

## MINUTES OF PENSION FUND COMMITTEE HELD ON 2 DECEMBER 2022

### Present

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

### Apologies

Cheshire West and Chester: Cllr Gould  
Warrington: Cllr Mitchell  
Member Representative: Paul Matthews, GMB  
CW&C Officer: Mark Wynn

### In Attendance

Actuary: Hymans Robertson – Gemma Sefton  
Investment Advisor: Mercer – Chris West  
External Auditor: Grant Thornton – Angela Pieri  
CW&C Officers: Steve Wilcock, Heidi Catherall, Nick Jones and Debbie Darlington

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## **PART A:**

### **1. PROCEDURAL MATTERS**

- 1.1 There were no declarations of interest.
- 1.2 Apologies were received from Councillors Mitchell and Lewis, Paul Matthews and Mark Wynn. Officers confirmed that Mark Wynn is currently undertaking a dual role spanning both Cheshire West and Chester and Lancashire County Councils and it is planned that this arrangement will run through to March 2023.

### **2. MINUTES OF MEETINGS**

- 2.1 The minutes of the Pension Fund Committee held on 30 September 2022 were reviewed, having previously been distributed and agreed by email.
- 2.2 Officers provided a brief update on the planning issue at the Fund's industrial estate in Cheltenham, which is managed by Patrizia. Discussions are ongoing with all parties involved but it is unlikely that Cheltenham Borough Council will take a decision on the outline planning proposal until early 2023.
- 2.3 The Committee noted the minutes from the Local Pension Board meeting which took place on 18 October 2022.
- 2.4 The Committee also noted the minutes of the Pensions Consultative Forum meeting which took place on 21 October 2022.



### 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 September to 30 November 2022 (inclusive).

**The Committee** noted the changes to employers during the reporting period and noted the inclusion of a table showing the breakdown of schools who have converted to academy status.

#### Compliance Update

- 3.2 The Committee received the Compliance Update including a summary of the breaches log for the period to 30 September 2022. Thirty breaches occurred in the period and required no further action following investigation.
- 3.3 The Committee noted that the Fund had reported a breach to the Pensions Regulator relating to the Annual Benefit Statements.

**The Committee** noted the cumulative Breaches Log for the period to 30 September 2022.

#### Business Plan 2022/23

- 3.4 The Committee were presented with the 2022/23 performance dashboard, outlining progress in achieving the planned actions for quarter three.
- 3.5 The Committee also received the updated risk register and the forecast outturn for 2022/23.

**The Committee** noted progress in delivering the Action Plan, the updated risk register and the forecast outturn.

#### Regulatory Update

- 3.6 Committee received a report outlining an overview of regulatory changes and events, along with an update on expected future consultations which will impact the Local Government Pension Scheme.

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

### 4. INVESTMENT STRATEGY REVIEW AND INVESTMENT STRATEGY STATEMENT UPDATE



- 4.1 The Committee received a report updating on progress made in relation to the review of the Fund's investment strategy and presented a draft Investment Strategy Statement (ISS) for consultation with stakeholders. The Fund's final ISS needed to be published on the Fund's website in April 2023 to ensure compliance with the 2016 LGPS Investment Regulations.
- 4.2 Members noted an amendment was required in relation to the tolerance ranges for equities within the ISS and officers confirmed this will be updated in the version that goes out for consultation.
- 4.3 It was proposed that the ISS consultation runs alongside the separate consultation on the Fund's Funding Strategy Statement, with both consultations closing in February. This will allow consideration of any responses and final amendments to the two documents by the Pension Fund Committee at its meeting on 10 March.
- 4.4 In previous years, the Fund has also consulted on and published its Responsible Investment (RI) policy alongside its Investment Strategy Statement. However, there is currently a government sponsored consultation on Climate Risk reporting for LGPS funds. The final proposals from the Government in respect of climate risk reporting could have a material impact on the RI policies of all LGPS funds. It is therefore sensible to retain the Fund's existing RI policy (updated for recent non policy changes) and revisit the policy when final government proposals emerge on climate risk reporting.

**The Committee:**

- a) Endorsed the decision to retain the grouping of employers into the four existing categories: Open Employers, Academies, Exiting/Closed and Exited,
- b) Endorsed the strategic asset allocation for the four employer groupings as set out in Table 4,
- c) Noted the proposed elements to review various asset classes within the Strategic Asset Allocation, with a focus on developing a proposal to invest in the new asset class of residential property,
- d) Endorsed the revised draft Investment Strategy Statement and agree they can be issued for consultation with fund employers, scheme members and stakeholders.

**5 AUDIT FINDINGS REPORT UPDATE**

- 5.1 The Committee received the updated Audit Findings Report now that the audit work for 2021/22 is substantially complete. Grant Thornton updated the Committee on the two recommendations that have been added to the report since the September meeting.
- 5.2 There have also been two changes to accounts:



- A post balance sheet event has been disclosed within the accounts to reflect the fall in investment asset values as a result of the downturn in markets since the end of March 2022.
- Following ongoing discussions from the 2020/21 accounts regarding the level classification of investments within the financial instrument note, further reclassifications have been made within the 2020/21 and 2021/22 statement of accounts to ensure assets are classed at the most appropriate level. Levels are determined by the extent to which assets values can be independently verified.

There have been no changes to the figures on the face of the primary statements (the Fund Account and Net Asset Statement).

- 5.3 Committee members were reminded that the audit report for the Pension Fund cannot be issued until the completion of the Cheshire West and Chester Council audit.
- 5.4 The Chairman thanked officers for their hard work in producing the accounts and completion of the audit.

