

MINUTES OF PENSION FUND COMMITTEE HELD ON 1 DECEMBER 2023**Present in Person**

Cheshire West and Chester: Cllrs Hogg (Chair), Gould and Neil
Cheshire East: Cllrs Bailey and Gorman
Halton: Cllr Dennett
Member Representative: Neil Harvey, GMB

Apologies

Cheshire West and Chester: Cllr Rimmer
Cheshire East: Cllrs Corcoran and Snowball
Warrington: Cllr Mitchell
CW&C Officer: Simon Riley

In Attendance

External Auditor: Grant Thornton – John Farrar
Advisor: Hymans – Gemma Sefton
Mercer – Chris West and Rob Edwards
Aon – Paul McGlone, Mary Lambe and Byron Lloyd-Jones
(Item 15)
CW&C Officers: Steve Wilcock, Heidi Catherall, Nick Jones, Claire Jones,
Aaron Thomas and Debbie Darlington.

PART A:**1. PROCEDURAL MATTERS**

- 1.1 Councillor Dennett declared an interest under Item 7 as an employee of an employer who may be impacted by the proposed changes to the Funding Strategy Statement. This was noted with no further action required at present.
- 1.2 Apologies were received from Councillors Rimmer, Corcoran, Snowball and Mitchell, along with Simon Riley.

2. MINUTES OF MEETINGS

- 2.1 The minutes of the Pension Fund Committee held on 8 September 2023 were reviewed, having previously been distributed and agreed by email.
- 2.2 John Farrar provided an update on the audit of the 2022/23 Statement of Accounts. The audit is virtually complete, and the Audit Findings Report will be presented to Audit and Governance Committee in the new year.
- 2.3 The Pension Fund accounts will be signed off and the audit opinion issued once the Council accounts audit is finalised.
- 2.4 The Committee noted the minutes from the Local Pension Board meeting which took place on 17 October 2023 and the Pensions Employer Forum which took place on 10 November 2023.

3 STANDING ITEMS

Compliance Update

- 3.1 The Committee received the Compliance Update including a summary of the breaches log for the period to 30 September 2023. Thirty-two breaches occurred in the period and twenty-seven required no further action following investigation.
- 3.2 Four breaches, relating to one employer, have been classed as amber and relate to late payment of contributions income. The Fund has written to the employer and issued an invoice for the outstanding contributions. This breach may need to be reported to The Pensions Regulator if the employer does not pay the contributions income.
- 3.3 The Committee noted that the Fund had reported a red breach to the Pensions Regulator relating to the Annual Benefit Statements.

The Committee: noted the cumulative Breaches Log for the period to 30 September 2023 and noted the position on the amber and red breaches.

Business Plan Update

- 3.4 The Committee were presented with the performance dashboard, outlining progress in achieving the planned actions for quarter three.
- 3.5 The Committee were also presented with the forecast outturn. Further items of significant expenditure relating to national pensions developments are yet to be included in the outturn.

The Committee:

- a) Noted the progress on the performance dashboard for quarter 3.
- b) Noted the forecast outturn for 2023/24.

Regulatory Update

- 3.6 The Committee received an update outlining an overview of regulatory changes which will impact the Local Government Pension Scheme.

The Committee: noted the position.

Electronic Decision Notices

- 3.7 The Committee noted that no Electronic Decision Notices had been issued since the last meeting.

4 MCCLLOUD REMEDY

- 4.1 The Committee received a report providing an update on the McCloud remedy and the Fund's plan to develop a rectification plan now that the regulations have come into force from 1 October 2023.
- 4.2 The Committee were advised that the Fund is continuing to collect the necessary data from employers, IT development remains work in progress and several aspects of the remedy are not yet available and will require further consultation.
- 4.3 The Fund has identified 27,500 members who are in scope of the remedy, although the majority of these will not require any rectification.
- 4.4 The Fund will continue to work on the McCloud remedy where it can and will develop an initial rectification plan, however, the plan cannot be fully developed until full guidance is received.
- 4.5 The Fund had informed employers and members about the changes brought about by the McCloud remedy and further information is available on the website.
- 4.6 Members were advised about the impact McCloud would have on staff capacity and service levels and that the Fund would keep resources under review.

The Committee: noted the position on the McCloud remedy and the Fund's plans for rectification.

