

**BOARD : LOCAL PENSIONS BOARD**  
**DATE : 16 February 2021**  
**TIME : 10am**  
**VENUE : Virtual meeting using Microsoft Teams**

**LOCAL PENSION BOARD MEETING**  
**10.00 – 12.30**  
**AGENDA**

**PART A**

**1. PROCEDURAL MATTERS - (3-12)**

The Board will:

- a) Receive the minutes of the meetings on 27 October 2020
- b) Review the Actions Tracker
- c) Consider any Declarations of interest

**2. REVIEW OF PENSION FUND COMMITTEE MINUTES - (13-26)**

To receive the minutes from the Pension Fund Committee meeting which took place on the 4 December 2020 and the Investment Sub-Committee minutes from 13 November 2020.

**3. PENSIONS PROGRAMME UPDATE - (27-30)**

The Board will receive a verbal update on progress with the Funds transformation project.

**4. UPDATE FROM THE SCHEME ADVISORY BOARD - (31-36)**

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

Committee	Meeting Dates
Scheme Advisory Board	2 Nov 2020
Investment, Governance and Engagement Sub-Committee	12 Oct 2020

**5. PERFORMANCE MANAGEMENT FRAMEWORK QUARTER 3 – 2020/21 - (37-38)**

The Board will receive the Performance Management Framework covering the period 1 October to 31 December 2020 (along with the quarter 2 comparator – 1 July to 30 September 2020).

**6. POOLING - (39-46)**

The Board will receive an update on progress with the investment pooling agenda.

**7. EXIT CAP £95k - (47-60)**

The Board will receive an update on the interim approach to managing the exit cap.



**8. DATA QUALITY - (61-64)**

The Board will be presented with updated data scores for common and scheme specific data along with details of actions the Fund has undertaken to improve the quality of data held.

**9. LOCAL PENSION BOARD ANNUAL REPORT AND OUTTURN 2020/21 - (65-80)**

The Board will receive the forecast outturn against the Local Pension Board Budget and will discuss the content to be included in the 2020/21 Annual Report.

**10. COMPLIANCE UPDATE - (81-84)**

The paper also provides a summary of the Breaches Log for the period 1 April to 30 September 2020.

**11. FEEDBACK FROM EVENTS - (Verbal)**

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

- Pensions Consultative Forum – 16 October 2020
- LGPS Central – LPB Chairs Meeting – 26 October 2020
- Joint Board and Committee Training – 30 October 2020

**12. REVIEW AND DEVELOP THE WORK PLAN - (85-86)**

The Board will review the plan.

**13. AOB**

To note the next Board meeting will take place on 4 May 2021.

Dates for future meetings are:

- 1 June 2021 – to review the draft Statement of Accounts and Annual Report
- 13 July 2021
- 5 October 2021



## MINUTES OF LOCAL PENSION BOARD – 27 OCTOBER 2020

### PRESENT

**Board Members:** Peter Raynes (Chair),  
Cllr Robert Bisset (Employer representative, CW&C),  
Geoff Wright (Member representative, Unison),  
Neil Harvey (Member representative, GMB)  
Adrienne Laing (Employer representative, The Challenge  
Academy Trust)

**CW&C Officers:** Maggie Sheppard, Heidi Catherall, Aaron Austin and Dan Harte

### 1. PROCEDURAL MATTERS

- 1.1 This Local Pension Board meeting was again held virtually due to the coronavirus pandemic.
- 1.2 No declarations of interest were received.
- 1.3 The Board reviewed the minutes from the last meeting on 14 July having previously approved them by email.
- 1.4 At the last meeting Board members discussed whether there was an opportunity to invite interested parties to observe future meetings with a view to joining when a vacancy arises. If any such candidates are identified they will be invited to observe future meetings.
- 1.5 The action tracker was reviewed, and it was noted that
  - progress has been made on completing the Pensions Regulator's Trustee Toolkit. Certificates for completed modules will be sent to officers to be added to Board members' training records.
  - The Board's request for training on cyber security has been arranged as part of the joint Committee and Board training session on 30 October.
  - The Board risk register had been updated to acknowledge a risk to the effectiveness of the Board while working remotely. A note has been added to the register for the Board to keep effectiveness under review.
- 1.6 At the next meeting in February, Board members will consider the actions they have taken to assist the administering authority in the year, which will be included in the Board's annual report.



## **2. REVIEW OF PENSION FUND AND INVESTMENT SUB COMMITTEE MINUTES**

- 2.1 The Board reviewed the minutes from the Pension Fund Committee meeting held on 11 September 2020 and noted that the Fund had commissioned a Climate Risk Report which complies with the Taskforce on Climate Related Financial Disclosures (TCFD). The report has subsequently been published on the Fund's website. The Board also noted that the Fund was undertaking a procurement exercise for its administration database and had endorsed an extension to the investment consultancy contract.
- 2.2 The Board also reviewed the minutes from the Investment Sub Committee held on 4 September 2020. Board members noted the summary from the cashflow report and would welcome further commentary in the sub-committee minutes on cashflow performance rather than just the cash balance. Officers confirmed that this information was contained in the report which was presented to the Committee and would amend future minutes to make the position clearer.

**RESOLVED that the Board:** Noted the minutes of the Pension Fund Committee and Investment Sub Committee meetings.

## **3. NEW PENSIONS PROGRAMME**

- 3.1 The Board received an update on the new pension change programme which has taken over from Project Chrysalis.
- 3.2 The Fund has taken stock of progress with the existing transformation project and identified the key priorities it wishes to achieve over the next 12-18 months. These covered a range of key issues to be addressed across the service as a whole.
- 3.3 A new project manager has been appointed and is working with the Fund to develop clear plans, project governance and milestone reporting throughout the next 18 months. Board members will receive regular updates on progress with the programme of work.
- 3.4 Board members were supportive of the project and expressed their view that adequate resources should be made available in order to make the set goals achievable. Officers confirmed that resource planning is a key area of the programme planning.
- 3.5 A governance structure is also being developed for the programme of work in order to assess progress within the Fund on a regular basis. It is from this governance structure that a regular report will be developed for the Board.

## **4. UPDATE FROM THE SCHEME ADVISORY BOARD**

- 4.1 The Board reviewed the minutes of the SAB meeting on the 25 August, the Cost Management, Benefit Design and Administration (CMBD&A) Sub-Committee meeting



of 5 October and the Investment, Governance and Engagement Sub-Committee on 13 July.

- 4.2 Board received an update on the latest position with the Good Governance project. Earlier this year the SAB implementation group were due to present a paper on how the recommendations from the phase 2 report should be implemented but this was delayed due to the pandemic. Some of the recommendations are due to be presented to the SAB at their meeting on 2 November. This includes details of the proposed new KPIs for Funds to follow, the role of the LGPS Senior Officer and a draft of the new governance compliance statement.
- 4.3 Following the SAB meeting on 2 November the project will be delegated to the CMBD sub-committee to progress so that final recommendations can be submitted to SAB in February, to be implemented in 2021/22.

## **5. PERFORMANCE MANAGEMENT FRAMEWORK Qtr 2 – 2020/21**

- 5.1 The Board reviewed the Performance Management Framework (PMF) for quarter 2 (July to September 2020), which contained updates on key areas of performance and comparator information from previous quarters.
- 5.2 Board members discussed the inclusion of information on progress with the investment pooling agenda including the transition of assets, governance and responsible investing. Officers will develop a report to be presented at the next Board meeting in February.
- 5.3 Board members noted the red rating on administration casework with backlogs exceeding 10% of membership. As previously explained, this is likely to continue in the medium term whilst the pension team implement the developments outlined in the new pensions programme and manage the impact of Covid-19.
- 5.4 The Board also noted the red rating on aged debt. This relates to ill health retirement payments from employers. There are no concerns about the ability to recover outstanding debt to the pension fund.
- 5.5 The Board received four direct submissions from members during the quarter via the link on the Board section of the website, covering Investments, ESG principles and the Cheshire Chat Pensioner survey. The Board responded to all enquiries.

**RESOLVED that the Board:** Officers will develop a report on the position with pooling and present it to the next Board meeting in February.

## **6. THE MCCLOUD JUDGEMENT/REMEDY**

- 6.1 The Board received a report which outlined the regulatory changes set out in the Ministry for Housing, Communities and Local Government (MHCLG) consultation on implementing the McCloud judgement remedy.



- 6.2 The Pension Fund response to the consultation was endorsed by the Committee via the established electronic decision notice process and Board members received a copy of the response prior to it being issued to MHCLG.
- 6.3 Officers explained the proposed regulatory changes and provided an initial assessment of the Fund members in scope of the proposed remedy. The report highlighted the significant impact upon workload across all areas of the Fund, particularly administration and communication.
- 6.4 Although a large number of members are in scope of the remedy the actual number of members whose benefits will be affected is expected to be low, and for those members affected any increase in benefit is expected to be modest. This is a key issue that must be communicated clearly to manage expectations of members.
- 6.5 The Fund is developing a project plan to manage this complex, multi-faceted project.
- 6.6 The Board will monitor the Fund's progress in meeting the McCloud project plan and will report any issues or recommendations to the Pension Fund Committee.
- 6.5 Board members recognised the complexities of the proposed remedy and the need to communicate these clearly to scheme members. PR suggested that the Fund include scenarios within any guidance to assist members in understanding any impact.

**RESOLVED that the Board** will receive regular updated on progress with the McCloud project plan and will highlight any issues or recommendations to the Pension Fund Committee.

## **7. EXIT CAP £95k AND FURTHER REFORM**

- 7.1 The Board received a report which outlined two regulatory changes changing the benefits that members can receive when leaving on redundancy or efficiency of the service grounds where an exit cost is incurred by their employer. These are
- The Restriction of Public Sector Exit Payment Regulations 2020 introduced by HM Treasury. These limit public sector exit payments to a maximum of £95k. The definition of exit payments includes statutory and discretionary redundancy and pension strain costs.
  - A consultation from MHCLG on Reforming Local Government Exit Pay which closes on 9 November.
- 7.2 The report detailed the changes coming into force or proposed. The Restriction of Public Sector Exit Payment Regulations 2020 come into effect from 4 November 2020. However, the LGPS regulations will not have been updated at that point as the proposed changes are still subject to consultation.



- 7.3 This creates a significant problem for LGPS funds, employers and scheme members as the Exit Payment Regulations are at odds with LGPS Regulations. Additional guidance is being provided by both MHCLG and SAB but uncertainty remains.
- 7.4 The Fund will work with colleagues in legal, and from other funds, to establish a way forward with any redundancy cases from 4 November and until the LGPS regulations have been amended.

## 8. DATA QUALITY

- 8.1 The Board received the updated TPR Data Scores produced as at 25 September 2020, which will be used to complete the TPR Scheme Return for 2020.
- 8.2 The scores for 2020 were provided alongside the scores submitted for the previous two years and Board members noted the scores had remained consistent to the previous year.

	TPR Scheme Return		
	1-Sep-18	1-Sep-19	25-Sep-20
Common Data	98.10%	98.07%	98.73%
Scheme Specific Data	68.80%	74.18%	74.01%

- 8.3 The Fund has submitted the data scores using the local foundation report.
- 8.4 The Board are aware that the Fund has been working with its database provider to move to the new measurement report which will provide the scores from directly within the database. The Fund is still working through some data anomalies identified in the new report and so will look to move to the new report from next year.
- 8.5 Board members also received an update on the Fund's progress in issuing Annual Benefit Statements (ABS) to active members by the 31 August deadline. The Board noted that due to the considerable data cleansing work that the Fund had carried out in the past year the number of ABS that could be issued on time met the target of 90% of active members (from 85% last year).
- 8.6 Board members recognised this achievement and requested that their thanks be passed on to all staff members involved in this important work.
- 8.7 In line with regulations the Fund has reported itself to the Pensions Regulator as the requirement is to provide an ABS to 100% of members. The Fund has developed a plan to provide ABS to all members by the end of November.
- 8.8 In the meantime, employees who did not receive their ABS have received a letter confirming the position and explaining that they should receive their ABS by the end of November.



## 9. COMPLIANCE UPDATE

- 9.1 The Board were presented with a summary of the breaches log for the period 1 April to 30 June 2020, noting that 45 breaches had been logged over the period.
- 9.2 Board members noted the actions the Fund is taking in dealing with a small number of employers who have failed to pay their contributions on time.