**The Committee:**

- a) Received the updated audit findings report from Grant Thornton,
- b) Noted the changes to the Statement of Accounts for 2021/22.

## **6 FUTURE MEETING DATES**

- 6.1 The Committee were presented with draft meeting dates for the 2023/24 year. These dates will be confirmed once the Councils publish their calendars of meetings in the spring and they have been checked for potential clashes.
- 6.2 The Committee were invited to consider the approach to future meetings and agree dates for specific meetings which will take place in person. The current format of one in person meeting per year for the Committee and one for the Joint Training sessions was agreed.
- 6.3 Members were in favour of trying to meet in person on 10 March 2023 as the planned in person meeting in September 2022 had not been able to go ahead as originally planned.

**The Committee:**

- a) noted the proposed future meeting dates and reaffirmed the format for the number of in person meetings each year.
- b) The Committee requested that the 10 March 2023 meeting take place in person.

## **7 ANY OTHER BUSINESS**



7.1 No items were raised

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## **PART B**

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

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

## **8 PROCEDURAL MATTERS**

8.1 The Committee noted the minutes from the Investment Sub-Committee meeting on 18 November 2022 which had been circulated via email. The Committee also noted the minutes for the LGPS Central Joint Committee which took place on 11 November 2022.

## **9 VALUATION UPDATE**

9.1 The Committee received a report detailing the 2022 initial whole fund valuation results and a summary of the next steps for the valuation project.

9.2 The whole fund funding position has improved since the last valuation from 97% to 113% funded, from a deficit of £156m to a surplus of £826m. The major positive impact on the funding position was reduction in the value of liabilities due to change in expected future investment returns.

9.3 Initial individual employer results, and future contribution rates, have been provided to around 30 employers and officers had now completed a series of meetings with these employers. Work is ongoing with officers and the Actuary to produce valuation results for remaining individual employers.

9.4 The Fund is working with some employers to update their data and this may lead to a change in the Fund level results from the initial report to the final valuation report due March 2023.

9.5 The Committee also received an update on proposed amendments required to the Funding Strategy Statement prior to commencing the consultation with employers.

9.6 Officers are reviewing the FSS to make it easier to navigate and will conduct a review of the additional policies linked to it, such as the contributions policy.



- 9.7 The Committee will receive the amended FSS via an Electronic Decision Notice ahead of the consultation. The FSS will be issued alongside the consultation for the Investment Strategy Statement.
- 9.8 The Committee will formally sign off the FSS in the new year after the consultation with employers has closed.

**The Committee endorsed:**

- a) Noted the progress made in completing the 2022 triennial valuation
- b) Noted and comment on the initial whole fund 2022 valuation results
- c) Noted the proposal to amend and consult with a revised Funding Strategy Statement.

## **10 LGPS CENTRAL POOLING UPDATE**

- 10.1 The report provided the latest update to the Committee on progress to date in delivering pooling. It summarised the main activity since the previous update to Committee in December 2021 and follows the presentation by LGPS Central Ltd at the September 2022 Committee meeting.
- 10.2 The Fund has invested 25% of its assets into pooled funds as at 30 September 2022, this will rise to 36% when private market commitments already made (to infrastructure, private equity and private debt) are drawn upon. Further significant asset transitions are expected over the next two financial years.
- 10.3 The report summarised Fund assets not yet pooled and the Fund's approach to these and noted that some investments, such as close ended private equity funds, will take many years to unwind.
- 10.4 As requested by Committee, the report included a snapshot of Fund's costs and savings experienced to date in relation to pooling. The report described the different sources of costs and savings and that some costs are front loaded. The position to date is consistent with the forecast pooling savings for the Fund previously reported, acknowledging that this forecast is based on several key assumptions.
- 10.5 The latest investment performance of the pooled funds that the Cheshire Pension Fund invests in was reported, as at 30 September 2022 and the importance of investment performance in delivering net savings from pooling was noted. The latest meeting of the LGPS Central Joint Committee on 11 November 2022, now chaired by Councillor Hogg, was summarised. This included a description of the LGPS Central cost saving model, which amalgamates the total costs and savings across the LGPS Central pool and informs annual reports to the Department for Levelling Up, Housing and Communities (DLUHC).
- 10.6 Regular reports on pooling related costs and savings for the Fund will be presented to Committee, typically on an annual basis.



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

## 11 INVESTMENT CASHFLOW

- 11.1 The Committee received a report to review the projected cashflow position of the Fund and options for generating additional investment income.
- 11.2 Following the 31 March 2022 valuation, employer contribution rates for major employers will decrease from 2023/24 onwards. At the same time, benefit payments will increase sharply in line with CPI; the 10.1% increase is likely to increase benefit payments by approx. £20m in 2023/24. Therefore, the Fund is forecasting that it will be in a negative cash flow position in 2023/24 with benefit payments being higher than contributions and current cash investment income.
- 11.3 The Fund's investment advisor has completed a cash flow analysis and recommended changes to two existing investment mandates to switch income distributing share class units. This will result in approximately £7.9m of additional income per quarter.
- 11.4 Cash flow analysis will be reviewed on an ongoing basis in conjunction with Mercer and if any further changes are needed, recommendations will be presented at future Pension Fund Committee meetings. The Fund will continue to report on cash flow to the Investment Sub-Committee on a quarterly basis.

**The Committee:** endorsed the switch to income distributing share classes for two legacy investment managers. The timing of this switch will be from April 2023 onwards with implementation and timings to be determined by Fund officers in consultation with the Fund's investment advisors.

## 12 ANY OTHER BUSINESS

- 12.1 No matters were raised.



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