

## MINUTES OF PENSION FUND COMMITTEE HELD ON 4 JUNE 2021

### Present

Cheshire West and Chester: Cllrs Hogg (Chair), Gould, Lewis and Tonge  
Cheshire East: Cllrs Bulman, Corcoran, Findlow and Stott  
Halton: Cllr Dennett  
Warrington: Cllr Mitchell

### Apologies

Member Representative: Paul Matthews, GMB

### In Attendance

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

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## **PART A:**

### 1. PROCEDURAL MATTERS

- 1.1 Declarations of Interest – Councillor Hogg declared an interest as a Governor of the Childer Thornton County Primary School. Councillor Dennett declared an interest as an employee of Warrington Borough Council.
- 1.2 Councillor Mike Wharton has resigned from the Pension Fund Committee to take up his post as Leader of Halton Borough Council. Councillor Hogg thanked Councillor Wharton for his contribution as a member of the Committee since 2004.
- 1.3 Councillor Mark Dennett was welcomed to the Committee as the new representative for Halton BC.
- 1.4 Apologies were received from Paul Matthews.

### 2. MINUTES OF MEETINGS

- 2.1 The minutes of the Pension Fund Committee held on 12 March 2021 were reviewed, having previously been distributed and agreed by email. The Minutes of the Local Pension Board held on 19 April, 4 May and 1 June 2021 were also reviewed.



### 3. **STANDING ITEMS**

#### Employer Changes

- 3.1 The Committee received a report detailing employers who had joined or exited the Fund over the period 1 March to 31 May 2021 (inclusive).

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

#### Compliance Update

- 3.2 The Committee received the Compliance Update including a summary of the breaches log 1 April 2020 to 31 March 2021. One hundred and three occurred in the period, all of which required no further action following investigation.

- 3.3 The Committee asked for an update from officers on two areas of casework and the impact approved investment in staffing along with updating business processes is having:

- Deferred casework – c4,200 cases reduced by 75%
- Aggregation casework – aggregation casework of c5,400 reduced by 24%

- 3.4 The pensions programme includes a dedicated workstream with a key objective to develop a plan and timetable to clear casework.

**The Committee** noted the cumulative Breaches Log for 1 April 2020 to 31 March 2021 and the verbal update on actions taken managing casework.

#### Business Plan 2021-25

- 3.5 The Committee were presented with the action plan tracker for the 2021/22 year. The tracker identifies the actions that are required to be achieved in year to meet the objectives set out in the Business Plan.

- 3.6 The tracker includes details of delivery targets to be achieved in each quarter of the year. A new reporting framework is being developed to report progress on the actions on an exception basis and will be presented to Committee at the next meeting. Officers confirmed that all actions identified to be achieved in quarter one were on track to be achieved.

- 3.7 The Committee also received a copy of the updated risk register, which will be regularly reviewed by the Committee each year.

#### **The Committee noted:**

- a) the 2021-22 Action Plan tracker and the development of a new reporting framework, and
- b) the Fund Risk Register.



#### 4. DRAFT STATEMENT OF ACCOUNTS 2020-21

- 4.1 The Committee received a report providing an overview of the draft Statement of Accounts for the Cheshire Pension Fund for the year to 31 March 2021. Officers outlined the main changes to the draft Statement of Accounts from the prior year and also explained that the report included full details of the responses of the Fund to a range of assurance questions from Grant Thornton.
- 4.2 Due to the Covid-19 pandemic, Committee noted that the Government had revised the deadline for the preparation of the draft accounts from 31 May to 31 August. The audit of the statement of accounts also moved from 31 July to 30 September. The finance team had managed to prepare the draft statement of accounts to the usual deadline of 31 May. The Committee thanked the finance team for preparing the accounts to a high standard to the usual 31 May deadline despite the additional challenges due to the Covid-19 pandemic.
- 4.3 Members asked why employer contributions had increased so sharply between 2019-20 and 2020-21 particularly as investment returns had been so strong over the same period. Hymans explained that employer contributions for the period from April 2020 onwards were determined at the point of the March 2019 valuation and would therefore be updated and recalculated for the 2022 valuation. Contributions from employers consisted of both primary and secondary (deficit) contributions and the 2020-21 figures included some significant deficit contribution payments while the 2019-20 included none.
- 4.4 In addition, the decrease in stock lending income between 2019-20 and 2020-21 was queried. Officers responded that this had been discussed with the Fund's stock lending provider BNY Mellon, who had confirmed that the income was demand led and there had been an across the board reduction in demand for stock lending during the pandemic. The decrease in income would be included within the forthcoming review of stock lending, due to report to Investment Sub Committee in August.
- 4.5 The key future dates for committee to note are:

Date	Action
1 June	Draft accounts reviewed by the Local Pension Board prior to review by the Pension Fund Committee
4 June	Pension Fund Committee receives the draft accounts, provide comment and recommend that the accounts are presented to the Audit and Governance Committee for approval following the completion of the audit
1 July	Grant Thornton commence the audit testing of the accounts
10 Sept	Majority of the audit completed and Grant Thornton produce their Audit Findings Report
10 Sept	Audit Findings Report and Annual Report, including the Statement of Accounts, presented to Pension Fund Committee



Date	Action
TBC	Audit Findings Report and audited Statement of Accounts will be presented to the Cheshire West and Chester Audit and Governance Committee
30 Sep *	Audited Statement of Accounts published on Council's website Annual Report including the Audited Statement of Accounts published on the Fund's website

\*The Cheshire West and Chester Council Audit must be signed off before the Pension Fund Accounts can be published.