**RESOLVED that:** Board members noted the summary breaches log covering the period 1 April to 30 June 2020.

## 10. FEEDBACK FROM EVENTS

- 10.1 Members of the Board and officers provided feedback from the various events they had attended.
- Joint Board and Committee Training – 17 July 2020
  - CIPFA McCloud Implementation Workshop – 19 August 2020
  - Institute of Business Ethics Supporter Forum – 7 October 2020
  - CIPFA/Barnett Waddingham LPB Seminar – 1 October 2020
  - Pensions Consultative Forum – 16 October 2020
  - LGPS Central Local Pension Board Chairs – 26 October 2020
- 10.2 The joint Committee and Board training on 17 July covered one of the combined training requirements as identified in the training plan which was on procurement and relationship management. The training also provided an overview of the findings from the Funds climate risk report. This was attended by PR, GW and NH.
- 10.3 The McCloud workshop on 19 August provided a useful overview of the changes proposed by the remedy which was attended by AL.
- 10.4 PR attended the IBE event which explored ethics in public life marking 25 years since the Nolan report. PR also completed a survey for IBE on the subject of how the ethics of businesses may be judged.
- 10.5 PR also attended the CIPFA/BW event on 1 October where there was a discussion around cyber security. PR had fed back the questions that the Board would like answered and they will be covered in the joint training event on 30 October.
- 10.6 PR chaired the Pensions Consultative Forum which covered a variety of topics including the Funds new pensions programme, McCloud and Exit Payment changes. PR noted that there were now more than half of the Funds employers who had moved onto Monthly Interfacing.
- 10.7 The LGPS Central LPB Chairs also met on 26 October and PR fed back some of the points covered by Bob Holloway of SAB. A training session has been arranged for all



board members of LGPS Central Funds. Officers will circulate the invitation to all Board members.

**RESOLVED that:**

- Board members will circulate copies of event slides to share knowledge.
- Officers will circulate the invitation to the SAB training on 22 February 2021.

**11. REVIEW OF THE WORK PLAN for 2020/21**

11.1 The Board reviewed the work plan for 2020-21.

11.2 The Board noted that they had not reviewed their Terms of Reference or Conflict of Interest policy this year as they were awaiting the outcome of the SAB Good Governance review which may inform any changes required. Considering the timetable for the Good Governance review the policy reviews will be planned for the May 2021 meeting.

11.3 Other actions to be added onto the workplan include monitoring the new pensions programme, progress on the McCloud remedy and the exit payment regulatory changes. The report on progress with pooling will be added into the plan for February.

11.4 Board members also noted that the Pensions Regulator was due to issue their new combined Code of Practice, likely in the new year. There are also updates to the CIPFA Knowledge and Skills frameworks expected in 2021. Once both documents are available a special meeting will be arranged so that the Board can work through the detail.

**RESOLVED that:** Officers will update the workplan to capture the actions outlined above.

**12. AOB**

12.1 The next Board meeting will take place on: 2 February 2021

12.2 Future meetings dates are as follows:

- 4 May 2021
- 1 June 2021 – to review the draft Statement of Accounts and Annual Report
- 13 July 2021
- 6 October 2021



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**Cheshire Local Pension Board – Actions Tracker**
**February 2021**

Date	Item Raised Under	Topic	Action	Update from 16 February 2021
16/02/21	Item 11 – 27 October 2020	Terms of Reference and Conflict of Interest Policy Reviews	The Board had not reviewed their Terms of Reference or Conflict of Interest policy during 2020/21 as they were awaiting the outcome of the SAB Good Governance review which may inform any changes required.	Outcomes from the Good Governance review are expected in the spring of 2021. The policies will be reviewed by the Board at the May meeting.
16/02/21	Item 11 – 27 October 2020	The Pensions Regulator – Combined Codes of Practice	Board members noted that the Pensions Regulator was due to issue their new combined Code of Practice, likely in the new year. Once available a special meeting will be arranged so that the Board can work through the detail.	A special meeting will be arranged to work through the Combined CoP once available.
16/02/21	Item 11 – 27 October 2020	CIPFA – Knowledge and Skills Guidance	Board members also noted that CIPFA will be updating their Knowledge and Skills frameworks which are expected in 2021. Once available a special meeting will be arranged so that the Board can work through the detail.	A special meeting will be arranged to work through the K&S Framework once it is available.



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**MINUTES OF PENSION FUND COMMITTEE HELD ON 4 DECEMBER 2020****Present**

Cheshire West and Chester: Cllrs Hogg (Chair), Gould, Lewis and Tonge  
Cheshire East: Cllrs Bulman, Corcoran, Findlow and Stott  
Halton: Cllr Wharton  
Warrington: Cllr Mitchell  
Member Representative: Paul Matthews, GMB

**In Attendance**

Actuary: Hymans Robertson - Gemma Sefton  
Investment Advisor: Mercer – Joanne Holden, Chris West  
External Auditor: Grant Thornton – John Farrar  
CW&C Officers: Mark Wynn, Maggie Sheppard, Heidi Catherall, Nick Jones,  
Steve Wilcock, Debbie Darlington

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**PART A:****1. PROCEDURAL MATTERS**

- 1.1 Declarations of Interest – Councillor Gould declared an interest as a Governor of the Cheshire and Wirral Partnership who also have Grant Thornton as their external auditor.
- 1.2 There were no apologies.

**2. MINUTES OF MEETINGS**

- 2.1 The minutes of the Pension Fund Committee held on 11 September 2020 were reviewed, having previously been distributed and agreed by email. The Minutes of the Local Pension Board held on 27 October 2020 were also reviewed.

**3. STANDING ITEMS**

- 3.1 The Committee received a report detailing employers who had joined or exited the Fund over the period 1 September to 30 November 2020 (inclusive).

**The Committee** noted the changes to employers during the reporting period

- 3.2 The Committee received the Compliance Update including a summary of the breaches log 1 April to 30 September 2020. Sixty breaches occurred in the period, 59 of which required no further action following investigation. Committee noted the Fund had achieved its business plan target of sending Annual Benefit Statements to 90% of its members. However this didn't meet the 100% target set by LGPS Regulations, and a breach report had been submitted. The Fund is working through the remaining records to ensure that all eligible members can receive their statement.



**The Committee** noted the cumulative Breaches Log for 1 April to 30 September 2020 and actions taken.

- 3.3 The Committee were presented with the Action Plan performance dashboard summarising progress on actions due in quarter three. Twenty-three actions were due for completion, of these two were amber and thirteen were green. A further eight actions (highlighted in blue) were proposed to be moved into the Business Plan for 2021-22, as external dependencies mean they cannot be achieved this year.
- 3.4 Members also received an updated forecast outturn for 2020-21. Committee noted that budgeted contingency funding was underspent, reflecting delays in several projects, such as McCloud implementation, largely due to the impact of the Covid 19 pandemic. Resource requirements will be reviewed and built into the budget for 2021-22 to be presented in due course. Committee also received an update on the calculation of the Fund's contribution to LGPS Central running costs.

**The Committee** noted progress in delivering the Action Plan and the forecast outturn position.

- 3.5 Officers updated verbally that there had been no regulatory developments on McCloud since the report in September, further updates are expected in spring 2021. On 2 December, after the Agenda was published, Scheme Advisory Board launched a consultation on Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements. The consultation runs until 9 January and officers will prepare a Fund response.

#### **4. EXIT CAP AND FURTHER EXIT PAY REFORM**

- 4.1 The report considered the implications for the Fund flowing from the Restriction of Public Sector Exit Payment Regulations 2020 and the linked consultation by the Ministry for Housing, Communities and Local Government (MHCLG) on Reforming Local Government Exit Pay and subsequent amending LGPS regulations.
- 4.2 The report summarised the changes introduced by the Restriction of Public Sector Exit Payment Regulations 2020 (the Exit Cap Regulations) which limit public sector exit payments to £95,000 from 4 November 2020 and noted that public sector pension scheme regulations must be amended to incorporate the exit cap.
- 4.3 MHCLG is consulting on incorporating the exit cap into the LGPS, but has also set out more wide-ranging proposals which, if implemented, will affect all exits on redundancy or business efficiency for those aged 55 or over. The Fund's response to the MHCLG policy consultation was included at Appendix A to the report. It was noted that MHCLG is also consulting on amending the LGPS regulations to incorporate its proposals. That consultation runs until 8 December 2020.
- 4.4 Committee noted that whilst the Exit Cap Regulations are in force, the LGPS regulations have not been amended and are unlikely to be amended until early 2021. This means the Exit Cap Regulations and the LGPS Regulations are in conflict



in situations where an employee, aged 55 or over, is leaving on redundancy, is entitled to an unreduced pension, but where total exit payments are more than the exit cap of £95,000.

- 4.5 Given the legal uncertainty, the LGPS Scheme Advisory Board (SAB), having taken legal advice, has provided briefing for administering authorities on how to proceed until such time as the regulatory conflict has been resolved. A copy of the SAB briefing (including a link to their legal advice) was also appended to the report.
- 4.6 The SAB view is that, in circumstances when a scheme member, aged 55 or over, would, apart from the bringing into force of the Exit Cap Regulations, qualify for an immediate unreduced pension under the LGPS Regulations and the total exit payments relating to that employee exceed the exit cap, the course of action presenting the least risk to both the LGPS administering authorities and scheme employers is for:-
- a) the LGPS administering authority to offer the member the opportunity to take a deferred benefit or a fully actuarially reduced pension, and
  - b) the Scheme employer to delay the payment of a cash alternative under the Exit Cap Regulations
- 4.7 MHCLG have advised that local factors used to calculate pension strain costs for funding purposes should not be used to calculate strain costs under the exit cap. With assistance from Hymans Robertson, the Fund's actuary, a new calculation tool would be adopted to calculate pension strain costs for all exits on the grounds of redundancy, business efficiency or waiver of pension reductions using the national factors produced by the Government Actuaries Department.
- 4.8 The report set out the Fund's proposed interim approach to the release of certain pension benefits on redundancy or efficiency, pending resolution of the regulatory conflict. The proposed interim approach reflects the course of action set out in the SAB briefing and is informed by the Fund's own legal and actuarial advice.
- 4.9 Following discussion and questioning, Committee acknowledged the difficult position created by the regulatory conflict and hence the need for the proposed interim approach.

**The Committee:**

- a) Noted the Restriction of Exit Payment Regulations are now in force;
- b) Noted the consultation on Further Reform of Exit Pay in Local Government, and;
- c) Endorsed the interim approach to release of pension benefits for employers in scope of the exit payment cap.

**NB:** Councillors Corcoran and Gould left the meeting



## 5. LGPS CENTRAL POOLING – PROGRESS UPDATE

- 5.1 The Committee received a further report on progress towards delivering investment pooling.
- 5.2 The biennial meeting of the LGPS Joint Committee was held on 20 November 2020. The LGPS Central Joint Committee is a public forum for the Councils within the LGPS Central Pool (the Pool) to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPS Central business case and to deal with common investor issues.
- 5.3 The Joint Committee meeting was held virtually for the first time with a live webcast. The Joint Committee received many public questions and, on this occasion, exercised discretion to extend the time allowed for dealing with public questions so they could be accommodated.
- 5.4 The report summarised the main items presented to the Joint Committee and included a link to the full Joint Committee Agenda and papers, which are published on the Fund's website.
- 5.5 The report included summary information on the investment performance to September 2020 of the pooled funds in which the Cheshire Fund is invested. The Investment Sub Committee receives a full briefing on these funds as part of the whole Fund performance report presented each quarter.

**The Committee noted** the position as set out in the report

## 6. INVESTMENT PORTFOLIO – CLIMATE CHANGE STRATEGY

- 6.1 The Committee received a report which outlined the contents of the Fund's first Climate Change Strategy document and sought approval for its publication on the Fund's website.
- 6.2 The new Climate Change Strategy document consolidates the Fund's views, policies and approach to managing climate related investment risk into one document. It builds upon the prior work done by the Fund on this issue which resulted in the publication of the Fund's Climate Risk report in September 2020.
- 6.3 The Strategy includes a number of important policy statements, commitments and targets and officers drew particular attention to the following:
  - i) The Fund explicitly commits to support the Paris Climate Agreement, which seeks to limit increases in global temperatures below 2 degrees Celsius. By extension, the Fund expects all investee companies to align their business activities with the Paris Agreement.
  - ii) The Fund intends to decarbonise its investment portfolio with the aim of being carbon neutral by 2050.



- iii) To support the long-term aim of net zero by 2050 the Fund will set specific shorter-term targets to lower the carbon footprint of its equity portfolio year on year compared to the general market.

6.4 The Committee debated the pros and cons of the proposed carbon reduction targets but agreed that they should be published on the understanding that the Committee would review both the targets and progress in delivering on a regular basis. The Committee were supportive of progress made on climate change over the past year and the hope was expressed that other important ESG engagement themes could also be prioritised in future. There was support for the proposal to issue a media release to accompany the Strategy to ensure the Fund's positive message and proposals were publicised.

**The Committee** endorsed the Fund's Climate Change strategy, including the proposed climate targets, and agreed that it be published on the Fund's website.

