Worcestershire County Council

Agenda

Pension Board

Friday, 26 February 2021, 9.30 am
Online only

Notes:
Due to the current Covid-19 pandemic Worcestershire County Council will be holding this meeting in accordance with the relevant legislative arrangements for remote meetings of a local authority. For more information please refer to: Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

Please note that this is a public meeting, conducting remotely by videoconferencing between invited participants and live streamed for general access via a link on the Council's website to the Council's Youtube channel at 9.30am and 11.30am.

The Agenda papers and background papers can be accessed electronically on the Council's website. Members of the public and press are permitted to report on the proceedings.

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DISCLOSING INTERESTS

There are now 2 types of interests:
<u>'Disclosable pecuniary interests'</u> and <u>'other disclosable interests'</u>

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your <u>spouse/partner</u> as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days <u>and</u>
- **Declare** it where you have a DPI in a matter at a particular meeting
  - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
  You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR**
  relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

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

Membership: **Employer Representatives**
Mr R J Phillips (Chairman), Ms P Agar, Mr P Grove and Mr A Lovegrove

Member Representatives
Ms O Fielding, Mr S Howarth, Ms L Whitehead and Ms K Wright

Agenda

Item No	Subject	Page No
1	**Apologies**	
2	**Declaration of Interests**	
3	**Confirmation of Minutes** To confirm the Minutes of the meeting held on 13 November 2020. (previously circulated)	
4	**Pensions Committee - 9 December 2020 and 28 January 2021** To review the Agenda and Minutes of the Pensions Committee meetings held on9 December 2020 and 28 January 2021: • Local Government Pension Scheme (LGPS) Central update • Pension Investment update • Business Plan • Risk Register • Guaranteed Minimum Pension (GMP) rectification • Pension Fund Audited Annual Report for the year ended 31 March 2020 • Training update • Forward plan • LGPS Regulation Update • Local Government Pension Scheme Central (LGPSC) Budget and • Strategic Business Plan 2021/22. The Agenda papers and Minutes have previously been sent to members.	
5	**Update on Scheme Advisory Board (SAB)** To receive a verbal update.	
6	**Business Plan**	1 - 16

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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer, on 01905 846621,

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Wednesday, 17 February 2021

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AGENDA ITEM 6

PENSION BOARD
26 FEBRUARY 2021

BUSINESS PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Board reviews the Worcestershire Pension Fund (WPF) Business Plan as at 15 February 2021.**

Background and update

2. The Business Plan is now reviewed and updated quarterly to deliver an extra management / governance tool to:

   a. Help officers to manage the Fund's activities.
   b. Help the Pension Board and the Pensions Committee to ensure that the ongoing management and development of the Fund is in line with longer term policy, objectives and strategy.

3. A brief summary of any significant milestones and any issues that we are encountering with delivering is provided in the commentary at the end of each of the 5 key result area (KRA) sections.

4. As this Business Plan cover highlights the key current pensions administration issues, it replaces the former, regular Administering Authority Updates.

5. The Board's attention is drawn to the following:

   a) The major deliverables for scheme year 2020 /2021 were:
      1. Maintaining our service standards and investment performance / funding level in the face of COVID.
      2. Introducing investment pots and implementing Pfaroe, Mercer's tool for monitoring those employers we have concerns over funding, covenant risk, potential termination or risk sharing bodies.
      3. Extending our contracts with our actuary and pension administration provider.
      4. Completing the GMP rectification project.
      5. An Environmental Social & Governance (ESG) audit and Sustainable Development Goal (SDG) mapping of the Fund's portfolio.
      6. A Climate Risk Report.
      7. Transitioning corporate bond assets to LGPSC.

   b) The major deliverables for scheme year 2021 /2022 are planned to be:
      1. Delivering the McCloud remedy.
      2. Delivering GMP equalisation.

3. Making infrastructure, private debt and sustainable equity investments via LGPSC.
4. Implementing the recommendations from the ESG Audit and Climate Risk report which will take on board the development of our climate change strategy using the climate risk monitoring service.

c) We have extended our existing pensions administration system supplier's contract for 3 years from 30 April 2021 that opens the way for us to decide what to do re add-ons like i-Connect (middleware for the transmission of data from employers to us electronically) and Member Self Service (online access for members to their pension record).

d) Whilst the government has announced that parts (the £95K cap) of the restrictions on public sector exit payments that came into force in November are disapplied, we have implemented revised unisex GAD capitalisation factors and are monitoring the situation, as HM Treasury has stated that it will bring forward proposals at pace to tackle unjustified exit payments.

e) As detailed in Section 5 in January 2021, a much busier than usual month for deaths with 42 (the av monthly no in 19/20 was 15 and year to date in 20/21 was 19), we did not achieve our KPIs for deaths, joiners or deferred members. For the 2020 / 2021 year to 31 January we by and large achieved our KPIs with the exception of joiners. We met our average turnaround targets for all processes in January and the 2020 / 2021 LGPS year to 31 January.

Supporting information

- Appendix - WPF Business Plan 15 February 2021

Contact Points

Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.

Worcestershire Pension Fund

Business Plan

As at 15 02 2021

1 INTRODUCTION

1.1 Our Business Plan:

a) Outlines our (Worcestershire Pension Fund's) purpose, goals and key result areas / supporting aspirations (i.e. what is regarded as good in our eyes).
b) Presents our targets and budget.
c) Details our performance against our investment benchmarks and against our administration target turnarounds.
d) Summarises the projects we have in place to achieve our large pieces of work.

1.2 Our Business Plan is refreshed and tabled at each quarterly **Pensions Committee** meeting.

1.3 Our governance arrangements are set out in **our annual reports**.

2 BACKGROUND

2.1 The Local Government Pension Scheme (LGPS) is funded principally by its constituent employers, with members also contributing.

2.2 The benefits it provides are a valuable tool for employers in attracting and retaining staff.

2.3 Unlike all other public sector pension schemes the LGPS is a funded scheme, with employer and member contributions invested in financial markets / instruments.

2.4 Although a Career Average Revalued Earnings (CARE) LGPS linked to a normal retirement age of State Pension age (min 65) was introduced on 1 April 2014, concerns remain over the long-term cost and sustainability of the LGPS.

2.5 We are one of 87 funds administering the LGPS in England & Wales. Worcestershire County Council is the statutorily appointed Administering Authority.

2.6 We administer the LGPS for our employers who vary considerably in size and type and who have allowed their current and previous employees to become members:

	As at 30 September 2020	**As at 31 December 2020**
Employers	187	190
Employee member records	22,400	22,801
Pensioner member records	19,267	19,386
Deferred member records	21,935	21,897
Total member records	63,602	64,084

2.7 We manage a **£3,223m** (as at 31 12 2020) pension fund to pay benefits as they are due.

2.8 We face increasing complexities in both the governance and administration of the LGPS and expect the following to create pressures on our resources and workloads:

a) COVID-19: whilst we have successfully moved to home-working supported by a small postal / scanning service at County Hall and expect to be able to adapt to the new ways of working, our workload and resources have as yet not been tested by a significant increase in member deaths or in staff absence.

b) The Pension Regulator (TPR) increasing its requirements re record keeping, data cleansing and covenant reviews.
c) Adopting the national LGPS Scheme Advisory Board's good governance guidance as best practice.
d) An ever-changing tax / pensions environment: currently these include: **McCloud**; **Fair Deal**; **reforming local government exit pay**; **tax relief for low earners**; and **changes to the valuation cycle**.
e) Guaranteed Minimum Pension (GMP) equalisation.
f) New employers (from outsourcing and academy conversions).
g) Increasing expectations from stakeholders (e.g. member online access and employer data transmission).
h) Central government asset pooling requirements (we are a partner fund in LGPS Central Limited, LGPSC).

3 PURPOSE, GOALS AND KEY RESULT AREAS (KRAs) / ASPIRATIONS

3.1 Our purpose is to deliver on the benefit expectations of our members by managing investments to increase our assets and by understanding our liabilities.

3.2 Our goals are to:

a) Achieve and maintain a 100% funding level over a reasonable period of time to pay all benefits arising as they fall due.
b) Maintain a managed risk investment and funding strategy to achieve the first goal.
c) Maintain stabilised employer contribution rates.
d) Provide a high quality, low-cost, customer-focused service.
e) Be open and honest in all decision making.

3.3 To help us to achieve our goals we have identified 5 KRAs:

- Accounting.
- Administration.
- Engagement / Communications / Member & Employer Relations.
- Governance & Staffing.
- Investments, Funding & Actuarial.

3.4 Our 5 KRAs are underpinned by 14 supporting aspirations. A brief summary of any significant milestones and any issues that we are encountering with delivering these is provided in the commentary at the end of each KRA section.

3.5 The one-off (shown as shaded) and annually recurring (shown as unshaded) large pieces of work or projects that we are progressing to achieve these 14 supporting aspirations are detailed in the appendix called Operational Plan: Projects.

3.6 Our performance on our day to day business as usual activities is detailed in the Investment Targets and Administration KPIs sections of our Business Plan. Any business as usual issues or developments that we are encountering are included in the commentary at the end of each KRA section.

3.7 This Business Plan's numbering recommences with section 4 (after the pages with a light background colouring that follow this paragraph). The boldened and underlined five KRAs that follow are in alphabetical order. The (1) to (14) numbering of our 14 supporting aspirations used below is across the five KRAs. This approach is to ease cross referencing with the second and third columns of the spreadsheet that is Appendix 1 of this Business Plan.

KRA: Accounting

1. To ***ensure the proper administration, accounting and reporting of all our financial affairs***.

2. To produce clear ***Annual Reports / Statement of Accounts*** that enable members and stakeholders to understand the latest and future financial position.

Accounting KRA Commentary:

Our budgets for 2020 / 2021 to 2022 / 2023 are detailed in section 6 below. The budget position for 2020 / 2021 year to date is a forecast overspend of £0.5m (£0.4m as a result of increased management fees and £0.1m for the ESG audit and Mercer's employer covenant / risk management system). The forecast overspend does not include any increase in administration costs due to McCloud or the new exit payments landscape that are estimated to require an additional two scale 4 staff on 35 hours for two years at a cost of £0.1m.

We are on schedule for all payments (e.g. to HMRC) and monitoring (e.g. cashflow) activities.

There are no issues with managing / reconciling the custodian accounts for investments including transactions, tax doc, cash controls, etc.

An audit of our investments function revealed no major areas of concern.

KRA: Administration

3. To ***provide a lean, effective, customer friendly benefits administration service***, through the calculation and payment of benefits accurately and promptly in line with the targets published Pension Administration Strategy.

4. To maintain ***an effective administration system*** for the ***accurate maintenance of the records of all members*** and to continually review and cleanse our data, ensuring it meets the Pension Regulator's requirements and supporting employers to provide correct data.

5. To ***optimise the use of technology to make processes more efficient and effective*** and to continually look at developing services in the most cost-effective manner following careful consideration of business cases. This will include an increased drive towards greater self-service provision for employers and employees, as well as less paper.

6. To ***become a role model of best practice amongst LGPS Funds*** being recognised by members and employers as providing an excellent service and to work ***collaboratively and in partnership with both internal and external organisations*** to provide higher quality services at a lower cost.

7. To ***support a range of projects and business as usual activities such as the actuarial valuation***, policy reviews, committee member / officer training, contract reviews, FRS information for employers and performance monitoring for us and our employers to adhere to.

Administration KRA Commentary:

Data quality:
Having measured the quality of our data as at 22 July 2020 using reports supplied by our pension administration system supplier, we have addressed our 'scheme specific data' and moved onto the 'common data' areas.

We have reviewed the results from our actuary's data quality tool that extends beyond the basic requirements of The Pensions Regulator in relation to 'common data'. The overall conclusion was that the estimated 'whole Fund' liability impact of the data issues flagged has increased slightly from c£15.6m to c£16.4m. As this remains at c0.5% of the Fund's liabilities, it is a comfortable position to be in and does demonstrate the continued excellence in data quality general for the core information used for actuarial calculations on which both operational and strategic decisions are made. However, as it revealed a significant increase in the number of frozen members with missing pensions (from c450 at 2019 to c1,600 at 2020), we have tasked Mercer with providing us with a list of the deferreds with no date of leaving for investigation.

We have also targeted the end of June for addressing any contribution / final pay / CARE pay issues resulting from the 31 March 2021 year end contribution posting.

Employer changes:
We are aware of the following employer changes in 2020 / 2021:

- Herefordshire Housing Ltd (that became part of the Connexus Group in July 2017) being renamed Connexus Housing Two Ltd as from 1st April 2020.
- Hill and Moor Parish Council wanting to offer the LGPS to their staff.
- Northleigh joining Mercian ET on 1/4/2020 as a new academy.
- St Thomas More joining Our Lady of Lourdes on 1/4/2020 as a new academy.
- St Matthias C of E Primary School being expected to join Spire C of E.
- Millbrook Healthcare Ltd becoming a new employer having been awarded HIA contracts which commenced on 1 April 2020.
- Webheath First School Academy changing its name to Shire MAT with Feckenham joining as an Academy from 1 September 2020 and Witton Middle School joining 1 December 2020.
- Part of ContinU Plus (Kidderminster / Hagley Early intervention Family Support) being transferred to Worcestershire Children First from 1 October 2020.
- Babcock terminating with LGPS members being moved into Worcestershire Children First's Learning & Achievement.
- St Weonard's Primary School joining Marches Federation of Academies.
- St Georges First Kidderminster joining Black Pear Trust (MAT).
- Feckenham C of E First School joining Four Stones.
- De Montfort School joining Fourstones.
- Worcester Community Trust terminating.
- Community Housing terminating.
- Place Partnership terminating on 1 April 2021.
- Central Learning Partnership Trust (previously Advanced Trust) schools joining on 1 November 2020 as a new MAT with 4 academies (Newbridge, Riversides, Kingfisher and Vale of Evesham).
- Maid Marions joining as a new employer.
- St Nicholas Owen and St Catherine of Siena Catholic MACs officially becoming the larger Emmaus Catholic Multi Academy Company on 1 February 2021.

GMP rectification:
We have written to affected members and will implement the rectification in March 2021. There were 113 overpayment letters (where we will not recover past overpayments but reduce the pension) and 17 underpayment letters (where we will increase the pension and make a one-off arrears payment). We plan to review the costs after any appeals.

KPIs:
As detailed in Section 5:

- In January 2021, a much busier than usual month for deaths with 42 (the av monthly no in 19/20 was 15 and year to date in 20/21 was 19), we did not achieve our KPIs for deaths, joiners or deferreds.
- For the 2020 / 2021 year to 31 January we by and large achieved our KPIs with the exception of joiners.
- We met our average turnaround targets for all processes in January and the 2020 / 2021 LGPS year to 31 January.

We are now linked in to the Tell Us Once service that helps bereaved citizens inform many government organisations and public sector pension providers, just once, of a death.

In 2020 / 2021 we have had **2 data breaches**, **3 IDRPs** and **0 complaints**.

The Pensions Ombudsman has ruled on ill health appeal that was started in 19/20, and we have accepted the ruling.

We have a delegated approach to writing off pension overpayments that is dependent on value and are currently chasing 8 cases for a grand total of £5,637.45. In 2020/2021 we have written off 2 cases: for £160.80 and £384.43.

McCloud:
MHCLG is consulting on amendments to the statutory underpin to remove the unlawful age discrimination identified in the McCloud judgment.

The proposed remedy would apply to all members who were active at 31 March 2012 and have accrued benefits since 1 April 2014 and take the impact of early/late retirement factors into account.

It would wipe out the proposed cost control LGPS benefit improvements.

From April 2022 (this is the last date a protected member can reach their 2008 Scheme NPA) it is proposed that the period of underpin protection will cease and all active LGPS members will accrue benefits in the career average scheme without a continuing final salary underpin.

It is also proposed that active and deferred members are given an additional 12 months to elect to aggregate previous periods of LGPS membership where such a decision would mean they have ‘underpin protection.

Following the LGPC producing some guidance for LGPS funds about collecting data from their employers to deliver the remedy, we have been processing the hours changes that we have historically received from our employers and have identified the likely gaps in our member data. We plan to issue guidance to our employers on our requirements once we have processed their 2021 year end returns.

We have added McCloud to our list of projects and recruited extra resource.

We are consulting with our actuary re the implications for employers who are not making advance financial provision.

Pension Administration Strategy
Our employer consultation closed on 12 Feb, and we have asked our employers to supply us with their policy statements on discretions by 31 March.

Public sector exit payments:
Whilst the government has announced that parts (the £95K cap) of the restrictions on public sector exit payments that came into force in November are disapplied, we have implemented revised unisex GAD capitalisation factors and are monitoring the situation, as HM Treasury has stated that it will bring forward proposals at pace to tackle unjustified exit payments.

Remedying survivor benefits for opposite-sex widowers and surviving male civil partners:
The Chief Secretary to the Treasury has made a written statement on remedying survivor benefits for opposite-sex widowers and surviving male civil partners where male survivors remain entitled to a lower survivor benefit than a comparable same-sex survivor. This will require us to re-visit historical deferred and pensioner records.

KRA: Engagement / Communications / Member & Employer Relations

8. To ***continue to engage with our stakeholders***, maximising self-service and digitisation, seeking feedback, developing approaches which support our goals and developing a ***robust engagement strategy*** with employers and members.

9. To ***communicate the key benefits of the LGPS, ensuring increased awareness amongst the eligible membership of their benefits***. This includes effective communication to members and employers.

10. To have in ***place effective, documented business relationships with all our employers*** and to ensure regular reviews are carried out to assess the risk and strength of their covenants.

Engagement / Communications / Member & Employer Relations KRA Commentary:

Our site has become more popular since its content refresh and since the launch of our stand-alone 'groovy-green' site.

In Jan 2021 our website had **2,407** visits (**77** visits per day) compared to **1,730** visits (**55** visits per day) in January 2020 i.e. **+39%** and there were **1,863** different or unique visitors **(77% of the non-unique visits)**. The most popular PDFs in January 2021 were: **Employer newsletter, Guide to the LGPS** and **Death Grant Nomination form**.

We organised a presentation on ill health liability insurance from the broker Hymans Robertson on 3 Feb.

KRA: Governance & Staffing

11. To ensure the ***effective management and governance*** in a way that strives for continuous improvement through improved value for money, the promotion of excellent customer service and compliance with all regulatory / best practice requirements.

12. To ***recruit, train, nurture and retain highly motivated staff with the necessary professional, managerial and customer focus skills*** to deliver on the ever-increasing complexities of the LGPS.

13. To ***continually review the effectiveness of our committees and advisers*** and our decision-making.

Governance & Staffing KRA Commentary:

We have extended our existing pensions administration system supplier's contract for 3 years from 30 April 2021 that opens the way for us to decide what to do re add-ons like i-Connect (middleware for the transmission of data from employers to us electronically) and Member Self Service (online access for members to their pension record).

Following Bridget Clark's retirement and as Linda Probin is retiring on 31 March, Nick Weaver who was for a long time Pensions Manager at Hampshire has been engaged as an interim manager.

We welcomed two (one new and one returning) full-time members of staff to the pensions administration team in January: Laura Jones and Emily Stanfield. We have also recruited a full-timer, Ben Jones who will join us in February.

We delivered elected member support / training on 10 November covering current issues in the LGPS and paying pensions.

We delivered elected member support / training on 18 January covering risk considerations in an investment strategy that was followed by a discussion on the way forward for training.

The discussion concluded that an appropriate way forward would be after each session arranging just the next one hour session 6 weeks or so after the current one (with no clear preference on day / time ex Fri PMs that should be avoided) and by arranging the session on the basis that the session would be recorded / separate to existing meetings. The March session is planned to cover, as Linda is retiring, admissions / bulks / terminations.

We have delivered a deep dive into pooling and information on changes to survivor benefits to the Pension Board. The next deep dive, scheduled for 4 March, will be into the Pensions Regulator / annual benefit statements.

KRA: Investments, Funding & Actuarial

14. To ***achieve a relatively stable "real" investment return above the rate of inflation*** over the long term, in such a way as to minimise and stabilise the level of contributions required to be paid by employers in respect of both past and future service liabilities and ***to achieve a 100% funding level over a suitable timescale***. This includes setting of appropriate investment strategies, the appointment of capable investment managers, and the monitoring and reporting of investment managers' performance, with appropriate action being taken in the event of underperformance.

Investments, Funding & Actuarial KRA Commentary:

The Fund's asset valuation as at 31 December 2020 was £3,223m and its funding level was 96% which has recovered well from the significant impact of COVID 19 in March 2020. However there remains a lot of volatility in the financial markets.

As detailed in the next section, the Fund has generated an average annual return of 5.3% compared to its benchmark of 4.8% over the 3 years to 31 12 2020.

Over the year to 31 12 2020 the Fund generated a return of 6.9% compared to its benchmark of 3.1%.

We have asked employers to supply us by 26 Feb with accounting data, so that we can assess their covenants.

We have identified a number of employers to monitor more closely using Mercer's Pfaroe tool due to concerns over funding, covenant risk, potential termination or risk sharing bodies.

A DWP policy consultation response and consultation on regulations entitled Taking action on climate risk: improving governance and reporting by occupational pension schemes was launched on 27 January runs until 10 March. The scope of the regulations does not include the LGPS. However, regulations are expected from MHCLG to substantially mirror the requirements set out in this document.

The All-Party Parliamentary Group for Local Authority Pension Funds has launched an **inquiry** into how the LGPS can help to achieve a just transition to a decarbonised economy.

4 INVESTMENT TARGETS

4.1 The 2019 actuarial valuation set the following real annual discount rates:

a) Past service: Consumer Prices Index + 1.65%.
b) Future service: Consumer Prices Index + 2.25%.

4.2 The assumed annual Consumer Prices Inflation is +2.4%.

4.3 Therefore our annual return on investment targets are 4.05% (for deficit recovery payments) / 4.65% (for future service contributions).

4.4 To achieve this, we are a partner in LGPSC, have set benchmarks for our sectors and have achieved the 3-year returns shown in the right column of the table below:

Sector	Benchmark	Average annual Performance over the 3 years to 31 December 2020 v benchmark
Far East Developed	FTSE All World Asia Pacific Index + 1.5%	6.6% (0.9% above benchmark)
Emerging Markets	FTSE All World Emerging Market index +2.0%	Not available as new fund invested from July 2019
United Kingdom	FTSE All Share Index	-0.8% (0.1% above benchmark)
North America	FTSE All World North America - Developed Series Index	14.1% (0.1% above benchmark)
Europe ex - UK	FTSE All World Europe ex UK Index - Developed Series Index	5.9% (0.1% below benchmark)
Global (alternatives)	**40%** GPAE - FTSE-Research Affiliates Fundamental Index (RAFI) Dev 1000 Equity Fund, **30%** GPBK - MSCI World Mini Volatility Index, **30%** STAJ - CSUF - STAJ	7.8% (0.7% below benchmark)
Fixed Interest	Barclays Global Aggregate Corporate Bond Index – Hedged into GBP EQT Corporate Private Debt - Absolute Return 6.5%	Not available as only invested March 2020 Not available as only invested May 2018
Property / Infrastructure	Various absolute benchmarks for different fund managers	Property 3% (4% below benchmark) Infrastructure 2.6% (3.9% below bmark)

5 ADMINISTRATION KPIs

5.1 We measure our performance against CIPFA industry standard targets for our key pension administration processes. We have regular meetings that review how we are performing on a case by case basis (% processed within target) and our average performance for all the cases of a process (average turnaround). This informs our resource allocation between processes and highlights which processes to seek to improve.

5.2 A commentary on the tables below is provided earlier in the shaded KRA: Administration section (that follows section 3.7).

