

**PENSIONS COMMITTEE
1 DECEMBER 2022**

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors P E Coupland (Vice-Chairman), M G Allan, T J N Smith and Dr M E Thompson

Co-Opted Members: Mr A N Antcliff (Employee Representative) and Steve Larter (Small Scheduled Bodies Representative)

Officers in attendance:-

Clair Machej (Accounting, Investments and Governance Manager), Jo Ray (Head of Pensions), Michelle Grady (Assistant Director - Finance) and Thomas Crofts (Democratic Services officer),

Others in attendance:-

Melanie Durrant (Barnett Waddingham), Peter Jones (Independent Advisor) and Matt Mott (West Yorkshire Pensions Fund)

41 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Waller and Griggs.

42 DECLARATIONS OF MEMBERS' INTERESTS

Andy Antcliff (Employee Representative) declared an interest as a contributing member of the Pension Fund and an employee of Lincolnshire County Council.

Councillor M G Allan declared an interest as a pensioner member of the Pension Fund.

Steve Larter (Small Scheduled Bodies Representative) declared an interest as an active and deferred member of the Pension Fund.

43 MINUTES OF THE MEETING HELD ON 22 SEPTEMBER 2022

RESOLVED

That the minutes of the meeting held on 22 September 2022 be approved as a correct record and signed by Chairman subject to the following amendment:

- Steve Larter declared an interest as an active and deferred member of the Pension Fund.

44 MINUTES OF THE SPECIAL MEETING HELD ON 13 OCTOBER 2022

RESOLVED

That the minutes of the special meeting held on 13 October 2022 be approved as a correct record and signed by Chairman subject to the following amendment:

- Steve Larter declared an interest as an active and deferred member of the Pension Fund.

45 INDEPENDENT ADVISOR'S REPORT

Consideration was given to a report prepared by the Committee's Independent Advisor which provided a market commentary on the current state of global investment markets.

The Committee discussed the report and were advised of the following:

- Global growth broadly depended on a 6% growth rate in China, which had slowed due to public health measures and the tapering of the construction boom.
- Central Government was in a position to fund its debts and that this was not a matter of concern for the markets.
- A global recession was anticipated for the coming year, and it was projected to last 12-18 months.
- There was still a threat of the bond market falling due to central banks pursuing 'quantitative tightening' to control inflation.

RESOLVED

That the update be noted.

46 REPORT BY THE INDEPENDENT CHAIR OF THE LINCOLNSHIRE LOCAL PENSION BOARD

Consideration was given to a report by the Independent Chair of the Lincolnshire Local Pension Board which updated the Pensions Committee on the work of the Board during the past few months. During the last meeting, the Board focused on the following matters:

- The Board raised concerns regarding slow progress on improvements to the data scores.
- The reduction of temporary bank accounts was welcomed.
- An increase in the number of personal visits regarding outstanding pension receipts was welcomed.
- The Board noted the external audit report and were satisfied by the assurances given.
- Concerns were raised regarding affordability of increased pension contributions from small employers following the 2022 valuation results.

The Committee discussed the report and it was raised that the below target data scores resulted from the initial transfer of data from the legacy provider and the long timeframes for improving them largely due to the need to manually process. Work was underway to automate the process of getting data from documents into the appropriate data fields, but quotes had been too costly; alternative providers were being investigated.

RESOLVED

That the report be noted.

47 PENSION FUND UPDATE REPORT

Consideration was given to a report which provided an update to the Committee on Fund matters over the quarter ending 30 September 2022 and any current issues. The following was highlighted:

- Risk I5 (Not enough income to meet pension payments) and O3 (Increased risk of employers exiting) had been added to the risk register. Both had substantial assurance, and a static direction of travel.
- The annual accounts were delayed due to outstanding issues with the Council's accounts. It was anticipated that the Pension Fund accounts receive an unqualified opinion at the same time as the County Council.
- Progress had been delayed on the scheme advisory board good governance report due to other priorities. Consultation was now expected early 2023.