- 4.6 If the audit is not complete by the Committee meeting on 10 September, any changes required to the accounts following this date will be circulated to the Committee for recommendation via an Electronic Decision Notice.
- 4.7 The Committee was reminded of the Local Pension Board's role to ensure the accounts are produced in compliance with statutory and best practice guidance, and that the Committee discharges its duty of reviewing the accounts recommending them to Audit and Governance Committee. The Local Pension Board reviewed the draft Statement of Accounts at their meeting on 1 June 2021 and confirmed that, in their opinion, the accounts had been prepared in accordance with statutory and best practice guidance.
- 4.8 The report also included the final outturn for the 2020/21 Administration Budget, which showed an underspend of £357,000.

**The Committee:**

- a) Provided comment on the draft Statement of Accounts for the year 2021-22 and agreed that they be presented to the Audit and Governance Committee following completion of the audit
- b) Noted the outturn position for 2020-21
- c) Reviewed and endorsed the management responses to the questions posed by Grant Thornton.

**5. EXTERNAL AUDIT PLAN**

- 5.1 The Committee received the external Audit Plan for 2020-21 from Grant Thornton, which included an explanation of the areas of significant risks that would be focused on during the audit. In addition, the Committee were informed that Grant Thornton would report to the Committee any misstatements they discovered in the accounts of a value greater than £3.247m.

**The Committee:** Noted the Audit Plan from Grant Thornton prior to the plan being presented to the Audit and Governance Committee.



## 6. LGPS CENTRAL POOLING UPDATE

- 6.1 The Committee received a further report in the series of updates on progress towards delivering investment pooling.
- 6.2 The report summarised arrangements for the forthcoming Joint Committee due to be held on 18 June 2021.
- 6.3 It listed the pooled funds launched to date by LGPS Central Limited noting that some £13.8bn of Partner Fund assets is now invested in these pooled funds.
- 6.4 The report also included a summary of the position for the transition of Cheshire Pension Fund assets into the pool as at March 2021. Some £1.09bn of Funds assets had been pooled which, when added to cash and the collectively procured passive funds managed by Legal & General, represents 51% of assets.
- 6.5 Some assets classes including legacy private equity and direct property presented timing or cost challenges to transition. Further transitions are planned subject to development of pooled funds and local Fund governance.
- 6.6 Committee requested further information on fee savings achieved from pooling to date. Officers will include that information in future updates, noting that savings are affected by several variables, including asset allocation decisions, economies of scale, and changes in pricing offered by legacy managers in response to pooling.

**The Committee:** Noted the position as set out in the report.

## 7. FUNDING STRATEGY STATEMENT UPDATE

- 7.1 The report provided the Committee with the responses to the formal consultation with employers on the Fund's Funding Strategy Statement (FSS) and policy regarding the review of employer contributions, employer exit payments and deferred debt agreements.
- 7.2 The consultation on the FSS ran for a month to 14 May 2021 and was widely advertised to employers.
- 7.3 The Committee reviewed the consultation feedback received from employers, the Fund's proposed responses and the updated Funding Strategy Statement in light of consultation feedback.

**The Committee:**

- a) Endorsed the Administering Authority's proposed responses to the feedback to the FSS and employer flexibilities policy consultation.
- b) Endorsed that the Administering Authority implement with immediate effect the employer flexibilities policy and FSS.



## 8. **GOVERNMENT ACTUARY DEPARTMENT'S SECTION 13 VALUATION – DRAFT RESULTS**

- 8.1 Committee reviewed the draft results from the Government Actuary Department's (GAD) valuation of the Cheshire Pension Fund under Section 13 of the Public Service Pensions Act 2013.
- 8.2 Under Section 13 of the Public Service Pensions Act 2013, the Ministry for Housing Communities and Local Government (MHCLG) are required to carry out a review of all LGPS local fund valuations to ensure they comply with four key criteria set out in the report.
- 8.3 Committee noted that the Fund received a clean bill of health assessment from GAD, with no 'red flags' being raised.

**The Committee noted** the draft Section 13 GAD valuation report

## 9. **GOOD GOVERNANCE REVIEW UPDATE**

- 9.1 The report updated Committee on the final recommendations from Scheme Advisory Board's national LGPS Good Governance Review and the Fund's initial self-assessment of its arrangements compared to the review recommendations.
- 9.2 The assessment (attached at Appendix 1 to the report) showed the Fund's current arrangements are predominantly already compliant with the recommendations. Key areas for further review as set out in the Appendix were discussed.
- 9.3 Committee noted that this was an interim assessment only at this stage pending confirmation of MHCLG's approach and sight of draft regulations and guidance. Further reports will be brought to Committee in due course.

