

Pension Board**Friday, 26 February 2021, Online - 9.30 am**

		Minutes
Present:		Mr R J Phillips (Chairman), Ms P Agar, Ms O Fielding, Mr S Howarth, Mr A Lovegrove and Ms L Whitehead
Also attended:		Mr P Middlebrough as Chairman of the Pensions Committee and Mr A I Hardman as Chairman of the Pension Investment Sub-Committee.
Available papers		The Members had before them: A. The Agenda papers (previously circulated); B. The Agenda papers and Minutes of the Pensions Committee held on 9 December 2020 and 28 January 2021 (previously circulated); and C. The Minutes of the meeting held on 13 November 2020 (previously circulated).
166	Apologies (Agenda item 1)	Apologies were received from Mr P Grove and Ms K Wright.
167	Declaration of Interests (Agenda item 2)	Mr R J Phillips declared interests as the Chairman of the Scheme Advisory Board (SAB) for the Local Government Pension Scheme and as a future Director of PPL.
168	Confirmation of Minutes (Agenda item 3)	RESOLVED that the Minutes of the meeting held on 13 November 2020 be confirmed as a correct record and signed by the Chairman.
169	Pensions Committee - 9 December 2020 and 28 January 2021 (Agenda item 4)	<p>The Board received the Agenda papers and Minutes of the Pensions Committee meetings held on 9 December 2020 and 28 January 2021. Members received a brief summary and commentary on various items considered by the Committee.</p> <p>In the ensuing debate, the Chairman of the Pensions Committee updated the Board on the LGPS Central Budget. A shareholders meeting had taken place. At that meeting, the recommendations in relation to the remuneration of the directors and certain aspects of staff pay including travel costs were withdrawn for consideration at a future meeting. The business plan and</p>

**170 Update on
Scheme
Advisory Board
(SAB) (Agenda
item 5)**

the budget were approved with an increase in line with inflation and special adjustments for one-off items (subject to agreed business cases) such as new product launches during the year.

The Board noted the Committee Reports and Minutes.

The Board received an update on Scheme Advisory Board (SAB).

The Chairman of the Board provided a verbal update and the following points were made:

- McCloud Judgement – The Government had made an announcement on the outcome of its rectification process but details of the implications for the LGPS were awaited. However, in the meantime the ongoing administration work carried out by this Fund relating to the Judgement needed to continue
- The £95K cap – This cap had been revoked by the Government on 12 February. It was unfortunate that it had been introduced without proper risk assessments/planning being carried out. He anticipated that it would be re-introduced in some form at a later date but with proper notice and a timetable. It should be assumed that the revocation would apply to those individuals who had left the organisation before the announcement was made on 4 February. Although the technicalities of removing the legislation had not been concluded yet, the Fund should act in good faith in respect of these individuals
- Responsible Investment (RI) – The SAB had dedicated part of its website for information relating to RI. An RI advisory group had been established. This group would be made up of representatives from across the pools with a first meeting taking place next week
- Good Governance Project – The project was concerned with improvements to the reputation and integrity of local government and the findings had been submitted to the Government. Not all funds were moving at the same pace so it was important to share best practice. The project included issues such as conflicts of interest and administration best practice. It was also proposed to introduce inspections every two years similar to the Government peer review process. No timescale had been given for the ministerial

response.

The Board noted the update on Scheme Advisory Board.

**171 Business Plan
(Agenda item 6)**

The Board considered the Business Plan.

In the ensuing debate, the following points were raised:

- Chris Frohlich, Engagement Manager, Worcestershire Pension Fund introduced the report and indicated that the regular administration service (as well as the introduction of new measures) had been maintained throughout the Covid pandemic. There was major work to be programmed in the future associated with the ESG audit and climate change report
- The Chairman commented that it had been a very challenging year and the achievements of the service should not be under-estimated
- The proposals for member self-service were welcomed. Did it mean that any employee would be able see how their pension was doing at any particular time? Chris Frohlich responded that a key hurdle had been cleared by re-procuring the existing pension administration system to 2024 as it provided the technical means of allowing member self-service. Self-service would apply to employees, deferred employees and pensioners and allow them to access their Annual Benefit Statements, view projections and change personal details online. The existing processes would continue to be run alongside for those not technically-minded. It was a large project and initial discussions with the Fund's supplier had indicated that it would be started September 2021
- Was it anticipated that staff would return to the office or continue to work from home following the pandemic? Chris Frohlich indicated that the consensus amongst staff was that where previously they had worked one day a week from home, this would increase to two or three days with the overriding majority of staff wanting to return to the office because of issues relating to isolation and information-sharing. The Chairman added that the current home-working situation was particularly difficult for new members of staff
- Did the targets in the Business Plan need to be revisited because it would appear that they were perhaps too easily achievable? Chris Frohlich commented that the targets had been introduced

by CIPFA and were used as a national standard. It would therefore seem logical to report in a manner consistent with other funds. A degree of flexibility had been created in the Plan to allow resources to be switched between projects to allow for example, greater attention to more urgent projects.