The Chairman gave feedback to the Committee regarding his attendance at the Joint Committee and the Boarder to Coast Annual Conference – highlights from the meeting included:

- Joint Committee:
 - A new scheme representative had been appointed
 - The budget of the joint committee was approved
 - The Net Zero Implementation Plan
 - Boarder to Coast was due to attend the meeting of this Committee in January 2023 to give an update on the equity investments.
- Boarder to Coast Annual Conference:
 - Economic and Levelling-up update
 - Equities, private markets, and fixed income investment processes and decisions
 - Strategic and round table discussions on future priorities and scope for collaboration
 - Net zero targets for 2050.

The Committee discussed the report and the following matters were raised:

PENSIONS COMMITTEE**1 DECEMBER 2022**

Members were troubled by central government's direct involvement in shaping certain aspects of pension fund strategy. Members agreed that the situation needed close monitoring.

The Committee congratulated Claire Machej, Accounting, Investments and Governance Manager, on receiving the 2022 LGC Rising Star Award for Fund Officers.

RESOLVED

1. That the report be noted
2. That the proposed changes to the risk register be approved.

48 RESPONSIBLE INVESTMENT UPDATE REPORT

Consideration was given to a report presented by the Accounting, Investment and Governance Manager which provided the Committee with an update on the Responsible Investment activity during the second quarter of the financial year 2022/23 (July to September inclusive). This included activity for the Local Authority Pension Fund, Border to Coast Pensions Partnership, Robeco, and Legal and General Investment Management; Border to Coast Environmental, Social and Governance Reporting; voting records; and the Stewardship Code 2022.

The Committee discussed the report and the following matters were raised:

- The Council was unable to recruit to the position of Principal Accounting, Investment and Governance Officer. A trainee position was being created as an alternative way to fill this post and help with succession planning.
- Globally, shareholders were voting to pursue responsible investment strategies. It was advised that shareholder input had contributed to good stewardship and risk avoidance. Members asked that evidence of this be highlighted in subsequent reports.
- Members asked that further clarity be sought on the US market's position regarding environmental, social governance and responsible investment, as detailed in the report from Robeco.

RESOLVED

That the Responsible Investment activity undertaken during the quarter be noted.

49 PENSIONS ADMINISTRATION REPORT

Consideration was given to a report prepared by the Fund's pension administrator, West Yorkshire Pension Fund (WYPF). The Committee was guided through the report – attention was drawn to the following matters:

- Extra support had to be put in place to help an employer that had no experience of dealing with a death in service, which meant that the process took longer than targeted.
- Automation of data processing was being pursued where practicable.
- Overall, across the shared service, membership had increased, which put additional demands on the service.
- KPIs that were below target were highlighted to the Committee.

The Committee discussed the report and were advised of the following:

- Automation of processing deferred benefits was due to be implemented in the coming months.
- Work was underway to simplify the deferred benefits process. There was assurance that calculated figures were correct, but delays had been caused by the requirement for dialogue with employers where data was not available, alongside an increase in benefits being taken early.
- Early retirement age was expected to move to 57 in 2028, and it was clarified that the minimum retirement age had changed significantly over the years.

RESOLVED

That the report be noted.

50 EMPLOYER MONTHLY SUBMISSIONS UPDATE

Consideration was given to a report presented by the Accounting, Investment and Governance Manager, which provided the Committee with up-to-date information on Employer Monthly Submissions for the second quarter of the financial year 2022/23 (July to September inclusive). The Committee was guided through the report.

The Committee discussed the report and were advised that the first fine outlined was issued at £136 and the second fine was issued at £240, as a further penalty. The amounts reflected the additional administration costs incurred in chasing late payments or data, and the associated costs with issuing the fine.

RESOLVED

That the report be noted.

51 COMMITTEE MEETINGS AND DELEGATIONS

The Committee received a report by the Head of Pensions, regarding proposed amendments to the Committee's meeting timetable and updates to the administration discretions of the administering authority and clarifying delegations for various investment decisions, in

6

PENSIONS COMMITTEE

1 DECEMBER 2022

preparation of the expected outcomes of the good governance review. The following was highlighted:

- The eight meetings each year would be broken down into two focused areas – with four meetings dedicated to stewardship and investment matters and the other four meetings dedicated to administration and governance matters.
- The new arrangements aimed to make agenda content more focused and allow greater strategic discussion and training opportunities.

Members noted the report, and the following comments were raised:

- Extraordinary items would still be able to be accommodated within the meeting schedule.
- The changes would be reviewed after one year.

