backlogs which can only be identified once the case is completed. The breaches relate to cases where a member was not notified of their options within the requisite 2 months of the relevant trigger, as set out in regulations. Fund processes were changed in 2016 to ensure that the Fund complies with Regulations.
7. The remaining breach relates to late submission of Annual Benefit Statements (ABS) which the Board were briefed on previously.

Amber Breaches

8. All Amber breaches identified above relate to late payment of contributions.
9. Twelve out of the twenty Amber breaches, identified in Table 1, relate to the same Employer. In the third quarter of 2017/18 the Fund reported a Red breach for this Employer to the Pensions Regulator as they had failed to pay contributions since April 2017 and had not implemented an indemnity bond.
10. Members of the Board will recall that this Employer has one part time Employee and so the monetary value of the contributions due to the Fund are relatively small.
11. Invoices, totalling £500, for penalties regarding late payments and late receipt of contribution forms from this employer remain outstanding. These have been charged in line with the Funds contribution policy. A further invoice of c. £1,110 for outstanding contributions and late payment interest covering the period 1 July 2018 to 28 February 2019 is also outstanding. All invoices will be subject to the Council's debt collection procedures and should they continue to not be paid will be passed to an external debt collection agency. The Fund will continue to raise invoices quarterly to the Employer if monthly contribution payments fail to be made.
12. The Fund will continue to try and liaise with the Employer regarding the issues outlined above.
13. Seven amber breaches in 2018/19 relate to another Employer who had been experiencing difficulties in meeting contribution payments to the Fund. This employer has now paid all contributions due up to the end of March 2019.
14. An additional employer has been added to the breaches log this time as an amber breach for unpaid pension contributions for the period March 2018 to March 2019. This employer had not previously been reported on the log as they had not signed their Admission Agreement, therefore there was no contract in place with the Fund.
15. The employer has a contract to perform services for a school and therefore the three employees that were tupe d across to the employer have the right to remain in the Fund. The employer did make one payment to the Fund in respect to contribution for the period July 2017 to February 2018 totalling £2,857 in April 2018.

16. Legal advice is that although there is no formal contract in place due to the employer refusing to sign the admission agreement the fact that the employer has made a payment shows they have acknowledged their employer responsibilities.
17. Officers from the Fund are liaising with Legal and Human Resources representatives from the Council, the Employer and related parties to try and resolve this matter and also to look at procedures to ensure that this situation does not arise again. If the Employer continues to fail to make contribution payments they will be reported to the Regulator.

Recommendation

The Board are requested to:

- **Note and comment on the cumulative summary of the Breaches Log for 1 April 2015 to 31 March 2019.**

Standard Meetings			
February	May	July	October
<p>Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes</p> <p>Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Fund Compliance /Breaches Log</p>	<p>Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes</p> <p>Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Breaches Log</p>	<p>Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes</p> <p>Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Breaches Log</p>	<p>Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes</p> <p>Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Breaches Log</p>
<p>Draft Annual Report</p> <p>Review the TPR Data Scored and associated actions</p> <p>Review policies are kept up to date and produced in accordance with legislation and guidance</p> <p>Statutory Policies (FSS, ISS, Comms Policy, Admin Strategy Gov Policy and Breaches Policy)</p>	<p>Sign off Annual Report</p> <p>Review LPB Terms of Ref/ Conflicts of Interest Policy</p> <p>LPB Risk Register</p> <p>Review the progress made by the Fund including the detail of any ongoing actions</p>	<p>Review the TPR Data Scored and associated actions</p> <p>Review policies are kept up to date and produced in accordance with legislation and guidance</p> <p>Statutory Policies (FSS, ISS, Comms Policy, Admin Strategy Gov Policy and Breaches Policy)</p> <p>Review the process for IA in assessing internal controls of the fund and external audit process for reviewing the Accounts and Annual Report</p>	<p>LPB Risk Register</p> <p>Review the progress made by the Fund including the detail of any ongoing actions</p>