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

## 10. **FUTURE MEETINGS**

- 10.1 The Committee were invited to consider the approach for holding future meetings as lockdown restrictions are eased.
- 10.2 The Committee noted that virtual meetings had been effective over the past 15 months and should largely continue with some opportunities to meet in person. The report included a possible meeting schedule to assist discussion
- 10.3 Following discussion Committee proposed that:

- Pension Fund Committee meetings be held virtually with one meeting taking place in person each year.
- All Investment Sub Committee meetings be held virtually.



- Joint Training sessions be held virtually with one taking place in person each year.
- No hybrid meetings, i.e. where some members attend virtually and some attend in person for the same meeting, would take place.
- The above approach will be kept under review and refined as required.

**The Committee:**

- a) Agreed an approach to future meetings as set out in 10.3 above
- b) Agreed the principle that meetings will be held either virtually or in person but not a combination of both in any one meeting.

**11. ANY OTHER BUSINESS**

11.1 The Committee were advised that all meeting dates planned for 2021/22 had now been checked against meeting dates for the four main Councils and Police and Crime Commissioner meetings and there were no clashes identified.

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**PART B**

**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. A non-confidential summary of the items discussed is provided for information.

**12. PROCEDURAL MATTERS**

12.1 The Committee noted the draft Minutes from the Investment Sub-Committee meeting on 14 May 2021 which had been circulated via email.

**13. ADMINISTRATION DATABASE RE-TENDER OUTCOME**

13.1 The Committee received a report on the outcome of the procurement exercise for pensions administration software. The procurement was carried out using the National LGPS Framework for pensions administration software.

13.2 Civica UK Limited were the winning bidder for the contract which will run for seven years from March 2022, with an option to extend for a further three years.

13.3 The Committee received details of the one-off and ongoing budgetary provision required for this contract.

**The Committee:**

- a) Noted the procurement outcome and the award to Civica UK Limited.
- b) Endorsed the annual and one-off budgetary provision.

**14. INVESTMENT PORTFOLIO – CLIMATE RISK REPORT**

14.1 The Committee received a report on the main findings of the Fund's second annual Climate Risk report.

14.2 The second Climate Risk report follows from the initial report in 2020 which concluded that the Fund's investment portfolio would be extremely resilient under all projected climate scenarios (an increase in global temperatures of 2, 3 and 4 degrees Celsius) and that the Fund's equity portfolio had a carbon footprint 30% below that of the general market as represented by the FTSE All World Index.

14.3 Following the initial Climate Risk report, the Fund had published a Climate Strategy which included an explicit and clear commitment to support the Paris Climate Agreement, which seeks to limit increases in global temperatures below 2 degrees centigrade. In addition, the Fund committed to the delivery of three shorter term but still demanding decarbonisation/green targets.



14.4 The draft Climate Risk report concludes that the Cheshire Pension Fund has made strong progress in the last year on several fronts:

- i. In 2020 the Fund had published its first TCFD (Task Force on Climate-Related Financial Disclosure) compliant report and was one of the first LGPS funds to do so.
- ii. Of the 20 recommendations included in the initial Climate Risk report, 70% have been fully implemented or are close to completion.
- iii. Strong progress had been made on engagement, voting and stewardship activities with the nine companies having the highest carbon footprint in the Fund's equity portfolio in pursuit of clearly defined engagement objectives which will continue into 2021-22.
- iv. Against its three decarbonisation/green investing targets, the Fund has considerably overachieved on two and is on track to deliver the third.
- v. With regard to the very important target of decarbonising the Fund's equity portfolio to 50% below the general market, the Fund now stood at 45%, close to delivering the target in full more than two years early.

14.5 The Committee reviewed options to move beyond the current 50% target and agreed that alternative approaches for the Fund's remaining passive equity fund with above average emissions be explored to achieve this. Any potential alternatives must comply with the Fund's policy not to exclude companies or sectors on a crude, mechanistic basis. Rather investment decisions would be evidence based and focus on reducing the Fund's exposure to high carbon companies across all sectors. A further report will be brought to the next Committee clearly setting out the financial and non-financial reasons for any proposed change.

14.6 Members welcomed the positive progress evidenced within the second Climate Risk report and were particularly pleased that the Fund was delivering its green targets earlier than anticipated. It was agreed that new publicity be generated to acknowledge progress to date. The discussion concluded with agreement that it would be useful for a future training session to explore how the Fund contributes to other aspects of responsible investment ESG (environmental, social and governance) with an emphasis on social, whilst not jeopardising the Fund's primary fiduciary duty.

**The Committee:**

- a) Noted Fund's second annual Climate Risk report.
- b) Authorised Officers to amend the draft Climate Risk report so that it complies with industry best practice as set out by the Taskforce on Climate Related Financial Disclosures (TCFD).
- c) Endorsed publication of the Fund's second annual TCFD climate risk report on the Fund's website.
- d) Authorised officers to conclude discussions to produce a firm recommendation for the Fund's one residual equity fund which has above average carbon emissions, for consideration at a future Committee meeting.



15. **AOB**

15.1 No matters were raised

