worcestershire countycouncil

Pensions Committee
Wednesday, 9 December 2020, Online only - 10.00 am

		Minutes
Present:		Mr P Middlebrough (Chairman), Ms T Fagan, Ms O Fielding, Mr A I Hardman, Mr R C Lunn, Ms T Southall and Mr P A Tuthill
Available papers		The members had before them: A. The Agenda papers (previously circulated); and B. The Minutes of the meeting held on 9 October 2020 (previously circulated).
269	**Named Substitutes (Agenda item 1)**	Ms O Fielding for Ms D Morris.
270	**Apologies/ Declarations of Interest (Agenda item 2)**	An apology from Mr R W Banks. Mr R J Phillips, Chairman of the Pension Board declared an interest as Chairman of the Scheme Advisory Board (SAB) for the Local Government Pension Scheme.
271	**Public Participation (Agenda item 3)**	None.
272	**Confirmation of Minutes (Agenda item 4)**	**RESOLVED that the Minutes of the meeting held on 9 October 2020 be confirmed as a correct record and signed by the Chairman.**
273	**Pension Board and Pension Investment Sub-Committee Minutes (Agenda item 5)**	The Committee considered the Pension Board and Pension Investment Sub-Committee Minutes. **RESOLVED that the Minutes of Pension Board and Pension Investment Sub-Committee be noted.**
274	**LGPS Central Update (Agenda item 6)**	The Committee considered the LGPS Central Update. The Committee received a presentation from Mike Weston, Chief Executive Officer and Callum Campbell,

Head of Client Services and Stakeholder Relations, LGPS Central.

In the ensuing debate, the following points were raised:

- Mike Weston indicated that LGPS Central would be relocating to another office space within Wolverhampton, when the lease on the existing offices ended in June 2021. The new office spaces was high quality and would represent good value for money. To improve the existing office space to the necessary standards would not be cost-effective
- Although the recruitment of staff was progressing, had there been any recruitment difficulties as a result of the existing office locations in Matlock and Wolverhampton, especially given that these locations were not at the geographical epi-centre of financial management in the UK? Had LGPS Central looked at office accommodation elsewhere, for example in Birmingham? Did the relocation of the Wolverhampton offices mean that the offices in Matlock were no longer required, especially with increase in the use of virtual meetings? Mike Weston responded that the offices in Matlock were used as a business continuity resource. The future use of the offices would be reviewed when the lease ran out in 2023. The search for an appropriate office space had covered the whole of the central partner funds region based on a set criteria with no preconceptions about the preferred location. The screening process identified a property in Wolverhampton as the best location for value for money
- A query was raised about new fund launches, particularly in relation direct/indirect property investments and the illiquidity of some property funds, particularly in retail. Mike Weston indicated that the property and infrastructure investment team at LGPS Central were working on a new direct property fund. This fund would be resourced by a new cash allocation from partner funds. The different sub-asset classes demonstrated different performance levels, with retail struggling at present. The new fund would look at market behaviour to ensure that the best value and risk-adjusted returns were achieved for the asset class. The idea would be that such an investment would be for a long-term commitment and not on a buy and sell basis. Indirect property would be

included in a separate fund and given that the number of partner funds already with such investments, it would make sense to consider creating such a fund. The direct property fund was scheduled to be launched this financial year but due to legal complications would slip into the next financial year. The indirect property fund was scheduled to be launched at the end of 2021/22 financial year

