

COUNCIL
25 MAY 2017**REPORTS OF COMMITTEES****(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE**

Administering Authority – Administration Update

1. The Committee has noted the general update from the Administering Authority in relation to Membership, Record Keeping – The Pension Regulator, Updating Member database (Altair), Academies, Exit Payments, Further Consultation, LGPS and Co-Habitants, Administering Authority Forum Meeting and Communications, and Admissions to the Fund.

Malvern Hills Conservators

2. Malvern Hills Conservators is a resolution body within the Worcestershire County Council Pension Fund. Malvern Hills Conservators established a working party to review its future participation in the Fund following receipt of the 2013 Actuarial Valuation results, which set out an increase in pension contributions required by the Actuary.
3. Malvern Hills Conservators have deficit within the Fund on a closed basis that has been valued at £1.092 million. There is therefore significant risk to the fund that if Malvern Hills Conservators financial position does not improve the general reserve will not be able to meet the deficit contribution payments for the full 18 years deficit recovery period. A deficit recovery period of less than 18 years would potentially reduce the risk to the fund over the longer term but would place significant pressure in the short to medium term on Malvern Hills Conservators financial position and could lead to an earlier termination event.
4. The Committee has approved the proposal from Malvern Hills Conservators to move from an open to a closed admission basis, on an 18 year deficit recovery plan, subject to Malvern Hills Conservators gaining a surety bond with value of £1,178,000, the value of which is reviewed at least on a triennial basis.

Risk Register

5. In line with CIPFA best practice guidance, the Risk Register for the Fund has been updated and reviewed by the Pension Board. The Register sets out the risks associated with the governance, investments, funding, administration and communications objectives of the fund. The Register also details the mitigating actions in place to reduce the impact and probability related to each specific risk. The Committee has approved the Risk Register and adopted it for annual review.

Pension Investment update

6. The Committee has noted the Independent Financial Adviser's fund performance summary and market background.
7. The Committee has noted the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel, namely JP Morgan – Emerging Markets and JP Morgan – Bonds.

LGPS Central Update

8. Following formal approval of LGPS Central as an investment pool by the Government, work has continued to ensure that the project will meet the timetable that will allow a launch on 1 April 2018. Governance arrangements have been agreed and are working their way through the necessary committees of the Administering Authorities, and this process will be completed before the end of March 2017. The Committee has noted the LGPS Central update.

LGPS Central Cost Share

9. Subject to the on-going review of the Pool's tax position a number of cost share principles have been agreed by the LGPS Central Programme Board. The removal of the three years running costs split into equal eighths for the period 1 April 2018 through to 31 March 2021 results in a £0.9m better off position for the fund after a 16 year period (with 2018/19 as year 1). The breakeven point is also two years earlier in 2031/32 rather than 2033/34 as per under the original proposal.
10. The LGPS Central business case will be rerun at various key stages over the next few years. The first planned re-run will take into account the full details of the revised cost share agreement and the proposed sub-fund structure. More savings are expected to result for the Worcestershire County Council Pension Fund through the revised cost share for investment management and monitoring costs, which will be priced on a sub-fund basis rather than asset under management. As the Fund invests a substantial proportion of its assets in pooled passive equity funds, these are expected to have a lower 'price' than an active equity mandate or an alternatives mandate and therefore relative to other Funds in the pool will incur a lower cost.
11. It has also been agreed that the transition plan for Emerging Market equities will be brought forward compared to the base case in the July submission and therefore the Fund should benefit from increased savings earlier than originally planned.
12. The Committee has therefore agreed that the qualification be formally removed, in relation to the approved LGPS Central Governance, which stated that a cost share agreement is required to be agreed with all LGPS Central pool members that ensures value for money for the Worcestershire County Council Pension Fund from entering into the LGPS Central investment pool.

Investment Strategy Statement

13. The new LGPS Investment Regulations came into effect from 1 November 2016. These regulations remove many of the investment restrictions imposed on

LGPS funds, introduces a prudential framework for investment decision-making, introduces a Power of Direction for the Secretary of State to intervene in the investment function of an Administering Authority if deemed necessary, and requires all funds to publish a new Investment Strategy Statement by 1 April 2017.

14. The Fund's Investment Strategy Statement has been designed in collaboration with the seven other funds within LGPS Central to ensure a consistent approach to investment beliefs and responsible investment beliefs is established to allow the pool operator, once operational from 1 April 2018, to implement a consistent approach across the pool's investments.

15. The Committee has approved that the Fund's Investment Strategy Statement subject to the section relating to "Engagement versus Exclusion" being reworded by the Chief Financial Officer in consultation with the Chairman and Vice-Chairman of the Committee to better reflect a more positive affect of investment on governance and communities.

Mr R W Banks
Chairman

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Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) the following are the background papers relating to the subject matter of this report:

Agenda papers for the meeting of the Pensions Committee held on 13 March 2017.