

COUNCIL
8 NOVEMBER 2018**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 the Guaranteed Minimum Pension (GMP) Reconciliation exercise, Data Quality, Changes to Retirement Age for Deferred Members and the Administration Forum.
2. Following the appointment of Independent Transition Management (ITM) Limited on 28 June 2018 to undertake the Fund's GMP Reconciliation and rectification exercise, they have securely received the Administering Authority records and commenced their review. To support ITM to focus on the more complex cases, the Committee has approved a tolerance level of £2 per week. This will mean that where reconciliation is £2 or less a week it will be deemed to have been reconciled for the purposes of this exercise and no further review will be undertaken. ITM advised that this tolerance level is the same as that which has been applied across many other Funds.

LGPS Central Update

3. A senior portfolio manager has been appointed for active equities but LGPS Central is having difficulty appointing an Active Equities Director. The Chief Executive has recently decided to step down and the current intention is that he will leave the organisation by the spring of 2019. The Board is now conducting the search for his successor.
4. LGPS Central currently has approximately £15.7bn of assets under management (AUM). These mainly relate to West Midlands Pension Fund and Derbyshire who transitioned some of their assets on the initial launch of the company. There are 5 partner funds (not including Worcestershire) with Global Equity assets which LGPSC are looking to transition across. The next steps are to transition the assets across and ensure the Sub Funds are ready to go live by the 30 November 2018. The next fund to transition across will be the Emerging Markets active equities for which the Worcestershire Pension Fund currently has mandates with JP Morgan and Schroders.
5. It was reported at the March Committee that Worcestershire Pension Fund would potentially break even in relation to the cost sharing and savings model after a 16 year period (with 2018/19 as year 1). The LGPS Central business case is due to be

rerun over the next few months and this first planned rerun will take into account the full details of the revised cost share agreement and the proposed sub-fund structure. A company called Simplitium has recently been procured by LGPS Central on behalf of the partner funds with a prime aim to track through costs and savings overall and for each individual partner fund since inception of the company.

6. The latest quarters budget monitoring for LGPS Central shows a forecast underspend of just over £0.200m against the £9.1m approved budget which is mainly due to staff savings. The Committee has noted the LGPS Central update.

Pension Investment Update

7. The Committee has noted the Independent Financial Adviser's fund performance summary and market background.

8. 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.

9. On the 1 December 2017, the Committee were provided with an analysis of the Fund's real assets portfolio and evaluation of market opportunities from Bfinance. This resulted in a number of agreed recommendations to increase the funds infrastructure commitments to meet its strategic target allocation of 15% of the overall fund. Following an analysis of the drawdown and distribution profile for the range of investments that the Fund has invested in over the last 5 years, and having taken advice from Bfinance, the Committee has granted delegated authority to the Chief Financial Officer to commit an additional £25m to Hermes Fund II, a £30m commitment to Venn property fund II and a suitable commitment to Walton Street Fund II in the region of the current allocation, subject to appropriate due diligence being undertaken and sign-off by the Pensions Committee Chair.

Final External Audit Report on Pensions Annual Report 2017/18

10. Grant Thornton, the Council's external auditor, is responsible for producing an Annual Audit Letter which brings together all aspects of external inspection work undertaken across the County Council including the audit work carried out on the accounts. The Annual Audit Letter looks back over the year and summarises all of the reports and work the external auditors have undertaken and closes that year's audit. As such there are no new audit findings.

11. The External Auditor gave an unqualified opinion on the Pension Fund Accounts of Worcestershire Pension Fund on 31 July 2018. The audit did identify a number of areas requiring additional testing and as such the Letter identifies an additional fee for the Pension Fund audit of £5,200 which represents 0.004% of the Administration budget.

12. The Committee has noted the Annual Audit Letter 2017/18, the Independent Auditor's Report opinion on the Pension Fund Financial Statements, and the External Auditor's closure of the audit of the Worcestershire County Council and Pension Fund Accounts Letter.

Government Actuary Department (GAD) Pension Review Fund Update

13. In addition to the normal actuarial valuation carried out by the Fund Actuary, the Public Service Pensions Act 2013 means that the Department of Communities and Local Government (DCLG) are required to commission a "Section 13" valuation which will look at the 2016 valuation results for LGPS Funds and check whether, in their opinion, the various Funds have carried out their valuations in a way that is compliant with the LGPS Regulations, is not inconsistent with other Funds, will ensure solvency, and will ensure long-term cost efficiency. The Section 13 valuation is carried out by the Government Actuary's Department (GAD). The Committee received a verbal update that the GAD Pension Review final report had taken on board our suggested narrative to highlight that the funding position had improved since the 2016 valuation and an Equity Protection scheme had also been instigated. A formal report will be presented to the next Committee.

Training Programme

14. The Committee has approved a proposed Training Programme including the suggested timescales, based on the topics agreed at the June meeting. The Committee has noted the feedback from the Pensions Training event held on the 18 September 2018, and the overall outcome of the skills questionnaire completed by Pensions Committee members.

Administration Budget 2018/19

15. The Committee has approved the Pension Fund Administration Budget for 2018/19 totalling £9.931m, an increase of £1,584m (+19%) from 2017-18. The largest proportion of the budget (£7.943m) is investment managers' fees that largely depend on the value of assets being managed, and the investment return performance which depends on market conditions. This includes the management fees for the Equity Protection that has been implemented and the contribution towards LGPS Central. The Fund's "controllable" budget (i.e. excluding investment management fees) is £1.988m, which is a £0.266m (15.4%) net increase due to providing for actuarial revaluation.

16. The Committee has noted the indicative budget allocations for 2019/20 and 2021/21. In line with good practice, the Committee has agreed that variations against budget will be monitored and reported to Committee on a regular basis. The Committee has granted delegated authority to the Chief Financial Officer to the Pension Fund to approve variations up to £0.5m.

Risk Register

17. Guidance issued by CIPFA on the application of the Myner's Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice. In line with CIPFA best practice guidance, the risk register for the Fund will be reviewed and if necessary updated by the Pension Board on the 31 October 2018. It sets out the risks associated with the governance, investments, funding, administration and communications objectives of the fund. The risk register also details the mitigating actions in place to reduce the impact and probability related to each specific risk. Risk scores have been set in relation to each risk to help identify key risks to the fund and each risk has been assigned to a risk

owner.

18. Of the risks identified in the risk evaluation table set out in the appendix to the report, eight risks are currently listed as having a residual risk score rated as 'amber', which indicates an outstanding medium level risk to the Fund. Four of the eight risks have associated mitigating actions that are currently being undertaken by the Fund but remain a medium risk. These risks relate to ensuring the fund has sufficient assets to pay liabilities as they fall due whilst maintaining as nearly constant employer contributions as possible. The Fund mitigates these risks through triennial strategic asset allocation reviews, regular reviews of active external asset manager performance and the implementation of a Funding Strategy Statement following triennial Actuarial Valuations. The remaining four 'amber' risks have outstanding actions associated with them.

19. The Committee has approved the Risk Register and adopted it for annual review. In particular, the Committee has noted the amber risks identified in the risk evaluation table. An update to the Risk Register will be provided at each future Committee meeting.

Forward Plan

20. It is good practice for the Pensions Committee to plan ahead to highlight the key areas that are anticipated to be reported in the future. The Committee has therefore approved the Forward Plan which will be reviewed at each Committee meeting.

Mr R W Banks
Chairman

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Specific Contact Points for this report
Simon Lewis, Committee Officer
Tel: 01905 846621
Email: slewis@worcestershire.gov.uk

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 5 October 2018.