Activity / Process	Number processed in Jan 2021	% Processed within KPI in Jan 2021		Av turnaround (working days) in Jan 2021	Target turnaround (working days)		2020/2021 Year to date average number processed per month
Joiners notification of date of joining	436	82		27	40		155
Process and pay refund	0	0		0	10		15
Calculate and notify deferred benefits	38	95		11	30		54
Letter notifying actual retirement benefits	83	100		5	15		49
Letter notifying amount of dependant's benefits	17	100		2	10		8
Letter acknowledging death of member	42	81		3	05		19
Letter detailing CETV for divorce	11	100		1	45		6
Letter notifying estimate of retirement benefits	125	100		3	15		88
Letter detailing transfer in quote	33	100		2	10		16
Process and pay lump sum retirement grant	119	100		15	23		76
Letter detailing transfer out quote	20	100		2	10		22
Letter detailing PSO implementation	0	n/a		n/a	15		0

Activity / Process	Number processed for year to date i.e. 1 April – 31 Jan 2021	% Processed within KPI for year to date i.e. 1 April – 31 Jan 2021	% Processed within KPI in the last quarter i.e. 1 Oct – 31 Jan 2021	Av turnaround (working days) for year to date i.e. 1 April – 31 January 2021	Av turnaround (working days) in last quarter i.e. 1 Nov – 31 Jan 2021	Target turnaround (working days)
Joiners notification of date of joining	1551	71	69	25	29	40
Process and pay refund	155	100	100	3	2	10
Calculate and notify deferred benefits	541	93	81	14	15	30
Letter notifying actual retirement benefits	498	100	99	3	3	15
Letter notifying amount of dependant's benefits	81	100	100	3	2	10
Letter acknowledging death of member	191	95	91	3	2	05
Letter detailing CETV for divorce	65	100	100	2	1	45
Letter notifying estimate of retirement benefits	883	98	100	4	2	15
Letter detailing transfer in quote	163	98	98	3	2	10
Process and pay lump sum retirement grant	762	100	100	15	15	23
Letter detailing transfer out quote	221	97	94	3	2	10
Letter detailing PSO implementation	0	n/a	n/a	n/a	n/a	15

6 BUDGET

In addition to the commentary provided earlier in the shaded KRA: Accounting section (that follows section 3.7), detailed reporting of our budget position is provided twice a year to Pensions Committee and included in **our annual reports**.

	20/21	21/22	22/23
Fund Investment			
INVESTMENT MANAGEMENT FEES	**11,382,600**	**12,190,400**	**13,122,600**
Investment Administration Recharge	142,300	145,100	142,300
Investment Custodial and related services	367,200	374,500	382,000
Investment Professional fees	81,000	71,500	72,000
Performance Measurement	15,500	15,800	16,100
INVESTMENT ADMINISTRATION COSTS	**606,000**	**606,900**	**618,100**
Scheme Administration			
Pension scheme Administration recharge	995,700	973,600	996,000
Actuarial services	240,000	300,000	240,000
Audit	27,500	27,500	27,500
Legal Fees	33,500	33,500	33,500
Committee and Governance recharge	11,000	11,000	11,000
SCHEME ADMINISTRATION COSTS	**1,307,700**	**1,345,600**	**1,308,000**
GRAND TOTAL (Excluding Investment Mgt Fees)	**1,913,700**	**1,952,500**	**1,926,100**
GRAND TOTAL (Including Investment Mgt Fees)	**13,296,300**	**14,142,900**	**15,048,700**

Appendix 1 – Operational Plan: Projects

This appendix summarises the work that we are doing to achieve particular aims. For us a project is a piece of work that is something that we would not do on a daily basis like processing a retirement. Some of our projects recur annually.

It uses the following acronyms / abbreviations:

AA	Asset allocation
A/C	Accounting
Ac	Academies
Admiss	Admission
Admit	Admitted
AH	Aquila Heywood
BCP	Business Continuity Plan
Bods	Bodies
Calcs	Calculations
CARE	Career average revalued earnings
CB	Corporate bonds
CEM	CEM Benchmarking Inc

Cert	Certificate
CIPFA	Chartered Institute of Public Finance & Accountancy
Coll	Colleges
Config	Configuration
Conts	Contributions
Covs	Covenants
Cttee	Pensions Committee
EM	Emerging markets
Engage	Engagement
Er	Employer
Expend	Expenditure
FI	Fixed interest
FRS	Financial Reporting Standards
FSS	Funding Strategy Statement
GMP	Guaranteed Minimum Pension
Gov	Governance
Inc	Income
Inv	Investments, Funding & Actuarial
KRA	Key result area
LGPS	Local Government Pension Scheme
LGPSC	LGPS Central Limited
Manag	Management
MHCLG	The Ministry of Housing, Communities and Local Government
ONS	Office for National Statistics
Q	Query
Recti	Rectification
Rtn	Return
SAB	Scheme Advisory Board
Sch	Scheduled bodies
SF	Superannuation Fund
SI	Statutory Instrument
Sub	Pension Investment Sub-committee
Term	Termination
TBD	To be determined
TPR	The Pensions Regulator
Y/End	Year end

~ ENDS ~

Operational Plan: Projects 15 February 2021 NOTES:	KRA	Aspiration	Lead	Started	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	Comments
11 LGPS Central budget (various)	A/C	1	RW		Cttee			Cttee				Cttee		Cttee			Cttee		√ to date and scheduled
12 Annual Report & Accounts / associated docs (30 09 21)	A/C	2	RW				to Audit	Cttee		signed off	Publish	Cttee							initial Word Doc 2021 prepared
15 ONS Inc / Expend return (quarterly)	A/C	1	RW			¼ rtn			¼ rtn			¼ rtn			¼ rtn			¼ rtn	√ to date and scheduled
16/17 MHCLG SF3 LGPS Funds account (31 08 21)	A/C	1	RW							Annual									2021 scheduled
18 TPR Occupational Pension Schemes Survey (31 03 21)	A/C	1	NW		Annual												Annual		2021 scheduled
19 CEM investment benchmarking (31 07 21)	A/C	1	RW						Annual										2021 scheduled re data from scheme year 19/20
14 CIPFA benchmarking (31 10 21)	Ad-min	6	NW									Annual		Cttee					2021 scheduled
1 GMP reconciliation and rectification (TBD)	Ad-min	7	SH	Apr-18	recti														Letters have been issued and will review costs
2 GMP equalisation (TBD)	Ad-min	7	SH	TBD															awaiting guidance NB non-club TVouts 1990 to 1997 in scope
4 Valuation / FSS / pots / admiss + term policies (various)	Ad-min	7	RW					Annual Review				Cttee		Cttee			Cttee		reviewing FSS re SI 2020 No 893
8 Enveloping procurement (TBD)	Ad-min	5	NW	Aug-18															closed: have solution with Adare
32 Reprocure pension admin system (30 04 2024)	Ad-min	4	NW	May-20															contract being extended for 3 years from 30 April 2021
10 Pension Administration Strategy review (01 04 21)	Ad-min	10	CF		Cttee	publish										consult	Cttee	publish	2021 consult closed 12 Feb
13 Review data quality (various)	Ad-min	4	NW							Aq Hey results				Mercer results					√ 2020 Mercer and Heywood
25 Revalue CARE accounts (06 04 2021)	Ad-min	4	SH			System config.												System config.	2021 scheduled
26 Provide FRS info (various)	Ad-min	7	AL		Sch				Coll	Ac				admit bods			Sch		√ to date and scheduled
3 Branding and digital strategy (TBD)	Eng-age	5	CF	Oct-18				? Cttee											was awaiting pension admin system re-procurement decision
20 Monitor employer covenants / pots / conts	Eng-age	10	RW		Cttee	reset ercont s		Cttee				Cttee		Cttee	ask ers		Cttee	reset ercont s	Pfaroe in place
21 Deferred annual benefit statements (31 08 21)	Eng-age	9	CF					Annual	Q manag										2021 scheduled
22 Employee annual benefit statements (31 08 21)	Eng-age	9	CF		Y/End					Annual	Q manag						Y/End		2021 scheduled
23 Pensioner P60s (29 05 21)	Eng-age	3	SH				Annual	Q manag											2021 scheduled
24 Payslips reflecting pension increase (30 04 21)	Eng-age	3	SH			Annual												Annual	2021 scheduled
27 Pension Savings Statements (06 10 21)	Eng-age	3	NW									Annual							2021 scheduled
29 Pensioner newsletter / life cert (30 11 21)	Eng-age	9	CF										Annual						2021 scheduled
28 /30 Good Governance incl (TBD)	Gov Staff	11	RW	TBC	Cttee			Cttee				Cttee		Cttee	CMA comply		Cttee		Updated Gov Pol State to be formally approved by Cttee
33 McCloud: data collection; er rates; and calcs	Ad-min	3	NW	Aug-20	Cttee			Cttee				Cttee		Cttee			Cttee		hour changes being progressed and plan being developed
5/6 Review of Asset Allocation / ISS (31 03 21)	Inv	14	RW		Cttee			Cttee Sub			Sub	Cttee	Sub	Cttee			Cttee		2021 scheduled
9 Increase assets managed by LGPS Central Limited	Inv	14	RW	Feb-19	Cttee			Cttee Sub				Cttee		Cttee			Cttee		√ for EM / CB and looking into infrastructure / private debt

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AGENDA ITEM 7

PENSION BOARD
26 FEBRUARY 2021

RISK REGISTER

Recommendation

1. **The Chief Financial Officer recommends that the Pension Board reviews the 15 February 2021 WPF Risk Register be noted.**

Background and update

2. The Risk Register is kept under regular review and, following the February 2021 review by officers, an updated Register is attached as an Appendix.

3. The review resulted in the residual risk score of WPF20 (Staff leaving or going on long term absence) being increased from 15 (green) to 30 (amber).

4. The review resulted in the residual risk score of WPF19 (Failure to procure a pensions admin system for the future) being reduced from 30 (amber) to 15 (green).

5. No new risks were added to the Register.

6. Mitigating actions have been updated for new measures (e.g. re public sector exit payments) and previous measures that have been completed / developed further / have changed timelines (e.g. re McCloud, employer guidance on ill health retirements and the Mercer data quality review).

7. Our staff continue to predominantly work from home to deliver a 'business as usual' service with no loss in productivity.

Supporting information

- Appendix - WPF Risk Register 15 February 2021

Contact Points

Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.

Risk Register

As at 15 02 2021

About this Risk Register

The following colour coding is used for the 31 residual risk scores:

- Red > = 45 (02 risks)
- Amber >= 25 but < 45 (11 risks)
- Green < 25 (18 risks)

Risk scores can range from 0 to 100 and are derived by multiplying an impact score by a probability score as follows:

Impact = 0 (none); 5 (minor); 15 (moderate); 20 (major); or 25 (severe).

Probability = 0 (no chance); 1 (25% likely to happen); 2 (50:50); 3 (75% likely); or 4 (certain to happen).

The far-right column, Residual Risk Score, includes upwards or downwards arrows if the score has changed since the previous Risk Register (as at 16 06 2020 in this case).

In the far-right column, Residual Risk Score, the scores in brackets below the current score indicate what the previous score was if the score has changed since the previous Risk Register.

The 31 risks logged in this register are in highest Residual Risk Score:

1. WPF 12 Mismatch in asset returns and liability movements.
2. WPF 10 Being reliant on LGPS Central Limited delivering its forecasted cost savings.
3. WPF 23 Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure.
4. WPF 07 Future change to LGPS regulations or other legislation, for example from SAB's governance working groups or from the written statement on remedying survivor benefits for opposite-sex widowers and surviving male civil partners where male survivors remain entitled to a lower survivor benefit than a comparable same-sex survivor or from 'Restricting exit payments in the public sector'.
5. WPF 20 Staff leaving or going on long term absence.
6. WPF 11 Failure to pool assets using LGPS Central Limited.
7. WPF 31 Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers.
8. WPF 06 Fair Deal consultation proposals being implemented.
9. WPF 24 Employers having insufficient skilled resources to supply our data requirements.
10. WPF 08 Failure to appoint suitable investment managers and review their performance / markets / contracts.
11. WPF 03 Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix.
12. WPF 28 Cyber-attack leading to loss of personal data like bank account details.
13. WPF 30 Failure to maintain the quality of our member data.
14. WPF 32 GMP rectification not completed in line with the Pensions Regulator's / our members' expectations.
15. WPF 09 Being reliant on LGPS Central Limited's investment approach.
16. WPF 19 Failure to procure a pensions admin system for the future.
17. WPF 22 The following key actuarial assumptions set at each actuarial valuation do not match our actual experience between actuarial valuations: the number of ill health retirements; that employer strain costs associated with early / redundancy / flexible retirements are covered by the payments collected from employers; pay / price inflation; and life expectancy.
18. WPF 18 Failure of existing pension admin system to deliver the services contracted.
19. WPF 21 Failure of business continuity planning.
20. WPF 02 Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.
21. WPF 13 Liquidity / cash flow is not managed correctly.
22. WPF 14 Failure to exercise proper stewardship of our assets.
23. WPF 26 Fraud by staff.
24. WPF 15 Failure of the actuary to deliver the services contracted.
25. WPF 01 Failure of governance arrangements to match up to recommended best practice.
26. WPF 17 Failure of custodian to deliver the services contracted.
27. WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy.
28. WPF 16 Failure of investment adviser to deliver the services contracted.
29. WPF 25 Fraud by scheme members.
30. WPF 29 Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.
31. WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 12 (Chief Financial Officer)	Mismatch in asset returns and liability movements.	Exposure to risk or missing investment opportunities or increases in employer contributions.	25	3	75	We regularly review our Investment Strategy Statement, have a diversified portfolio and implement a policy of extended recovery periods to smooth employer contributions. Qualified advisers including an independent investment adviser are contracted and set objectives that are reviewed regularly. Funding position, actuarial valuation assumptions and mortality / morbidity experience are reviewed regularly by the Pensions Committee. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. We have equity protection arrangements in place up to July 2021 for all of our passive market cap equity funds. We continue to liaise with all our investment managers in response to the initial market falls and ongoing market volatility caused by COVID-19, although equity markets have recovered a lot of the initial losses. New ideas are always encouraged by officers who also carry out peer group discussions. Monthly Investment Working Group meetings are held between the partner funds and LGPSC to explore new investment opportunities.	25	2	50
WPF 10 (Chief Financial Officer)	Being reliant on LGPS Central Limited delivering its forecasted cost savings.	Paying too much in fees / investment under-performance.	25	2	50	Whilst the Pension Investment Sub Committee and LGPS Central's Practitioners' Advisory Forum (PAF) monitor the costs of being a partner fund of LGPS Central Limited, there is little they can do about LGPSC admitting that any expected cost savings will not emerge as soon as anticipated. Whilst we have not transferred many assets so far, there are fixed costs of being a partner fund. The Monthly Investment Working Group meetings at which all 8 partner funds are represented review staffing changes at LGPSC and the performance of assets under LGPSC's management.	25	2	50

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 23 (Chief Financial Officer)	Employers cannot pay their contributions or take on an inappropriate level of risk or their contributions take them too close to limits of their available expenditure.	Increase in liabilities.	20	3	60	Risk profile analysis is performed to understand the strength of an employer's covenant when setting the terms of admission agreements (that may require bonds) and in setting the term of deficit recovery periods after actuarial valuations. The aim is to keep employer contributions as stable and affordable as possible. During the 2019 actuarial valuation we actively engaged with employers by issuing interim results, by offering 1:1s with the actuary and developed an employer contribution election form. At a Fund level employers have confirmed that the LGPS remains affordable, a situation that we are monitoring in the light of COVID-19. We have been able to offer some flexibility in exceptional circumstances: a top 10 employer with financial pressure has been allowed to phase in increased payments, reflecting our policy of positive engagement with a view to strengthening employer covenants wherever possible. Contribution increases are phased over a three year period for most employers and allowances are provided for short term pay restraint where evidence is provided. We monitor membership profiles and changes, ensure that employers are reminded of their responsibilities where this is appropriate and work with at risk employers. We are currently analysing employers' 2020 financial metrics. We have asked employers for their 2021 metrics and set up employer risk monitoring using Mercer's Pfaroe tool to enable us to monitor employer financial and other risks more closely. We have employer grouped investment strategies.	20	2	40

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 07 (Chief Financial Officer)	Future change to LGPS regulations or other legislation, for example from SAB's governance working groups or from the written statement on remedying survivor benefits for opposite-sex widowers and surviving male civil partners where male survivors remain entitled to a lower survivor benefit than a comparable same-sex survivor or from the government legislation on exit payments.	Increasing administrative complexity or failure to comply with The Pensions Regulator.	25	3	75	In preparation for delivering the McCloud remedy we have been processing the hours changes that we have historically received from our employers and have identified the likely gaps in our member data. We welcomed two full-time members of staff to the pensions administration team in January. We have also recruited a full-timer who will join us in February. We plan to issue guidance to our employers on our requirements once we have processed their 2021 year end returns. We are consulting with our actuary re advising our employers of the contribution implications for employers who are not making advance financial provision. Whilst the government has announced that parts (the £95K cap) of the restrictions on public sector exit payments that came into force in November are disapplied, we have implemented revised unisex GAD capitalisation factors and are monitoring the situation, as HM Treasury has stated that it will bring forward proposals at pace to tackle unjustified exit payments. Officers participate in various scheme and industry groups and fora. The Committee and Board monitor LGPS developments. We are aware that GMP equalisation will affect historic non-club transfers out. We have set up employer risk monitoring using Mercer's Pfaroe tool to enable us to monitor employer financial and other risks more closely. We undertake annual covenant reviews, have introduced employer grouped investment strategies on 1 April 2020 and work with at risk employers.	20	2	40

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 20 (Chief Financial Officer and Pensions Administration Manager)	Staff leaving or going on long term absence.	Insufficient staff resource or remaining staff not having the skills to do their areas of work.	25	2	50	We have engaged an interim manager as a result of the retirement and planned retirement of our two most senior pension admin officers and are preparing for the maternity absence of one of our Senior Pensions Assistants. We welcomed two (one new and one returning) full-time members of staff to the pensions administration team in January: Laura Jones and Emily Stanfield. We have also recruited a full-timer, Ben Jones, who will join us in February. Cross skilling is achieved by mentoring to develop officers with a high level of knowledge and experience. Officers have developed a staff knowledge assessment that will help to ensure functions are reviewed to ensure they are sufficiently staffed / have succession planning. Lockdown and home working have reduced the risks posed by COVID-19 re illness. Specialist agency cover is available. Absences will be managed in line with Worcestershire County Council's new attendance policy. Exit interviews / questionnaires are used to explore the reason for anyone leaving.	15	2	30
WPF 11 (Chief Financial Officer)	Failure to pool assets using LGPS Central Limited.	Lack of compliance with Ministry of Housing Communities & Local Government (MHCLG) requirements.	25	3	75	We are a working member and shareholder of LGPSC. The pool went live from the 1st April 2018 and met the government's pooling timetable and to the required standard. It also complied with FCA regulations. Each pool member has an equal share in the pool and the first Shareholders meeting and central committee have taken place. There is a Practitioners Advisory Form (PAF) with the pool's investment managers that meets monthly. The pool has a number of work streams: investments; client reporting; finance; responsible investment; and governance. Formal transition procedures are in place. We will take legal advice before not pooling our assets and monitor the willingness of the pool to invest in the sort of assets that could have a positive impact on future funding levels. The first transfers of our assets (in emerging markets and corporate bonds) were undertaken in July 2019 / Feb 2020. Infrastructure investments and private debt are currently being looked into.	15	2	30

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 31 (Pensions Administration Manager)	Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers.	Inability to deliver critical functions like paying deaths.	20	2	40	Whilst we have successfully moved to home-working supported by a small postal / scanning service at County Hall and expect to be able to adapt to the new ways of working, our workload and resources have as yet not been tested by a significant increase in member deaths or in staff absence. We are not experiencing problems with suppliers / employers. We continue to be vigilant and to keep our priorities under review by monitoring our KPIs and the guidance from Public Health England / the LGA. In preparation for a possible wave two, we have developed amendments to our normal procedures that would cope with staff, data or systems being unavailable and specifically cope with increased volumes of deaths. We will continue to review capacity v resources and to liaise with other LGPS funds over their proposed ways forward.	15	2	30
WPF 06 (Chief Financial Officer)	Fair Deal consultation proposals being implemented.	Increasing administrative complexity.	15	3	45	Government consultations are being delayed as the government focusses its efforts on COVID-19. When the regulations come out we will develop measures to mitigate this risk. Risk profile analysis is performed to understand the strength of an employer's covenant when setting the terms of admission agreements (that may require bonds), and we ensure that employers are made aware of consequences of their decisions and that they are financially responsible.	15	2	30

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 24 (Pensions Administration Manager)	Employers having insufficient skilled resources to supply our data requirements.	Missing, incomplete and incorrect records on pensions administration system that undermines service delivery and causes difficulties in establishing correct benefits at individual level / liabilities at employer and whole of Fund level. Potential issues with The Pensions Regulator.	15	3	45	Following the LGPC producing some guidance for LGPS funds about collecting data from their employers to deliver the remedy, we have been processing the hours changes that we have historically received from our employers and have identified the likely gaps in our member data. We plan to issue guidance to our employers on our requirements once we have processed their 2021 year end returns. We are consulting with our actuary re advising our employers of the contribution implications for employers who are not making advance financial provision. Following our annual employer consultation we will be updating the Pension Administration Strategy on 1 April 2021. We support employers with monthly newsletters / an area on our website / employer fora. Officers have developed a ‘New to the LGPS?’ employer workshop and an employer workshop on ‘Form Completion’ to follow up on the 'Pensions Development Pathway', employers 'How to' and the 'What the Fund expects from its employers' calendar. We have produced a new ‘Transfers of staff between our employers / academy conversions’ guidance note and accompanying Excel spreadsheet and expanded this material by developing information for employers ill health retirements. Checking individual records at points of significant transaction is undertaken.	15	2	30

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WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 08 (Chief Financial Officer)	Failure to appoint suitable investment managers and review their performance / markets / contracts.	Investment underperformance / regulatory non-compliance / paying too much in fees.	25	3	75	The Pension Investment Sub Committee has been introduced to deliver more effective decision making: its predecessor, the Pension Investment Advisory Panel, had to have its recommendations approved by the Pensions Committee. It monitors performance of our diverse range of investment managers (including LGPSC), meeting with / placing managers on watch as appropriate. We carry out a subjective review and objective analysis of asset performance and take advice from the investment adviser, LGPS Central Limited / its partner funds. Contract service is reviewed quarterly by the Pension Investment Sub Committee. The Finance Manager - Pensions reviews investment managers' internal control reports and reports any significant exceptions to the Chief Financial Officer. CMA objectives for our Investment Adviser were agreed at the 17 March 2020 Pensions Committee.	25	1	25
WPF 03 (Chief Financial Officer)	Failure of officers to maintain sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix.	Inability to carry out their duties.	25	3	75	Officers are appropriately qualified and participate in various scheme / industry groups / fora to keep up-to-date on pensions issues. They also review specialist publications. Officers have drafted a staff knowledge assessment to assist in developing its own workforce.	25	1	25