## 7. ANY OTHER BUSINESS

- 7.1 Officers proposed Committee meeting dates for 2021-22. The dates follow the usual cycle but will be checked against Council Committee and Police and Crime Commissioner dates when they become available. In the meantime, officers will add invitations to members diaries to secure these dates.
  - 7.2 The Committee will consider how meetings should held once the lockdown ends including whether to adopt a mixture of both virtual and face to face meetings.
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## **PART B – NOT FOR PUBLICATION**

### **The Committee resolved that:**

The details of the following items remain confidential on the grounds that 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.

### **8. PROCEDURAL MATTERS**

- 8.1 The Committee noted that the draft Minutes from the Investment Sub-Committee meetings, which took place on the 4 September and 13 November 2020 and had been circulated via email.

### **9. INVESTMENT PORTFOLIO – INVESTMENT STRATEGY STATEMENT AND EQUITY PORTFOLIO REVIEW**

- 9.1 The Committee received a report which set out a recommended approach to reviewing the Fund's Investment Strategy Statement (ISS) and Responsible Investment (RI) policy and updated the Committee on work done to date to review the Fund's equity portfolio.
- 9.2 The Committee noted the proposed light touch review of the ISS/RI policy given that the current documents were comprehensively revised in early 2020 and agreed that the planned review of the ISS is reported to the February/March 2020 meetings of the Investment Sub Committee/Pension Fund Committee.
- 9.3 The Committee received a report from officers and Mercer which set out the recommended priorities for changes to the Fund's equity portfolio. Mercer advised that the existing portfolio had delivered on its primary objective of providing diversified, broad market equity exposure with outperformance over general market indices. As a consequence, the proposed changes were evolutionary rather than revolutionary with a focus on strengthening the ESG characteristics of the portfolio.

### **The Committee:**

- a) Delegated responsibility to Fund officers to discuss with other partners and develop proposals to revise the Climate Factor Index Fund with a final recommendation to be brought to a future Committee meeting;
- b) Delegated responsibility to Fund officers to develop proposals to replace the Fund's current value tilted index tracking fund with a lower carbon footprint alternative, with a final recommendation to be brought to a future Committee meeting;
- c) Endorsed and recommitted to an initial 10% allocation of the Fund's total equity portfolio to sustainable equities, but agreed that implementation be paused for six months to allow the development of a pooled Sustainable Equity offering from LGPS Central Ltd.



**10. AOB**

- 10.1 The Committee received a brief verbal update on its retail property portfolio in light of the Arcadia and Debenhams announcements. The Fund did not have Debenhams or any brands in the Arcadia Group as existing tenants and whilst not directly impacted by this week's news the impact on the wider retail sector was a concern.
- 10.2 Officers updated Committee that the Fund's external audit for 2019-20 was now completed. The Fund's annual report was published by the due date. The Fund accounts and audit would be finally signed off once the audit of Cheshire West & Chester Council's accounts was finalised – which was expected to be imminently.

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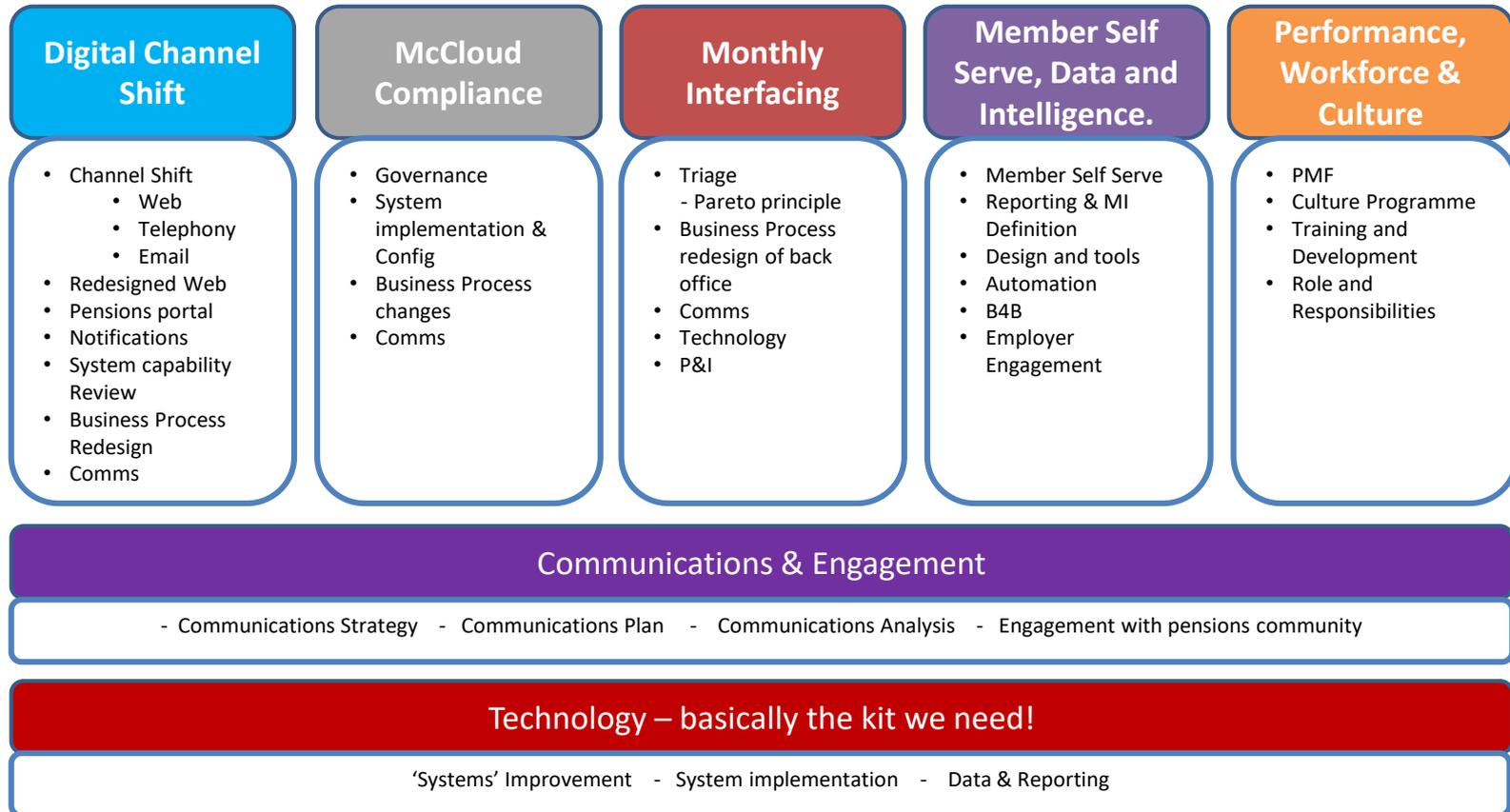


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# New Pensions Programme

# Pensions Programme themes



# Progress

- Strategic project briefs completed
- Project resource – recruitment underway
  - Project officer
  - Communications officer
- Monthly project board / steering group meetings
- Detailed plans/timelines will be developed once project resource implemented
- ERP implementation proceeding as planned (Phase 1 GL and payments)

# Questions



# Scheme Advisory Board

## Agenda

1.00pm – 2.30pm, Monday 8<sup>th</sup> February 2021

<b>Item</b>		<b>Timings</b>
1	Welcome, apologies and introductions	1.00
2	Declarations of conflicts of interest	1.05
3	Actions and agreements from meeting of 2 <sup>nd</sup> November 2020 – <b>Paper A</b>	1.10
4	95K Cap Update – <b>Paper B</b>	1.15
5	2021/22 Workplan and Budget – <b>Paper C</b>	1.35
6	Responsible Investment Update – <b>Paper D</b>	1.45
7	Good Governance Project Update – <b>Paper E</b>	1.55
8	Cost Management Committee Report – <b>Paper F</b>	2.15
9	Investment Committee Report – <b>Paper G</b>	2.25
10	AOB and date of next meeting	

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# Cost Management, Benefit Design and Administration Committee

DATE:	11 January 2021
VENUE:	Virtual meeting via MS Teams
TIME:	11.00PM – 1.00PM

## AGENDA

Item		Paper	Timings
1	Welcome, introductions, apologies and declaration of interests		11:00
2	Meeting protocol		11:05
3	Matters Arising from 5 <sup>th</sup> October meeting	<b>Paper A</b>	11:10
4	95K Cap and Further Reforms Update		11.20
5	McCloud Update		11.45
6	SAB Guide to Employer Flexibilities - Update		12.00
7	Good Governance Project - Update		12.20
8	External Audit & Redmond Report	<b>Paper B</b>	12.30
9	MHCLG Regulatory Update		12:45
10	AOB and date of next meeting		12.55

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# Investment, Governance and Engagement Committee

DATE:	18 January 2021
VENUE:	Virtual meeting via MS Teams
TIME:	11.00PM – 1.00PM

## AGENDA

Item		Paper	Timings
1	Welcome, introductions, apologies and declaration of interests		11:00
2	Meeting protocol		11:05
3	Matters Arising from 12 <sup>th</sup> October meeting	<b>Paper A</b>	11:10
4	Corporate Actions – Report from Dr Anna Tilba	<b>Paper B</b>	11.20
5	Responsible Investment Guidance	<b>Paper C</b>	11.40
6	Cost Transparency/Compliance Update		12.00
7	Good Governance Project - Update		12.30
8	MHCLG Regulatory Update		12.55
9	AOB and Date of next meeting		

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<p>This is the quarterly pack of Pension Fund performance information which is based on the period 1 October 31 December 2020 and includes a comparison to the previous quarter -1 July to 30 September 2020.</p> <p>The overall assessment for Quarter 3 is Red.</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>	<b>Qtr 3 (Oct-Dec 2020)</b>
	<b>Summary position:</b>
	<b>This Quarter - 1 Oct to 31 Dec 2020</b>
	<b>RED</b>
	<b>Previous Quarter - 1 Jul to 30 Sep 2020</b>
	<b>RED</b>

Subject	Comment	RAG Status
<b>Administration Casework</b>	<p>Overall administrators have completed 11,720 cases during the 3 month period to 31 December 2020, compared to 14,617 in quarter 2 of 2020/21.</p> <p>There has been a reduction in casework completed between the two quarters due to the Christmas period.</p> <p>The status is RED because the number of pieces of casework outstanding exceeds more than 10% of the membership.</p>	<b>RED</b>
<b>Breaches</b>	<p>The Fund updates the Breaches Log on a monthly basis. All Breaches are reviewed by the LPB, with approval also provided by the Director of Governance where necessary, in accordance with the Breaches Policy.</p> <p>The PFC and LPB also receive a summary of all breaches (since inception), including identified trends, on a quarterly basis.</p> <p>There were 25 new breaches in quarter 3 of 2020/21, which covered breaches that related to October, November and December (compared to 15 in quarter 2 of 2020/21). The majority (13) of the breaches in quarter 2 were contribution breaches related, the remaining 2 breaches were in relation to an administration breach and an ABS breach.</p> <p>Administration breaches relate to the late notification to leavers of their rights and options.</p> <p>During quarter 3, 25 breaches were recorded as Green.</p> <p>There were instances of repeat breaches during the quarter for employers who again failed to pay their contributions on time. The Fund has a Contributions Policy which includes penalties for repeat offenders due to the administrative burden that this places upon the Fund.</p> <p>The Fund is continuing the process of developing the automated identification of administration breaches within the database and the reporting of such will evolve over the</p>	<b>GREEN</b>
<b>Compliance</b>	The Fund did not identify any material compliance issues in Quarter 3.	<b>GREEN</b>
<b>Contributions Monitoring</b>	<p>In accordance with regulations contributions should be received by the Fund by the 22nd of the month (if paid electronically) after they have been deducted from pay.</p> <p>The Fund also has an internal KPI to receive at least 98% of contributions income on time each month.</p> <p>Contributions income are monitored against both of these criteria and also whether the income received in aggregate is above the aggregate value of the pensions paid out each month. The Fund has the right to charge interest on late payments and the monetary value of the applicable interest is now included within the tables below. The Fund takes a pragmatic approach to recharge interest.</p>	<b>GREEN</b>
<b>Financial Performance</b>	The Pension Fund is currently forecasting an underspend of £232k. Much of the underspend is due to £193k of the agreed contingency being unused thus far. This forecast is likely to change as the Fund will be reviewing the staffing structure in light of the workload associated with regulatory changes and internal transformational development. The RAG status is green to reflect the fact that the fund is currently forecasting an underspend.	<b>GREEN</b>
<b>HR (absence)</b>	<p>The service lost 96 days through sickness during quarter 3 of 2020/21 which equates to an annual average of 4%. This compares to 63 days lost in quarter 2 which is an annual average of 3%.</p> <p>There were no sickness days lost in the 3rd quarter relating to work related stress.</p>	<b>GREEN</b>
<b>Debt Recovery</b>	<p>The Pension Fund has £194k of debt outstanding at the end of Quarter 3 of 2020/21, some of which relates to prior years (which typically relates to overpayments which are being repaid by instalments).</p> <p>A large proportion of the debt (£69k) relates to invoices that are in the 91-180 day category. The majority of this debt relates to an Early Retirement invoice which we have received approval for prior to raising the invoice.</p> <p>The RAG status is Red to reflect the fact that the value of debt outstanding which is over 30 days old is over 50%.</p>	<b>RED</b>
<b>Business Plan Progress</b>	There were 23 actions assigned to Quarter 3. No actions were classed as red, two actions were classed as amber and thirteen are green. Eight actions move to 2021-22, highlighted blue, reflecting external dependencies which mean they cannot be achieved this financial year.	<b>GREEN</b>
<b>Feedback from External Sources</b>	Board members receive feedback from external sources. This includes submissions to the Board which are received via the website.	<b>GREEN</b>
<b>Investment Manager Qualitative and Quantitative Performance</b>	The Fund monitors its overall investment performance over periods of at least 3 years. It believes that this is a reasonable period of time over which it can begin to meaningfully assess performance. Performance is monitored against the Fund's tailored benchmark, CPI and asset performance assumptions from the most recent valuation. This allows the Fund to monitor its investment performance both on a standalone basis, and relative to the long term funding plan. As shown by the accompanying chart, rolling 3 year investment performance is ahead of benchmark, CPI and the valuation assumption.	<b>GREEN</b>

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## POOLING GOVERNANCE

### 1. Introduction

- 1.1 At its last meeting, the Board requested a report providing information on progress with the investment pooling agenda including the transition of assets, governance and responsible investing.