- The pool's commitment to Responsible Investment (RI) and the ESG elements of funding was welcomed. However, with the roll out of electric vehicles, concern was expressed about the adverse impact of lithium mining on the environment and pool should not lose sight of this. Mike Weston noted this concern and indicated that the RI team within LGPS Central were taking a holistic view of this issue
- In response to a query about the attitude of other pools towards Infrastructure investment, Mike Weston commented that there was a desire to develop infrastructure products amongst the pools of a similar nature with whom LGPS Central kept regular contact. There was a broad range of experience in infrastructure investment amongst partner funds within this pool and it was about establishing a way forward that met everyone's expectations/needs. Other pools were in a similar position. When the infrastructure fund was launched in January next year, it would initially seek funds to invest in the medium to long term and establish whether co-investments would be cost-effective. It was anticipated that after due diligence, the initial investments would be in high quality established funds because it was recognised that this was a long-term investment for partner funds
- What percentage of this Fund's investments had been invested through LGPS Central and how did that compare the percentage of other partner funds? Mike Weston advised that approximately 20% of the Fund's assets had been invested by LGPS Central, which was 4th out of the 8 partner funds. Philip Hebson added that this figure did not include passive investments. A joint procurement arrangement with other local authority funds including partner funds had taken place some years ago. This arrangement effectively added to the percentage of the Fund's assets that were invested by third parties
- How would the newly created LGPS Central team

cope with the growing demand for RI work and who would pay for this work, would it be through pool subscriptions or direct charge? Mike Weston responded that there was an increasing spectrum of RI opportunities from the very technical investments, for example aiming for zero carbon emissions, to other issues such as the environmental implications of Lithium mining. He was mindful of the increasing resource implications and proposals would be included in the Business Plan to add two further members to the RI team. Historically the team had been funded by equal shares across the partner funds when investment projects that benefitted all partner funds. Where particular individual projects were carried out, direct charges had been raised with the relevant partner fund. Patrick O'Hara, the incoming RI manager would be looking at the most cost-effective way to provide the service with equity in payment between partner funds.

RESOLVED that the LGPS Central Update and presentation set out as an Appendix be noted.

275 Pension Investment Update (Agenda item 7)

The Committee considered the Pension Investment Update.

Philip Hebson and Rob Wilson introduced the report and made the following points:

- The Pension Investment Sub-Committee had agreed to allocate funds to the LGPS Central Infrastructure sub-fund subject to due diligence being undertaken and ensuring it met this Fund's investment objectives
- The estimated funding level at the end of September 2020 was 92%. This had dipped through October but recovered in November to an estimated level slightly in excess of September
- The Equity Protection Strategy had been remodelled and was now more active in nature. Fortnightly meetings were held with River and Mercantile to monitor the position. The gains experienced by the S & P 500 investment had led to discussions about whether to restructure the Strategy and to lock in the protection of those market gains at no expense to the Fund
- Strategic Asset Allocation – Two pieces of work had been commissioned from Mercers and LGPS Central to understand how Nomura's performance compared with other investment managers in the

far east markets. It was difficult to find like-for-like comparisons but the work did shine a light on different ways of working. A meeting would be held with Nomura to see whether performance could be improved internally. A final decision would not be made until the outcome of the Environmental, Social & Governance (ESG) review which would be reported to the March Committee meeting

- It was anticipated that the outcome of Minerva's report on the Fund's ESG and mapping audit would be available by 18 December to share with the ESG working group. Workshops for all Committee, Sub-Committee and Board members would be held on 5 January and 5 February to look at the findings.

In the ensuing debate, the following points were made:

- In response to a query, Philip Hebson advised that there was no procedural cost to the Fund for making changes to the trigger points within the Equity Protection Strategy because of the protection position compared to the underlying equity. It was therefore considered appropriate to make a change to the trigger points now rather than wait until January 2021 when circumstances might change
- The funding level was encouraging and welcomed given this particularly difficult year
- It was queried why there was no allocation target for the equity protection. Rob Wilson responded that this was due to it being part of the passive allocation target and not shown separately
- In response to a query, Rob Wilson undertook to establish the reason for the delay in LAPFF arranging meetings with Lloyds Banking Group, Aviva Group and Berkshire Hathaway in relation to climate finance.

RESOLVED that:

a) The Independent Financial Adviser's fund performance summary and market background be noted (Appendices 1 and 2);

b) The update on the Investment Managers placed 'on watch' by the Pension Investment Sub Committee be noted;

c) The funding position compared to the

investment performance be noted;

d) The update on the Equity Protection current static strategy be noted;

e) The update on Responsible Investment activities (Appendix 3) and Stewardship investment pooling and the Stewardship Code be noted;

f) The update on the LGPS Central report on the voting undertaken on the Funds behalf be noted (Appendices 4 to 6); and

g) The update on the development of a Climate Risk Scenario Monitoring report and the Environment Social and Governance (ESG) and Sustainable Development Goals (SDG) mapping Audit exercise be noted.