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 28 (Pensions Administration Manager)	Cyber attack leading to loss of personal data like bank account details.	Data Protection breach / fraud.	25	2	50	Whilst we are constantly under attack, the Worcestershire County Council (WCC) infrastructure has proved robust, and we have obtained reassurance from Heywood following COVID-19. We use WCC's breach notification process and WCC's data policy, for example through the use of data encryption and password protection. Regular meetings are being set up with WCC IT Infrastructure. Systems are set up in line with data protection regulations. A complete address update is done regularly by employers. Mitigating processes include the Business Continuity Plan (BCP), data breach, addresses being checked by a dedicated checker and communication taking place with member / employer before a payment is made. All post office returns are investigated and followed up and nothing is sent out if new address is not found.	25	1	25
WPF 30 (Pensions Administration Manager)	Failure to maintain the quality of our member data	Paying incorrect or no benefits / problems with the Pensions Regulator / reputational or financial loss.	25	2	50	Our annual Mercer, Heywood and GAD data quality reviews shows our data is up with other LGPS funds. We have reviewed the results from our actuary's data quality tool that extends beyond the basic requirements of The Pensions Regulator in relation to 'common data'. The overall conclusion was that the estimated 'whole Fund' liability impact of the data issues flagged has increased slightly from c£15.6m to c£16.4m. As this remains at c0.5% of the Fund's liabilities, it is a comfortable position to be in and does demonstrate the continued excellence in data quality general for the core information used for actuarial calculations on which both operational and strategic decisions are made. However, as it revealed a significant increase in the number of frozen members with missing pensions (from c450 at 2019 to c1,600 at 2020), we have tasked Mercer with providing us with a list of the deferreds with no date of leaving for investigation. We will be using the standard approach re data collection for McCloud.	25	1	25
WPF 32 (Pensions Administration Manager)	GMP rectification not completed in line with the Pensions Regulator's / our members' expectations.	Claims from members, reputational damage or fines from the regulator.	25	1	25	We have written to affected members to implement the rectification in March 2021 and will be reviewing ITM's costs after allowing time for appeals.	25	1	25

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 09 (Chief Financial Officer)	Being reliant on LGPS Central Limited's investment approach.	Investment underperformance / regulatory non-compliance.	25	2	50	We are challenging LGPSC's infrastructure ideas. The Pension Investment Sub Committee monitors performance of this investment manager. The Pensions Committee and officers carry out a subjective review and objective analysis of asset performance resulting from decisions taken by the Pensions Committee following advice from our investment adviser.	20	1	20
WPF 19 (Pensions Administration Manager)	Failure to procure a pensions admin system for the future.	Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss.	25	3	75	We have extended our existing pensions administration system supplier’s contract for 3 years from 30 April 2021 that opens the way for us to decide what to do re add-ons like i-Connect (middleware for the transmission of data from employers to us electronically) and Member Self Service (online access for members to their pension record).	15	1	15

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 22 (Chief Financial Officer)	The following key actuarial assumptions set at each actuarial valuation do not match our actual experience between actuarial valuations: the number of ill health retirements; that employer strain costs associated with early / redundancy / flexible retirements are covered by the payments collected from employers; pay / price inflation; and life expectancy.	Increases required in employer contributions.	20	2	40	Actuarial assumptions are reviewed at each actuarial valuation using our actual membership experience and wider LGPS national trends. To respond to the now disapplied £95K exit cap we have adopted the unisex GAD capitalisation factors. We have introduced monitoring for all ill health retirements, advising employers of the increase in their liabilities associated with each case. We have made ill health liability insurance available to our employers to mitigate our exposure for those employers who take up the insurance. We check that employers have paid their strain costs for non-ill health cases and ensure that employers are made aware of the financial consequences of the retirements they offer their employees. During the period of legal uncertainty we added wording to our redundancy calculations about the £95K exit cap. During the 2019 actuarial valuation we highlighted to employers the need to make realistic pay assumptions and required evidence from employers to support any reduced pay inflation allowance within their assumptions. The impact of price inflation is mitigated to some degree as we invest in assets which are sensitive to changes in price inflation e.g. index-linked Government bonds. We intend to develop the investment pots further to provide greater inflation protection. Mortality assumptions are set with some allowance for future increases in life expectancy, and the cost cap should limit the impact of improvements in life expectancy, something that would not be expected in the short term following COVID-19.	15	1	15

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 18 (Chief Financial Officer)	Failure of existing pension admin system to deliver the services contracted.	Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss.	25	2	50	We have obtained business continuity assurance from Heywood as part of its COVID-19 response. Contract service is reviewed annually and there are regular meetings with Aquila Heywood. Robust system maintenance routines. Internal and external systems support. Back-up procedures. Business Continuity Plan. The Pension Administration Strategy reminds employers of their responsibility to provide accurate and timely information on pay. The current pensions administration system's hosting Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood. We have signed up to the national LGPS framework for pension admin systems and as Heywood are an approved supplier we have independent validation of its current arrangements.	15	1	15
WPF 21 (Chief Financial Officer)	Failure of business continuity planning.	Inability to deliver critical functions like paying pensioners.	25	2	50	Our and Worcestershire County Council's (WCC) Business Continuity Plans have passed the tests posed by COVID-19 to date. The current pensions administration system's hosting Altair has been moved from WCC servers to a cloud solution supplied by Aquila Heywood that means it is more securely backed up. We will review lessons learned from its successful response to COVID-19 as we move out of lockdown. We will ensure that WCC includes delivery of support services to us in its Risk Register. Home working is in place.	15	1	15

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 02 (Chief Financial Officer)	Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.	Poor decision-making / scrutiny.	15	2	30	Training policy, sessions and plans have been implemented in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) knowledge and skills framework / best practice guidance. We have undertaken a knowledge assessment of Committee and Board members. Induction training session for new members were held on 30 June, 4 Sep and 18 Sep. We delivered elected member support / training on 10 November covering current issues in the LGPS and paying pensions. We delivered elected member support / training on 18 January covering risk considerations in an investment strategy that was followed by a discussion on the way forward for training. The discussion concluded that an appropriate way forward would be after each session arranging just the next one hour session 6 weeks or so after the current one (with no clear preference on day / time ex Fri PMs that should be avoided) and by arranging the session on the basis that the session would be recorded / separate to existing meetings. The March session is planned to cover, as Linda is retiring, admissions / bulks / terminations. We have delivered a deep dive into pooling and information on changes to survivor benefits to the Pension Board. The next deep dive, scheduled for 4 March, will be into the Pensions Regulator / annual benefit statements.	15	1	15
WPF 13 (Chief Financial Officer)	Liquidity / cash flow is not managed correctly.	Assets may need to be sold at unplanned times or investment opportunities may be missed.	15	2	30	The Finance Manager - Pensions monitors cash flow on a monthly basis. We currently have under 15% of total net assets exposure to illiquid assets. All contributing employers are provided with deadlines for payments and clear guidelines for providing associated information. We monitor contributions payable and paid on a monthly basis and also reconcile to E5 (our accounting system) on a monthly basis.	15	1	15

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 14 (Chief Financial Officer)	Failure to exercise proper stewardship of our assets.	Potential erosion of investment returns or reputational damage.	15	2	30	A DWP policy consultation response and consultation on regulations entitled Taking action on climate risk: improving governance and reporting by occupational pension schemes was launched on 27 January runs until 10 March. The scope of the regulations does not include the LGPS. However, regulations are expected from MHCLG to substantially mirror the requirements set out in this document. We have a Statement of Compliance with the Stewardship Code. We have tasked LGPSC with developing the identified reporting requirements. We participate in the Local Authority Pension Fund Forum (LAPFF) and other groups. The Pension Investment Sub Committee monitors Environmental, Social and Governance (ESG) policy regularly. We are conducting an ESG audit which will aid our stewardship and help inform our future investment strategy.	15	1	15
WPF 26 (Pensions Administration Manager)	Fraud by staff.	Financial loss.	15	1	15	Audits of our processes take place on an ongoing basis, checking samples. Changes to Altair leave a footprint that identifies who made the change. Manager checking remains in place, supporting 'business as usual' whilst staff are working from home. Citrix has log-in security. Altair has multiple login protections. National Fraud Initiative information is processed every six months. We have joined Tell Us Once. Month end reconciliations are also carried out.	15	1	15
WPF 15 (Chief Financial Officer)	Failure of the actuary to deliver the services contracted.	Financial loss or loss of reputation / employer confidence or need to make major changes at short notice.	20	1	20	Following a review of their performance we have renewed Mercer's contract to 31 Oct 2023.	15	1	15

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 01 (Chief Financial Officer)	Failure of governance arrangements to match up to recommended best practice.	Financial loss or loss of reputation / employer confidence or need to make major changes at short notice. Audit criticism or reputational damage.	25	2	50	The annual review and audit / sign off arrangements for the annual report that includes our Governance Compliance Statement are in place for 2020. The accounts are checked against the Chartered Institute of Public Finance and Accountancy (CIPFA) example accounts and an external audit accounts checklist. We have reviewed our Governance Policy Statement. We have a good governance position statement.	5	1	5
WPF 17 (Chief Financial Officer)	Failure of custodian to deliver the services contracted.	Loss / inaccessibility of assets / inability to invest.	25	1	25	COVID-19 has not proved a problem for the Finance Manager - Pensions review of managers' SAS70 audit reports. We have diversification of custody via pooled funds. Contract service is reviewed annually and there are regular meetings with the supplier, BNY Mellon. Audits were completed in 2020.	5	1	5
WPF 04 (Chief Financial Officer)	Not having an established and meaningful Business Plan / Pension Administration Strategy.	Poor decision making and delays in responding to stakeholders e.g. elected members.	5	4	20	Pension admin KPIs / investment performance / project summaries are included in the Business Plan reviewed by the Pension Board and Pensions Committee on a regular basis. Investment performance is independently confirmed by Statesmen. E5 (our accounting system) management reports are available and automatic reporting is in place on the pensions admin system. Following our annual employer consultation a revised Pension Administration Strategy will been in place on 1 April 2021.	5	1	5
WPF 16 (Chief Financial Officer)	Failure of investment adviser to deliver the services contracted.	Financial loss or loss of reputation / employer confidence or need to make major changes at short notice.	20	1	20	Contract service is reviewed annually, objectives are in place and there are regular meetings with the supplier, M J Hudson.	5	1	5

WPF Risk Register 15 Feb 2021 Risk Ref (risk owned by)	Description of Risk	Leading to	Gross Impact	Gross Prob-ability	Gross Risk Score	Mitigating Action	Resi-dual Impact	Resi-dual Prob-ability	Resi-dual Risk Score
WPF 25 (Pensions Administration Manager)	Fraud by scheme members.	Financial loss.	5	1	5	We are keeping to the same standards following COVID-19 by requiring a member signature as authorisation and not taking instructions over the phone. A signed form or instruction can be scanned and emailed to us. Telephone callers are asked questions to check that they are who they claim to be. We have issued updated guidance to our staff on (operating in) the e world. We carry out National Fraud Initiative (NFI) checks, sends payroll slips / communications at intervals through the year to home addresses and requires evidence of certificates (e.g. birth certificate).	5	1	5
WPF 29 (Pensions Administration Manager)	Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.	Financial loss or loss of reputation / employer confidence or need for corrective action at short notice.	5	1	5	Following our annual employer consultation a revised Policy Statement on Communications will been in place on 1 April 2021. Employee annual benefit statements that are returned to us are passed on to the member's employer. The 2020 deferred and employee annual benefit statements were despatched before 31 Aug along with an accompanying newsletter. We have produced our second annual pensioner newsletter.	5	1	5
WPF 27 (Pensions Administration Manager)	Incorrect calculation of benefits through human error or delayed notification of a death.	Too much being paid out in benefits.	5	1	5	In addition to system testing we have a test system and a test site for Altair (the pension payroll system). Every calculation has independent checking and set procedures. Staff receive training and performance is benchmarked. We have developed a revised overpayments write off process and intend to use it to report overpayments to the Pensions Committee. Life Certificates are also used.	5	1	5

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worcestershire county council

AGENDA ITEM 8

PENSIONS BOARD
26 FEBRUARY 2021

WORCESTERSHIRE PENSION FUND (WPF) GOVERNANCE POLICY REVIEW

Recommendation

1. The Chief Financial Officer recommends that the Board reviews the Worcestershire Pension Fund (WPF) Governance Policy Review and the updated Governance Policy & Governance Compliance Statement attached as an Appendix.

Review of Governance Arrangements

2. The Committee, the LGPS and the Fund fall under the responsibility of the Pension Regulator and must therefore adhere to their own codes of practice. This Fund continues to be subject to scrutiny at a national level from the Scheme Advisory Board along with its own Local Pensions Board.

3. Strong governance of the Pension Fund has always been paramount, and a detailed review of the Funds governance arrangements and Governance Policy statement was reported to Committee in March 2019.

4. A further report to Committee on the 16th October 2019 detailed two reviews by the Scheme Advisory Board (SAB) and the Pension Regulator looking at how to strengthen governance following the collapse of several private sector funds. This alongside the set-up of the pension pools and pressures to maintain balanced funds highlighted the need to maintain the strong governance of LGPSs had never been more important.

5. The report set out a series of proposals which have since been implemented being:-

   a. The strengthening of the Pension Board
   b. Taking on board the findings of the Scheme Advisory Board (SAB) 'Good Governance' review and producing Worcestershire Pension Fund 'Good Governance' position statement
   c. The setting of objectives for the Fund's Investment Advisor
   d. Both 5b & c are reviewed and reported every 6 months and provided to the December 2020 Pensions Committee

6. This element of the governance review looks at the Governance Policy which was last updated in June 2020 for some minor changes within the Funds 2019/20 annual report.

Governance Policy Background

7. Regulation states, and best practice dictates, that a Pension Fund should have a range of written policies and procedures in place. Having such, not only proves regulatory compliance, but more importantly demonstrates good governance and

provides a range of information to stakeholders. This report provides an update to the Governance Policy Statement (Appendix).

Governance Policy Statement

8. **Regulation 55** of the Local Government Pensions Scheme Regulations 2013 states: 55. - (1) An administering authority must prepare a written statement setting out-

a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
b) if the authority does so:

    i. the terms, structure and operational procedures of the delegation,
    ii. the frequency of any committee or sub-committee meetings,
    iii. whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying;
d) Details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment);
e) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph;
f) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate; and
g) An administering authority must publish its statement under this regulation, and any revised statement.

9. The latest version attached as an Appendix has been reformatted slightly and has been updated to reflect some required changes to the Pension Committee Terms of Reference and further minor alterations which are highlighted in **'yellow'** for ease of reference. As the statement reflects the actual Governance arrangements in place, no wider consultation is considered necessary.

Contact Points

Specific Contact Points for this report

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Supporting information
Appendix - Updated Governance Policy Statement

Background Papers
In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.

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Worcestershire Pension Fund

Governance Policy Statement

16 March 2021

1. Introduction

1.1 Worcestershire Pension Fund (the Fund) administers the Local Government Pension Scheme (LGPS) for its own employees and employees and those of over 200 other Scheme employers in the administrative area of Herefordshire and Worcestershire, with 22,000 contributing members, 18,000 pensioners and beneficiaries and 21,000 deferred pensioners.

1.2 The LGPS regulations require all administering authorities to publish a Governance Policy Statement which sets out how the administering authority discharges its responsibilities in response to the regulatory requirements.

1.3 This statement combines the overall governance arrangements which meet the requirements set out in Part 2 (Administration) Regulation 55 and Part 3 (Governance) Regulation 106 of LGPS Regulations 2013.

1.4 This statement also takes account of the guidance issued by Ministry of Housing, Communities and Local Government (MHCLG) entitled Local Government Pension Scheme Governance Compliance Statement Statutory Guidance. The basic principles are accountability and transparency and both principles are achieved by setting clear responsibilities and appropriate reporting mechanisms.

1.5 Further sources of information are available on the Fund's website at www.worcestershirepensionfund.org.uk including the Annual Report and Accounts, the Funding Strategy Statement and the Investment Strategy Statement.

2. Purpose of the Governance Policy Statement

2.1 The LGPS regulations require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish and keep under review a written statement setting out:

- Whether it delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- The terms, structure and operational procedures of the delegation;
- Whether such a committee or sub-committee includes representatives of scheme employers or members, and if so, whether those representatives have voting rights;
- The extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- Details of the terms, structure and operational procedures relating to the Local Pension Board.

3. Governance of Worcestershire Pension Fund

3.1 Overall responsibility for managing the Fund lies with the full Council of Worcestershire County Council in its role as administering authority. Under the County Council's Constitution, further delegations for the management, administration and investment of the Fund are made to the Pensions Committee and the Chief Financial Officer and his Staff.

Governance Structure of Worcestershire Pension Fund

Council
(Administering authority)

Pensions Committee (section 101)

Key duties:

- To take decisions in regard to the administering authority's responsibility for the management of Worcestershire Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets.

Pension Board

Key duties:

- To assist the administering authority in securing compliance with;
  (i) The Principal 2013 Regulations.
  (ii) Any other legislation.
  (iii) Requirements imposed by the Pensions Regulator in relation to the scheme.
- To assist the administering authority in ensuring the effective and efficient governance and administration of the scheme.

Pension Investment Sub Committee

Key duties:

- To provide the Pensions Committee with strategic advice concerning the management of the Fund's assets.
- Monitoring performance of total Fund assets and individual investment managers.

Pension Administration Advisory Forum

Key duties:

- To provide the Pensions Committee with advice concerning the administration of the Fund.
- To bring stakeholders perspective to all aspects of the Fund’s business.

In all areas of the Governance Structure, the 7 Principles of Public Life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership) are widely acknowledged and practiced; both within the decision-making framework and within day to day activities.

4. **Administrative Arrangements**

4.1 On 1 April 1998 Worcestershire County Council was constituted and vested, under section 16 of the Hereford and Worcester (Structural, Boundary and Electoral Changes) order 1996 (Statutory Instrument 1996 No 1867), with the rights and liabilities of the former pension fund run by Hereford and Worcester County Council. Therefore, the Council is the appropriate administering authority to maintain the Fund.

4.2 As the statutory administering authority and Scheme Manager for the Fund, Worcestershire County Council is responsible for ensuring effective stewardship of the Fund's affairs. Worcestershire County Council has established a Pensions Committee to discharge the Council's responsibility for the management of the administration of the Fund.

4.3 Worcestershire County Council has also established a Pension Investment Sub Committee to provide the Pensions Committee with strategic advice concerning changes to the Fund's asset allocation, the termination and appointment of investment managers and independent investment advisers.

4.4 A Pension Administration Advisory Forum has also been established to provide wider stakeholder representation and communication in matters relating to the Fund. The Pensions Committee has overall responsibility for the management of the administration of the Fund, as set out in the Scheme of Assignment of Responsibility for Functions. The Pensions Committee takes advice from the Pension Administration Advisory Forum to enable the Pensions Committee to discharge its responsibility effectively.

5. Pensions Committee

5.1 The Pensions Committee discharges the responsibilities of the Council as administering authority of the Fund pursuant to Section 101 and Regulations under Section 7 of the Superannuation Act 1972.

5.2 The Pensions Committee discharges the responsibilities for management of the administration of the Fund. It will take views from the Pension Investment Sub Committee to enable it to discharge its duties effectively.

5.3 The Pensions Committee discharges the responsibilities for the strategic management of the Fund's assets. However, it will take strategic advice from the Pension Investment Sub Committee to enable it to discharge its duties effectively. The dates of Pensions Committee meetings will be synchronised with those of the Pension Investment Sub Committee to ensure investment decisions are reviewed without unnecessary delay.

5.4 The Council appoints the Chairman and Vice-Chairman of the Pensions Committee. The Chairman of the particular meeting has a second or casting vote in the case of equality of votes.

5.5 The Pensions Committee is a formal committee of the Council and comprises a total of 8 voting members:

- 5 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)
- 1 co-opted voting employer representative and
- 1 co-opted voting employee representative from a relevant Union.

5.6 The 5 County Councillor members are formally appointed by the Head of Legal and Democratic Services in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders and the 3 co-optees are co-opted by the Chairman of the Committee.

5.7 The Pensions Committee will be advised by on an ad hoc basis by an independent investment adviser and the Fund's actuary.

5.8 **Pensions Committee Terms of Reference**:
The Pensions Committee will meet at least quarterly or otherwise as necessary to take decisions on:

- Changes to the Investment Strategy Statement, including the strategic benchmark for asset allocation, Investment manager benchmarks and Investment manager targets.
- Transition of investments to LGPS Central or other pooling arrangements
- The termination and appointment of investment managers and associated professional service providers.
- The termination and appointment of the Fund's independent investment adviser, performance measurement consultant, global custodian and actuary.
- The Pension Administration Strategy, Policy Statement on Communications, Policy Statement on Governance Strategy, Funding Strategy Statement and Governance Compliance Statement.
- The triennial and interim actuarial valuations.
- The approval of the Fund’s Annual Report and Accounts.
- The approval of the Fund’s annual and triennial budgets.
- The review of the Funds Risk Register and Key outstanding risks identified.
- The Pension Administration Advisory Forum arrangement and regular Forum reports, which consider and address outstanding member and employer issues and concerns.
- The Pension Investment Sub Committee arrangement and regular Sub Committee reports, which monitor performance of the Fund's assets.
- Requests for admission of qualifying Community and Transferee Bodies wishing to join the Fund.
- Key pension policy discretions that are the responsibility of the administering authority.
- The Fund’s Business Plan.
- Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.
- Reviewing the Funds governance arrangements and the effective use of its advisors to ensure good decision-making

5.9 All elected members and voting co-optees of the Pensions Committee are subject to the Worcestershire County Council Code of Conduct for Members, and must therefore register and keep updated their Disclosable Pecuniary Interests as required by the law and Code and disclose potential conflicts of interest as required by that Code.

5.10 Members of the Pensions Committee are expected to hold the appropriate knowledge and skills to discharge their responsibility effectively – see Section 11.

5.11 The responsibility for advising the Pensions Committee is delegated to the Chief Financial Officer.

5.12 Members of the Pensions Committee have equal access to Pensions Committee agenda papers and associated appendices in accordance with the legislation and constitutional Rules relating to access to information for committees. Formal meetings of the Committee will take place in public unless it has resolved to move into exempt session in accordance with the applicable access to information provisions.

5.13 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 formally introduced the concept of asset pooling. As assets move into pooled structures the Pensions Committee is also responsible for:

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- The selection, appointment and dismissal of an investment pooling operator to manage the assets of the Fund;
- Determining what the administering authority requires the pool to provide to enable it to execute its local investment strategy effectively;
- Receiving and considering reports and recommendations from the Joint Committee and Practitioners Advisory Forum, established to oversee the pool, to ensure that the Fund's investor rights and views are represented effectively;
- Identifying and managing the risk associated with investment pooling;
- Ensuring that appropriate measures are in place to monitor and report on the ongoing costs of investment pooling; and
- Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.

6. Pension Board

Please see separate Pension Board Terms of Reference document.

7. Worcestershire County Council Pension Investment Sub Committee (ISC)

7.1 The role of the Pension Investment Sub-Committee shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

7.2 The Council appoints the Chairman and Vice-Chairman of the Pension Investment Sub Committee. The Chairman of the particular meeting has a second or casting vote in the case of equality of votes.

7.3 The Pension Investment Sub Committee is a formal committee of the Council and comprises a total of 4 voting members:

- 3 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)

  Non-voting
- 1 employee representative from a relevant Union.

7.4 The 3 County Councillor members are formally appointed by the Head of Legal and Democratic Services in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders and the co-optees are co-opted by the Chairman of the Committee.

7.5 The ISC will be advised by an independent investment adviser who will attend all meetings and on an ad hoc basis by the Fund's actuary

7.6 The composition of the Pension Investment Sub Committee is intended to reflect the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets rather than political representation. All members of the Sub Committee are entitled to vote, if necessary, for the Panel to fulfil its role and provide advice to the Pensions Committee regarding the administration of the fund's assets.