### 2. Recommendation

- 2.1 Board is requested to note the report and comment on any further information required

### 3. Legal Background to Pooling

- 3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, specifically Regulation 7, require administering authorities to formulate an investment strategy in accordance with statutory guidance.

- 3.2 Regulation 7 specifies six areas which an Investment Strategy Statement (ISS) must include, the fourth of which is to set out “the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services”.

- 3.3 A Law Commission Report In 2014, found that, in relation to Environmental, Social and Governance (ESG) investment considerations, the same constraints on trustees should apply to administering authorities, namely:

- i. there must be good reason to think that scheme members would share the ethical concern; and
- ii. the investment decision must not involve a risk of significant financial detriment to the fund

- 3.4 In November 2016 the Secretary of State issued statutory guidance on the preparation of ISS. Amongst provisions regarding the responsibility of administering authorities to set policy on asset allocation, risk and diversity, the guidance included the following two statements: -

*“...the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.”*

and that administering authorities:

*“Should not pursue [ESG] policies that are contrary to UK foreign policy or UK defence policy”*

- 3.5 The guidance was subject to legal challenge in relation to these statements. In June 2017, the High Court ruled the guidance was unlawful because it was issued for non-



pensions purposes. MHCLG amended the guidance to remove the text pending further appeals. The legal process culminated in the Supreme Court ruling (in the Palestine Solidarity Campaign case) that those elements of the guidance were unlawful.

- 3.6 As the guidance had already been amended in 2017 to remove those passages, the 2017 guidance remains in force.
- 3.7 This report has set out the legal position in some detail, as whilst the Government has signalled its policy on pooling remains unchanged and pooling achieved to date is unlikely to be unwound, it is unclear, following the Supreme Court's decision, how directive Government can be going forward. A further MHCLG consultation is awaited and information will be presented to Committee and Board in due course.

#### **4. LGPS Central Pool**

- 4.1 In response to the 2016 Investment Regulations, eight LGPS pools have been formed. A map of the pools is shown in the Appendix (NB: Investment pooling is not a requirement for the LGPS in Scotland).
- 4.2 MHCLG has not mandated a standard pooling structure, some pools have created their own companies, regulated by the Financial Conduct Authority (FCA), some procured a third party to manage a collective investment vehicle (CIV), others have more loose partnership working/shared service approaches.
- 4.3 The Cheshire Pension Fund in conjunction with seven other administering authorities, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire, established the LGPS Central Pool. The eight administering authorities together own assets in the region of £43bn.
- 4.4 The eight administering authorities (known as Partner Funds) set up and jointly own LGPS Central Ltd (LGPSC) a company regulated by the FCA and controlled under the Public Contract Regulations.
- 4.5 LGPSC has launched its own authorised contractual scheme (ACS) of tax-efficient funds into which Partner Funds are investing.

#### **5. LGPS Central Pool Governance**

- 5.1 The statutory duty to deliver investment pooling rests with individual administering authorities and their approach is set out in their investment strategy statements.
- 5.2 The Partner Funds have created LGPSC to be the delivery vehicle for pooled investment products into which the partner funds invest. The day to day management of those products is the responsibility of LGPSC.
- 5.3 The key document governing the relationships between the Partner Funds and LGPSC which set out the powers, and limits, of the authorities is the Shareholders' Agreement.



- 5.4 The Partner Funds have entered into two further agreements between themselves
- a. an Inter Authority Agreement, which sets out how the Partner Funds will work together to deliver on their statutory duty to deliver investment pooling.
  - b. a Cost Sharing Agreement which specifies how LGPSC costs are shared between the Partner Funds
- 5.5 As Partner Funds are both shareholders and clients of LGPSC, specific governance arrangements have been established reflecting the partner funds' dual roles, this is shown in the diagram in Appendix B. The structure above the dotted line summarises shareholder/client governance, the structure below the dotted line summarises the separate LGPSC internal governance.

#### Shareholder Forum

- 5.6 The Shareholder Forum's primary role is to oversee the operation and performance of LGPSC and to represent the ownership rights and interests of the Shareholding Councils within the LGPS Central Pool. The Shareholders' Forum is independent of LGPSC and its meetings are distinct from Company meetings.
- 5.7 The Shareholders' Agreement ensures that the Councils act in a unified way, having agreed to a common set of principles. Collective Shareholder discussions will take place in the Shareholders' Forum.
- 5.8 Shareholder influence over LGPSC, which is required to ensure that LGPSC is compliant with Public Contract Regulations (commonly known as Teckal provisions), is exercised via Reserved Matters set out in the Shareholders' Agreement. These specify company decisions which must be referred to Shareholders for approval and are not in the purview of the company Board.
- 5.9 Membership consists of one representative from each Council, to be determined locally by the individual Council. Cheshire West and Chester Council's representative is the Portfolio Holder for Finance and Legal as a conscious separation of duties from the client role (see below).

#### Joint Committee

- 5.10 The LGPS Central Joint Committee is a public forum for the Councils within the LGPS Central Pool. It provides client oversight of the delivery of the objectives of the Pool, client service, pooled investment performance and deals with common investor issues.
- 5.11 The Joint Committee meets twice yearly. It is clerked by Cheshire West & Chester Council and minutes of Joint Committee are reported to the Pension Fund Committee. The Fund's client representative on the Joint Committee is the Chair of the Pension Fund Committee.



## Officer working groups

- 5.12 The Practitioner's Advisory Forum (PAF) is a working group of Section 151 and Pensions Officers to support the delivery of Pool objectives and to provide support for the Joint Committee and Shareholders' Forum. LGPSC has a standing invite to, and attends, all PAF meetings to facilitate joint working. PAF representatives for the Fund are the Chief Operating Officer and Head of Cheshire Pension Fund.
- 5.13 PAF aims to speak as "one voice" to reduce the duplication of resources and maximise the benefits of scale. PAF is supported by several standing working groups who focus in more detail on governance, finance; investments and responsible investment. Task and finish groups are also established to deal with topical issues. PAF meets monthly and is chaired by one of the Partner Fund officers by rotation

## 6. LGPSC Pooled investment Funds

- 6.1 The Board asked for information on the transition of assets into LGPSC. The table in Appendix C lists the ten pooled products the company has established and the assets under management as at 31 December 2020.
- 6.2 The Board will note that products across the main listed asset classes are now in place. By March 2021 LGPSC is working to launch a multi asset credit fixed income fund along with infrastructure and direct property funds. Further product launches relating to private debt, targeted return, indirect property, private equity and global sustainable equities are planned for 2021-22.

## 7. Cheshire Pension Fund Asset Transition

- 7.1 The Fund has some 30% of its assets invested in funds passively managed by Legal & General Investment Management (LGIM). These were procured jointly with six of the Partner Funds prior to pooling which secured very competitive management fees. MHCLG has to date tacitly acknowledged that such jointly procured approaches are within the spirit of pooling, and that the costs of transitioning these assets would be significant. Clearly this position will need to be kept under review to ensure the arrangements are aligned with partner funds' investment strategies and pooling obligations.
- 7.2 All decisions to transition assets to LGPSC are presented to the Pension Fund Committee for endorsement and are accompanied by a full business case setting out the forecast costs and savings involved. In addition, the Committee hears directly from the Fund's investment advisor Mercer who present their view on the investment prospects of the LGPSC products and the capabilities of any external managers who LGPSC have selected.
- 7.3 As at December 2020 the Fund had invested some £1.1bn in five of the LGPSC pooled products as shown in Appendix C, this equates to 17% of total assets or 26% of assets excluding those managed by LGIM.



- 7.4 The Pension Fund Committee has endorsed investment in the LGPSC Infrastructure fund. Investment in the LGPSC Multi Asset Credit Fixed Income Fund will be considered by Committee in the coming weeks.
- 7.5 In 2021-22 further LGPSC fund launches are expected as set out in paragraph 6.2 above, along with continued investment in existing pooled products. Subject to investment business cases and Fund governance, it is estimated that some 51% of the Fund's assets will have transitioned to LGPSC by March 2022.

## **8. LGPSC Responsible investment**

- 8.1 LGPSC place significant importance on Responsible Investment (RI) in their investment approach. All pooled funds launched must achieve RI Integrated status.
- 8.2 LGPSC proactively engage with companies in whom they are invested and have appointed Hermes EOS to manage voting activity.
- 8.3 LGPSC have agreed an Annual Stewardship Plan with Partner Funds. This plan is publicly available on the company's dedicated Responsible Investment section of their website
- 8.4 The PAF officer working group has a standing RI Working Group. The RI working group meets on a quarterly basis to discuss progress against the Annual Stewardship Plan and the four pool engagement themes – climate change, single-use plastics, technology and disruptive industries, and tax transparency and fair payment
- 8.5 The company produces quarterly stewardship reports which are also available on the Company website <https://www.lgpscentral.co.uk/responsible-investment/>
- 8.6 The RI working group also monitors developing regulation and standards, noting recent recommendations from the Task Force on Climate-related Financial Disclosures (TCFD reporting). Whilst TCFD reporting is not yet mandated for LGPS, it is recommended good practice. The Fund published its inaugural TCFD report in December 2020 and has developed a Climate Change Strategy (incorporating a Climate Stewardship Plan) as an addition to its Responsible Investment Policy.



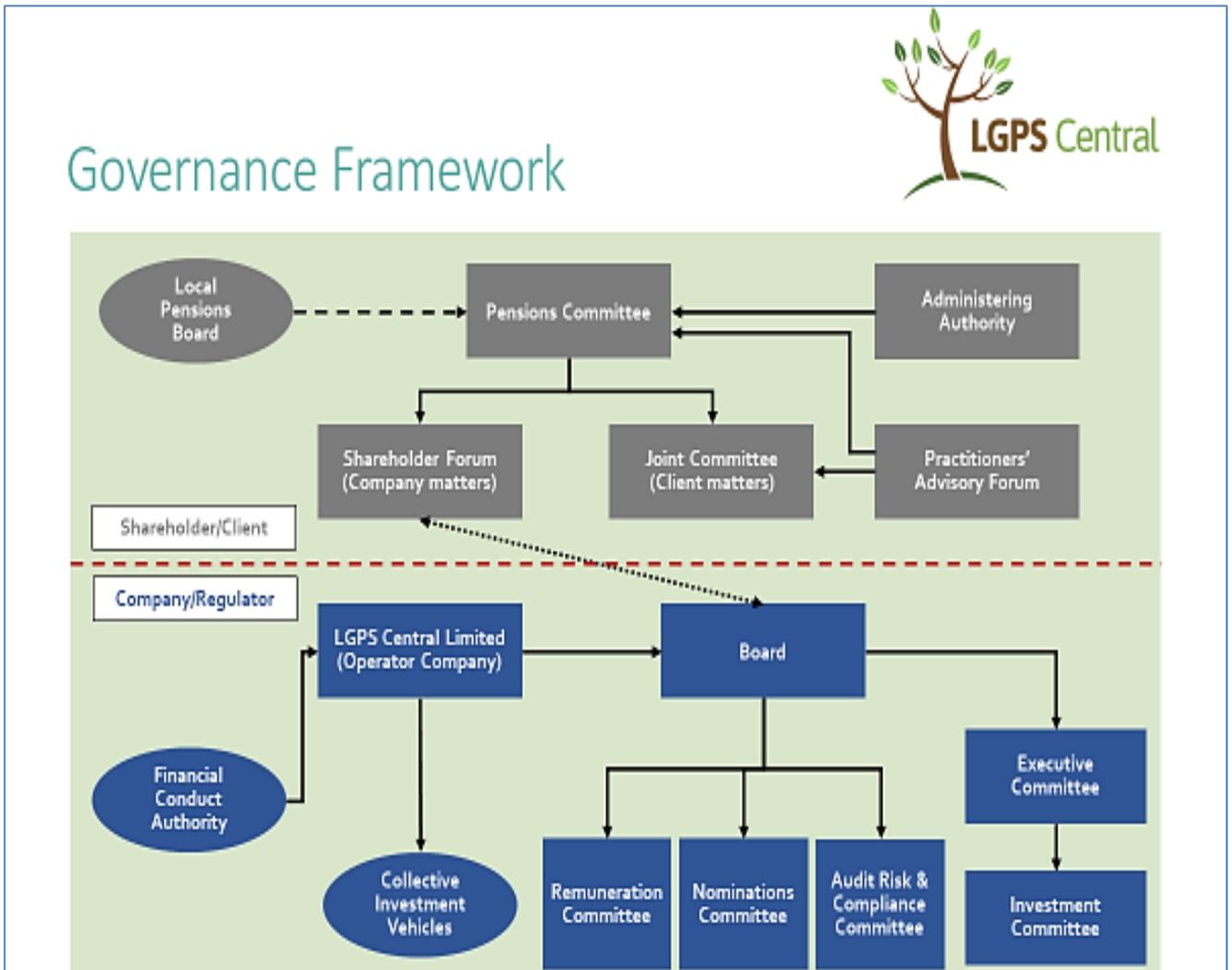
**Appendix A**  
**LGPS Pools – England & Wales**