5 PENSIONS DASHBOARDS PROGRAMME

- 5.1 The Committee received an update on the Pensions Dashboards Programme and the Fund's progress in preparing for its implementation.
- 5.2 The Committee noted that the Fund's staging deadline had been confirmed as September 2025.
- 5.3 The Fund is working with colleagues from procurement and legal to appoint an Integrated Service Provider (ISP). If the appointment of the ISP can be resolved before the next Committee in March officers will issue an Electronic Decision Note to obtain the Committee's endorsement.
- 5.4 Once the ISP is appointed the Fund will be able to develop a project plan.

The Committee: noted the position on the Fund's preparation for the pensions dashboards programme.

6 RISK MANAGEMENT POLICY

- 6.1 The Committee received a report proposing endorsement of the Fund's new Risk Management Policy.

- 6.2 An outline was provided of the regulatory background to the item, the structure of the Policy, the standard cyclical approach to risk management put forward, and the different levels of Fund activity which will be subject to this common methodology.
- 6.3 The importance of balancing the cost of risk management activities with the potential impacts of risks should they occur, and not attempting to eliminate all risks, was noted.

The Committee: endorsed the risk management policy.

7 FUNDING STRATEGY STATEMENT

- 7.1 The Committee were presented with a paper proposing a few minor amendments to the Funding Strategy Statement, all relating to the Fund's approach when employers exit the LGPS.

The Committee:

- a) Endorsed the amendments to the Funding Strategy Statement.
- b) Endorsed that officers conduct a limited consultation, restricted to employers that may be affected by the amendments.

8 FUTURE MEETING DATES

- 8.1 The Committee were presented with draft meeting dates for the 2024/25 year. These dates will be confirmed once the Councils publish their calendars of meetings in the spring and they have been checked for potential clashes.
- 8.2 The Committee were invited to consider the approach to future meetings and agree dates for specific meetings which will take place in person. The current format of one in person meeting per year for the Committee (in September) and one for the Joint Training sessions (in July) was reconfirmed.
- 8.3 Members also agreed that the use of hybrid meetings could be accommodated where appropriate.

The Committee:

- a) Noted the proposed future meeting dates and,
- b) Agreed the dates for in person meetings for the Pension Fund Committee and Joint Committee and Board training meetings,
- c) Agreed to accommodate hybrid meetings where appropriate.

9 ANY OTHER BUSINESS

- 9.1 No items were raised.
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PART B**The Committee resolved that:**

The details of the following items remain confidential on the grounds they/it involve 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. A non-confidential summary of the items discussed is provided for information.

10 PROCEDURAL MATTERS

10.1 The Committee noted the minutes from the Investment Sub-Committee meeting on 17 November 2023 which had been circulated via email.

11 EMPLOYER CHANGES AND ACTIVITY

11.1 The Committee received a report detailing changes on employers that joined or exited the Fund during the period 1 September 2023 to 30 November 2023 (inclusive). Section 2 of the paper provided more detail on recent employer activity in the Cheshire Pension Fund and a forecast of employers able or seeking to exit the Local Government Pension Scheme (LGPS).

11.2 The Committee also received a verbal commentary on the Fund's experiences of and approaches to dealing with exiting employers.

The Committee: noted the position as set out in the report and the update on employers who entered or exited the Fund in the reporting period.

12 INVESTMENT PORTFOLIO – RESIDENTIAL PROPERTY

12.1 The Committee received a report to endorse a new allocation to the LGPS Central Residential Property fund, funded from a corresponding reduction from elsewhere within the Fund's existing asset allocation.

12.2 The 2.5% allocation to the Residential Property fund equates to approximately £150m and will sit within the Fund's illiquid alternatives portfolio. The investment will be phased over a three-year period.

12.3 The report provided a summary of the key specifications within the Residential Property fund business case along with the revised strategic asset allocation, initially for the Fund's Open employer group, subject to the outcomes of a review of the investment objectives and strategy of the Academies group of employers.

12.4 Members raised the importance of providing energy efficient housing and were advised that energy efficiency would be a key deliverable for the fund, with properties in the fund complying with the required energy efficiency standards.

The Committee:

- a) Endorsed the commitment of £150m to the LGPS Central UK Residential Property Fund, to be phased over a three-year period;
- b) Endorsed the 2.5% allocation to the Residential Property Fund within the Fund's strategic asset allocation, funded from the corresponding reduction set out in the report.