7.7 The responsibility for advising the Pensions Committee is delegated to the Chief Financial Officer.

Terms of reference:

7.8 The role of the Pension Investment Sub-Committee shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

7.9 The ISC may also be occasionally requested to by the Pensions Committee to undertake research and report back on a specific investment area.

7.10 All decision taken and recommendations will be reported back to the next available ordinary meeting of the Pensions Committee in the form of the minutes of the ISC.

7.11 The ISC, will be responsible for:

a. Reviewing strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.

b. Reporting regularly to Committee on the performance of investments and matters of strategic importance.

c. Monitor investment managers' investment performance and recommend decision to terminate mandates on performance grounds to Committee.

d. Monitor the Transition of investments to LGPS Central or other Pooling arrangements

e. Researching and providing a report back to the Worcestershire Pension Fund Committee on any specific investment areas requested.

The ISC will have delegated authority to:

f. Approve and monitor tactical positions within strategic allocation ranges.
g. Implement investment management arrangements in line with strategic policy including the setting of mandate parameters and the appointment of managers.
h. Approve amendments to investment mandates within existing return and risk parameters.
i. Delegate specific decisions to officers as appropriate.

7.12 The ISC meet quarterly ahead of the main Committee meetings to review manager performance and make decisions within the strategic asset allocations agreed.

7.13 The ISC is advised by an independent investment adviser who attends all meetings and on an ad hoc basis by the Fund's actuary.

7.14 One of the regular quarterly meetings will include an annual meeting to consider the Fund's full year's performance.

7.15 The Fund's Investment Strategy Statement (ISS) sets out the arrangements in place for the management of the investments of the Fund.

7.16 The day to day management of the Fund's investments is divided between external Investment managers, operating in accordance with mandates set out in the Investment Strategy Statement.

7.17 The Chairman of the Investment Sub Committee will attend the Pensions Committee to ensure flow of information between the 2 bodies.

7.18 Members of ISC must not have a conflict of interest and are required to provide the Chief Financial Officer with such information as the Chief Financial Officer reasonably requires for the purposes of ensuring no conflict of interest exists prior to appointment to the ISC and on an ongoing annual basis.

7.19 Members of the ISC are required to hold the appropriate knowledge and skills to discharge their responsibility effectively.

8. Pension Administration Advisory Forum

8.1 The Pension Administration Advisory Forum provides the Pensions Committee with advice concerning the administration of the Fund. It is neither a decision-making body nor formal committee and will not normally meet in public. No voting rights apply to the Pension Administration Advisory Forum as the purpose of the Forum is to provide transparency of information to Scheme employers and for Scheme employers to provide advice to, and raise concerns with, the employer representative.

8.2.1 The Pension Administration Advisory Forum comprises

- all Fund employers who wish to attend following invitation by the administering authority
- the Fund's actuary (ad hoc basis)
- the administering authority's Pensions Manager and HR & OD Service Commissioning Manager
- and the employer representative and employee representative of the Pensions Committee.

Terms of reference:

8.3 The Forum will meet at least twice a year or otherwise as necessary to:

- Discuss an Annual Administration Report and respond to any issues raised by employers.
- Discuss Government Consultations relating to the administration and benefits of the LGPS.
- Discuss the outcomes of the triennial/interim valuations and respond to any issues raised by employers.
- Discuss the minutes and updates from the Pensions Committee and ensure flow of information between the Pensions Committee and the Forum.
- To advise on service delivery to all stakeholders.
- To bring stakeholders perspective to all aspects of the Pension Fund business.
- To ask the administering authority and the Pensions Committee to consider topics which affect the Fund.

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8.4 All Fund employers are invited to attend the Pension Administration Advisory Forum along with the Fund's actuary, administering authority officers and the employer and employee representatives on the Pensions Committee.

8.5 Other meetings are held as required between administering authority officers and employers to discuss important issues such as discretionary policies and regulatory changes.

8.6 The administering authority also communicates with the Fund's membership through newsletters, road shows and presentations.

8.7 The Fund’s Policy Statement on Communication Strategy explains in more detail engagement with all stakeholders.

9. Delegation

9.1 The day to day administration of, and investment decisions for the Fund are delegated to the Chief Financial Officer.

9.2 The Chief Financial Officer may authorise other officers to exercise on his/her behalf those functions delegated to him/her.

9.3 The Chief Financial Officer has delegated responsibility for the following responsibilities concerning the management of the administration of the Fund including:

- Preparing and maintaining a Pension Administration Strategy, Policy Statement on Communications, Policy Statement on Governance Strategy, Funding Strategy Statement, Business Plan and Governance Compliance Statement.
- Provision of data for the triennial and interim actuarial valuations. The Chief Financial Officer will also negotiate over actuarial assumptions, set the appropriate funding target and associated recovery period.

- Preparing the Fund’s Annual Report and Accounts.
- Preparing the Fund’s annual and triennial budgets.
- Preparing and maintaining a Risk Register and monitoring key outstanding risks.
- Overseeing and administering the Pension Administration Advisory Forum arrangement and review regular Forum reports to consider and address outstanding member and employer issues and concerns.
- Administering the Pension Investment Sub Committee (ISC) arrangements and reviewing regular ISC reports to monitor performance of the Fund's assets.
- Deciding upon requests for admission of qualifying Community and Transferee Bodies and Scheduled and Designated Bodies wishing to join the Fund.
- Deciding upon key pension policy discretions that are the responsibility of the administering authority.
- Executing documentation relating to the implementation of new and existing investment mandates, independent investment adviser, performance measurement consultant, global custodian, actuary and any other associated professional service providers.
- Quarterly monitoring of Investment managers' performance for managers not presenting to the Pension Investment Sub Committee.
- The effective discharge of the pensions administration function, including the payment of pensions and collecting and reconciling of contribution income.
- Maintaining the Fund's accounting records.
- Preparing and maintaining the Investment Strategy Statement, including implementing changes to the strategic benchmark for asset allocation.
- Implementing and maintaining a knowledge and skills training plan for members of the Pensions Committee and Pension Investment Sub Committee.
- Advising the Pensions Committee.
- Implementing and maintaining the cash flow strategy for the Fund, which includes the transfer of cash to the Fund's global custodian to ensure cash is fully invested when available and the transfer of cash from the global custodian to pay pension liabilities as they fall due.

10. LGPS Central Limited (LGPSC)

10.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 formally introduced the concept of asset pooling. As a result of this, the Fund has joined with 8 other LGPS Funds across the Midlands (Partner Funds) to form an asset pool, known as LGPSC.

10.2 LGPSC is the Company formed by the Partner Funds which is authorised as the operator of the Authorised Contractual Scheme (ACS), to provide investment services to the Partner Funds, by the Financial Conduct Authority (FCA). The company is therefore subject to the regulator’s conduct of business rules and has established its internal governance framework to ensure strict adherence both to its regulatory obligations to the FCA and with the Companies’ Acts.

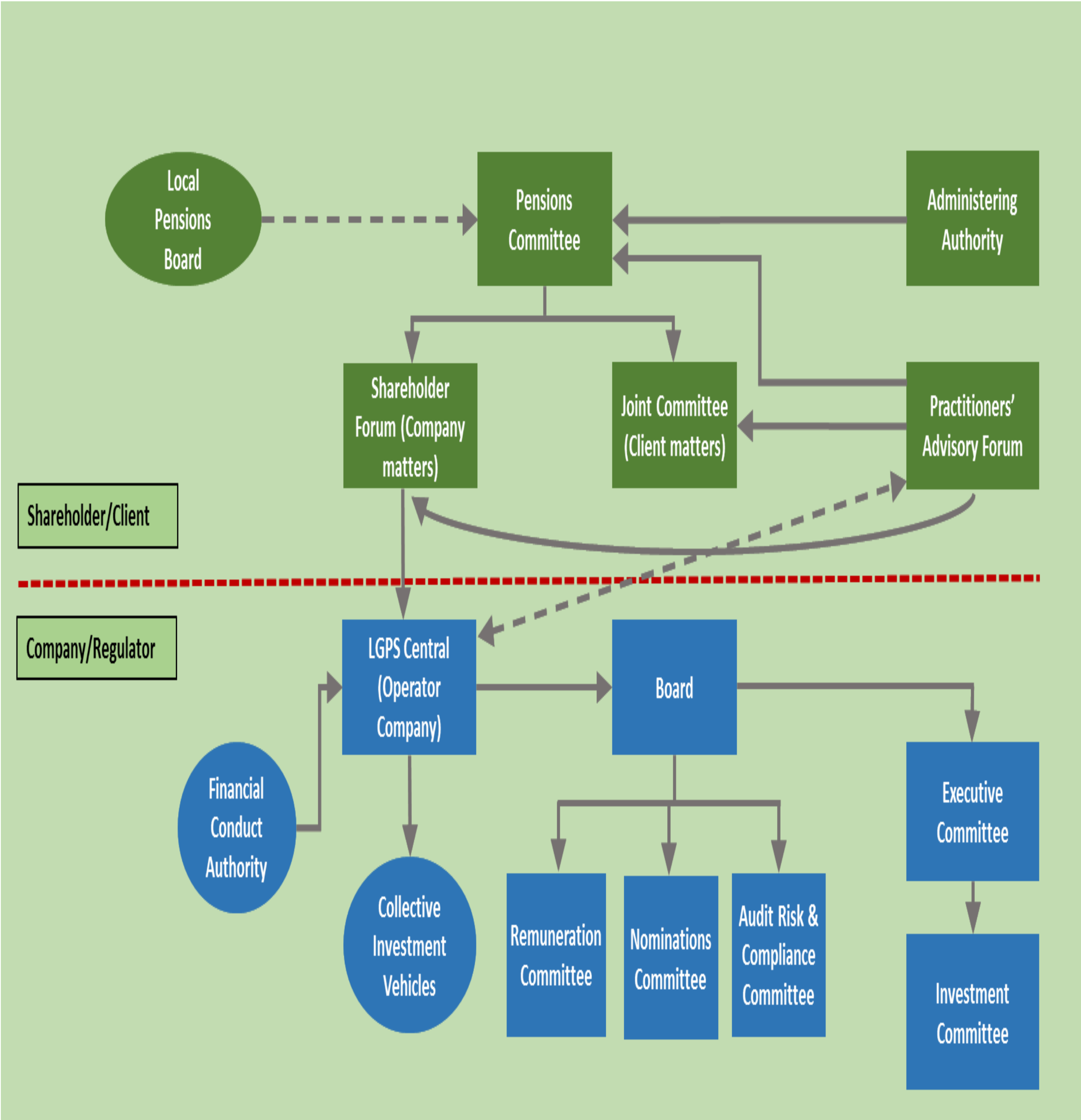
10.3 It is important to note that the Councils of each of the Partner Funds retain their core duties and responsibilities as the administering authorities of their respective LGPS Funds.

10.4 Asset allocation decisions remain with the Partner Funds. Manager selection for assets transitioned into the ACS and for assets managed under discretionary agreements by the Operator is the responsibility of LGPSC. Manager selection for the remainder of the pool’s assets currently remains with the Partner Funds. The

Operator is responsible for selecting the custodian for the assets in the ACS; the Partner Funds are responsible for selecting the custodian for the remaining assets.

10.5 The formation of LGPSC on 1 April 2018 will begin to have an impact on the roles of the Pensions Committee and the Pensions Investment Sub Committee. However, changes will be gradual as the transfer of the management activity to the new company progresses. Consequently, the existing Governance arrangements and Terms of Reference need to run concurrently with new terms required to facilitate changes.

Governance Structure of LGPS Central Limited



10.6 The governance structure of LGPSC will allow Partner Funds to exercise control (both individually and collectively) over the pooling arrangements; not only as investors in the ACS but also as shareholders of the operator company.

10.7 The **LGPS Central Joint Committee** has been set up in accordance with provisions of the Local Government Act 1972 to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPSC business case and to deal with common investor issues.

10.8 The membership of the Joint Committee consists of one elected member from each Council within the LGPSC pool. The first meeting of the Joint Committee took place on 23 March 2018 and at that meeting it was agreed that a Trade Union representative would be appointed as a non-voting member of the Joint Committee to represent the scheme members across the Councils' pension funds.

10.9 Worcestershire County Council's representative on the LGPS Central Joint Committee is the Chair of the Pensions Committee.

10.10 The primary role of the **Shareholders' Forum** is to oversee the operation and performance of LGPSC and to represent the ownership rights and interests of the Shareholding Councils within the LGPSC pool. The Shareholders' Forum is independent of the company and its meetings are distinct from company meetings, however, members of the Shareholders' Forum represent the Councils at company meetings. The Councils as individual investors in the company have in place local arrangements to enable their shareholder representatives to vote at company meetings.

10.11 The Fund, as a shareholder in LGPSC has equal voting rights alongside the other Partner Funds and unanimous decisions are required on certain reserved matters before the actions can be implemented. These are specified in the company's Shareholder Agreement and Articles of Association. Other matters, not directly related to the control of the company to manage its operation, are subject to a majority approval (75%).

10.12 Worcestershire County Council's representative on the Shareholders' Forum is the Chair of the Pension Committee.

10.13 The **Practitioners' Advisory Forum (PAF)** is a working group of officers appointed by the shareholding Councils within the LGPSC pool to support the delivery of the objectives of the pool and to provide support for the pool's Joint Committee and Shareholders' Forum. PAF seeks to manage the pool's conflicting demands and interests, either between the participating Councils or between the Councils (collectively) and the company, recognising that speaking with "one voice" reduces the duplication of costs and resources and maximises the benefits of scale. The PAF will also report back to Partner Fund's Pensions Committees on matters requiring their attention.

10.14 Worcestershire County Council's representatives on PAF are the Chief Financial Officer and the Finance Manager for Pension Investments and Treasury Management.

10.15 Terms of Reference have been approved for the Joint Committee, the Shareholders' Forum and the Practitioners' Advisory Forum. These are "live" documents which are likely to evolve as the practical day to day experience of working within the LGPSC pool evolves.

11. Knowledge and Skills

11.1 The administering authority has regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in creating a knowledge and skills policy for the Fund, to ensure all those involved in the decision-making process receive relevant training in order to obtain the appropriate knowledge and skills to discharge their responsibilities effectively.

11.2 Committee members and appropriate administering authority officers complete an annual knowledge and skills self-assessment form. These are used to prepare annual training plans and a log of training undertaken is maintained by the administering authority. The annual training plans include a programme of external and internal training events designed to meet the requirements both of new members of the committee and the ongoing needs of existing members. These events are reported formally to members on an annual basis. Individual reports to authorise attendance by members at these events are put to the Chief Financial Officer on an event by event basis.

12. Governance Compliance Statement

12.1 LGPS Regulations require pension funds to issue a statement confirming the extent to which their governance arrangements comply with guidance issued by the Secretary of State. The statement below confirms the mechanism in place to satisfy each requirement

Ref.	Principles	Compliance Status	Evidence of Compliance
A	**Structure**		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) and its Sub-Groups are set out in the Fund's Governance Policy Statement. The Governance Policy Statement was approved by Full Council
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Pensions Committee membership includes an employee and employer representative. Full membership details are set out in the Fund's Governance Policy Statement.

Ref.	Principles	Compliance Status	Evidence of Compliance
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Pension Investment Sub Committee provides strategic advice to the Pensions Committee regarding the management of the Fund's assets. The Chairman of the Pensions Committee also sits on the Pension Investment Sub Committee to ensure effective communication. The Pensions Committee receives quarterly investment updates from the Pension Investment Sub Committee. A Pension Administration Advisory Forum has been established. The employer and employee representatives from the Pensions Committee attend the forum and there is a standing invitation for the Pension Board to attend the forum.
B	**Representation**		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-Scheme employers, e.g., admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Compliant	Membership of the Pensions Committee and Pension Investment Sub Committee include employer and employee representatives and an independent investment adviser. Full membership details are set out in the Fund's Governance Policy Statement. Expert advisors attend the Pensions Committee as required for the nature of the main decisions. For example, the actuary attends when the valuation is being considered, and the main investment advisor attends when a strategic asset allocation decision is being made. The investment advisor regularly attends Pension Investment Sub Committee meetings. All members are treated equally in terms of access to papers and to training that is given as part of the Committee process.
C	**Selection and role of lay members**		
a.	That committee or panel members are made fully aware of the status, role and function they are required to	Compliant	The Pensions Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of Pensions Committee meetings are published

Ref.	Principles	Compliance Status	Evidence of Compliance
	perform on either a main or secondary committee.		on the Council's website. A detailed training programme is also provided to Committee members and Pension Investment Sub Committee members.
b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all Pensions Committee meetings. The Pensions Committee and Pension Investment Sub Committee are serviced by Legal and Democratic Services who invite members to declare any financial or pecuniary interest related to specific matters on the agenda. Minutes of the Pensions Committee and Pension Investment Sub Committee meetings are published on the Council's website.
D	**Voting**		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Voting rights are clearly set out in the Fund's Governance Policy Statement.
E	**Training / facility time / expenses**		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Compliant	A policy on expenses is set out in the Fund's Governance Policy Statement along with the number of Committee meetings required each year. The Fund has an approved Joint Training Policy for the Pensions Committee, Pension Investment Sub Committee and the Pension Board
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory	Compliant	These polices apply to all committee members and this is clearly set out in the Fund's Governance Policy Statement, Knowledge and Skills Policy Statement & the Joint Training Policy for the Pensions

Ref.	Principles	Compliance Status	Evidence of Compliance
	panels or any other form of secondary forum.		Committee, Pension Investment Sub Committee and the Pension Board.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Compliant	The Fund's Knowledge and Skills Policy Statement sets out the requirement for annual training plans to be developed and maintained for committee members and for a log of all such training undertaken to be maintained. Regular feedback on training events is provided to the Pensions Committee
F	**Meetings (frequency / quorum)**		
a.	That an administering authority's main committee or committees meet at least quarterly.	Compliant	The Pensions Committee meets quarterly. This requirement is set out in the Fund's Governance Policy Statement.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	The Pension Investment Sub Committee meets quarterly. These meetings are synchronised with the dates when the Pensions Committee sits. These requirements are set out in the Fund's Governance Policy Statement. The Pension Administration Advisory Forum meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Compliant	The Fund has established a Pension Administration Advisory Panel which meets twice yearly. All Fund employers are invited to attend the Panel meetings. The Panel arrangement and terms of reference are set out in the Fund's Governance Policy Statement.
G	**Access**		
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to	Compliant	All members of the Pensions Committee, Pension Investment Sub Committee and the Pension Administration Advisory Panel have equal access to committee papers, documents and advice that are due to be

Ref.	Principles	Compliance Status	Evidence of Compliance
	committee papers, documents and advice that are due to be considered at meetings of the main committee.		considered at meetings of the main committee. The Pensions Committee agendas and associated papers are published on the Council's website prior to the committee meeting. Pension Board papers and minutes are equally available to all Board members
H	**Scope**		
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Administration Advisory Panel is attended by the employer and employee representatives who sit on the Pensions Committee. This ensures flow of information between the wider scheme employers and the main committee. Scheme employers are invited to bring wider scheme issues to the attention of the Pensions Committee through the established communication routes. The Council has included benefits administration, investments and wider governance issues under the remit of the Pension Committee. All aspects of fund management and performance are also reported to the Pension Committee
I	**Publicity**		
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Compliant	The Fund's Governance Policy Statement is published on the Council's website and all scheme employers are invited to attend the Pension Administration Advisory Panel meetings. The Fund ran an open recruitment process for the employer and employee representative appointments to the now established Pension Board. Contact details are provided on the website, so other interested parties can find out more if they wish.

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worcestershire countycouncil

AGENDA ITEM 9

PENSION BOARD
26 FEBRUARY 2021

PENSION ADMINISTRATION STRATEGY including POLICY STATEMENT ON COMMUNICATIONS

Recommendation

1. **The Chief Financial Officer recommends that the Board reviews the proposed draft April 2021 Worcestershire Pension Fund (WPF) Pension Administration Strategy (PAS) including the WPF Policy Statement on Communications.**

Background and update

2. Our PAS sets out the LGPS roles and responsibilities of us and our employers.

3. Our existing PAS was introduced on 1 April 2020 following a consultation with our employers on the changes we proposed making to our first ever PAS that was introduced on 1 April 2019.

4. The LGPS regulations do not require us to have a PAS, but, if we have a PAS, they require us to keep it under review.

5. On 23 December we issued a draft proposed PAS April 2021 to our employer contacts and asked our employers to provide us with their Policy Statement on Discretions by close of play on Wednesday 31 March.

6. We set track changes to allow them to see the proposed changes easily and invited them to comment on the changes that we proposed making by close of play on 12 February.

7. We have received just a couple of comments (that were checking that the employer had interpreted our wording correctly) on the draft proposed PAS.

8. The key areas of proposed change are in relation to:

- Adding McCloud as a specific example of our data requirements (re past hours changes and service breaks).
- Adding the Pensions Regulator as an example of the requirements that we need to comply with.
- Adding reference to our climate change work.
- Requiring employers to provide us with details of the maximum strain the employer can pay given other exit payments and whether the exit cap is applicable.
- Requiring employers to check the date on all Opt out forms is not earlier than the end of the current pay period.

Supporting information

- Appendix - Draft proposed April 2021 Worcestershire Pension Fund (WPF) Pension Administration Strategy (PAS) including the WPF Policy Statement on Communications

Contact Points

Specific Contact Points for this report

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Rob Wilson
Pensions Investment, Treasury Management & Capital Strategy Manager
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Email: RWilson2@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.

Worcestershire Pension Fund Pension Administration Strategy

PREFACE

This Pension Administration Strategy has been produced to:

- Set out the Local Government Pension Scheme (LGPS) roles and responsibilities of Worcestershire Pension Fund and our employers.
- Establish the levels of performance we and our participating employers are expected to achieve in carrying out their responsibilities.

Help us to help you: to administer the LGPS on behalf of our employers, we as the scheme administrator need our employers (in a manner that is data secure) to do a number of things including:

1. Provide us with **one named lead contact / account manager** who will liaise with us on behalf of their organisation, co-ordinating delivery of all LGPS requirements across their whole organisation (i.e. Finance Manager, Human Resources representative, Business Manager, Chief Executive, Payroll representative, etc.).
2. Maintain and supply us with an **Employer's contacts at my organisation Excel spreadsheet**.
3. **Calculate, notify and deduct employee contributions** for each employee in the LGPS (using a unique pensions identifier number for each employment) in accordance with the LGPS HR Guide (see: http://www.lgpsregs.org/resources/guidesetc.php) and the annual update issued by the LGA every March (see http://www.lgpsregs.org/bulletinsetc/bulletins.php).
4. By the 19th of the month following the month of deduction **remit to us all contributions,** including employer contributions) at the appropriate rate for the LGPS scheme year in question.
5. **Remit to us any additional pension contributions (APCs)** relating to their employees.
6. **Remit to Scottish Widows any additional voluntary contributions (AVCs).**
7. **Allocate trained resources** to supply us within the required timescales with:
    a. The various pension administration forms and spreadsheets that we require for each life event that affects their employees.
    b. The various regular and ad hoc pay, service, contributions and personal information that we require for their employees, for example past hours changes and service breaks to deliver the McCloud remedy.
8. **Publish and forward to us an up to date employer policy statement** for all employer discretions under the LGPS regulations.
9. Appoint an adjudicator to **handle appeals** in accordance with the LGPS regulations.
10. **Keep abreast of** the range of material we make available.