NB Asset values are a snapshot



**Appendix B  
LGPS Central Pool Governance Structure**



LGPS Central Pooled Funds

LGPS Central Fund	Asset Class	Inception	Active/ Passive	AUM £m	CPF invested £m
UK Passive Equity Fund	Equities	04-2018	Passive	1,148	
Global (Ex UK) Passive Equity Fund	Equities	04-2018	Passive	2,193	
Global Passive Equity Dividend Growth Factor Fund	Equities	Apr 2018	Passive	526	
Private Equity Primary Partnership 2018 LP	Private Equity	May 2019	Active	150	20
Private Equity Co-Investment Partnership 2018	Private Equity	Apr 2019	Active	107	2
Global Equity Active Multi Manager Fund	Equities	Mar 2019	Active	2,388	316
Emerging Markets Equity Active Multi Manager	Equities	Jul 2019	Active	713	
All World Passive Equity Climate Multi Factor Fund	Equities	Oct 2019	Passive	2,144	592
Global Investment Grade Corporate Bond Fund	Bonds	Jan 2020	Active	1,330	
Emerging Market Debt Fixed Income	Bonds	Dec 2020	Active	631	151
<b>Sub-total</b>					<b>1,081</b>
<b>Investment Approved – awaiting fund launch</b>					
Infrastructure	Infrastructure	Apr 2021	Active	TBC	50
Multi Asset Credit Fund	Fixed Income	Apr 2021	Active	TBC	TBC



## **EXIT CAP £95k and FURTHER REFORM**

### **Introduction**

1. This report provides an update to the Board on the implementation of the Restriction of Public Sector Exit Payment Regulations 2020, along with an update on proposed LGPS regulation reform.
2. The report also provides details of the Fund's interim policy for redundancy cases where exit costs exceed the cap, pending resolution of the regulatory conflict between the Public Sector Exit Payment Regulations and the LGPS Regulations.

### **Recommendation**

3. The Board are requested to note the contents of the report.

### **Background**

4. The Restriction of Public Sector Exit Payment Regulations 2020, came into force on 4 November 2020, limiting public sector exit costs to £95,000.
5. Around the same time, the Ministry for Housing, Communities and Local Government (MHCLG) issued a consultation "Reforming Local Government Exit Pay" which included proposals to implement the exit cap in the LGPS. The consultation also included more far reaching proposals for changes to LGPS exits where pension strain costs are incurred and changes to the Early Termination of Employment (Discretionary Compensation) Regulations 2006.
6. The changes proposed by MHCLG would mean that scheme members would no longer be able to receive both an unreduced pension and a redundancy payment (statutory or discretionary).
7. The closing date for the MHCLG consultation was 9 November, which was after the implementation of the Exit Payment Regulations. The Council responded to the consultation in its capacity as administering authority.
8. It was originally expected that the changes proposed in the MHCLG consultation would be implemented by the end of 2020. However, due to a series of legal challenges this has now been delayed.

### **Regulatory Conflict**

9. A regulatory conflict has been created as the Exit Cap Regulations have been implemented and cap employer exit costs at £95,000 but LGPS Regulations have not been amended. LGPS regulations still require the payment of unreduced pension when a member, aged 55 or over, leaves on redundancy, efficiency or employer waiver of early payment reductions, regardless of total employer cost.



10. On the 28 October 2020, MHCLG issued a letter to all Administering Authorities which directs them to adhere to the Exit Cap Restrictions by relying on the doctrine of implied repeal. The doctrine of implied repeal provides that where a piece of legislation conflicts with an earlier one, the latter legislation takes precedence. A copy of the MHCLG letter is attached to this report in Appendix A.

### **Judicial Reviews**

11. The Local Government Association (LGA) confirmed on 22 December 2020, that three requests for Judicial Review of the Restriction of Public Sector Exit Payment Regulations 2020 were given permission to proceed.
12. The requests contest the regulations on several grounds, including their effect on LGPS Regulations. It is expected that the cases will be heard towards the end of March 2021.
13. MHCLG have confirmed that these hearings will affect the timing of the LGPS Regulation changes, meaning the interim approach introduced by the Fund will continue for longer than expected.

### **Interim Approach**

14. Considering the regulatory conflict, the Scheme Advisory Board (SAB) provided its view as to how administering authorities should deal with cases where exit costs exceed the £95,000 cap, until such time as the regulations are back in alignment.
15. The Pension Fund Committee was presented with a detailed report setting out the position and the proposed approach, which was to adopt the view set out by the Scheme Advisory Board. A copy of the Committee report is attached at Appendix B.
16. The interim approach where exit costs exceed the cap, as set out in paragraphs 29 and 30 of the Pension Fund Committee report, provides two options for affected members:
  - a) Where the employer certifies that total exit payments in relation to that scheme member do not exceed the exit payments cap, payment of unreduced pension will take place in accordance with current LGPS Regulations;
  - OR
  - b) Where the employer certifies that total exit payments in relation to that scheme member do exceed the exit payments cap, the member will be offered either
    - i. a deferred pension under regulation 6(1); OR
    - ii. immediate fully actuarially reduced pension under regulation 30(5)



17. The interim approach was approved by the Committee on 4 December 2020 and was immediately implemented by the Fund.
18. Employers were informed of the interim approach on the 8 December 2020 and the interim policy is available on the Fund's website:  
<https://www.cheshirepensionfund.org/news/2020/12/09/restrictions-on-exit-payment-interim-policy/>
19. Further communications are being produced to remind employers of this issue and to encourage them to pass on this information on to affected members. The Fund is also supporting employers in attending meetings/responding to queries on the impact of the Exit Payment Cap regulations and the operation of Fund's interim policy.
20. To assist employers and scheme members, where the Fund has calculated that pension strain cost alone will exceed the cap, the Fund is issuing two benefit estimates, to show the unreduced and fully reduced pension positions. This will allow the employer and scheme member to clearly see the impact of the interim policy when making decisions.
21. Further, the Fund has proposed that where pension strain costs are above £60,000, and hence it is likely that total exit costs will exceed the cap, the Fund will also provide two estimates. The number of cases requiring two estimates will be closely monitored.

### **Appeals**

22. Scheme Advisory Board has confirmed that scheme members have the right to appeal the application of the Fund's interim policy. Any such appeal would be dealt with under the internal Dispute Resolution Process (IDRP). If the member is not satisfied with the outcome of the IDRP process the matter would then be passed to the Pensions Ombudsman (PO).
23. It had been hoped that the PO could determine several test cases to provide clarity for administering authorities. However, the PO has confirmed they are unable to determine any case relating to matters which are the subject of ongoing legal proceedings, hence any cases accepted by the PO must await the outcome of the judicial reviews.
24. Decisions on IDRP cases may not be possible due to the conflict between the exit payment regulations and the LGPS regulations, however, the complaint must follow the normal IDRP route before any cases can be referred to the PO.



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Ministry of Housing,  
Communities &  
Local Government

Chief Executives  
Councils and LGPS Administering Authorities

**Luke Hall MP**  
*Minister for Regional Growth and Local Government*

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Tel: 0303 444 3440  
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[www.gov.uk/mhclg](http://www.gov.uk/mhclg)

28 October 2020

Dear Chief Executive,

The Restriction of Public Sector Exit Payments Regulations 2020 make it clear that public sector bodies must not make payments in relation to individual exits in excess of £95k. That includes local government employers and Local Government Pension Scheme administering authorities.

Previously, the Local Government Pension Scheme Regulations 2013 and to a lesser extent the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 allowed for some individuals to receive benefits which would be in excess of the cap now set in the 2020 Regulations.

In considering the 2020 Regulations with existing provisions of the LGPS or Early Termination Regulations, public sector bodies should be mindful that the 2020 Regulations reflect Parliament's intention in section 153A of the Small Business, Enterprise and Employment Act 2015. Parliament was clear that it wished to limit total public sector exit payments to no more than £95,000, and the legislation provides a power to cap exit payments at that level.

This Department has published a policy consultation and issued draft regulations that will remove any remaining ambiguity in the legal position once they come into effect. Subject to consideration of views received through consultation, effect will be given to those proposals as soon as parliamentary time allows.

In the meantime, the recommended course of action for an administering authority to act consistently with its legal duties is that the provisions of Regulation 30(7) are subject to the cap and so the provisions of Regulation 8 of the 2020 Regulations and Regulation 30(5) of the LGPS 2013 Regulations should be engaged. The Government's view is that LGPS members in that position should be able to elect to receive an immediate but fully reduced pension or, if they do not so elect, a deferred pension plus a lump sum equal to the capped strain cost.

The 2020 Regulations also identify circumstances where the application of the cap may be waived. I will issue more detailed guidance on this, but this also provides a route by which these transitional issues may be mitigated.

**LUKE HALL MP**

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## **EXIT PAYMENTS CAP AND REFORMING LOCAL GOVERNMENT EXIT PAY**

### **Introduction**

1. This report updates the Committee on the introduction by HM Treasury of regulations which limit public sector exit payments and on the consultation from the Ministry for Housing, Communities and Local Government (MHCLG) on Reforming Local Government Exit Pay.
2. In addition, the report seeks endorsement of the Administering Authority's proposed interim approach to be adopted, pending resolution of disparity between the HM Treasury Exit Payment and Local Government Pension Scheme (LGPS) Regulations.

### **Recommendation**

3. The Committee is asked to:
  - a) Note the Restriction of Exit Payment Regulations are now in force;
  - b) Note the consultation on further reform of exit pay in local government, and;
  - c) Endorse the interim approach to release of pension benefits for employers in scope of the exit payment cap.

### **Restriction of Exit Payments in the Public Sector**

4. The intention to regulate to cap exit payments in the public sector was first mooted in 2015. HM Treasury has now introduced the Restriction of Public Sector Exit Payment Regulations 2020 (the Exit Cap Regulations) with effect from 4 November 2020.
5. Currently, LGPS members, aged 55 or over, leaving on redundancy or business efficiency grounds must receive their accrued pension without reduction. This incurs a pension strain cost to the employer, payable to the pension fund. Pension strain cost is often the most significant exit cost for employers. These strain cost payments were not previously subject to any cap.
6. The Exit Cap Regulations cap at £95,000 the total exit payments that public sector employers can incur when employees leave. The exit payments which count towards the cap are summarised below and Committee will note that pension strain costs are included:
  - Redundancy payments
  - Pension strain costs



- Compensation under the ACAS arbitration scheme (other than in respect of discrimination and whistleblowing claims)
- Severance payments
- Payments in the form of shares or share options on loss of employment
- Payments in lieu of notice that exceed one quarter of the payee's annual salary
- Any other payment made as a consequence of loss of employment, whether under a contract of employment or otherwise

7. The Exit Cap Regulations list the employers in scope. In the LGPS, these are Councils (including maintained schools), Police and Fire for their non uniformed staff, and Academies, but FE and HE colleges or admission bodies are not in direct scope.