276 Business Plan (Agenda item 8)

The Committee considered the Business Plan.

Bridget Clark introduced the report and highlighted the following key points:

- McCloud Judgement – The Administering Authority (AA) were in consultation with the Fund's Actuary to understand the implications of the judgement for the Fund. Two additional staff members had been employed to cope with the additional workload. All employers would be contacted to ensure that the AA had the right information going forward. The AA would then need to calculate two different options for employees affected
- Public Sector Exit Payments – The revised regulations were awaited. On receipt, the employers would need to give clear and correct information to the affected employees. Again, there would be resource implications. The AA could only provide guidance, not advice, on this matter to employers/members
- Actuarial Services – The current contract with Mercers had now been extended until 31 October 2023
- The Administration performance targets had been met with the exception of new starters which had been exacerbated by end of year follow up with employers for missing forms and staffing resources within the AA. One new employee had successfully been inducted and recruitment is

underway to backfill a secondment.

In the ensuing debate, the following points were raised:

- The Business Plan highlighted the tremendous amount of work that the AA was required to do. Did the Council have adequate resources to undertake this work? Michael Hudson responded that he was confident that the service was adequately resourced in the short term but longer term, the Committee would be advised of restructuring of the service and associated resource implications
- The Chairman of the Pension Board added that the workload issues for the AA would be exacerbated by the loss of experienced members of staff. It would also be useful to have an idea of the extra resources necessary to address issues such as the McCloud judgement and the exit cap provision. This would allow him to make representations to the Government in his capacity of Chairman of SAB. Bridget Clark responded that it would be possible to bring back some figures on the totality of the impact of legislative changes. Michael Hudson added that this should also pick up the cost of the extra work associated with the Accounts and GMP reconciliation/rectification.

RESOLVED that the Worcestershire Pension Fund (WPF) Business Plan as at 23 November 2020 be noted.

277 Risk Register (Agenda item 9)

The Committee considered the Risk Register.

In the ensuing debate, the following points were raised:

- Bridget Clark indicated that the only change to the Risk Register had been to the residual risk score of WPF07 (Future change to LGPS regulations or other legislation) which had increased from 20 (green) to 40 (amber). The resources put in place should mitigate the potential for this risk to move to red. Eventually, as the delivery model was better understood and with appropriate training, the risk should move back to green
- It was good governance to reflect the impact of risk reference WPF07 in the Risk Register at this stage.

RESOLVED that the 5 November 2020 WPF Risk

Register be noted.

278 Guaranteed Minimum Pension (GMP) rectification (Agenda item 10)

The Committee considered the Guaranteed Minimum Pension (GMP) rectification.

In the ensuing debate, the following points were raised:

- There was a degree of relief that the impact on this Fund of the GMP rectification had been fairly minimal especially compared to the impact on some other pension funds
- The GMP exercise underlined the importance of ensuring that the AA team was adequately resourced to be able to provide accurate and timely information
- Bridget Clark emphasised the importance of completing the GMP rectification in this financial year to avoid it getting mixed up with other major project work in the next financial year. The creation of a trivial threshold had brought the figures down to a manageable level. Pensioners affected would be provided with a right of appeal (in accordance with the Regulations)

RESOLVED that:

a) The previous decisions made by the Committee shown in the attached ITM report be noted (pages 15 to 17 - denoted with a green tick) and specifically in respect of:
   i. Historic overpayments will not be recovered; and
   ii. Historic underpayments will be paid, including back-pay, with interest, and

b) The recommendations shown in the attached report be approved in respect of:
   i. Trivial threshold of £12 per annum for both under and over payments;
   ii. Correction of pension for overpayments will be made by decreasing the pension from the rectification date, of 28 February 2021; and
   iii. Correction of pension for underpayments will be made by increasing the pension from the rectification date of 28 February 2021.

