

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

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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