### **Reforming Local Government Exit Pay**

8. Public sector pension regulations must be amended to incorporate the exit cap. Consultations to this effect had been expected across the public sector pension schemes, with MHCLG leading for local government.
9. The consultation launched by MHCLG, called Reforming Local Government Exit Pay, is more far reaching. It includes proposals to amend both the LGPS Regulations and the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations under which employers frame their redundancy policies.
10. The MHCLG policy consultation on Reforming Exit Pay closed on 9 November 2020. MHCLG is also consulting on draft amendments to the LGPS regulations to incorporate its policy proposals. This consultation runs until 18 December 2020.
11. The Council, in its role as Administering Authority for the pension fund, responded to the MHCLG policy consultation by the due date of the 9 November. A copy of the response is enclosed at Appendix A, it has also been published on the Pension Fund website.
12. The MHCLG proposals, if implemented, will alter the total exit package employers in the LGPS can make available to members leaving on redundancy or efficiency grounds. Exit payments will be limited in several ways as follows:
  - A maximum of three weeks' pay per year of service;
  - A maximum of 15 months of pay on the amount of a redundancy payment;
  - A maximum salary of £80,000 on which an exit payment can be based;
  - A cap of £95,000 on the total of all exit payments.
13. In addition, MHCLG propose that scheme members aged 55 or over leaving on the grounds of redundancy or business efficiency, will no longer be able to receive both an unreduced pension and redundancy payment. Scheme members will face a range of options which could include:
  - giving up redundancy pay in return for an immediate unreduced or partially reduced pension; or



- taking redundancy payment in full but deferring their pension; or
  - taking redundancy payment in full but taking an immediate, fully reduced pension.
14. MHCLG also propose that pension strain costs be calculated using standard calculation factors set by Government Actuary's Department (GAD) across the whole LGPS, rather than the current practice of using locally determined factors. This has the benefit of consistency, but it is yet to be determined whether national factors reflect the true local cost of pension strain. Any under or over recovery will be assessed in setting employer contribution rates at future triennial valuations.

### **Regulatory Conflict**

15. Committee will note, the consultation on further exit pay reform did not close until 9 November, after the Exit Cap Regulations came into force and that the consultation on the amendments to the LGPS regulations continues until 18 December. Changes to LGPS Regulations seem unlikely until early 2021.
16. This means the Exit Cap Regulations and the LGPS Regulations are in conflict in situations where an employee, aged 55 or over, is leaving on redundancy, is entitled to an unreduced pension but where total exit payments due, are more than the Exit cap of £95,000.

### **Scheme Advisory Board View**

17. Given the conflict between the Exit Cap and LGPS regulations, Administering Authorities are placed in an invidious position. In response, the Scheme Advisory Board (SAB) has issued its view on how Administering Authorities should proceed. Whilst the SAB view is not legal advice to Administering Authorities, the SAB has taken QC's advice in developing its view (the SAB briefing is attached at Appendix B).
18. The SAB's view is that, in circumstances when a scheme member, aged 55 or over, would, apart from the bringing into force of the Exit Cap Regulations, qualify for an immediate unreduced pension under the LGPS Regulations and the total exit payments relating to that employee exceed the exit cap, the course of action presenting the least risk to both the LGPS administering authorities and scheme employers is for:-
- a) the LGPS administering authority to offer the member the opportunity to take a deferred benefit or a fully actuarially reduced pension, and
  - b) the Scheme employer to delay the payment of a cash alternative under the Exit Cap Regulations
19. SAB highlights that an administering authority decision to continue to pay unreduced pensions where the exit cap is exceeded poses risks, both in relation to the duty to recover pension strain costs and a risk of challenge under the doctrine of implied repeal. The doctrine of implied repeal provides that where a piece of legislation conflicts with an earlier one, the latter legislation takes precedence.



20. SAB notes that offering a deferred or reduced pension also risks challenge from the member seeking to enforce their rights under LGPS regulations. Any such appeal would, it is understood, be made under the Administering Authority's Internal Dispute Resolution Procedures.
21. SAB feel that offering a reduced or deferred pension to those members, aged 55 or over, whose exit costs exceed the cap, poses less risk as it should, in the event of successful challenge, result in additional monies potentially being received as:
  - a) the member receiving an unreduced pension, or
  - b) a cash alternative payment to the member, or
  - c) a cash alternative paid to the Fund to meet additional pension costs

### **Pension Strain Calculation Factors**

22. LGPS administering authorities use actuarial factors to calculate the strain cost payable by employers when members leave on redundancy or efficiency grounds. These factors seek to reflect the local funding implications of paying a pension before normal pension age.
23. The Administering Authority has been advised by the Fund actuary, Hymans Robertson, that the factors in use to calculate pensions strain costs (i.e. only for funding purposes) cannot be used to determine pension strain costs for the purpose of the exit cap (which will affect the value of members' benefits). For example, the current factors are not gender neutral.
24. The Fund informed employers it was placing a temporary pause on the provision of pension strain estimates pending decision on the approach to strain cost calculation factors.
25. The MHCLG further reform consultation includes proposals to introduce standard actuarial factors produced by the Government Actuary's Department (GAD) to be used by all administering authorities for the calculation of pension strain costs. This is to avoid a 'postcode lottery' situation of different funds using different factors for assessing whether the £95,000 cap has been breached. These factors are expected to be adopted when the LGPS Regulations are amended, to be consistent with the requirements of the Exit Cap Regulations.
26. Given advice that current factors cannot continue to be used, officers have sought the views of the Fund's actuary Hymans Robertson as to the impact of adopting the new GAD factors, notwithstanding they are still subject to consultation. Hymans Robertson have highlighted that the GAD factors fulfil a different function to the local factors in use currently and, because they are based on a different set of actuarial assumptions, may result in lower pension strain costs. Whilst this may result in a lower strain payment being initially incurred by employers, any funding shortfall would be addressed in setting employer contribution rates at future triennial valuations.



27. To assist clients, Hymans Robertson have developed a tool to calculate pension strain costs using the GAD factors. When utilised, this will require a manual process outside of the core pension database. This will be an interim solution until system providers introduce a permanent solution, as understandably system providers are reluctant to make system changes until the final LGPS amending regulations are confirmed.
28. For consistency the GAD factors will be applied to calculate pension strain costs for all exits from all employers on the grounds of redundancy, business efficiency or waiver of pension reductions.

### **Administering Authority Proposed Approach**

29. In light of the view provided by SAB, and having taken its own legal and actuarial advice, the Administering Authority's proposed approach to the release of certain pension benefits, pending resolution of the regulatory conflict, is as follows:
  1. For all employers in the Cheshire Pension Fund this interim approach will apply to the release of certain pension benefits to members leaving from 4 November 2020 (when the Exit Cap Regulations came into force).
  2. For employers in scope of the Exit Cap Regulations, scheme members, aged 55 or over, leaving on the grounds of redundancy, business efficiency or employer waiver of pension reduction: -
    - a) Where the employer certifies that total exit payments in relation to that scheme member do not exceed the exit payments cap, payment of unreduced pension will take place in accordance with current LGPS Regulations;
    - OR
    - b) Where the employer certifies that total exit payments in relation to that scheme member do exceed the exit payments cap, the member will be offered either
      - i. a deferred pension under regulation 6(1); OR
      - ii. immediate fully actuarially reduced pension under regulation 30(5)
  3. For the avoidance of doubt, scheme members whose employers are not in scope of the Exit Cap Regulations will receive their benefits in line with current LGPS regulations.
  4. For all employers and for consistency, the Administering Authority will adopt the new GAD factors for the calculation of pension strain costs for all exits due to redundancy, business efficiency and employer waiver of reductions.



5. This interim approach will remain in force until such time as the conflict between the Exit Cap Regulations and the LGPS Regulations is resolved or the LGPS Regulations are amended.
30. Officers have engaged with other local Administering Authorities who have confirmed they too are adopting an approach consistent with the SAB view.

### **Scheme Member Impact**

31. In proposing the interim approach, officers have considered data on past exit costs. Data available shows that exit costs for most scheme members aged 55 or over, leaving on redundancy or business efficiency fall below the exit cap of £95,000.
32. It is acknowledged that exit costs are very dependent on personal circumstances and there will be individual scheme members who are adversely affected by the proposed approach. They may feel understandably distressed at the change in benefits paid out, at an already difficult time. It is likely to be small comfort that the approach means further payments could be made once the legal uncertainty is clarified, either by a test case to clarify the law or by changes to the relevant regulations.
33. The Administering Authority is aware that pre-action letters for judicial review of the Exit Cap regulations have been submitted by trade unions. It is uncertain what legal proceedings will follow or how long these will take to be determined. The Exit Cap Regulations remain in force as implemented at this juncture.

### **Employer Impact**

34. The Administering Authority has been sharing SAB and other LGA briefings on the Exit Cap and MHCLG consultation with employers. Officers have been liaising directly with individual employers to provide further support, some of whom are amid, or due to launch consultations on staffing changes, on the impact of the exit cap and MHCLG consultation
35. Employers will need to form their own view on the impact of the exit cap and further reform proposals on their local redundancy/early retirement policies.
36. The MHCLG proposals will undoubtedly lead to more complexity in, and increased volume of, estimates for pension strain costs requested by employers.

### **Administering Authority Next Steps**

37. Should the proposed interim approach described above be endorsed and approved officers will: -
  - Issue a briefing to all Employers on the Fund's approach
  - Brief pensions administration staff on the approach and provide training in the use of the new, manual, pension strain cost calculation tool
  - Re-commence the usual provision of retirement estimates to employers



- Ongoing monitoring of national developments and SAB briefings



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## DATA QUALITY

### Introduction

1. This report provides the Board with the quarterly update on the Pensions Regulators (TPR) data quality scores for common and scheme specific data.
2. The report also provides an update on the Annual Benefit Statement (ABS) mop process for 2020 for members who did not receive their ABS by 31 August 2020.

### Recommendation

3. The Board are requested to note:
  - the position on the common and scheme specific data scores for the 2020 TPR Scheme Return.
  - the position on the Annual Benefit Statements rectification process for 2020.

### Data Scores

4. As Board members are aware, each year the Fund is required to report data quality scores to the Pensions Regulator (TPR) as part of the Scheme Return.
5. The Fund currently produces the scores from reports which have been developed internally. The scheme specific score is based on a 'foundation approach' to measuring the data, which was previously approved by the Board in the absence of any national guidance
6. The scores for the 2020 TPR return were calculated as at 25 September 2020 and are included within the table below, alongside the scores for the previous two years. The latest scores as at 1 February 2021 are also included within the table.

	TPR Scheme Return			Latest Scores
	1-Sep-18	1-Sep-19	25-Sep-20	1-Feb-21
Common Data	98.10%	98.07%	98.73%	98.82%
Scheme Specific Data	68.80%	74.18%	74.01%	76.81%

7. As the Board can see, the scores for both common and scheme specific data for February are comparable with the scores provided in the September 2020 Scheme return for common data, and slightly improved for scheme specific data.
8. The improvement in scheme specific data results from the Fund completing the process to upload all annual 'per member' information received from employers who have not yet moved onto the Monthly Interfacing system along with the data cleansing work that has been undertaken by the Fund in the past year.

### New Measurement Report

9. As Board members are aware, the Fund's administration database provider has produced a report which will produce the common and scheme specific data scores directly from the administration database.
10. The Fund is continuing to work with the database provider to resolve the data validation issues that arise when the report is run.



11. Board members will be kept informed of progress in moving to the new report.

**Annual Benefit Statements**

Active Members

12. In accordance with regulations, each year the Fund is required to issue an Annual Benefit Statement (ABS) to each of its members by 31 August. The ABS provide an estimate of the members pension benefits at state pension age.

13. As Board members will recall, the Fund has undertaken considerable data cleansing work over the past couple of years. This directly led to an improvement in the number of active ABS the Fund was able to issue, which rose to 90% in 2020, from 85% in 2019.

14. The table below shows a comparison of the 2020 position versus the prior year.

	2020	%	2019	%
Active members eligible to receive an ABS	31,420		32,677	
Members who received an ABS on time	(28,398)	90	(27,633)	85
Members who did not receive an ABS on time	3,022		5,044	

15. As outlined in the table above, there are 3,022 members who did not receive an ABS on time.

16. The Fund has continued to resolve the data issues associated with these records and was able to send an ABS to a further 668 members by the end of November 2020.

17. Therefore, there are now 2,354 members who have not received an ABS. The table below provides the Board with an update on the position with those members.

	No. of Members
ABS due to be issued - February/March 2021	1,228
Working with employers to resolve data queries	784
Assumed leavers – no ABS due	343

18. The Board will be kept informed of the progress on the 2020 annual benefit statement rectification process.

Deferred Members

19. In addition to the ABS which are sent to active members, the Fund is also required to send similar statements to deferred members by the same 31 August deadline.

20. The table below summarises the number of deferred members who were eligible to receive an ABS and those that received one on time. As the Board will note, the Fund was able to send c87% on time.