13 CLIMATE CHANGE TARGETS

- 13.1 The Committee received a report seeking endorsement of the Fund's proposed climate change targets for 2024 onwards, and their inclusion in the Fund's forthcoming updated Climate Change Strategy.
- 13.2 The report set out the key factors that had been considered in determining the most appropriate targets, having considered a number of Net Zero initiatives, frameworks and associated guidance.
- 13.3 In addition to the three climate change targets included for endorsement, the Committee were also asked to consider whether they wished to include an additional target to invest an increasing percentage of total Fund assets into sustainable, renewable or low carbon assets.
- 13.4 Following a question around the level of current Fund assets that could not practicably be converted to such assets, it was agreed that officers would provide further information to the Committee to determine whether to include this additional target. Once resolved, the updated Responsible Investment Policy and Climate Change Strategy will be presented for Committee endorsement at the next Pension Fund Committee in March 2024.
- 13.5 The report also included an update on the delivery of the Fund's current climate change targets. As all targets have been achieved, the Committee requested that this achievement was publicised on the Fund's website.

The Committee:

- a) Noted the contents of the report;
- b) Endorsed the proposed new climate change targets for inclusion in the Fund's forthcoming updated Climate Change Strategy.

14 LGPS CENTRAL POOLING UPDATE

- 14.1 The report provided the latest update to the Committee on progress to date in delivering pooling. It summarised the main activity since the previous update to Committee in December 2022.
- 14.2 The Fund has invested 28% of its assets into pooled funds as at 30 September 2022, this will rise to 36% when private market commitments already made (to

infrastructure, private equity and private debt) are drawn upon. Once collectively procured passive LGIM holdings are included, the % of assets pooled rises again to 65%. Further significant asset transitions will be considered over the next two financial years.

- 14.3 The report summarised Fund assets not yet pooled and the Fund's approach to these and noted that some investments, such as close ended private equity funds, will take many years to unwind.
- 14.4 As requested by Committee, the report included a snapshot of Fund's costs and savings experienced to date in relation to pooling. The report described the different sources of costs and savings and that some costs are front loaded. The position to date is consistent with the forecast pooling savings for the Fund previously reported, acknowledging that this forecast is based on several key assumptions.
- 14.5 The latest investment performance of the pooled funds that the Cheshire Pension Fund invests in was reported, as at 30 September 2023 and the importance of investment performance in delivering net savings from pooling was noted. The latest meeting of the LGPS Central Joint Committee on 21 July 2023, chaired by Councillor Hogg, was summarised.
- 14.6 Officers also provided a verbal update on the Government's response to the LGPS investment pooling consultation, which was released on 22 November 2022. The response confirmed that the Government intended to proceed with all of its consultation proposals, including a March 2025 deadline for all LGPS to pool all listed assets; this was to be reported on a 'comply or explain basis'.
- 14.7 Regular reports on pooling related costs and savings for the Fund will be presented to Committee, typically on an annual basis.

The Committee: noted the position as set out in the report.

15 CYBER RISK UPDATE

- 15.1 The Committee received a report providing updates on i) the outcome of a review by Aon into the cyber risk management arrangements of one of the Fund's key service providers, ii) an update on the key actions highlighted in our September report, and iii) a proposed new Fund Cyber Risk Strategy. This item was supported by attendees from Aon, the Fund's external cyber risk partners.
- 15.2 The findings resulting from the review of one of the Fund's main service providers concluded they offered a 'mature' level of cyber security, with a number of recommendations for improvement put forward for consideration.
- 15.3 Positive progress was reported on each of the key actions highlighted in the previous September 2023 report to the Committee on this subject, including provision of cyber risk management training and guidance to all Fund officers, and continued progress on development of a Cyber Incident Response Plan.

15.4 The Cyber Risk Strategy has been developed with support from Aon. The report described the structure of the strategy and summarised the key measures to be taken to deliver it.

15.5 Aon's report into the Administering Authority's ICT cyber risk management arrangements will be brought to a future meeting of the Committee, along with an action plan setting out all proposed cyber risk related actions to be taken during 2024/25.

The Committee:

- a) Noted the findings and recommendations arising from the independent review of one of the Fund's key service providers;
- b) Noted ongoing progress in the completion of the overall cyber risk and vulnerability review, and agreement of an action plan; and
- c) Reviewed and endorsed the Fund's new Cyber Risk Strategy.

16 ANY OTHER BUSINESS

16.1 No matters were raised.

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