The Board noted the Worcestershire Pension Fund (WPF) Business Plan as at 15 February 2021.

**172 Risk Register
(Agenda item 7)**

The Board considered the Risk Register.

In the ensuing debate, the following points were raised:

- Chris Frohlich indicated that two senior administration members of staff had recently left the organisation therefore the residual risk score for risk reference WPF20 (staff leaving or going on long-term absence) had been increased from 15 (green) to 30 (amber). The Pension Administration system had been re-procured and therefore the residual risk score for risk reference WPF19 had been reduced from 30 to 15. Greater concentration had been placed on the narrative associated with each risk. There was no need to make any substantial changes to the register as projects were proceeding. The register was very detailed in nature and officers gave great consideration to its importance
- It would seem that the Risk Register was embedded in the approach taken by staff. Chris Frohlich responded that the discipline of reviewing the register helped officers make improvements to working practices
- Was Risk WPF23, in relation to employers unable to make contributions, likely to increase in the future as employers struggled through the financial difficulties caused by the pandemic? Chris Frohlich commented that to date, there had not been an instance of an employer failing to pay a contribution. A number of the employers were from the public sector and their income had not been affected to any great extent so far. He would anticipate that employers would engage with the Fund if they had difficulties financially. The Chairman added that as the financial support from the Government to businesses reduced, it might need careful monitoring
- In response to a query, Chris Frohlich explained that not many employers in the Fund paid in

advance (less than 10). Employers were required to make their contribution by 19th of each month. If the contribution was not received on-time then enquiries would be made and the necessary action. At present, all employers continued to make payments.

The Board noted the WPF Risk Register as at 15 February 2021 and the positive way in which the register was being used to improve practices and procedures.

**173 Worcestershire
Pension Fund
Governance
Policy Review
(Agenda item 8)**

The Board considered the Worcestershire Pension Fund Governance Policy Review.

In the ensuing debate, the following points were raised:

- Rob Wilson indicated that as a result of the review of the governance arrangements, some relatively minor changes were proposed which impacted on the Pensions Committee's Terms of Reference. These changes would then need to be approved by full Council. The changes to the Terms of Reference related to the Risk Register, Business Plan, RI, the governance around the SAB good decision-making and the monitoring and setting of the Investment advisor objectives
- The Chairman noted that the positive improvements/adjustments to the governance arrangements associated with this Board over the last 12 months and that this work was ongoing
- In response to a query, Rob Wilson confirmed that in the Governance Structure, the Pension Administration Advisory Forum should report to the Pensions Committee not the Board as referred to in the report and this would be corrected.

The Board noted the Worcestershire Pension Fund (WPF) Governance Policy Review and the updated Governance Policy & Governance Compliance Statement.

**174 Pension
Administration
Strategy
including Policy
Statement on
Communications
(Agenda item 9)**

The Board considered the Pension Administration Strategy including Policy Statement on Communications.

In the ensuing debate, the following points were raised:

- In response to a query about employer engagement, Chris Frohlich commented that the same employers tended to regularly attend the employers forum, notably academies who were

relatively new to the scheme and keen to learn more. However, he did not feel that this was a negative issue rather that it reflected the level of comfort and understanding of the Fund's approach amongst employers. Employers were contacted on a monthly basis and he had not experienced any negative reaction from them

- Many employers relied on a very limited number of staff who understood pensions administration. Was the administration team proactive in addressing any change in staff circumstances? Chris Frohlich indicated that the return to sender response from an email following the issue of the monthly newsletter was a good indicator. Any potential issue would be followed up immediately by the team. The regular contact with employers had helped generally in addressing such issues and improving overall communication
- Would it be possible to provide pensions information at least once a year to the finance committees of academies? Chris Frohlich advised that FRS information was already being supplied to academies once a year. However, he would welcome any suggestions to improve communication with academies. He also noted that academies were very good at communicating between themselves
- The fact that the Pension Administration Strategy continued to include reference to the Exit Cap was welcomed given that the cap was likely to be re-instigated at some point
- In response to a query about communication with members, Chris Frohlich explained that an annual newsletter including the Annual Benefits Statement was issued to employees and deferred members. Retired members received a separate newsletter in November as well as their P60 in May
- Chris Frohlich would extend providing an overview of the Fund in the communication with employees and deferred members (the 2020 newsletter for pensioners included this). The ring-fenced nature of the Fund was covered in 'reassurance about COVID' articles in the pensioner, deferred and employee 2020 newsletters.

**The Board noted the proposed draft April 2021
Worcestershire Pension Fund Pension
Administration Strategy including the WPF Policy
Statement on Communications.**

175 Update on the outcome of Environmental Social and Governance Audit and Climate Risk Review (Agenda item 10)

The Board considered the update on the outcome of Environmental Social and Governance (ESG) Audit, Sustainable Development Goals (SDG) mapping and Climate Risk Review.