279 Pension Fund Annual Report for the year ended 31 March 2020 (Agenda item 11)

The Committee considered the Pension Fund Annual Report for the year ended 31 March 2020.

In the ensuing debate, the following points were raised:

- The signing off of the audit of the Statement of Accounts at an early stage was welcomed and had been beneficial in enabling district councils to complete the audits of their accounts on time
- In response to a query, Rob Wilson undertook to set out the percentage range of common rates of contribution of pensionable pay per annum for employers in future Annual Reports.

RESOLVED that the Pension Fund Annual Report for the year ended the 31 March 2020 as set out in the attached Appendix be approved.

280 Training update (Agenda item 12)

The Committee considered the Training update.

In the ensuing debate, the following points were made:

- Rob Wilson indicated that attendance at recent training events had been disappointing. He made a plea for members to attend the next training session scheduled on 18 January which would focus on investment
- The Chairman suggested that he, together with the Board and the Sub-Committee Chairman write to members to encourage greater attendance at training sessions. The Chairman of the Board concurred but added a note of caution that many of the Board members were new to the subject area and needed encouragement to build confidence
- In response to a query, Rob Wilson undertook to examine the possibility of recording future training events for the benefit of those members unable to attend and for any new members.

RESOLVED that:

(a) The feedback from the specific training event that has been undertaken since the last Committee Appendix 1 be noted; and

(b) The proposed training events plan for the next year up until April 2021 Appendix 2 be noted.

281	**Forward Plan (Agenda item 13)**	The Committee considered the Forward Plan. In the ensuing debate, Rob Wilson indicated that to alleviate the heavy workload for the March Committee meeting, some items might be brought forward to the January meeting. **RESOLVED that the Forward Plan be noted.**
282	**Exclusion of Public and Press (Agenda item 14)**	**RESOLVED that pursuant to Section 100A of the Local Government Act 1972, the press and public shall be excluded from the meeting during item 15 on the grounds that there would be disclosure to them of information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.** **Summary of the proceedings of the meeting during which the press and public were excluded. (This is a fair summary of the proceedings.)**
283	**LGPS Regulation Update (Agenda item 15)**	The Committee considered an update on the LGPS Regulation. The Government had recently introduced legislation, in the form of the Restriction of Public Sector Exit Payments Regulations 2020, which would cap (at £95,000) the amount of exit payments that could be paid by employers to public sector employees when they leave employment (e.g. because of redundancy). The Exit Payments Regulations came into force on 4 November 2020. The sorts of exit payments ("Exit Payments") caught by the £95,000 cap were listed in Regulation 5 of the Exit Payments Regulations, and generally included the sorts of payments made to employees in consequence of termination of employment or loss office. They also included (at Regulation 5(2)(b)) *'any payment to reduce or eliminate an actuarial reduction to a pension on early retirement or in respect to the cost to a pension scheme of such a reduction not being made'*. These Regulation 5(2)(b) payments would cover 'funding strain' payments that LGPS employers could be required to make to their LGPS fund under regulation 68(2) of the Local Government Pension Scheme Regulations 2013 where they made an employee redundant over age 55. In those circumstances, regulation 30(7) of the LGPS Regulations required the Administering Authority to pay the member an immediate unreduced early retirement

pension.

The Exit Payments Regulations did not include any transitional provisions for redundancies that had commenced before 4 November 2020, but which would not conclude until after that date. There were two options for the Committee to consider to address this issue:

- **Option 1** – which was to pay a member an immediate full unreduced pension under existing regulation 30(7) and collect the strain cost above £95k from the employer in the future; or
- **Option 2** – which was to pay a member a fully reduced pension under existing regulation 30(5).

RESOLVED: that

a) Option 1 be approved and restricted to exceptional cases (redundancies that started before 4 November) where the risk of challenge may outweigh the cost of non-payment, and determined in the interim period (4 November until LGPS Regulation changes enacted); and

b) The Fund's policy be amended to make a partial move to using the draft GAD guidance to calculate strain costs for those employers subject to the Exit Cap Regulations.

The meeting ended at 12.20pm.

Chairman …….