	2020	%	2019	%
Deferred Members Eligible to receive an ABS	27,203	100	26,917	100
Members who received an ABS on time	23,792	87	23,948	89
Members who did not receive an ABS on time	3,411	13	2,969	11



21. There were 3,411 deferred members who did not receive their ABS by 31 August, due to the Fund not holding a current address for these members.
22. During 2020 the Fund commissioned the services of a tracing company who has since located 2,053 (60%) of the 3,411 members. The 2,053 members subsequently received their ABS by the end of November 2020.
23. That means there are 1,358 deferred members who have not received their ABS.
24. The tracing work has continued beyond the end of November and to date the Fund has located a further 138 members who will now receive an ABS in 2021 and sadly 30 members have been confirmed as deceased.
25. The tracing exercise was unsuccessful for 224 members and so the Fund is unable to issue ABS to these members. For those members their benefits will remain frozen with the Fund until the member can either be located by a future trace or, more likely, that the member contacts the Fund when they are nearing retirement. National initiatives such as the Pensions Dashboard should also provide opportunities for reuniting members with their benefits in the future.
26. For the remaining 787 members, the Fund is continuing with the tracing by prioritising those members who are nearer to retirement.
27. Board members will be kept informed of progress in tracing all deferred members.



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**LOCAL PENSION BOARD 2020/21 ANNUAL REPORT and OUTTURN**

**Introduction**

1. This Board will discuss the content to be included in the Local Pension Board Annual Report for 2020/21.

**Recommendation**

2. The Board are requested to identify the content to be included in the draft Local Pension Board Annual report for 2020/21).

**Annual Report**

3. As set out in their Terms of Reference, the Board are required to produce an Annual Report specifically for the Local Pensions Board (LPB).
4. The Board’s Annual Report will be required to be completed by the end of May 2021 in order to be incorporated into the Fund’s Annual Report. The LPB Annual Report requires production so that it can be completed in time for approval at the next Board meeting in May.
5. The format of the report is the same as the 2019/20 report which was published on the Fund’s website as within the main Scheme Annual Report. A copy of the 2019/20 report is enclosed in Appendix A.
6. The report is split into six sections as summarised in the table below:

Introduction
Details of Membership
Summary of 2020/21 activity and plans for 2021/22
Attendance at Meetings
Skills and Development Activities
Budget

7. Included within the Annual Report is the outturn for the Board’s allocated budget of £10k.
8. The Board are requested to draft the 2019/20 report.



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# **Cheshire Pension Fund Local Pension Board Annual Report 2019/20**

## INTRODUCTION

Welcome to the fifth annual report for the Local Pension Board (the Board) for the year ending 31 March 2020.

The Board assists Cheshire West and Chester Council, as Administering Authority, with the efficient governance and administration of the Cheshire Pension Fund, the name of the local government pension scheme in Cheshire.

In accordance with the Board's terms of reference, an annual report is required to provide an overview of the nature and effect of the Board for consideration by the Administering Authority.

Board members received regulator updates on actions taken to improve the quality of data and on the transformation project, known as Project Chrysalis, which is designed to make the best use of technology and other resources in order to deliver the best service to customers and employers.

Building upon the meetings held with other Funds within LGPS Central (the partnership with seven other local government pension funds) the Board had regular meetings to share ideas and best practice.

As part of these meetings the Scheme Advisory Board provided training for Board members in June 2019. This training covered a variety of topics including the national LGPS governance structure, the role of Board members and the Pensions Regulator's Code of Practice. Attendees found that it useful in keeping them up to date with important topics and strengthening networking links between Funds and the SAB itself. These joint training events will be repeated each year.

Performance on compliance with LGPS regulations and the Pensions Regulator's Code of Practice Number 14 has been regularly monitored and it is pleasing to note that there has been good compliance throughout the year.

The Board met five times in the year and Board members attended joint training sessions with the Pension Fund Committee to maintain and develop knowledge and understanding.

During the year, one employer representative's terms of office came to an end. The Board sought expressions of interest and Adrienne Laing was reappointed for a further three year term commencing 1 April 2020.

The Board places great importance on being open and transparent. A wealth of information relating to the Board, including minutes of meetings, can be found on the Pension Fund website using the link below. There is also a facility for members to contact the Board for any questions/issues relating to the Board's role :

<https://www.cheshirepensionfund.org/members/resources/forms/contact-the-pension-board/>



A summary of the work undertaken by the Board, along with information about the work plan for the year ahead can be found below.

Peter Raynes  
Local Pension Board Chair



## 1. Board Membership

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- 1.1 The Board consists of five members, two member representatives and two employer representatives and an Independent Chair. All members are unpaid volunteers.
- 1.2 Terms of office are staggered to ensure business continuity.
- 1.3 Further information, including biographies of each member is available on the website.

<b>Role</b>	<b>Name</b>	<b>Organisation</b>	<b>Date Appointed</b>	<b>Term End Date</b>
Employer representative	Adrienne Laing*	The Challenge Academy Trust	1/4/20	31/3/23
Employer representative	Cllr Robert Bisset	Cheshire West and Chester Council	27/6/18	26/6/21
Member representative	Geoff Wright	UNISON	27/6/18	26/6/21
Member representative	Neil Harvey**	GMB	27/6/18	26/6/20
Chair	Peter Raynes	Independent (non-voting)	27/6/18	26/6/21

\*Reappointed following requests for Expressions of Interest

\*\*The Fund will invite expressions of interest for this role in April 2020.

## **2. Review of 2019/20**

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2.1 Below is a summary of key areas of activity for the Board during the year and an outline of the plans for the year ahead.

### **Joint Chairs Meetings**

2.2 As in previous years, the Chairs of the Board and the Pension Fund Committee (the Committee) continue to meet on a quarterly basis to discuss common issues. These meetings provide the Chairs with a regular opportunity to discuss important topics and to ensure that their work compliments each other, and avoids duplication of effort.

### **Changes to Council Policies**

2.3 Following the completion of the 2019 triennial valuation the Fund issued two consultations to amend the Funding Strategy Statement and the Investment Strategy Statement, which also included the Responsible Investment Policy.

2.4 The changes to the policies, along with consultation responses, were reviewed jointly by the Committee and Board at joint training sessions and sub-committee meetings.

2.5 This allowed Board members to not only scrutinize the changes to the policies and the consultation responses, but also to observe the process that the Committee undertook to approve changes to the policies.

### **Pensions Consultative Forum**

2.6 The Pensions Consultative Forum (PCF) is made up of representatives from the main employers and employer groups within the Fund. It works with the Fund to ensure an efficient service is delivered for all stakeholders, with particular emphasis on administration and communication.

2.7 The Board Chair, Peter Raynes is Chair of the PCF providing an important link between the Board and the Forum.

2.8 The Forum is key to assisting the Fund in developing new ways of working which will improve efficiency for both the Fund and Employers.

### **Knowledge and Skills**

2.9 The Board and Committee attend joint training sessions on a variety of topics throughout the year to maintain their knowledge and skills.

2.10 Following the local council elections in May 2019, there were a number of new Committee members. The Fund facilitated induction training delivered by Barnett Waddingham and Fund Officers. As well as inducting new Committee members this provided refresher training for existing Board and Committee members.



- 2.11 During the year, Board members updated their CIPFA Knowledge and Skills self-assessment questionnaires. The questionnaire highlighted the areas where Board members felt that they required further training. A similar annual review is followed for Committee members.
- 2.12 Barnett Waddingham provided an independent review of the results which contributed to a revised Training Policy. The Committee endorsed the new training policy at its meeting on 13 March 2020 and the policy will be effective from 1 April 2020.

### **Governance Review**

- 2.13 Last year the Pension Fund commissioned the services of Barnett Waddingham to conduct a review of the governance arrangements within the Fund, including the role of the Board. The review found that the governance arrangements worked well and there were no material issues to be addressed. The review did, however, make some minor recommendations in relation to the Board, including updating the Terms of Reference to reflect some changes working practices (e.g. the number of Board meetings held each year).
- 2.14 Board members considered the points raised but agreed to await the outcomes from the Scheme Advisory Board's Good Governance Review, expected in the summer of 2020, so that any changes needed flowing from the SAB's recommendations could be incorporated.

### **LGPS Central Board Chairs / Scheme Advisory Board Engagement**

- 2.15 The Board Chair has continued to meet twice yearly with the chairs from the Boards of the LGPS Funds within the LGPS Central pool (these are Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire LGPS funds). These meetings allow the Boards to discuss important topics and to share ideas.
- 2.16 The introduction of this group has been welcomed by and has directly led to increased interaction with the Scheme Advisory Board. A SAB representative (Bob Holloway) attends these joint meetings. SAB are encouraging this same level of engagement across other pools going forward.
- 2.17 In addition to attending the joint meetings, SAB delivered a training session to all Board members within the LGPS Central pool in June 2019. The training covered an overview of the national governance structure for the LGPS, the role of Board members and a review of TPRs Code of Practice 14. There were also a number of breakout sessions throughout the day where Board members were able to discuss specific issues in groups allowing them to share ideas and best practice. The training was well received and it was agreed that similar events would be held each year thereafter.

### **Risk Register**

- 2.18 In 2018, the Scheme Advisory Board had issued surveys to all Funds to assess how Boards were being run. Cheshire's response highlighted that the Board was compliant in all areas with the exception that it did not have a risk register specifically for the Board.
- 2.19 During 2019/20 the Board developed a dedicated risk register which identified six risks along with the mitigating actions taken which allow those risks to be managed effectively. The risk register is regularly reviewed by the Board to ensure all risks are considered and have the necessary mitigations in place.
- 2.20 The register also identifies additional mitigating actions which could be taken in future to further mitigate the risks. The Board will seek to implement these where possible.

### **Local Government Association – Fundamentals Training**

- 2.21 The Board has been recognised as a best practice exemplar in the LGPS.
- 2.22 As a result officers presented as part of the national Local Government Association Fundamentals training programme 2019, explaining how the Board operates and the value that the Board has provided to help improve Fund efficiency and effectiveness.
- 2.23 Officers presented at three events in Leeds, Cardiff and London and received positive feedback from the attendees.

### **The Pensions Regulator – Code of Practice**

- 2.24 The Board undertook a thorough review of the Fund's compliance with the Pensions Regulators (TPR) Code of Practice 14. All mandatory requirements were met in full and identified areas where further improvements could be made to meet best practice in all areas.
- 2.25 The Board received regular updates throughout the year on progress in meeting full compliance with all areas of the code.
- 2.26 TPR are combining their 15 codes of practice into one code and this new Combined Code is expected to be issued during 2020. Ongoing compliance will be tested against the new code with results presented to the Board along with an action plan to address any areas where further work is required.

### **Data Quality**

- 2.27 The Fund has undertaken considerable work during the past year to improve the quality of data held. This is a significant and resource intensive activity and the data quality work in 2019/20 has centred around three work streams:
- a) **Annual data scores** reported to the Pensions Regulator each autumn.
  - b) **Monthly Interfacing** – the project to move from annual to monthly employer submissions of membership and contributions information. This involves a specific data cleanse for each employer and creation of unique identifier numbers so individual contracts of employment can be identified.
  - c) **Resolving historic data queries** - including liaison with employers to retrieve missing data.
- 2.28 The Board received regular detailed updates on progress for all three areas.
- 2.29 The Board was pleased to note that 85% of active members received their Annual Benefit Statements by the 31 August deadline in 2019, compared to 77% in 2018. This demonstrates that the Fund's data quality is improving.

**Guaranteed Minimum Pension (GMP) Project**

- 2.30 With the introduction of the single tier state pension in 2016 the LGPS was no longer contracted out of the state second pension. This meant that HMRC would no longer track contracted out rights and so all Funds in the LGPS were required to complete and exercise to compare GMP values held by Funds to those held by HMRC and resolve any discrepancies.
- 2.31 The Fund, therefore, conducted a project to firstly reconcile the GMP values for 126,000 records and then rectify c12,000 records where a discrepancy had been identified and was above the £2 tolerance recommended by HMRC.
- 2.32 An important part of the rectification process was to agree a policy for under and overpayments. The Fund followed guidance issued by HM Treasury and developed a policy for under/over payments as set out in the table below:

Rectification Type	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	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.

- 2.33 The Board kept track of the Funds progress in completing the GMP project throughout the year and also considered the proposed approach to under and over payments.
- 2.34 The Board approved the approach to under and over payments and recommended that it be adopted by the Pension Fund Committee, who duly adopted the policy at their meeting in September 2019.

**Breaches Policy/Log**

- 2.35 The Board has a critical role in monitoring breaches and reviews the log for any new breaches on a monthly basis. The Board reviews any new breaches to monitor local actions to redress the breach and to determine if the breach meets the requirement for reporting to TPR.
- 2.36 In addition to reviewing the breaches log on a monthly basis the Board undertakes a quarterly review to identify any trends which require further investigation.
- 2.37 The Breaches policy and Breaches Log are available on the Fund's website.