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CONTACT US

Website: www.worcestershirepensionfund.org.uk

By email: pensions@worcestershire.gov.uk

By post: Worcestershire Pension Fund, County Hall, Spetchley Road, Worcester, WR5 2NP

By phone: Find out who to contact

1. OUR RESPONSIBILITIES TO OUR EMPLOYERS AND MEMBERS

Our general responsibilities:

1. To comply with all relevant legislation and guidance (for example from The Pensions Regulator).

2. To apply the LGPS regulations in line with our Policy Statement on our LGPS discretions. NB we can recover costs from an employer where costs have been incurred because of that employer's level of performance in carrying out its functions, for example arising from members appealing their level of benefits after an employer has provided insufficient / incorrect data for us to apply the McCloud remedy.

3. To accurately record and update member records on the pension administration system.

4. To maintain a compliant website that provides stakeholders with a first port of call for all of their pensions information needs, so that they can make informed decisions. NB we will make it clear that we are not able to provide financial advice.

5. To invest in digitisation to maximise self-service for our members and employers.

6. To maintain an appropriate range of up to date forms and guides.

7. To produce newsletters for all members at least annually.

8. To provide guidance on the secure submission of data.

9. To chase up information that we have asked for.

10. To agree timescales for dealing with bulk work / queries.

11. To appoint and manage appropriate specialist professional services organisations.

12. To review the Pension Administration Strategy annually in consultation with employers.

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Governance – our responsibilities:

1. To operate with a Pensions Committee and a Pension Board including employer and employee representatives.

2. To deliver appropriate training for the members of the Pensions Committee and Pension Board.

3. To maintain a Risk Register.

4. To produce, operate according to and maintain a Governance Policy Statement.

5. To report any failures to The Pensions Regulator / Scheme Advisory Board.

6. To deliver complaints and Internal Dispute Resolution Procedures (IDRP) appeal procedures.

7. To comply with any audit requirements / recommendations.

Funding and investments – our responsibilities:

1. To set out a clear and transparent Funding Strategy Statement and consult with employers on this.

2. To manage employers' annual covenant reviews to help us to manage risk.

3. To produce and maintain an Investment Strategy Statement.

4. To appoint and manage LGPS Central Limited, and the Fund's other investment managers.

5. To monitor the performance of the Fund's assets.

6. To produce a Statement on Compliance with the UK Stewardship Code for Institutional Investors.

7. To produce responsible investment information to include information about climate change / climate risk monitoring and our Environmental, Social and Governance (ESG) audits.

8. To consult and inform employers which investment pot they have been allocated to and how this will be monitored / managed in future

Financial and data obligations – our responsibilities:

1. To allocate the contributions received correctly to each employee record.

2. To keep a log of contributions received from each employer.

3. To retain the right to charge interest at 7% for persistent and ongoing late payment in the following circumstances:

    a. If employer contributions (including deficit recovery payments) are overdue (if they are not received a month later than the due date specified).
    b. If any other payments are overdue (if they are not received by the due date specified).

4. To pass on any fines levied by third parties or additional costs for example arising from members appealing their level of benefits after an employer has provided insufficient / incorrect data for us to apply the McCloud remedy arising from employer performance.

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5. To inform each employer of any new contribution bandings table in place from each April.

6. To inform employers of any rechargeable items e.g. actuarial fees as they become due / at the end of financial year.

7. To produce an Annual Report and Financial Statements.

8. To manage admission agreements / the processes for admitting new employers.

9. To manage the delivery of Financial Reporting Standards (FRS) / International Accounting Standards (IAS) information to employers.

10. To take account of covenant reviews in setting employer contribution rates.

11. To advise employers when strain costs / compensatory added years payments are due.

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Annual return, actuarial valuations when being undertaken and annual benefit statements – our responsibilities:

1. To process employer year end contribution returns within 1 month of receipt i.e. 31 May.

2. To produce annual benefit statements (ABS) for all employee and deferred members by 31 August.

3. To highlight annually if a member has exceeded their annual allowance and issue a Pension Savings Statement by 6 October.

4. To provide data to the Fund Actuary and Governments Actuary's Department to enable employer contribution rates to be accurately determined.

5. To provide an electronic copy of the actuarial valuation report and contributions certificate to each employer.

New starts – our responsibilities:

1. To accurately create member records on the pension administration system within 40 working days of notification from an employer of a new entrant to the LGPS.

Changes in circumstances for employee members – our responsibilities:

1. To accurately record and update member records on the pensions administration systems within 10 working days of completed notification.

Employee members – our responsibilities:

1. To update employee members' career average revalued earnings (CARE) accounts for the annual revaluation on 1 April.

Transfer in / out estimates – our responsibilities:

1. To provide transfer in information to the member within 10 working days of all information required being received.

2. To provide transfer out information within 10 working days of all information required being received.

Divorce estimates – our responsibilities:

1. Where a request for divorce information including a cash equivalent transfer value (CETV) is received from the member, or the Court, we will provide the member with a schedule of our charges and then issue the estimate within 45 working days of the receipt of the signed request from the member / receipt of the Court order.

Outsourcing estimates – our responsibilities:

1. To provide guidance to and the estimated fees (these are likely to be at least £5,000) that will be incurred by current employers participating in the LGPS who are considering outsourcing.

Actual retirements – our responsibilities:

1. To issue individual quotations / information within 15 working days after all information required to process a quotation has been received.

2. To issue employee members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of the completed Leavers Form.

3. To issue deferred members with a letter notifying them of their actual retirement benefits within 15 working days following receipt of all documentation from the member.

Ill health retirements – our responsibilities:

1. To calculate and pay the benefits within 15 working days following receipt of all documentation.

2. To assist employers in discharging their responsibility to review Tier 3 ill health cases at 18 months.

3. To assist employers to select an Independent Registered Medical Practitioner (IRMP).

4. To provide information on the options for members who are terminally ill.

Members leaving employment before retirement – our responsibilities:

1. To provide members with Opt Out forms and information about going 50/50 / refunds / becoming deferred / transfers out.

2. To provide members becoming deferred with the options available to them within 30 working days of receipt of all the correct information from the employer via the Leavers Form.

3. To process and pay a refund within 10 working days to an eligible member following receipt of all relevant documentation.

Deferred members – our responsibilities:

1. To updated deferred members' benefits for the annual pensions increase award / annual CARE revaluation as appropriate.

2. To provide estimates of benefits that may be payable and any resulting employer costs within 15 working days of request.

3. To select an Independent Registered Medical Practitioner (IRMP).

Death in service – our responsibilities:

1. To provide an initial letter of acknowledgement to the next of kin / informant within 5 working days following a notification of death.

2. To provide a letter notifying dependents of benefits within 10 working days following receipt of identification / certificates and relevant documentation.

3. To expedite the payment of any benefits in an appropriate and caring manner.

Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) – our responsibilities:

1. To appoint and manage an in-house AVC provider.

2. To direct members / employers to information on these options as requested.

Pensioners – our responsibilities:

1. To make payment of any lump sum within 23 working days of receipt of all relevant fully completed retirement forms and certificates from the member, or retirement date if later.

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2. To pay pension payments on the last working day of each month following retirement, unless this falls on a weekend or bank holiday when the payment will be made on the last working day before.

3. To pay LGPS benefits to their qualifying dependents.

4. To obtain annual life certificates from certain members e.g. those either resident overseas or with ongoing power of attorneys.

5. To pay Her Majesty's Revenue & Customs.

6. To increase pensions annually if appropriate.

7. To provide payslips / P60s.

Complaints / adjudication of disagreements – our responsibilities:

1. To appoint an adjudicator to deal with disagreements and in accordance with the regulations reply within 2 months or any extension provided by the regulations.

2. To acknowledge complaints within 10 working days of receipt of the completed documentation.

3. To review and provide updates to the member in a timely manner.

4. To notify the employer of decisions and / or appeals as requested.

5. To listen sympathetically to complaints and respond to them within 10 days.

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Performance monitoring and reporting – our responsibilities:

1. We will report on our key performance indicators (KPIs) to the Pensions Committee and the Pension Board. This will provide a mechanism for service level review and recognition of best practice.

2. We will seek to work closely with employers to:

- Identify areas of poor performance.
- Provide the necessary training and development.
- To put in place appropriate processes to improve the level of service in the future.

Reporting breaches – our responsibilities:

1. To have procedures to be followed in relation to reporting breaches of the law to The Pensions Regulator.

2. To report data breaches to the Information Commissioner's Office (ICO).

3. To report all breaches to the Pensions Committee and the Pension Board.

2. EMPLOYERS' RESPONSIBILITIES

Employers' general responsibilities:

1. To support us in engaging with our members and prospective members, making it clear that Worcestershire Pension Fund is not able to provide financial advice.

2. To be familiar with the HR and Payroll guides available at http://www.lgpsregs.org/resources/guidesetc.php

3. To provide us with up to date and correct information e.g. re an employer's covenant as and when requested in accordance with our timescales and data protection / pensions regulations, retaining information about employees in line with our Personal Data Retention Guidance for Employers and our guidance (for example in our September 2020 employer newsletter) about the McCloud remedy where if no data is available assumptions that employees could challenge would have to be made.

4. For larger bulk estimates, to make requests via the spreadsheet template provided by us and to give us as much notice in advance, for example when any redundancy exercises are planned.

5. To operate controlled, authorised processes and procedures.

6. To familiarise themselves with our:
    a. Policy Statement on Communications.
    b. Funding Strategy Statement that includes investment pots.
    c. Governance Policy Statement.
    d. Investment Strategy Statement.

7. To comply with the Pensions Regulator's requirements of employers offering pensions to their employees, including automatic enrolment and data quality.

8. To publish and forward to us an up to date employer policy statement for all employer discretions under the LGPS regulations.

Financial and data obligations - employer responsibilities:

1. To calculate, collect and pay us no later than the 19th day of the month following the period of deductions:
    - All employee contributions deducted from payroll (excluding AVCs).
    - Employer contributions.
    - Any deficit lump sum payments due on a monthly basis.

2. To accompany each payment with the Payover Form PCF1.

3. To pay all rechargeable items to the Fund on receipt of the invoice within the timescales specified.

4. To provide us with accurate member data, using the monthly CARE spreadsheet.

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5. To provide us with the annual Covenant data we require.

Annual return, actuarial valuations when being undertaken and annual benefit statements - employer responsibilities:

1. To ensure we receive accurate year end information to 31 March through the Year End Spreadsheet by 30 April.

2. To submit accompanying paperwork detailing this together with payment or a formal request for a refund should there be any under / over payment discovered whilst reconciling.

3. To provide any additional information that may be requested to produce annual benefit statements for service up until 31 March in each particular year by the 30 April each year.

4. To ensure that all errors highlighted from the annual contribution and pensionable pay posting exercise are responded to and corrective action taken promptly.

New starts - employer responsibilities:

1. To ensure that pension information is included as part of any new employment induction process, in contracts of employment and appointment letters.

2. To ensure that all employees subject to contractual admissions are bought into the LGPS from their relevant start date.

3. To provide us with accurate new member data, using the New Starter Form / interface within 4 weeks or at the members' start date or within 14 days of the first time the new employee is included on the employer's payroll run.

4. To provide each new employee with a link to our Guide to the LGPS and a New Starter Form with their contract of employment.

5. To determine the appropriate contribution rate (whether individually or by an automated process on payroll) and as soon as is reasonably practicable, notify the employee of the contribution rate which is to be deducted from the employee's pensionable pay and the date from which the rate will become payable. It is for the employer to determine the method by which the notification is given to the employee, but the notification must contain a statement giving the address from which further information about the decision may be obtained. The notification must also notify the employee of the right to appeal, including the process and timescales involved. Furthermore, the correct employee contribution rate should be applied and (if appropriate) adjusted throughout the year according to the employer's Policy Statement on discretions.

Important note: Where there is more than one contract of employment with the same employer, each membership shall be maintained separately and notified to us as above.

Changes in circumstances for employee members - employer responsibilities:

1. To ensure that we are informed of any changes in the circumstances of employees, by completing the Employer Notification of Changes relating to Pensionable Employment Form / Leavers Form / Ill Health Form / 50:50 cancel form / 50:50 Option Form / etc. within 4 weeks of the change. Changes include:
    a. Name.
    b. Marital status.
    c. NI number.
    d. Contractual hours.
    e. Any remuneration changes due to promotion and down grading.
    f. Full time equivalent pensionable pay according to the pre 2014 definition.
    g. Actual pensionable pay (including overtime/additional hours) in 100/100 and 50/50 according to the post 2014 definition (CARE).
    h. Employee contribution rate.
    i. Employee number and / or post number.
    j. Date joined LGPS (if adjusted).
    k. Confirmation of 50/50 or 100/100 entry.
    l. Additional Voluntary Contributions (AVC) contributions.
    m. Additional Pension Contributions (APC).
    n. Notification of Flexible Retirement.

2. To apply assumed pensionable pay (APP) for pension purposes during periods of reduced or nil pay as a result of sickness, injury or relevant child related leave (i.e. ordinary maternity, paternity or adoption leave or paid shared parental leave and any paid additional maternity or adoption leave). **Important note:** If the employee receives no pay, employer contributions should still be paid.

3. To calculate and provide to the member the APP amount should an employee wish to purchase an Additional Pension Contributions (APC) or a Shared Cost Additional Pension Contribution (SCAPC) contract to buy back the pension 'lost' during the absence, **Important note:** before a period of absence employers must bring to the attention of the employee that they can buy back the 'lost' pension and also direct employees to the APC calculator at: https://www.lgpsmember.org/more/apc/index.php

Retirement estimates - employer responsibilities:

1. To submit a request using the Request for Estimate Form. Each form must be signed by an authorising officer.

2. To provide pay and other relevant information such as details of the maximum strain the employer can pay given other exit payments and whether the exit cap is applicable requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

Transfer in / out estimates - employer responsibilities:

1. To submit a request.

2. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests by an agreed timescale with us.

Divorce estimates - employer responsibilities:

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.

Outsourcing estimates - employer responsibilities:

1. To provide pay and other relevant information requested by us either on an individual basis within 10 working days of the request, or for bulk / group requests, by an agreed timescale with us.

2. Re staff transfers e.g. outsourcings, in line with our guidance notes on transfers of staff between our employers including academy conversions to ensure early notification / liaison with us when considering an outsourcing exercise which affects members / eligible members of the LGPS.

Actual retirements - employer responsibilities:

1. To submit the appropriate Leavers Form and details such as the maximum strain the employer can pay given other exit payments and whether the exit cap is applicable to us as soon as the information is available. N.B. The Leavers Form must be completed fully and be signed by an authorising officer, as it confirms the information required to enable the benefits to be calculated and the employer's decision as to the type of benefit that is to be paid to the member.

2. To include a reference in the retirement letter to remind employees to advise us directly if they subsequently move house so that we can maintain contact with the retired member.

Ill health retirements - employer responsibilities:

1. To determine whether an ill health benefit award is to be made, based on medical evidence and the criteria set in the LGPS regulations.

2. After obtaining an opinion from an approved Independent Registered Medical Practitioner (IRMP) on the appropriate Medical Certificate, determine which tier (1, 2, or 3) is to be awarded.

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3. Submit the completed Medical Certificate and Leavers Form to us with all related paperwork and a copy of the notice letter issued to the member (which must confirm the level of ill health benefits awarded and the appeal information).

4. To keep a record of and at 18 months review all Tier 3 ill health retirements, arranging as appropriate a further medical certificate.

5. To notify us to recover any overpayment of benefits following a discovery of gainful employment.

6. To include a reference in the dismissal letter to remind employees to advise us directly if they subsequently move house, so that we can maintain contact with the retired member.

Members leaving employment before retirement - employer responsibilities:

1. To notify us using the Leavers Form, ensuring all relevant information is included on the form, within a reasonable time of the members leave date.

2. To include a reference in the acknowledgement letter to remind employees to advise us directly if they subsequently move address so that we can maintain our contact with the retired member.

3. To send us notification of any eligible employees subject to automatic enrolment, who opt out of the LGPS within 6 weeks of joining.

4. To check the date on all Opt out forms is not earlier than the end of the current pay period.

Deferred members - employer responsibilities:

1. To keep adequate records of the following for members who leave the LGPS with deferred benefits, as early payment of benefits may be required:

    a. Name.
    b. Last known address.
    c. NI Number.
    d. Payroll number.
    e. Date of birth.
    f. Last job information including job description.
    g. Salary details.
    h. Date and reason for leaving.

2. To determine, following an application from the former employee to have their deferred benefits paid early, whether or not they are eligible for early payment on ill health grounds in line with the criteria set in the relevant (NB these depend on date of leaving) regulations and after seeking suitable medical opinion from an IRMP.

3. To determine whether any actuarial reduction can be waived on compassionate grounds in accordance with the employers Policy Statement on discretions.

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Death in service - employer responsibilities:

1 To inform us immediately of an employee who has died – this can initially by telephone or email to enable us to calculate or cease benefits.

2 Any notification of death in service should be followed with the receipt of a completed Leavers Form.

Death of pensioner / deferred member - employer responsibilities:

1. Although employers have no responsibilities on the death of these members, it would be helpful if they could help when a dependent contacts them by advising the dependent to contact us.

Additional voluntary contributions (AVCs), Additional Pension Contributions (APCs) and shared cost APCs (SCAPCs) - employer responsibilities:

1. To communicate to employees the option of SCAPCs to cover periods of 'lost pensions' and the timeframe they must elect to purchase a SCAPC. **Important note:** Members must elect to make APCs within 30 days of returning to work following the absence, but employers have the discretion to extend this period. This should be laid out in the employer's Policy Statement on discretions.

Adjudication of disagreements – employer responsibilities

1. Under regulation 72 of the LGPS 2013 Regulations, any decisions made by an employer affecting an employee's rights to membership, or entitlement to benefits must be made as soon as is reasonably practicable and notified to the employee in writing including a reference to their right to appeal in line with regulation 73 of the LGPS regulations.

2. An employer must notify us of a decision made under Regulation 72. Every notification must:

   - Specify the rights under Stage 1 and Stage 2 of the appeals procedure quoting the appropriate regulations.

   - Specify the time limits within the appeal, under either stage, which apply.

   - Specify to whom an application for appeal must be made to. For first stage appeals this must be the nominated person of the employer who made the decision. For second stage appeals this will be the appointed person at the Administering Authority.

3. Employers must notify us of any first stage appeals they receive.

4. Each employer is required to nominate and name the person to whom applications under stage 1 of the Appeals Procedure should be made.

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3. FURTHER INFORMATION

We administer the LGPS and manage £3,000 million of worldwide assets on behalf of about 200 employers and 63,000 members.

As at the 31 March 2019 actuarial valuation we were 90% funded.

We have a budget of £1.3m for pensions administration and have 24 staff in our pension administration department. We work with the following:

AEW
Barclays
BNY Mellon
Bridgepoint
BSIF Housing and Infrastructure
EQT
First Sentier
Grant Thornton UK LLP
Hermes Investment Management
Invesco Real Estate
Legal & General Investment Management
LGPS Central Limited
Mercer
MJ Hudson Allenbridge
Nomura Asset Management UK Ltd
River & Mercantile
Scottish Widows
Stonepeak Infrastructure partners
UK Green Investment Bank
Venn Partners
Walton Street Capital, LLC

This Pension Administration Strategy has been prepared in accordance with LGPS regulations, see (reg 59): http://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php

Audit
We are subject to audit of our processes and internal controls. Employers are expected to fully comply with any requests for information from both internal and approved external auditors. Any subsequent recommendations will be considered and where appropriate implemented with employer cooperation.

Benchmarking
We will regularly monitor our costs and service performance by benchmarking with other administering authorities. Details of the costs of administration, quality measures and standards of performance will be published in our Annual Report and Financial Statements.

Data Protection Act 2018
We are a Data Controller as part of the Data Protection Act 2018 which incorporates the General Data Protection Regulation (GDPR). This means we store, hold and manage personal data in line with statutory requirements to enable us to provide pension administration services. To enable us to carry out our statutory duty, we are required to share information with certain bodies, but will only do so in limited circumstances. More information about how we hold data and who we share it with can be found in our Privacy Notice at www.worcestershirepensionfund.org.uk

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Secure Data Transfer
We will follow Worcestershire County Council's (the Fund's Administering Authority) data security guidelines when sending any personal data, including its published data sharing policy. This means that member's personal data will only be transferred from one party to the other via an acceptable method specified by the Administering Authority which may include any of the following:

- Secure email.
- Paper forms signed by an authorising officer from the employer.
- Password protected Excel spreadsheets.
- Password protected portal.

FOR OFFICE USE ONLY:
Worcestershire Pension Fund Pension Administration Strategy
Version: draft following the second annual review for approval
Author: Chris Frohlich, Engagement Manager
Dated: April 2021
Signed Off: Pensions Committee 16 03 2021

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Worcestershire Pension Fund

Policy Statement on Communications

1 Introduction

We aim to produce clear communications in a plain English style that provide everyone with any interest in the Fund with ready access to all the information they need to make informed decisions.

We may make our communications available in languages other than English or in Braille or in other formats upon request to suit those with special needs.

We can be contacted in person, by letter, by phone or by email.

We aim to respond to all requests in a timely manner and by meeting the enquirer's information objectives.

We will collaborate with other Funds throughout the year to produce communications that benefit from shared expertise and cost saving.

We aim to continually develop our communications / the resource we devote to engagement.

Our flagship communications offering is our website at: www.worcestershirepensionfund.org.uk

We aim to maintain a compliant website that provides stakeholders with a first port of call for all of their pension information needs, so that they can make informed decisions. NB we are not able to provide financial advice.

We aim to invest in digitisation to maximise self-service for our members and employers.

2 Communicating with employers

We will engage with our prospective and actual employers to:

- Explain our requirements of them.
- Define their information needs and expectations of us.
- Identify and deliver their training needs.

We will maintain an up to date Pension Administration Strategy.

We will maintain an Employers area on our website to provide regularly updated guidance / forms including monthly employer newsletters.

We will deliver a bi-annual employer forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters.

Of the 5 members of our Pension Board chaired by Cllr Roger Phillips there are 2 employer representatives who scrutinise all Pensions Committee decisions and can take items for discussion to our Pensions Committee on behalf of employer.

The Pensions Committee of 8 chaired by Paul Middlebrough has 2 employer representatives.

3 Communicating with members

We will make available a range of publications / forms for prospective and actual scheme members including a Guide to the LGPS.

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We will provide an annual benefit statement to our employee members and our deferred members by 31 August.

We will provide an annual newsletter to our employee members and an annual newsletter to our deferred members.

We will provide an annual newsletter, an annual payslip and a P60 to our pensioner members. We will also provide them with a pension payslip when there is a change of more than £1 per month net of tax in their pension.

Of the 8 members of our Pension Board there are 3 member / trade union representatives who scrutinise all Pensions Committee decisions and can take items for discussion to our Pensions Committee on behalf of members.

The Pensions Committee of 8 has 1 member / trade union representative.

4 Communications with other stakeholders

Our Annual Report and Financial Statements are available from our website.

Our website will also provide up to date information about our governance, funding, investments, finances and operations.

We will deliver appropriate communications to comply with and apply all relevant legislation / guidance (for example from The Pensions Regulator, The Local Government Association, Her Majesty's Revenue & Customs, The Local Government Pension Scheme Advisory Board, etc.).

We will deliver a training programme for members of our Pensions Committee and Pension Board.