In the ensuing debate, the following points were raised:

- The impact of climate change on the world economy and the way governments reacted to it would have significant implications for the Fund. Therefore, there were sound fiduciary reasons for this Fund's investment approach to reflect the emerging national situation in relation to climate change
- It should be emphasised that Responsible Investment (RI) did not just relate to climate change but included much broader issues. For example, this Fund was providing pensions for some of the lowest paid workers in the country who would not appreciate their pension being funded through companies that exploited workers
- As reporting requirements became statutory, the Board should acknowledge the proactive work that the Fund had done and was continuing to do in respect of RI. In addition the Fund should work with LGPS Central and the sector generally to identify the emerging best practice, not only for Fund managers but also the approach taken to communicate with members and employers
- Climate change risks were emerging all the time and were not always long term in nature, therefore the nuanced approach to addressing climate change was welcomed
- Electricity and/or hydrogen were being identified as the energy sources of the future. However, it should be borne in mind that there were climate change and RI issues associated with these sources of power, for example investment in the mining companies who extracted the necessary raw materials for green energy. It had been argued that certain companies should be black-listed because of the raw materials they traded in. However, the approach of this Fund had always been to examine the RI approach taken by a particular company rather than necessarily the type of business
- The Chairman thanked officers and all those involved in the work on the ESG Audit and Climate Risk Review to date.

		<p>The Board:</p> <ul style="list-style-type: none"> a) Noted the outcome of the ESG Audit, Sustainable Development Goals mapping and Climate Risk review for Worcestershire Pension Fund and welcomed the work undertaken to get to this point; b) Recognised that the work associated with RI and climate change was part of a long term project which would need regular monitoring; c) Recognised that RI did not just relate to climate change or green issues but included much broader issues; and d) Agreed that best practice should be shared within the sector and beyond, not only in relation to the Fund's policies but also in terms of engagement and communication with fund members.
176	<p>Consultation on regulations entitled "Taking action on climate risk: improving governance and reporting by occupational pension schemes" (Agenda item 11)</p>	<p>The Board considered a consultation on regulations entitled "Taking action on climate risk: improving governance and reporting by occupational pension schemes".</p> <p>In the ensuing debate, Rob Wilson explained that the consultation period ended on 10 March 2021. Any issues/outcomes from the consultation that impacted on the LGPS were likely not to be introduced until 2023.</p> <p>The Board noted the Consultation on regulations entitled: "Taking action on climate risk: improving governance and reporting by occupational pension schemes".</p>
177	<p>Pensions Administration Budget 2021/22 (Agenda item 12)</p>	<p>The Board considered the Pensions Administration Budget 2021/22.</p> <p>In the ensuing debate, the following points were raised:</p> <ul style="list-style-type: none"> • It was queried whether it was possible to undertake all the additional work associated with the McCloud Judgement, RI and climate change within the proposed reduced budget. Rob Wilson responded that the budget included an increased staffing resource, particularly within the administration team. He was confident that there

**178 Feedback from
Events/
Discussion on
the Board's
'Deep Dive'
Programme
(Agenda item
13)**

was sufficient flexibility within the budget going forward to address all these issues

- Rob Wilson undertook to provide an explanation to the Board of the increased cost per member despite the decrease in the budget
- The explanation for the decrease in the budget was understood and the pressures on the proper administration and governance of the scheme were recognised. The assurance provided by officers that the work could still be maintained to the highest standard was welcomed
- Rob Wilson undertook to provide details of the cost to the Fund of the work undertaken on the McCloud Judgement to date
- Whilst noting the reduced cost of custodial services due to the transition of assets to LGPS Central, would it be possible to switch custodial services to a potentially cheaper preferred bidder at this stage? Rob Wilson advised that the costs were covered as part of the overall LGPS Central governance costs, including the management fees and were spread across all partner funds. If LGPS Central were requested to make separate individual arrangements, it would likely increase the cost to the Fund.

The Board:

- a) **Noted the proposed Pension Fund Administration Budget, including manager fees, for 2021/22 shown in the Appendix totalling £12.331m;**
- b) **Noted the indicative budget allocations for 2022/23 and 2023/24; and**
- c) **Welcomed the assurance provided by officers that work would continue to be maintained to the highest possible standard despite the reduction in the budget.**

The Board received feedback from Events and Discussed the Board's 'Deep Dive' Programme.

In the ensuing debate, the following points were raised:

- Chris Frohlich requested that members of the Board gave consideration to and informed him of any future topics / quick 'AOB' potential subject matter for the future / next deep dive and training sessions. It was important not to be constrained

**179 Forward Plan
(Agenda item
14)**

by a set programme but rather deliver what members required in a timely fashion

- It was important to keep the momentum of this work going because these short sessions provided quick and easily digestible information for members.

The Board:

- a) **Noted the verbal feedback from recent conferences and seminars attended by Board members; and**
- b) **Requested that members of the Board gave consideration to and informed officers of any potential subject matter for future/ the next deep dive and training sessions. Any suggestions would be welcomed in advance of the next scheduled session on 4 March 2021.**

The Board received a report on its forward plan.

The Board noted its forward plan.

The meeting was adjourned from 11.00am to 11.10am and ended at 11.30am.

Chairman