Members welcomed the changes and felt that previous agendas contained too much repetition of items between the Committee and the Board.

RESOLVED

1. That the new Committee meeting timetable be approved
2. That the proposed amendments for the administration discretions and the investment decision delegations be approved.

52 BORDER TO COAST RESPONSIBLE INVESTMENT POLICY, CORPORATE GOVERNANCE AND VOTING GUIDELINES AND CLIMATE CHANGE POLICY ANNUAL REVIEW

The Committee received a report by the Accounting, Investment and Governance Manager, which highlighted the changes to Border to Coast's Responsible Investment (RI) Policy and Corporate Governance and Voting Guidelines. The following was highlighted:

- The expectation of human rights consideration by companies had been added to the RI criteria.
- The climate change section of the RI Policy had been significantly reshaped following the publication of a standalone Climate Change Policy.
- There was an expectation that the banking sector play their role in the transition to a low carbon economy – the guidelines were set out in the climate-related voting intentions for the sector.

Members discussed the report, and the following comments were raised:

- All other Border to Coast members were aligning with the recommendations.
- The policies were reviewed and supported by the joint committee. Regrettably, the committee was inquorate, so the decision still required ratification at the subsequent meeting in March 2023.

Members expressed some concern regarding their independence as a committee by aligning to policies that had been set externally. Members also expressed support for the policies, as they marked a move from aspiration to action regarding RI.

RESOLVED

1. That the Committee consider the proposed Border to Coast Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy.
2. That the Committee aligns the Lincolnshire RI Policy and Voting Guidelines to Border to Coast's.
3. That the Committee agree to consider the need for a Fund Climate Change Policy as part of wider net zero commitment considerations.

53 BORDER TO COAST GOVERNANCE REVIEW

The Committee received a report by the Head of Pensions, which presented the outcome of the governance review undertaken on the key company documents of Border to Coast. The following was highlighted:

- No major concerns had been found.
- Two issues of clarification had been raised and responses were being awaited.
- Some changes were being awaited following the reorganisation of Cumbria County Council.

RESOLVED

1. That the Committee approve the Inter-Authority and Shareholder Agreements to be reported to Full Council
2. That feedback be given to the Executive Director of Resources, in his role as shareholder, on the amendments to the Articles of Association.

54 ANNUAL REPORT AND ACCOUNTS 2021/22: THE EXTERNAL AUDITOR'S AUDIT COMPLETION REPORT

The Committee received a report by the Accounting, Investment and Governance Manager, which presents the Audit Completion Report from Mazars, the Fund's External Auditor, on the 2021/22 audit of the financial statements.

RESOLVED

That the report be noted.

55 FUNDING STRATEGY STATEMENT AND CLIMATE ANALYSIS REPORT

8

PENSIONS COMMITTEE

1 DECEMBER 2022

The Committee received a report by the Head of Pensions, regarding the draft Funding Strategy Statement and the Climate Analysis Report, produced by the Fund's Actuary. The Fund Actuary, Melanie Durrant, highlighted the following matters:

- An outline of assumptions and the impact on individual employers.
- The benefits of risk sharing and pooling.
- An outline of the consultation process and changes to the local valuation cycle for other public sector schemes.

The Committee noted the report, and the following comments were raised:

- With reference to the climate risk report, liabilities had been incorporated and accounted for in the ambitions of the strategy, and assurance was given that there were no concerns at this time.
- Concerning climate risk, funding assumptions reflected the increased levels of risk associated with climate breakdown (such as fires, droughts, and floods) – appropriate prudence had been factored for.
- It was too early to properly study and account for apparent changes in mortality risk.
- The cost of implementing net zero targets was under review – the current position was a projection.
- The Committee's primary task was to ensure good governance and an appropriate investment strategy to protect scheme members' pensions.

It was clarified that wording could be amended in the next steps section to better reflect what the Fund was already doing.

RESOLVED

That the report be noted.

56 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

That under Section 100(A) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it is considered to contain exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

57 INVESTMENT PERFORMANCE REPORT

Consideration was given to an exempt report which reviewed investment performance. A number of questions were asked and comments received.

RESOLVED

That the exempt report be noted.

The meeting closed at 12.40 pm