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Version: draft following the second annual review for approval
Author: Chris Frohlich, Engagement Manager
Dated: April 2021
Signed Off: Pensions Committee 16 03 2021

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worcestershire county council

AGENDA ITEM 10

PENSION BOARD
26 FEBRUARY 2021

UPDATE ON THE OUTCOME OF ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) AUDIT AND CLIMATE RISK REVIEW

Recommendation

1. **The Chief Financial Officer recommends that the Board reviews the outcome of the ESG Audit, Sustainable Development Goals (SDG) mapping and Climate Risk review for Worcestershire Pension Fund (WPF) attached as Appendix 1.**

Background and update

2. The attached report (Appendix 1) that is planned to go to Pensions Committee on the 16 March 2021 aims to bring together the conclusions from the ESG Audit & SDG Mapping project for the Fund by Minerva and LGPSC Central initial Fund specific Climate Risk Report. However, it is worth re-iterating what we mean by Responsible Investment.

Responsible Investment

3. Responsible investment is an approach to investment that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.

4. It has relevance both during the selection of an investment and after an investment decision has been made, through on-going stewardship activity which covers considered voting and engagement with investee companies. Responsible investment is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach to selecting investments on the basis of ethical beliefs (beliefs about what is morally right and wrong). ESG Factors include:

The Funds Responsible Investment journey so far

5. The Funds journey so far has been as follows, which has resulted in the attached report for consideration by the Board

a. Training on Responsible Investment, Sustainable / Impact / Ethical Investment, and the spectrum of capital 31 January 2020.
b. Agreement by the Pensions Committee in March 2020 to conduct an ESG Audit as part of its agreed Strategic Asset allocation plan.
c. Workshop to discuss and debate the Fund's investment beliefs for a sustainable approach to investing. This included an introduction to the 17 United Nations SDG's and members agreed to prioritise the following SDGs that they considered are likely to have the biggest investment impact:-

- *SDG 9. Industry, Innovation & Infrastructure (covers off 11 sustainable cities)*
- *SDG 7. Clean Energy (covers off 6 clean water and sanitation)*
- *SDG 8. Decent Work & Economic Growth*
- *SDG 13. Climate Action*

d. Member led specific ESG Audit & SDG Mapping working group agreed at June Pensions Committee.
e. Appointment of Minerva 29 September 2020 to conduct an ESG Audit & SDG Mapping project for the Fund. To specifically examine the existing Investment Portfolio holdings of the Fund and their relationship (positive/ negative) to the 17 Sustainable Development Goals, specifically highlighting the SDGs detailed above in c. and identify the risks and opportunities associated with the analysis.
f. Pool engagement – LGPSC Central initial Fund specific Climate Risk Report discussed at the working group in October and November 2020 with LGPSC Responsible Investment and Engagement Team.
g. Minerva report on baseline assessment of mapping the Fund's portfolio to the UN SDG's reported to the ESG Audit working group 18 December 2020 and all member workshop on the 5 January 2021
h. Review and next steps for a sustainable approach to investing workshop with all members on the 5 February 2021

i. Agreement by the ESG Audit working group to the recommendations from the 5 February workshop and the final report from Minerva on the Funds ESG and SDG mapping for submission to this Committee.

6. The Fund has completed a robust ESG Audit, SDG Mapping and Climate Risk review of its portfolio and on the whole the outcomes have been positive. The key points and suggested recommendations from both the Minerva and LGPSC reports have been considered in detail over the past 4 to 5 months resulting in a number of workshops to debate and discuss these further. The suggested way forward for the Fund and next steps has culminated in a number of recommendations which will be seeking Committee approval

7. These cover 5 key strands as follows and are detailed in the attached report in paragraphs 21 to 24, namely:

- Monitoring of Fund Managers
- New guidelines for future Fund Manager selection
- Working with LGPS Central
- Considerations for the future investment strategy
- SDG & Climate Reporting, and metrics"

8. The Minerva report is not available yet as the final report is awaited. However, Board members will have received a copy as part of the information for the ESG Audit workshops on the 5 January and February respectively and the final version will be to follow.

Supporting information

- Appendix 1 - WPF outcome of the ESG Audit, Sustainable Development Goals (SDG) mapping and Climate Risk review – Draft report to Pensions Committee
- Appendix 2 - Minerva Final ESG Audit & SDG Mapping report (To follow)
- Appendix 3 - WPF Taskforce on Climate-related Financial Disclosures (TCFD) Report (Also Appendix 2 to the draft Pension Committee Report)

Contact Points

Specific Contact Points for this report

Nick Weaver, Interim Pensions Manager
Tel: 01905 843911
Email: NWeaver@worcestershire.gov.uk

Rob Wilson
Pensions Investment, Treasury Management & Capital Strategy Manager
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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.

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PENSIONS COMMITTEE
16 MARCH 2021

OUTCOME OF ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) AUDIT AND CLIMATE RISK REVIEW – DRAFT REPORT

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Recommendation

1. **The Chief Financial Officer recommends that:**

   a) **That Worcestershire Pension Fund (the Fund) ESG Audit & Sustainable Development Goals (SDGs) Mapping Exercise project report from Minerva be noted and approved;**

   b) **That the 'Task Force on Climate related Financial Disclosures' (TCFD) Report be commented on and approved; and**

   c) **The outcome of the ESG audit , SDG Mapping & Climate Risk review be noted, and the recommendations set out at paragraphs 21 to 24 of this report be approved, namely:**

      - **Monitoring of Fund Managers**
      - **New guidelines for future Fund Manager selection**
      - **Working with LGPS Central**
      - **Considerations for the future investment strategy**
      - **SDG & Climate Reporting, and metrics".**

Background

2. This report aims to bring together the conclusions from the ESG Audit & SDG Mapping project for the Fund by Minerva and LGPSC Central initial Fund specific Climate Risk Report. However, it is worth re-iterating what we mean by Responsible Investment.

Responsible Investment

3. Responsible investment is an approach to investment that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.

4. It has relevance both during the selection of an investment and after an investment decision has been made, through on-going stewardship activity which covers considered voting and engagement with investee companies. Responsible investment is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach to selecting investments on the basis of ethical beliefs (beliefs about what is morally right and wrong). ESG Factors include:

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<u>The Funds Responsible Investment journey so far</u>

5. The Funds journey so far has been as follows, which has resulted in this report and recommendations for the Committee to consider:-

a. Training on Responsible Investment, Sustainable / Impact / Ethical Investment, and the spectrum of capital 31 January 2020.
b. Agreement by the Pensions Committee in March 2020 to conduct an ESG Audit as part of its agreed Strategic Asset allocation plan.
c. Workshop to discuss and debate the Fund's investment beliefs for a sustainable approach to investing. This included an introduction to the 17 United Nations SDG's and members agreed to prioritise the following SDGs that they considered are likely to have the biggest investment impact:-

    - *SDG 9. Industry, Innovation & Infrastructure (covers off 11 sustainable cities)*
    - *SDG 7. Clean Energy (covers off 6 clean water and sanitation)*
    - *SDG 8. Decent Work & Economic Growth*
    - *SDG 13. Climate Action*

d. Member led specific ESG Audit & SDG Mapping working group agreed at June Pensions Committee.
e. Appointment of Minerva 29 September 2020 to conduct an ESG Audit & SDG Mapping project for the Fund. To specifically examine the existing Investment Portfolio holdings of the Fund and their relationship (positive/ negative) to the 17 Sustainable Development Goals, specifically highlighting the SDGs detailed above in c. and identify the risks and opportunities associated with the analysis.
f. Pool engagement – LGPSC Central initial Fund specific Climate Risk Report discussed at the working group in October and November 2020 with LGPSC Responsible Investment and Engagement Team.
g. Minerva report on baseline assessment of mapping the Fund's portfolio to the UN SDG's reported to the ESG Audit working group 18 December 2020 and all member workshop on the 5 January 2021
h. Review and next steps for a sustainable approach to investing workshop with all members on the 5 February 2021

i. Agreement by the ESG Audit working group to the recommendations from the 5 February workshop and the final report from Minerva on the Funds ESG and SDG mapping for submission to this Committee.

Environment Social and Governance Audit & SDG Mapping – Minerva Report

6. Minerva were appointed to conduct an Environment Social and Governance **(**ESG) audit of the Fund and be able to map **all** the Funds' investments to the United Nations Sustainable Development Goals (SDGs). This was to establish a baseline for the Fund as to where we are and help formulate future strategic actions required for the Fund's investment approach.

7. This involved examining the existing Investment Portfolio holdings of Worcestershire Pension Fund and their relationship (positive/ negative) to the 17 United Nations SDGs, specifically highlighting the SDGs detailed below and identify the risks and opportunities associated with the analysis.

- **SDG 9. Industry, Innovation & Infrastructure (covers off 11 sustainable cities)**
- **SDG 7. Clean Energy (covers off 6 clean water and sanitation)**
- **SDG 8. Decent Work & Economic Growth**
- **SDG 13. Climate Action**

8. Minerva have worked closely with the ESG Working group and provided a detailed presentation on the key aspects and findings of their ESG Audit and SDG Mapping report to the member workshop on the 5 January 2021 and also attended and supported the Review and next steps for a sustainable approach to investing workshop on the 5 February. Their final report is attached as Appendix A.

9. The key outcomes are:-

a. The fund is already aligned to its SDG goals to a reasonable level
b. Within the private assets, 2 Fund managers portfolios are 'Very Strongly Contributing' in SDG terms
c. 1 Fund Managers portfolio is 'Detracting', given its significant exposure to the Oil and Gas sector
d. Comparing the Fund's listed assets against the SDG2000, there is an overlap of 50.4%. (The Fund's listed assets represent 70% of our portfolio)
e. Although that overlap was unintentional rather than by design.

SDG 2000

Minerva used the World Benchmarking Alliance (WBA) SDG2000 to measure the alignment between the Funds investments and the SDGs. The WBA SDG 2000 measures and ranks 2000 of the world's most influential companies in respect of SDGs. These are seen as global companies that are likely to have the greatest potential to help deliver the SDGs

10. Minerva also highlighted some potential actions to consider as part of the next steps

- tackling the 'weaker' areas in the Fund's investments by having a **proactive identification and engagement** approach with:
  i. the **lowest-rated Fund SDG2000 holdings**, and
  ii. those **other Fund investments** deemed as being **SDG-detracting** e.g. Stonepeak;

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- creating a **more rigorous approach** towards future manager **appointments / real asset investments** and **re-ups**;
- to **review the Fund's existing ISS** to assess whether changes are needed to 'Investment Beliefs', and to incorporate appropriate SDG references, including any specific SDGs on which Members wish to focus;
- look at including the **potential to disinvest** where appropriate (as suggested in project report);
- future reporting requirements, including being in line with **TCFD** recommendations; and
- explore the potential for **additional allocations** to sustainable and/or low carbon equities

<u>LGPSC Climate Risk Report</u>

11. Committee have been kept updated that LGPS Central are providing and continuing to develop a Climate Risk Monitoring Service. This has four optional deliverables

- Assistance drawing up a climate change framework and strategy
- Per fund an annual climate change risk report tailored to individual funds requirements comprising
    - Climate scenario analysis, fund wide, all asset classes
    - Carbon metrics scorecard (carbon footprint, stranded asset analysis, etc.
    - Annual climate stewardship plan
- Per fund annual training of Pensions Committee
- Task Force for Climate-related Financial Disclosures (TCFD) report for public disclosure with our annual report

12. LGPSC produced a Climate Risk report in September for the Fund which was discussed in detail at the ESG Audit WG in October and November 2020. Our independent asset advisor detailed his synopsis of the report

<u>LGPSC Climate Risk Report - Synopsis of Funds Independent Advisor</u>

13. The Report is relatively limited in scope, reviewing the equity portfolios (active and passive) only. It is focused purely on Climate Risk, specifically the Fund's carbon footprint. As such it forms a useful part of the wider review of the Fund's ESG strategy, but should not be viewed in isolation when considering the options for changes in the Investment Strategy Statement. The Report should be viewed as complementary to the ESG review being undertaken by Minerva, rather than viewed in isolation.

14. The Report is designed to provide guidance for investing in a sustainable way, including some "what if" scenarios relating to the potential impacts of various degrees of global warming. Clearly this requires some assumptions to be made, these have to be reasonable in their basis, but ultimately only time will tell if they are correct.

15. Before receiving this report, the Fund had some of our own assumptions about how "healthy" WPF is in terms of how our investments impact on the climate, bearing in mind the high exposure to index tracking funds which will include the good, the bad and the ugly in their composition. The report contained a lot of good news in this respect, in fact we are much healthier than we had assumed, including a lower exposure to fossil fuels than the benchmark position.

16. Climate related risk is very real and can impact the Fund both negatively and positively, depending on our approach to managing that risk. There is sector and stock

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specific risk in being invested in those areas that include fossil fuels, as they decline in usage, whereas investing in new more environmentally friendly areas, such as renewable energy, can enhance our investment returns. The warmer the planet becomes, the risks increase much further, which at the simplest levels include substantial flooding of low lying areas globally with all the negative implications that flow from that.

17. The key highlights / points of the report are:

- The Total Equities portfolio has a portfolio carbon footprint that is <u>23.75% lower</u> than the benchmark, with all underlying <u>active strategies significantly lower</u> than their benchmark

- The Total Equities portfolio has less exposure to fossil fuels than the benchmark

- Climate Scenario Analysis suggests a 2°C outcome is the best from a return perspective.

- A hypothetical "Sustainable Asset Allocation" – which adjusts the Strategic Asset Allocation by
    - (i) incorporating low carbon and sustainable equities and
    - (ii) increasing allocation to sustainable infrastructure – would, according to the model used, perform better than the Strategic Asset Allocation in a 2°C scenario

  (It should be noted that it was our hypothetical suggestion as we were given 2 options, 1 being our existing asset allocation and the other a hypothetical option of our choice)

- The Fund already shows good practice with regard to responsible investment, including Quarterly Stewardship updates and signature to the UK Stewardship Code.

18. Although there are elements in the report that are general in nature and not specific to WPF, the content is still relevant and in context to the subject matter. Guidance to the LGPS is increasingly prescriptive in terms of requiring individual Funds to take climate risk into account in the management of investments. LGPS Central have highlighted some good recommendations for consideration in respect of governance and reporting (see below). Most LGPS Funds are moving in this same direction, particularly on the reporting front, such as against the TCFD.

- **Governance:** spend time discussing progress on climate strategy and maintain training
- **Policies:** develop a climate strategy, report against 2020 Stewardship Code, include climate risk in the risk register
- **Reporting:** include information in annual report
- **Asset allocation:** consider additional allocations to sustainable investments
- **Policy engagement:** public support for Paris Alignment
- **Manager monitoring:** dialogue and engagement on climate action
- **Company stewardship:** engage and report on progress
- **Metrics:** measure metrics annually

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- **Methodology:** support (via LGPSC) development of methodology to verify alignment to Paris agreement.

Overall Conclusion

19. The Fund has completed a robust ESG Audit, SDG Mapping and Climate Risk review of its portfolio and on the whole the outcomes have been positive. The key points and suggested recommendations from both the Minerva and LGPSC reports have been considered in detail over the past 4 to 5 months resulting in a number of workshops to debate and discuss these further. The suggested way forward for the Fund and next steps has culminated in a number of recommendations which are seeking Committee approval. These can be summarised in the following sections:

Monitoring of Fund managers

20. The following options proposed to be agreed are:-

- Ongoing engagement, dialogue and challenge with managers.
  - E.g. challenge on holdings (particularly the top 10 to 20 in terms of value) that detract from the Funds United Nations Sustainable Development Goals (SDGs) and carbon reduction – Explore using LGPSC Fund manager monitoring template as a method to do this.
  - Prioritise the most material / strategic real asset investment manager exposure for dialogue on climate risk.
- Ask managers to report on the portfolio's alignment to the Funds SDG goals (detailed below) in future and Carbon Risk metrics.
  - *SDG 9. Industry, Innovation & Infrastructure (covers off 11 sustainable cities)*
  - *SDG 7. Clean Energy (covers off 6 clean water and sanitation)*
  - *SDG 8. Decent Work & Economic Growth*
  - *SDG 13. Climate Action*
  - *SDG 3 Health & Wellbeing (added following workshop on the 5th February)*

- Ask them to present their TCFD report
- See evidence of a strong investment thesis where the Fund may have concerns.
- Consider impact "terms of reference" against which the Fund will judge them in future – what does success look like?
- Other engagement – Consider divestment as a last resort if evidence of improvement not forthcoming and on the grounds of unaddressed financial risk and build into the Fund's Investment Strategy Statement (ISS).

New guidelines for future Fund Manager selection

21. The following options proposed to be agreed are:-
- Introduce impact criteria into the Fund's manager selection decisions
  - E.g. Does the manager report against the SDGs, or CO2 emissions?
  - Do they have a clear investment thesis around climate change, decent work and innovation?
- Seek whether they are TCFD compliant.
- Consider allocating some of the scoring weights in any procurement specifically to ESG (e.g. 70% of the score based on investment, 20% on price and 10% on ESG)

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Working with LGPS Central

22. The following options proposed to be agreed are:-
    - Ask LGPS Central to report on both impact and financial deliverability on a regular basis
    - Challenge and monitor their TCFD reporting.
    - Ask for evidence of further improvements being made over time
    - Maintain a dialogue over the types of investments/funds you wish to see in the Pool
    - Collaborate with other member funds and Pools to share ideas
    - Review LGPSC's stewardship plan (four themes: climate change, single-use plastic, technology & disruptive industries, and tax transparency) to assess if this is still in line with the Funds priorities.
    - Identify the top 10 or 20 holdings in value terms for further dialogue and challenge that are detracting from the Funds SDG goals and carbon reduction

Future investment strategy

23. It was emphasised at the start of this discussion that the *Aim: to deliver strong risk-adjusted returns in accordance with the committee's fiduciary responsibilities*. The following options were discussed and agreed:-
    - To explore further the examples of potential investments that were presented regarding the passive LGPSC All World equity Climate Multi Factor Fund and the five active sustainable equity funds on the West Midlands Framework
    - To also take on board the existing offering of sustainable active equities that were being developed by LGPSC as an alternative to the West Midlands Framework
    - To take these suggested examples to the next Investment Sub Committee for further consideration and debate.

SDG & Climate Reporting and metrics

24. The following options proposed to be agreed are:-
    - To have an overarching climate statement to include in the Investment Strategy Statement (ISS).
    - Put a statement or summary of the Climate Risk report in a manner consistent with the TCFD Recommendations into the Fund's annual report.
    - Have a "best endeavours" type statement with a view to consider setting goals / targets at next year's ESG Fund review.
        - E.g. reduction of carbon footprint
        - measurement against the key SDG's,
        - To have a % of fund to invested in low carbon and sustainable investments
    - Repeat carbon Metrics analysis annually
    - Repeat Climate Scenario Analysis every 2 to 3 years
    - Report annually progress on climate risk using the TCFD Framework
    - Map the Fund's portfolio to the UN SDG's every 2 to 3 years

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Task Force on Climate related Financial Disclosures' (TCFD)

25. The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total 930 organisations representing a market capitalisation of over $11 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice.

26. LGPSC provided the fund with a draft TCFD report and this has been updated to include the outcomes of the work provided by Minerva and is attached to this report as Appendix 2.

SDG 3 (Health and Wellbeing)

27. At the time of the initial Committee discussions on carrying out the ESG Audit & SDG Mapping exercise (at the end of 2019 and the beginning of 2020), the full impact of Covid-19 was not known. In the intervening period, it has become clear that Covid-19 has had far reaching consequences – both human and financial – for the world. Whilst some of the Fund's underlying investments have done well in the Covid-19 environment (such as digital infrastructure and remote working service providers), others have not (such as airlines and the hospitality sector).

28. With Covid-19 vaccines now slowly beginning to be rolled out, the future is starting to look somewhat brighter – although there are no doubt many challenges lying ahead before the world is back to normal, if indeed it will ever be the same kind of 'normal' again.

29. Working with Pensions for Purpose, the Committee previously identified 4 SDGs (detailed in paragraph 5c above) that were of particular importance to them, and for which specific attention was to be paid in this exercise.

30. However, during the Workshop presentation of 5 January 2021, a question was asked as to whether the Committee might want to reflect on the impact of Covid-19, and to reconsider its previously prioritised SDGs, as SDG 3: Good Health & Wellbeing may now seem to be of increased importance. This was discussed at the workshop of the 5 February 2021 and members felt that this should be now prioritised with the 4 already agreed

Future of the ESG Audit working group and ESG Fund wide annual review

31. At the ESG WG meeting of the 5 February 2021, it was felt that the working group had now served its main purpose and that a revised working group to focus on tracking the recommendations to Pensions Committee should be formed and consideration for this after the elections.

32. It was also at considered by the working group to use the January Pensions Committee as a focussed ESG annual review session and invite relevant managers in for debate and discussion.

Contact Points

Specific Contact Points for this report
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Supporting Information
- TCFD Report (Appendix 1)
- Minerva Final ESG Audit & SDG Mapping report (Appendix 2)

Background Papers
In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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DRAFT WORCESTERSHIRE PENSION FUND CLIMATE-RELATED DISCLOSURES REPORT

FEBRUARY 2021

Contents

Brief Background and Summary

The Taskforce on Climate-related Financial Disclosures (The Task Force/TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board, in recognition of the risks caused by greenhouse gas emissions to the global economy and the impacts that are likely to be experienced across many economic sectors.

The Task Force structured its recommendations around four thematic areas that represent core elements of how organisations operate: governance, strategy; risk management; and metrics and targets (see Figure 1).

The Fund supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a pension fund we are long-term investors and are diversified across asset classes, regions, and sectors, making us “universal owners”. It is in our interest that the market is able to effectively price climate-related risks and that policy makers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our beneficiaries.

Further information and background relating to the TCFD and how this report has been collated can be found in Appendix 1 and climate related risks can be found in Appendix 2.

Governance

TCFD Recommended Disclosure
a) Describe the board's oversight of climate-related risks and opportunities

Roles and responsibilities at the Fund are set out clearly in the Fund's *Governance Policy & Compliance Statement*. Overall responsibility for managing the Fund lies with Worcestershire County Council which has delegated the management and administration of the Fund to the Worcestershire Pension Fund Committee.

The Pension Committee ('the Committee') is responsible for approving the Investment Strategy Statement (ISS), which includes the Fund's approach to responsible investment. The ISS includes a set of responsible investment beliefs, including a formal investment belief on climate change, recognising it as a factor that could materially impact financial markets. The Committee meet four times a year, or otherwise as necessary. The Committee includes quarterly engagement and voting reports from their investment managers a standing item on the Pension Committee agendas. Quarterly engagement reports are made available by the Fund on their website. The Committee, Investment Sub-Committee and Pension Board have received focused training and workshops on responsible investment topics, with training sessions made available on the Fund's website.

The Fund has recently undertaken an external Environment Social and Governance **(**ESG) audit of to map **all** the Funds' investments to the United Nations Sustainable Development Goals (SDGs). This was to establish a baseline for the Fund as to where we are and help formulate future strategic actions required for the Fund's investment approach.

This involved examining the existing Investment Portfolio holdings of Worcestershire Pension Fund and their relationship (positive/ negative) to the 17 United Nations SDGs, specifically highlighting the SDGs detailed below and identify the risks and opportunities associated with the analysis.