### **Member Engagement**

- 2.38 The Board has a dedicated facility on the Fund’s website to allow members to contact the Board with any questions.
- 2.39 The Board received five questions from one pensioner member during the year and provided a response to each. The subjects covered included
- the Fund’s investments and responsible investing,
  - information available on the Fund’s website and
  - the possibility of holding a members’ AGM.

### **3. Board Attendance at Meetings 2019-20**

- 3.1 The terms of reference for the Board state that there should a minimum of two meetings per year, however, the Board has chosen to meet a minimum of four times per year. There were 5 meetings held during 2019/20.
- 3.2 The table below summarises the meetings which have taken place including attendance by members of the Board. (A tick denotes the Board member was present)

<b>Members</b>	<b>7 May 2019</b>	<b>4 Jun 2019</b>	<b>16 Jul 2019</b>	<b>29 Oct 2019</b>	<b>4 Feb 2020</b>	<b>%</b>
Peter Raynes	✓	✓	✓	✓	✓	100
Cllr Robert Bisset	✓	✓	✓			60
Adrienne Laing			✓	✓	✓	60
Geoff Wright	✓		✓	✓	✓	80
Neil Harvey	✓	✓		✓	✓	80

- 3.3 The meeting on the 4 June was dedicated to the review of the Fund’s draft Statement of Accounts and Annual Report for 2018/19 so that the Board could ensure these had been produced in accordance with statutory requirements and best practice. This is an important part of the Fund’s governance process for the production of the Statement of Accounts and Annual Report.
- 3.4 The Board’s review provided assurance to the Committee that they could recommend the draft accounts to be presented to the Council’s Audit and Governance Committee.

### **Skills and Development Activities**

- 3.5 The Board and Committee have attended several joint training sessions during the year which, as well as developing Board members knowledge, have helped the Board to gain assurance that the Committee decision making processes are



robust and properly informed, and are in accordance with regulations and best practice.

3.6 A summary of the training provided for the Board, including attendance, during 2019/20 is shown below.

<b>Date</b>	<b>Topic</b>	<b>Delivered by</b>	<b>Board Attendees</b>
19 July 2019	Presentation of the Audited Annual Reports and Statement of Accounts and the Audit Findings Report	Officers / Grant Thornton	Neil Harvey
	Responsible Investing	LGPS Central Ltd	
	Valuation Training	Hymans Robertson	
8 November 2019	Good Governance Project Update	Hymans Robertson	Peter Raynes
	Committee/Board Joint Training Policy	Barnett Waddingham	
	Investment Strategy Review	Mercer Hymans Robertson	
28 February 2019	Investing in Infrastructure	Mercer	Peter Raynes Geoff Wright
	LGPS Central Ltd Infrastructure Sub Fund	LGPS Central Ltd	
	2019 Triennial Valuation and Funding Strategy Statement	Officers	
	Training Policy and Plan	Officers	

### External training events

- 3.7 Board members attended a number of external conferences and seminars in order to maintain knowledge and also to keep up to date with current issues facing the LGPS. These were

<b>Event Date</b>	<b>Organised by</b>	<b>Topic</b>
26 June 2019	CIPFA/ Barnett Waddingham	LPB Annual Seminar
27 June 2019	LGPS Central Pool	Scheme Advisory Board Training
12 July 2019	Barnett Waddingham/ Cheshire Pension Fund	Induction/Refresher Training
9 July 2019	LGPS Central Ltd	Responsible Investing Event –
8 October 2019	CIPFA/ Barnet Waddingham	LPB Autumn Seminar
8 October 2019	LGPS Central Pool	LPB Chairs Meetings
26 November 2019	LGPS Central Ltd	Infrastructure Event
20 February 2020	CIPFA/ Barnet Waddingham	LPB Spring Seminar

### Budget

- 3.8 The Board agreed a notional budget of £10,000 for 2019/20 to assist with its operation. This included costs for training, external advice, expenses and travel costs.
- 3.9 The Board incurred costs of £1,500 with £640 spent on training and £860 on travel and subsistence costs. Budgeted provisions for external advice were not required in 2019/20



## **4. 2020/21 Work Plan**

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- 4.1 The Board will review the final recommendations from the Scheme Advisory Board's Good Governance review, in particular any actions that the Fund will need to take as a result and ensure they are implemented as soon as possible. This will include the introduction of a Fund specific cyber security policy.
- 4.2 The Board will monitor progress in delivering the Fund's transformation project, Project Chrysalis, and the ongoing work to improve data quality, including the impact of the introduction of Monthly Interfacing.
- 4.3 The Board will keep a close eye on any changing guidance from TPR and SAB and ensure the Fund implements any recommendations as prescribed.
- 4.4 The Board will continue with its compliance role in ensuring Fund policies and publications are produced and updated in line with statutory requirements and best practice guidance.
- 4.5 The Board will undertake the annual review of its own policies, such as the Terms of Reference and Code of Conduct Policy, to ensure that they remain fit for purpose.
- 4.6 The Board's activity will allow the Pension Fund Committee to concentrate on making decisions safe in the knowledge that the fund is compliant with statutory and best practice and that any areas for development will be highlighted to them by the Board.
- 4.7 Board members will attend external conferences and seminars in order to maintain knowledge and also to keep up to date with current issues facing the LGPS.

## **5. Further information**

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- 5.1 If you would like to further information regarding the Cheshire Pension Fund Local Pension Board or have any questions please visit our website:

<https://www.cheshirepensionfund.org/members/about-us/how-we-manage-the-fund/governance-structure/>

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## COMPLIANCE UPDATE

### Introduction

1. This report provides the Board with a summary of the Breaches Log for 1 April 2020 to 30 September 2020.
2. The report also provides details of a breach which has been reported to the Pensions Regulator regarding the delivery of Annual Benefit Statements.

### Recommendation

3. Board are requested to note and comment on the summary of the Breaches Log for 1 April 2020 to 30 September 2020 and the red breach reported to the Pensions Regulator.

### Breaches Log

4. In accordance with the Breaches Policy, both the Committee and the Local Pension Board review the Breaches Log on a quarterly basis, in order to identify any trends that may require further action.
5. A summary of the breaches included on the log between 1 April 2020 and 30 September 2020 are listed below in Table 1 and are categorised by red, amber and green. For comparison purposes the total numbers of breaches for the prior year have also been included.
6. Red breaches are those which require reporting to the Pensions Regulator (TPR). Amber breaches are where the Fund has highlighted an issue with the employer which requires further monitoring but are not material enough to require reporting to the Pensions Regulator. Green breaches are those where following investigation, no further action is deemed necessary.

**Table 1: Summary of the Breaches Log**

	Total 2019/20	Total 2020/21	Status 2020/21		
			Red	Amber	Green
Contributions	71	22	0	0	22
ABS	1	1	1	0	0
Disclosure	1	0	0	0	0
Administration	26	37	0	0	37
<b>Total</b>	<b>99</b>	<b>60</b>	<b>1</b>	<b>0</b>	<b>59</b>

7. There has been one red, no amber and 59 green breaches in the period. Below is a summary of the breaches.



### Contribution Breaches

- During the period there were twenty-two Green breaches. The majority of these relate to employers who have small numbers of staff and so are easily affected by unexpected staff absences or have been impacted by Covid-19. These breaches have been quickly rectified by the employer.

### Administration Breaches

- The Fund has identified thirty-seven breaches relating to administration casework during the period.
- As staff work through the casework backlog, many older cases are now being processed. This has resulted in an increase in administration breaches as members weren't notified of their pension options within the specified time periods.
- Processes have been amended to ensure we do not breach disclosure regulations for current cases, however, as the cases which are now being processed pre-date these changes, they will flag up as a breach.

### Annual Benefit Statement Breach

- LGPS Regulations require that all active and deferred members receive an Annual Benefit Statement (ABS) by 31 August each year. In addition, TPR sets a requirement that pension funds must self-report if they don't provide ABS to 100% of eligible members by this deadline.
- The Fund has reported to TPR a breach relating to the 2020 ABS. Due to a combination of missing data issues, plus a high number of lost contact addresses, particularly of deferred members, the Fund was not able to send 100% of ABS on time.
- Following the Fund's usual process, the ABS breach report was approved by the Local Pension Board and the Director of Governance before being issued to the Regulator. The Fund has not received any response from TPR yet but continues with its rectification plan to resolve the issue and will provide an update to TPR in due course.

#### Active Members

- The table below summarises the number of active members (those making contributions) eligible to receive an ABS and those that received an ABS on time.

**Table 2: Summary of Delivery of Active Members ABS**

	<b>2020</b>	<b>%</b>	<b>2019</b>	<b>%</b>
Active Members Eligible to receive an ABS	31,420	100	32,677	100
Members who received an ABS on time	28,398	90	27,633	85
Members who did not receive an ABS on time	3,022	10	5,044	15



16. Members will recall that the Fund set a business plan target of despatching 90% of active ABS by the deadline of 31 August. This has been achieved through a combination of extensive data cleansing work, supported by the introduction of Monthly Interfacing (MI) where 'per member' information is received from employers monthly instead of annually. This allows data issues and queries to be identified and resolved in a timelier manner.
17. The table shows some 10% of active members did not receive their ABS by the deadline compared to 15% in 2019. The reasons why these members have not received their ABS include:
  - a) The data provided from employers is inconsistent or contains errors.
  - b) Missing data that we will need to work with employers to obtain.
18. The Fund identified 3,241 members for whom contributions had ceased but no leaving notification had been provided. These members were not active at year end and hence not eligible to receive an ABS. A letter has been sent to the members explaining we are liaising with employers to obtain required leaving details.
19. Active members who did not receive an ABS, but we believe should have, received a letter explaining the position and informing them that the Fund is working to resolve any outstanding queries so that they can receive an ABS by November 2020.
20. The Fund has been liaising with employers about the position and that they treat any requests for information linked to the provision of ABS as urgent. Data cleansing work on the 3,022 cases where members did not receive an ABS has continued, and the position stands as follows:
  - ABS have now been sent to 668 members, with an additional 489 to be issued as soon as possible.
  - 969 members had ceased making contributions, but no leaving information had been received, or were duplicate records
  - The Fund is working with employers on remaining queries with a view to resolving data issues and providing an ABS to those members eligible to receive one.

#### Deferred Members

21. The table below summarises the number of deferred members who were eligible to receive an ABS and those that received it on time. As the Board will note, the Fund was able to send c87% of deferred ABS on time.

**Table 4: Summary of Delivery of Deferred Members ABS**

	2020	%	2019	%
Deferred Members Eligible to receive an ABS	27,203	100	26,917	100
Members who received an ABS on time	23,792	87	23,948	89
Members who did not receive an ABS on time	3,411	13	2,969	11



22. Some 3,411 deferred members did not receive their ABS by the deadline. These are members for whom the Fund no longer holds a current address. Over recent months the Fund commissioned the services of a tracing company who have located 2,053 (60%) members. Those members will now receive their ABS by the end of November. Work continues to trace the remaining 1,358 members.



Local Pension Board - Workplan

Standard Meetings			
February	May	July	October
Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes	Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes	Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes	Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes
Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Fund Compliance /Breaches Log	Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Breaches Log	Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Breaches Log	Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Breaches Log
Draft Annual Report	Sign off Annual Report (June Meeting)		
Review the TPR Data Scored and associated actions	Review the TPR Data Scored and associated actions	Review the TPR Data Scored and associated actions	Review the TPR Data Scored and associated actions
		Review LPB Terms of Ref/ Conflicts of Interest Policy (once Good Governance outcomes available)	Review of ToR/CoI and outcomes from Good Governance Review still awaited
		Cyber security - a policy will be developed for the Fund	Cyber security policy - waiting to see requirement in Good Governance review and/or updated TPR Code of Practice
		Consider the outcomes from the SAB Good Governance review and any actions the Fund needs to take as a result.	
Review policies are kept up to date and produced in accordance with legislation and guidance		Review policies are kept up to date and produced in accordance with legislation and guidance	LPB Risk Register (reviewed in July)
	Review the progress made by the Fund including the detail of any ongoing actions		Review the progress made by the Fund including the detail of any ongoing actions
		LPB Risk Register (moved from May)	
Statutory Policies (FSS, ISS, Comms Policy, Admin Strategy Gov Policy and Breaches Policy)		Statutory Policies (FSS, ISS, Comms Policy, Admin Strategy Gov Policy and Breaches Policy)	
		Review the process for IA in assessing internal controls of the fund and external audit process for reviewing the Accounts and Annual Report	
MI Update			TPR Combined CoP
Cyber security			RI Policy or Cyber security? This is where they are up to and when you will see something
Event Planner			
SSD - update			

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