- **SDG 9. Industry, Innovation & Infrastructure (covers off 11 sustainable cities)**
- **SDG 7. Clean Energy (covers off 6 clean water and sanitation)**
- **SDG 8. Decent Work & Economic Growth**
- **SDG 13. Climate Action**

The Fund reviewed the output of the ESG Audit, SDG Mapping and LGPS Centrals Climate Risk report at a workshop in February 2021 and discussed and agreed a number of next steps to be considered by the Pensions Committee around 5 key strands being:-

Monitoring fund managers

- Ongoing engagement, dialogue and challenge with managers.
    - E.g. challenge on holdings that detract from the Funds United Nations Sustainable Development Goals (SDGs) and carbon reduction
    - Prioritise the most material / strategic real asset investment manager exposure for dialogue on climate risk

- Ask managers to report on the portfolio's alignment to the Funds SDG goals in future and Carbon Risk metrics.
- Ask them to present their TCFD report
- See evidence of a strong investment thesis where you have concerns
- Other engagement – Consider divestment as a last resort if evidence of improvement not forthcoming and on the grounds of unaddressed financial risk (build into ISS)

New guidelines for manager selection

- Introduce impact criteria into the Fund's manager selection decisions
  - E.g. Does the manager report against the SDGs, or CO2 emissions.
  - Do they have a clear investment thesis around climate change, decent work and innovation?
- Are they TCFD compliant?
- Consider allocating some of the scoring weights in any procurement specifically to ESG

Working with LGPS Central

- Ask LGPS Central to report on both impact and financial deliverability on a regular basis
- TCFD reporting – challenge and monitor
- Collaborate with other member funds and pools to share ideas
- Identify the top 10 or 20 holdings in value terms for further dialogue and challenge that are detracting from the Funds SDG goals and carbon reduction

Future investment strategy

- Explore the potential for additional allocations to sustainable and/or low carbon equities

SDG & Climate Reporting and metrics

- To have an overarching climate statement to include in the Investment Strategy Statement (ISS).
- Put a statement or summary of the Climate Risk report in a manner consistent with the TCFD Recommendations into the Fund's annual report.
- Have a "best endeavours" type statement with a view to consider setting goals / targets at next year's ESG Fund review.
  - E.g. reduction of carbon footprint
  - measurement against the key SDG's,
  - To have a % of fund to invested in low carbon and sustainable investments
- Repeat carbon Metrics analysis annually

In order to support good decision-making, the Fund applies the Myners Principles. Disclosure against the Myners Principles is made annually (please see section 12 of the Fund's Investment Strategy Statement).

In October 2020 the Worcestershire Pension Fund Committee received a Climate Risk Report which will support the formation of the Fund's climate strategy.

The Local Pensions Board has an oversight role in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme.

TCFD Recommended Disclosure
b) Describe management's role in assessing and managing climate-related risks and opportunities.

The Chief Financial Officer and the Investments Manager have primary day-to-day responsibility for the way in which climate-related investment risks are currently managed. As a primarily externally managed fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers. Each manager's approach to Environmental, Social and Governance (ESG) factors and how these are integrated into their investment process is assessed as part of the manager selection process. The new Manager selection guidelines (going to Committee for approval) on introducing impact criteria and TCFD Compliance will strengthen further this process. External portfolio managers are monitored on a regular basis by the Investment Sub-Committee.

In 2020 the Fund Officers received a Climate Risk Report which will enable the consideration of climate change within strategy setting, including asset allocation and asset selection. Receipt of a Climate Risk Report is expected to occur annually.

Strategy

TCFD Recommended Disclosure
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.

As a diversified asset owner, the range of climate-related risks and opportunities are multifarious and constantly evolving. A subset of risk factors is presented in Table 1.

Table 1: Example Short, Medium & Long-Term Risks

	Short & Medium Term	**Long Term**
Risks	Carbon prices Technological change Policy tightening Consumer preferences	Resource scarcity Extreme weather events Sea level rise
Asset class	Listed equities Growth assets Energy-intensive industry Oil-dependent sovereign issuers Carbon-intensive corporate issuers	Infrastructure Property Agriculture Commodities Insurance

Short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this. Long-term risks include physical damages to real assets and resource availability. Examples would include increased sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

The Fund has received a Climate Risk Report and will use its findings to develop a Climate Strategy.

TCFD Recommended Disclosure
b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.

The Fund believes that diversification across asset classes, regions, and sectors is an important investment risk management tool to reduce risk. The Fund recognises that climate risk is systemic and is unlikely to be eliminated through diversification alone. The Fund is exploring options to further embed climate-related risks and opportunities into its investment strategy, including reviewing potential investments in sustainable asset classes where this supports the Fund's investment and funding objectives.

The Fund is aiming to target investments in global companies that are sustainable in financial, environmental, social and governance terms and, where appropriate, that are providing solutions to sustainability challenges. Furthermore, the Fund has invested in several renewable energy opportunities, and continues to actively assess and invest in these opportunities. Research commissioned by LGPSC from Mercers (presented below) suggests that these allocations could lead to a positive return impact on the Fund's investment portfolio were a 2°C scenario to be suddenly priced in by the market.

The Fund's has a present underweighting to the UK equity market compared to its strategy and also reduced the passive Value Fund from 40% to 20% of the total passive alternatives allocation in September 2020. This will help reduce the Fund's exposure to companies with fossil fuel reserves. The Fund's carbon risk metrics analysis (Figure 8 below) shows that the UK equity market and the Value alternative passive Fund have the highest exposure to fossil fuel reserves compared to other regional equity markets, although it should be noted that some of the largest UK companies with fossil fuel reserves are among the most progressive in terms of factoring climate risk into their long-term strategy. In each regional equity portfolio, the Fund has a lower exposure to fossil fuel reserves companies than the benchmark.

The Fund is exploring options to further embed climate-related risks and opportunities into its investment strategy and exploring the potential for **additional allocations** to sustainable and/or low carbon equities

The Fund will also use the analysis of the SDG Mapping which shows £1.4bn of its £2bn of listed assets had climate related expenditure to SDG13 Climate Action by the most global influential companies within the World Benchmarking Alliance Benchmark SDG2000 that has been undertaken. The analysis will help the Fund in

- tackling the 'weaker' areas in the Fund's investments by having a **proactive identification and engagement** approach with:
  - the **lowest-rated Fund SDG2000 holdings**, and
  - those **other Fund investments** deemed as being **SDG-detracting thus** creating a **more rigorous approach** towards future manager **appointments** / real asset **investments**

TCFD Recommended Disclosure
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The Fund has engaged the expertise of an external contractor, Mercer LLC[1] , to understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at fund and asset-class level). All asset classes are included in this analysis. The climate scenarios considered are 2°C, 3°C and 4°C.

Two asset allocations have been analysed: (1) the asset allocation as at 29th May 2020; and (2) a hypothetical "Sustainable Asset Allocation" – which adjusts the Strategic Asset Allocation by incorporating low carbon and sustainable equities and

The Fund is currently exploring **additional allocations** to sustainable and/or low carbon equities and expects to complete some planned allocation to Global Sustainable Equities and low carbon equities in the near-term.

Table 2: Annualised climate change impact on portfolio returns – to 2030 and 2050[2].

Scenario	Timeline	Estimated climate impact on returns
2°C	2030	0.29%
	2050	0.09%
3°C	2030	-0.02%
	2050	-0.09%
4°C	2030	-0.08%
	2050	-0.15%

≤ -10 bps   > -10 bps, < 10bps   ≥ 10 bps

The Climate Scenario Analysis suggests that a 2°C outcome is, according to the model used, the best climate scenario from a returns perspective (adding 0.29% in annual returns to the Asset Allocation on a timeline to 2030) while a 4°C outcome is the worst of the three considered

[1] Via LGPS Central Limited

[2] Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated 19 September 2020 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Worcestershire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

(detracting by 0.08% annually over the same period). Over the longer time frame to 2050, the 2°C outcome continues to add positively the Fund's annual returns (0.09%), while the 4°C outcome continues to drag on the Fund's returns (-0.15%).

Translating Climate Scenario Analysis into an investment strategy is a challenge because there is a wide range of plausible climate scenarios; the probability of any given scenario is hard to determine, and; the best performing sectors and asset classes in a 2°C scenario tend to be the worst performers in a 4°C and vice versa. Despite the challenges, the Fund believes in seeking out the best available climate-related research in order to make its portfolio as robust as possible.

Risk Management

TCFD Recommended Disclosure
a) Describe the organisation's process for identifying and assessing climate-related risks.

The Fund seeks to identify and assess climate-related risks at the total Fund level and at the individual asset level. The Fund has received a Climate Risk Report which includes both top-down and bottom-up analyses to support this endeavour. The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

As far as possible climate risks are assessed in units of investment return, in order to compare with other investment risk factors.

As a primarily externally-managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual fund managers appointed by the Fund. Existing fund managers are monitored on a regular basis and will be more focussed in future to review the integration of climate risks into the portfolio management, and to understand their engagement activities.

Engagement activity is conducted with investee companies through selected stewardship partners including LGPS Central Limited, EOS at Federated Hermes, and LAPFF (see below). The Fund is, based on a Climate Risk Report, devising a Climate Stewardship Plan in order to focus engagement resources on the investments most relevant to the Fund.

TCFD Recommended Disclosure
b) Describe the organisation's process for managing climate-related risks.

The prioritisation of risks is determined based on the level of perceived threat to the Fund which, for climate-related risk, will likely depend on analyses including Climate Scenario Analysis and

Carbon Risk Metrics. The Fund's approach to climate risk management will be further developed in its forthcoming Climate Strategy.

Although the Fund's Climate Strategy will involve more than just engagement and shareholder voting, stewardship activities will remain an important aspect of the Fund's approach to managing climate risk. The Fund expects all investee companies to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activities by investors.

The Fund supports the engagement objectives of the Climate Action 100+ initiative, namely that companies: adopt the appropriate governance structures to effectively manage climate risk; decarbonise in line with the Paris Agreement, and; disclose effectively using the TCFD recommendations.

Either through its own membership or through LGPS Central's membership, the Fund has several engagement partners that engage investee companies on climate risk.

Table 3: The Fund's Stewardship Partners

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPS Central Limited. Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website. The Responsible Investment Team at LGPS Central engages companies on the Fund's behalf, including via the Climate Action 100+ initiative.
Federated Hermes	EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies. In 2019, EOS conducted engagements on 238 climate change issues across its company universe.
Local Authority Pension Fund Forum	The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. In 2019 LAPFF conducted over 150 engagements on climate change.

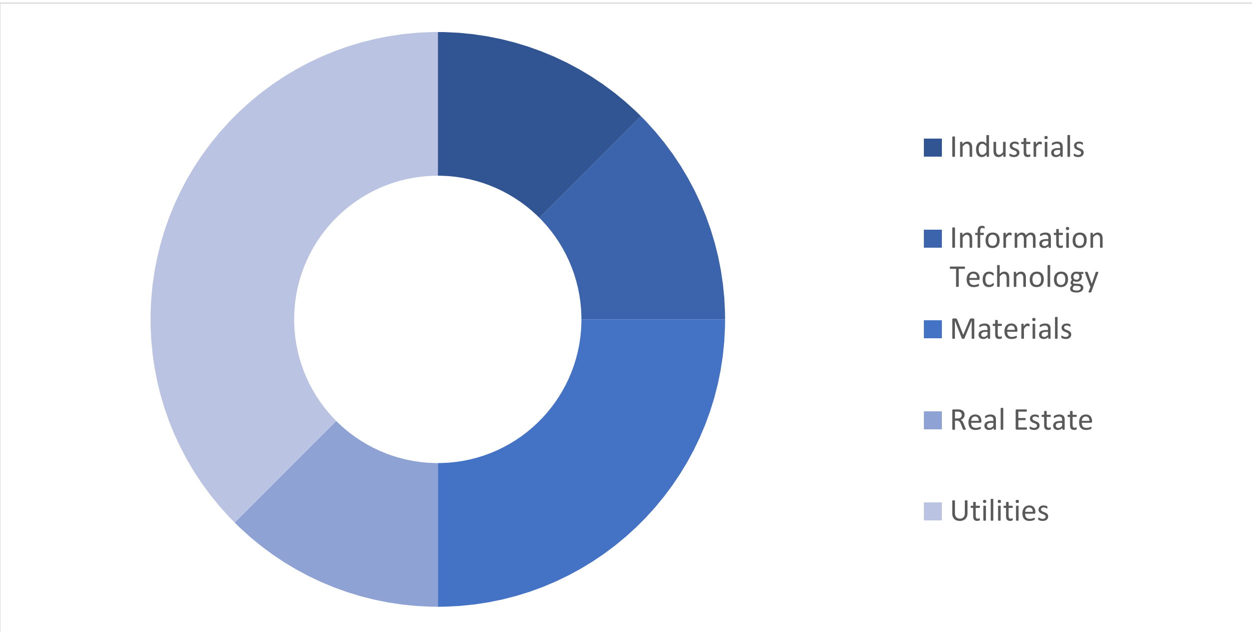
The instruction of shareholder voting opportunities is an important part of climate stewardship. The Fund's approach to shareholder voting is to appoint high quality asset managers whose voting policies support the long-term economic objectives of shareholders. Voting rights attached to securities in portfolios managed by LGPS Central are instructed according to LGPS Central's Voting Principles, to which the Fund contributes during the annual review process. LGPS Central's Voting Principles incorporate climate change, for example by voting against companies that do not meet certain thresholds in the Transition Pathway Initiative (TPI) scoring system. LGPS Central has co-filed shareholder resolutions that relate to climate change. LGPS Central recently co-filed climate-related shareholder resolutions at the meetings of BP Plc, Barclays Plc, and Citigroup.

Legal & General Investment Management (LGIM) currently manage a sizeable proportion of the Fund's assets on a passive basis. The votes in respect of these assets are cast by LGIM. LGIM has a robust approach to incorporating climate change factors in its voting decisions, including on specific climate-related shareholder resolutions

The results of engagement and voting activities are reviewed by the Pension Fund Committee and Investment Sub-Committee. LGPS Central's activities are reported in Quarterly Stewardship Updates which are available on the LGPS Central website.

Based on its Climate Risk Report, the Fund will develop a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, EOS at Federated Hermes, and LAPFF, will include targeted engagement at investee companies of particular significance to the Fund's portfolio.

Figure 5: Sectors included in proposed Climate Stewardship Plan



TCFD Recommended Disclosure
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Both 'mainstream' risks and climate-related risks are discussed by the Pension Committee. While specific macro-economic risks are not usually included in isolation, the Fund is considering the inclusion of climate risk on the Fund's Risk Register.

Climate risk will be further managed through the development of a Climate Strategy and a Climate Stewardship Plan

Metrics & Targets

TCFD Recommended Disclosure
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Fund has recently received a report from LGPS Central on carbon risk metrics for its listed equities portfolios, which represent 70% of the Fund's total assets. The poor availability of data in asset classes other than listed equities prevents a more complete analysis at this time.

The carbon risk metrics analysis include:

- portfolio carbon footprints[3]
- weight of portfolios invested in companies with fossil fuel reserves
- weight of portfolios invested in companies with thermal coal reserves
- weight of portfolios invested in companies whose products and services include clean technology
- metrics assessing the management of climate risk by portfolio companies

Carbon risk metrics aid the Fund in assessing the potential climate-related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. The Fund additionally monitors stewardship data (see above).

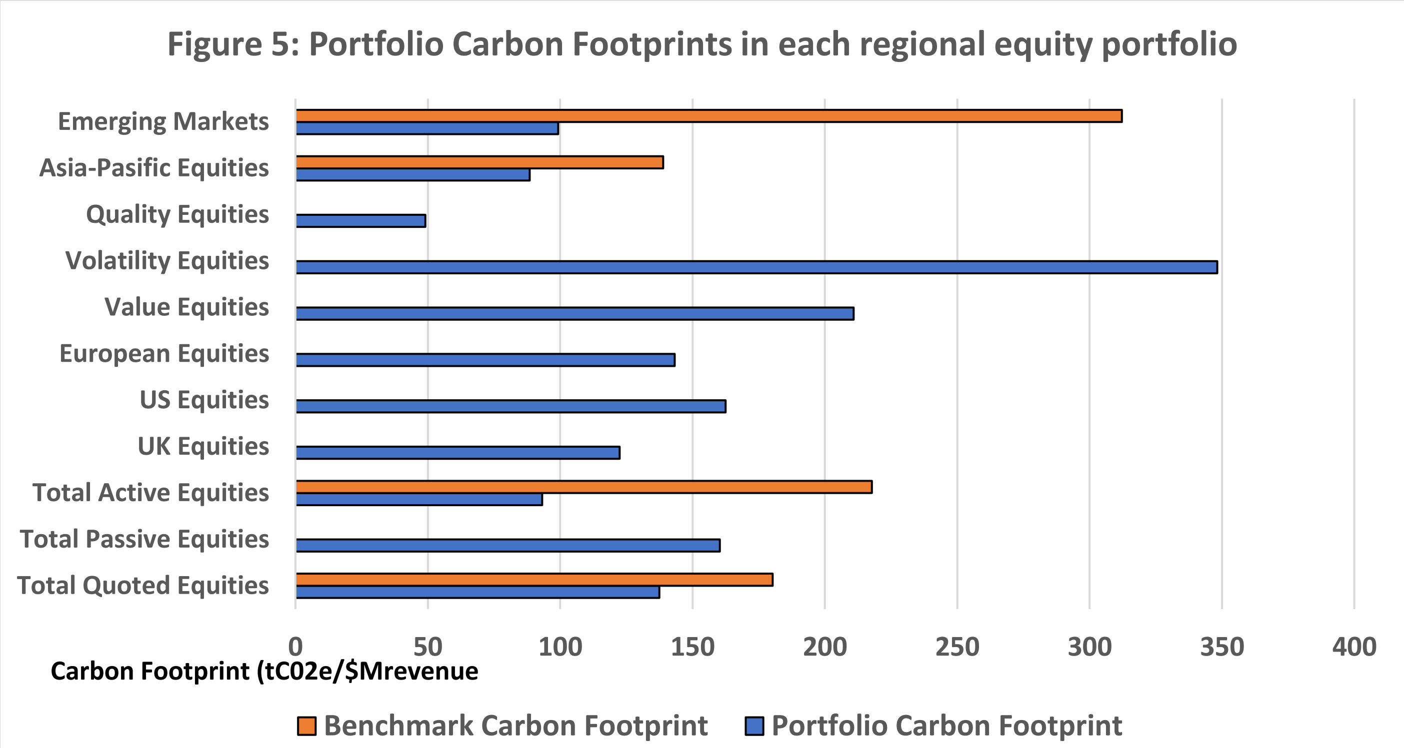
As detailed under 'Governance', the Fund has recently undertaken an external Environment Social and Governance **(**ESG) audit of to map **all** the Funds' investments to the United Nations Sustainable Development Goals (SDGs). This was to establish a baseline for the Fund as to where we are and help formulate future strategic actions required for the Fund's investment approach.

This involved examining the existing Investment Portfolio holdings of Worcestershire Pension Fund and their relationship (positive/ negative) to the 17 United Nations SDGs, specifically highlighting a number of SDGs one of these being SDG13 Climate Action and will be used to identify the risks and opportunities associated with the analysis.

TCFD Recommended Disclosure
b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. TCFD Guidance: *Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.*

In line with the TCFD guidance and following receipt of a report from LGPS Central Limited we provide below the carbon footprints of our equity portfolio[4]:

[3] Following TCFD guidance we use weighted average portfolio carbon footprints.
[4] Analysis undertaken on the listed equities portfolios within holdings data as of 29 May 2020. The information in Figures 5 to 8 was provided to the Fund in a report authored by LGPS Central Limited. In LGPS Central Limited's Reports the Total Equities portfolio comprises the Nomura Asia-Pacific, LGPS Central Emerging Equity Active



The Fund's Total Equities portfolio is 23.75% more carbon efficient than the benchmark. This means that, on average, for every $m of economic output companies produce, the Fund's investee companies emit 23.75% fewer greenhouse gas emissions than the companies in the index. The report received from LGPS Central Limited shows that the Total Active Equities portfolio is c.57% more carbon efficient than its benchmark, with each underlying equity strategy in the portfolio having a lower carbon footprint than their benchmark. In addition, both the Total Equities portfolio and the Total Active Equities portfolio have lower weights in companies with fossil fuel reserves (Figure 6) and thermal coal reserves (Figure 7) than their benchmarks.

The carbon footprint analysis above includes scope 1 and 2 emissions (those emitted either directly by a company or indirectly through its procurement of electricity and steam) but does not include scope 3 emissions (those emitted by a company's suppliers and customers). This means that for some companies the assessment of their carbon footprint could be considered an 'understatement'. Examples could include an online retailer whose logistics emissions are not included in scope 1 or 2. The Fund has chosen not to include scope 3 emissions in the carbon footprint metrics for two reasons: (1) the rate of scope 3 disclosure remains insufficient to use reliably in carbon foot-printing analysis; and (2) the inclusion of scope 3 emissions leads to double-counting at the portfolio level. To overcome the risk of 'understating' carbon risk, the Fund additionally assesses its exposure to fossil fuel reserves.

Multi-Manager Fund, LGIM UK Equity, LGIM North America Equity, LGIM Europe Ex-UK Equity, LGIM Global Equity portfolios weighted according to their size in GBP.
The Total Active Equities portfolio comprises the Nomura Asia-Pacific and LGPS Central Emerging Equity Active Multi-Manager portfolio. The Total Passive Equities comprises the LGIM UK Equity, LGIM North America Equity, LGIM Europe Ex-UK Equity and LGIM Global Equity portfolio.
The LGIM Global Equity portfolio contains 3 underlying passive portfolios managed for the Fund by LGIM; FTSE RAFI Dev Fund, MSCI Wold Minimum Volatility Total Return Fund, MSCI World Quality Total Return Fund.
The LGPS Central Emerging Market Equity Active Multi-Manager fund contains 3 underlying strategies; BMO, UBS and Vontobel.

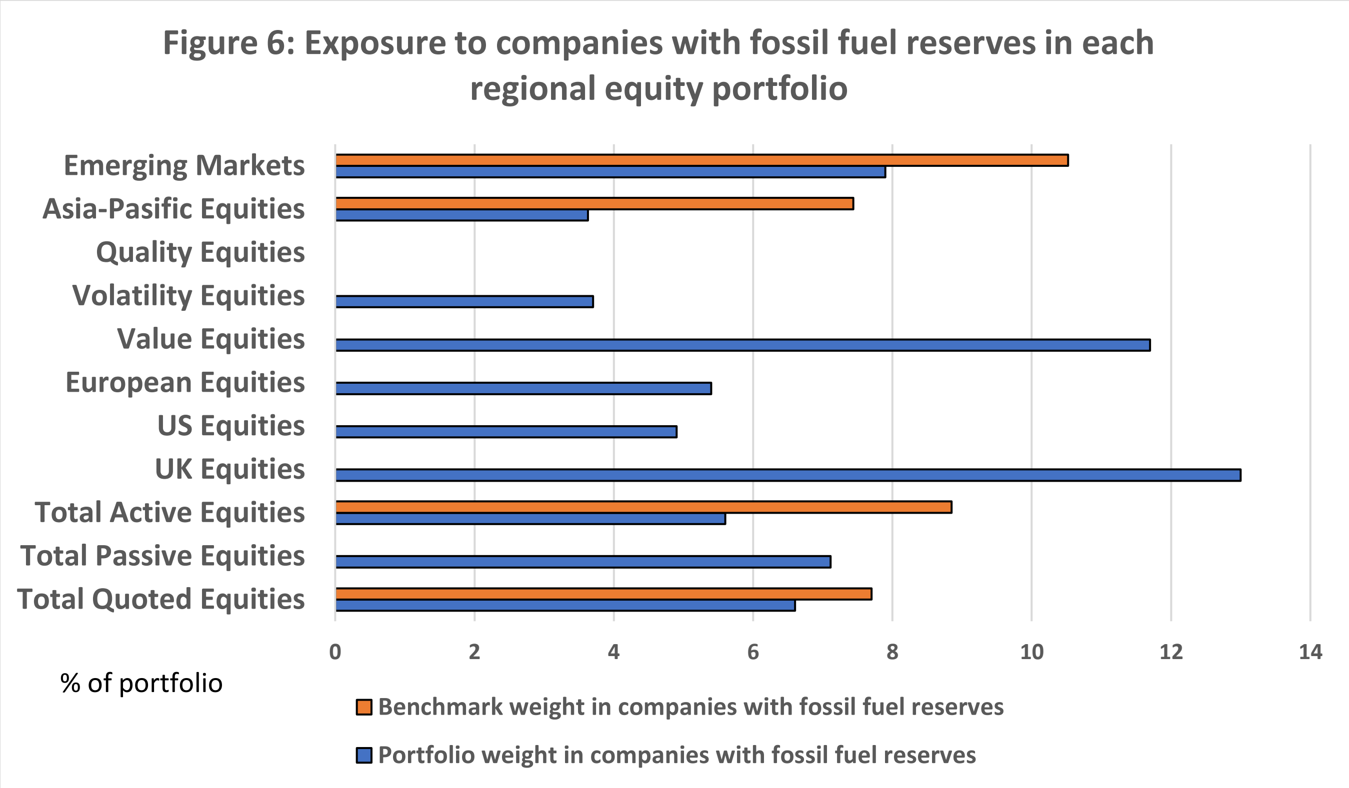


Figure 6: Exposure to companies with fossil fuel reserves in each regional equity portfolio
Emerging Markets
Asia-Pasific Equities
Quality Equities
Volatility Equities
Value Equities
European Equities
US Equities
UK Equities
Total Active Equities
Total Passive Equities
Total Quoted Equities
0
2
4
6
8
10
12
14
% of portfolio
Benchmark weight in companies with fossil fuel reserves
Portfolio weight in companies with fossil fuel reserves

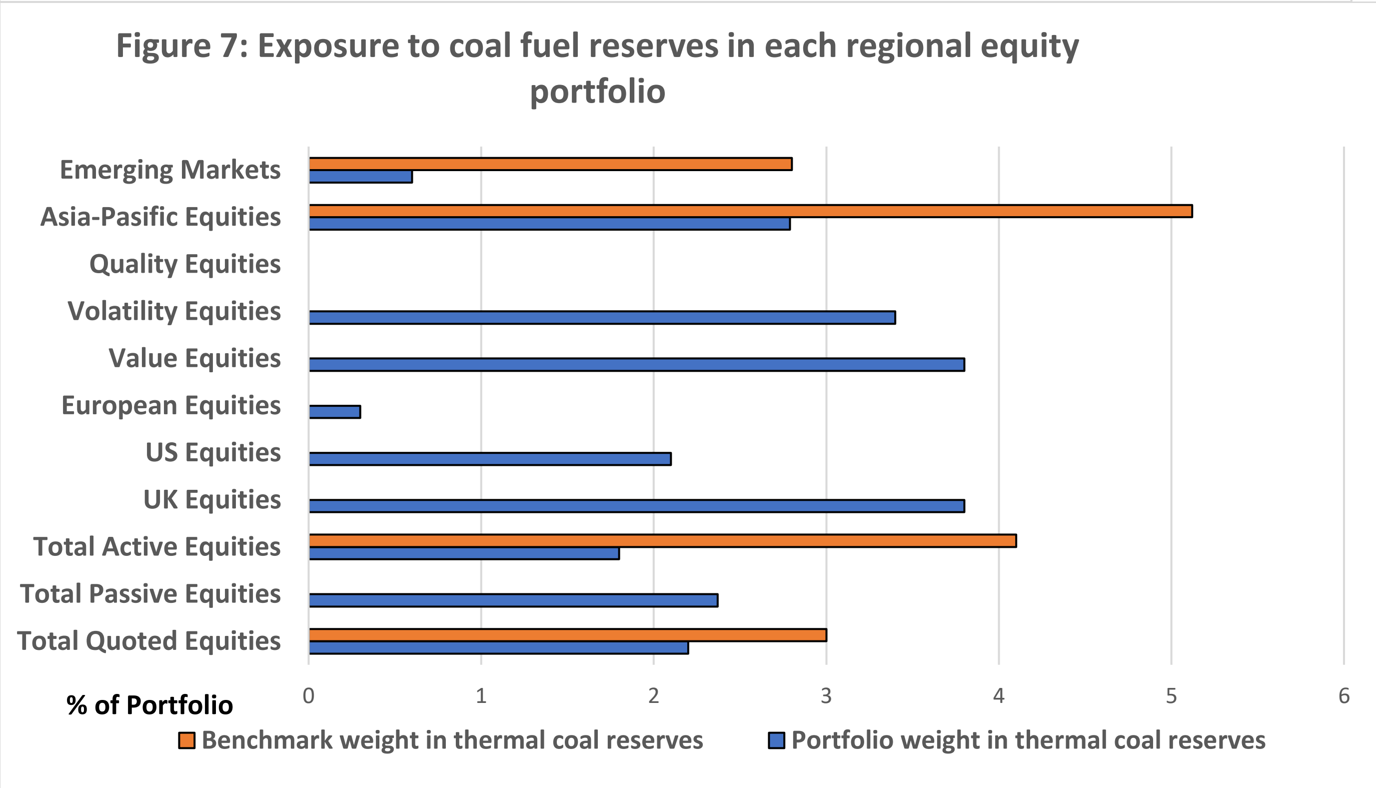
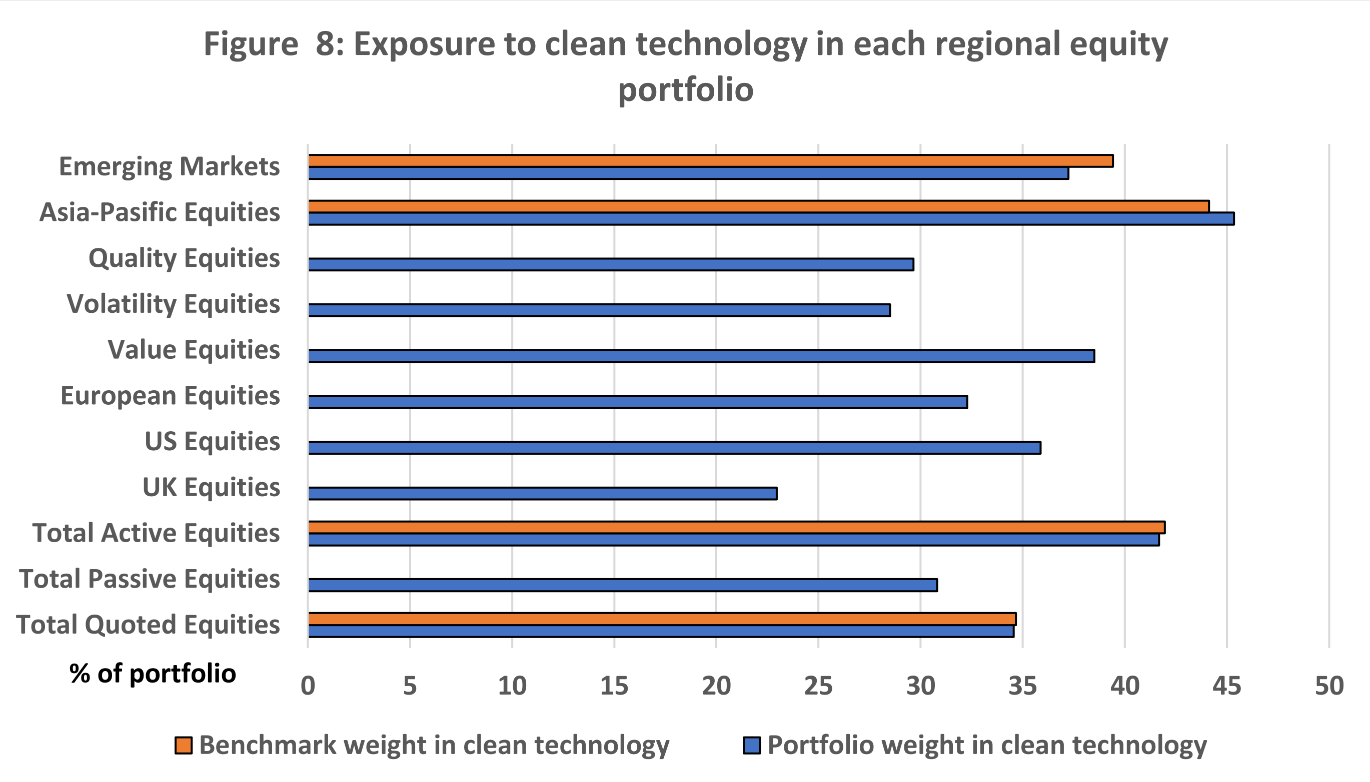


Figure 7: Exposure to coal fuel reserves in each regional equity portfolio
Emerging Markets
Asia-Pasific Equities
Quality Equities
Volatility Equities
Value Equities
European Equities
US Equities
UK Equities
Total Active Equities
Total Passive Equities
Total Quoted Equities
0
1
2
3
4
5
6
% of Portfolio
Benchmark weight in thermal coal reserves
Portfolio weight in thermal coal reserves

Figure 8 below indicates that the Fund's Total Quoted Equities portfolio has nearly the same level exposure to clean technology with the blended portfolio benchmark. The Fund notes that this measure should be viewed with some caution as there appears to be a moderate positive correlation in the dataset between sectors that have a high carbon intensity (or a higher weight in fossil fuel reserves) and those that have a higher weight in clean technology. For example, Utilities and Oil & Gas are the sectors with the third and fourth highest weight in clean technology. This correlation means that it may be difficult to have a diversified portfolio that is simultaneously carbon efficient, is underweight fossil fuels, and overweight clean technology. The Fund's exposure to clean technology should increase if it agrees to invest in Global Sustainable Equities or other low carbon products as being proposed to Committee in March 2021. Furthermore, the analysis takes no account of the Fund's unquoted on-shore & offshore, solar, and hydro renewable energy infrastructure investments.



Whilst the Fund's carbon risk metrics results show the Fund already 'outperforms' its benchmarks, the Fund is proactively exploring ways to further embed climate risk management in its investment decision making. The Fund expects to update its carbon risk metrics data on an annual basis.

<u>**SDG Mapping to the Fund's portfolio undertaken by Minerva**</u>

At the end of September 2020, the Fund's listed equity investment managers collectively held 1,007 **(50.4%) of the 2,000 companies in the SDG2000.** Minerva used the World Benchmarking Alliance (WBA) SDG2000 to measure the alignment between the Fund's investments and the SDGs. The WBA SDG 2000 measures and ranks 2000 of the world's most influential companies in respect of SDGs. These are seen as global companies that are likely to have the greatest potential to help deliver the SDGs.

The Fund had a total of **£1.33bn invested** in these 1,007 companies' equities and corporate bonds, **representing 66% of the total value of the in-scope assets** as at end September 2020

Figure 9 below provides an analysis looking at the constituents of the SDG2000 against the Industry Classification Benchmark ("ICB") sectors. This allows us to move beyond just the 2,000 companies in the SDG2000 and to extrapolate which of all of the Fund's listed assets could be associated with each specific SDG, according to the WBA methodology. This allows for a clear link between each of the Fund's assets and the number of different SDGs to which they can relate – since any given company's operations can influence (negatively or positively) a number of different SDGs. This showed that for SDG 13 Climate Action the Fund had 1,488 holdings.

Figure 9 The Funds listed investment Number of SDG Holdings against the SDG2000

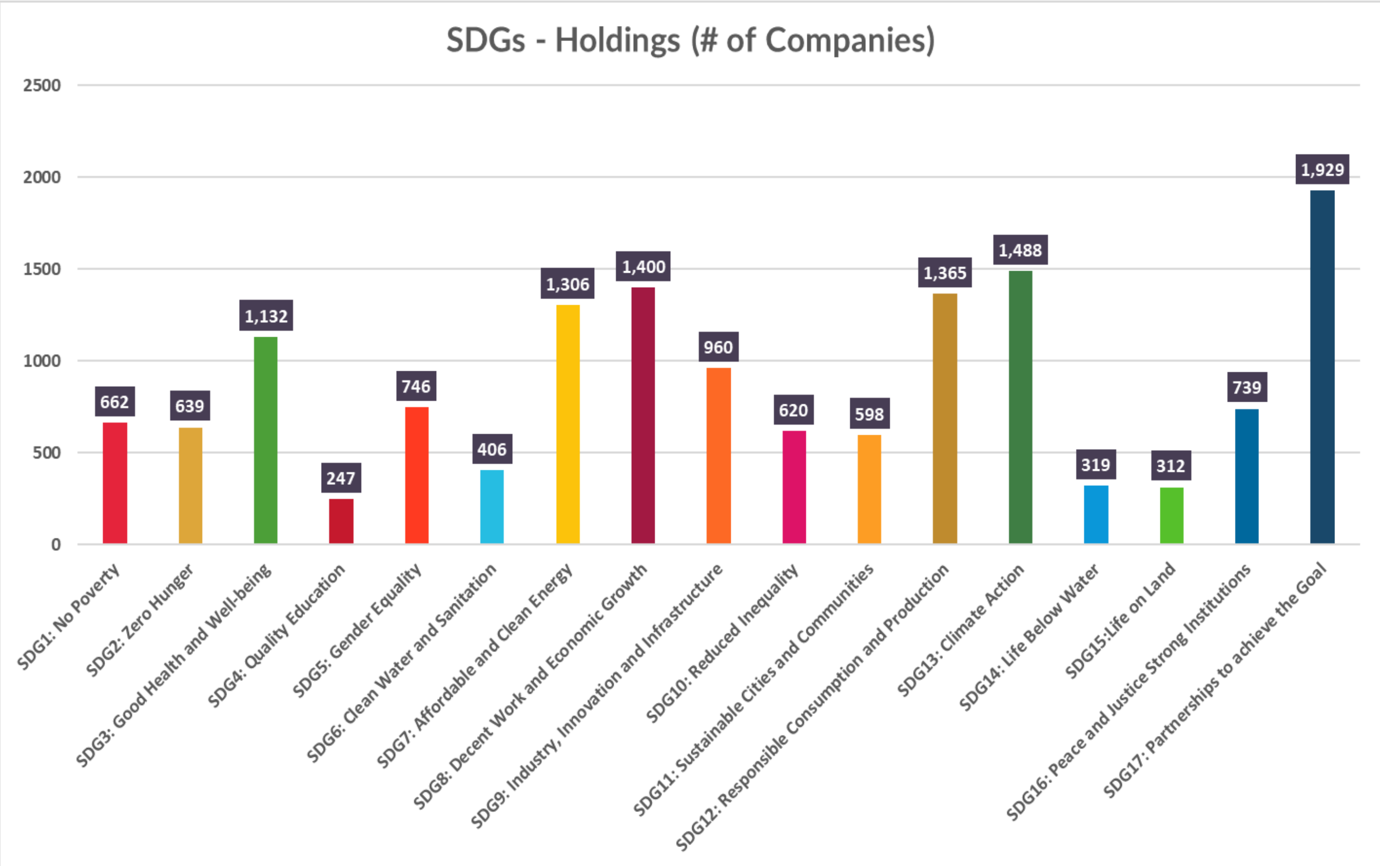
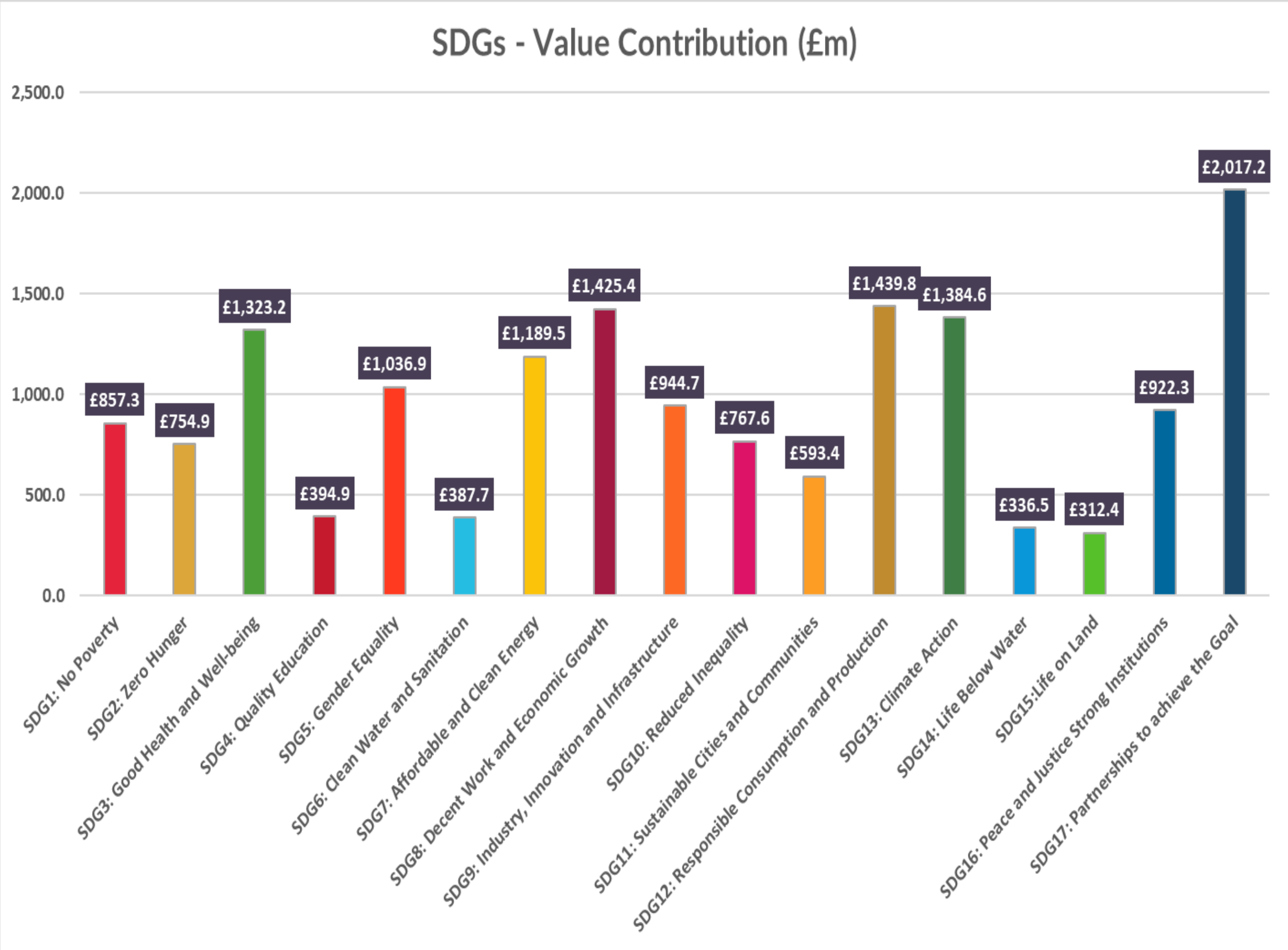


Figure 10 below shows the piece of analysis Minerva carried out in terms of looking at the value of the Fund's listed investments was again to use the SDG2000/ICB sector mapping, to show all of the Fund's listed assets associated with each specific SDG. The chart below mirrors the individual holdings chart, but this time shows the Fund's economic exposure to the SDGs. For SDG 13 this shows economic exposure of £1,384m against its over £2,017m of economic exposure

The Fund will look to complete the SDG Mapping of its overall portfolio every 2 to 3 years.

Figure 10 The Funds listed investment Economic exposure in '£' against the SDG2000



TCFD Recommended Disclosure
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The ability for diversified investors (such as pension funds) to set meaningful climate targets is inhibited by the paucity in credible methodologies and data currently available. Like most investors, the Fund is supportive of the development of target-setting methodologies, and of the increasing completeness of carbon datasets. The Fund wishes to explore options to further manage climate-related risks and work is underway to assess options within the limitations of currently available data.

APPENDIX 1

Introduction to the TCFD

The Taskforce on Climate-related Financial Disclosures (The Task Force/TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board, in recognition of the risks caused by greenhouse gas emissions to the global economy and the impacts that are likely to be experienced across many economic sectors. The Task Force was asked to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material climate-related risks.

In 2017, the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Guidance was also released to support all organisations in developing disclosures consistent with the recommendations, with supplemental guidance released for specific sectors and industries, including asset owners.

In his introduction to the final TCFD report, Michael Bloomberg (TCFD Chair) noted: ‘it is difficult for investors to know which companies are most at risk from climate change, which are best prepared, and which are taking action.

The Task Force’s report establishes recommendations for disclosing clear, comparable, and consistent information about the risks and opportunities presented by climate change. Their widespread adoption will ensure that the effects of climate change become routinely considered in business and investment decisions. Adoption of these recommendations will also help companies better demonstrate responsibility and foresight in their consideration of climate issues. That will lead to smarter, more efficient allocation of capital, and help smooth the transition to a more sustainable, low carbon economy.’

The Task Force divided climate-related risks into two major categories: risks related to the transition to a lower-carbon economy; and risks related to the physical impacts of climate change. The TCFD report noted that climate-related risks and the expected transition to a lower carbon economy affect most economic sectors and industries, however, opportunities will also be created for organisations focused on climate change mitigation and adaptation solutions. The report also highlights the difficulty in estimating the exact timing and severity of the physical effects of climate change.

The Task Force structured its recommendations around four thematic areas that represent core elements of how organisations operate: governance, strategy; risk management; and metrics and targets (see Figure 1).

Figure 1

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

The four overarching recommendations are supported by recommended disclosures (see Appendix 3) that build out the framework with information that will help investors/stakeholders understand how reporting organisations assess climate related risks and opportunities. The disclosures are designed to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances. Examples of pension funds that have been early adopters of the TCFD recommendations include: AP2; NEST; PGGM; RPMI Railpen; The Pensions Trust; and Environment Agency Pension Fund.

The Fund supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a pension fund we are long-term investors and are diversified across asset classes, regions, and sectors, making us “universal owners”. It is in our interest that the market is able to effectively price climate-related risks and that policy makers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our beneficiaries.

Official supporters of the TCFD total 930 organisations (as at December 2019) representing a market capitalisation of over $11 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice. The Fund believes TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of the Fund's stakeholders

About this report

Climate-related Disclosures report, which has been prepared in collaboration with LGPS Central Ltd (LGPSC), describes the way in which climate-related risks are currently managed by the Fund. It includes the results of recent climate scenario analysis and carbon risk metrics analysis undertaken on the Fund's assets as part of LGPSC's preparation of a Climate Risk Report for the Pension Fund.

Climate scenario analysis carried out at the asset class level estimates the effects of different climate scenarios on key financial parameters (e.g. risk and return) over a selection of time periods.

The Task Force recognised that the use of scenarios in assessing climate related issues and their potential financial implications is relatively recent and that practices will evolve over time, but believed that such analysis is important for improving the disclosure of decision-useful, climate- related financial information.

Carbon risk metrics analysis on the Fund's listed equities portfolios considers portfolio carbon footprint (weighted average); fossil fuel exposure; carbon risk management; and clean technology (portfolio weight in companies whose products and services include clean technology).

The challenges of measuring the potential impact of climate change on investment portfolios are well recognised. The Fund believes that a suite of carbon risk metrics and climate scenario analysis currently provides the most appropriate method of analysing climate risk to support the development of a detailed strategy for integrating climate risk into investment decisions.

The findings of the Climate Risk Report, which is structured around the TCFD's four thematic areas of governance, strategy, risk management and metrics and targets, are being utilised to support the development of a Climate Strategy and a Climate Stewardship Plan for the Pension Fund

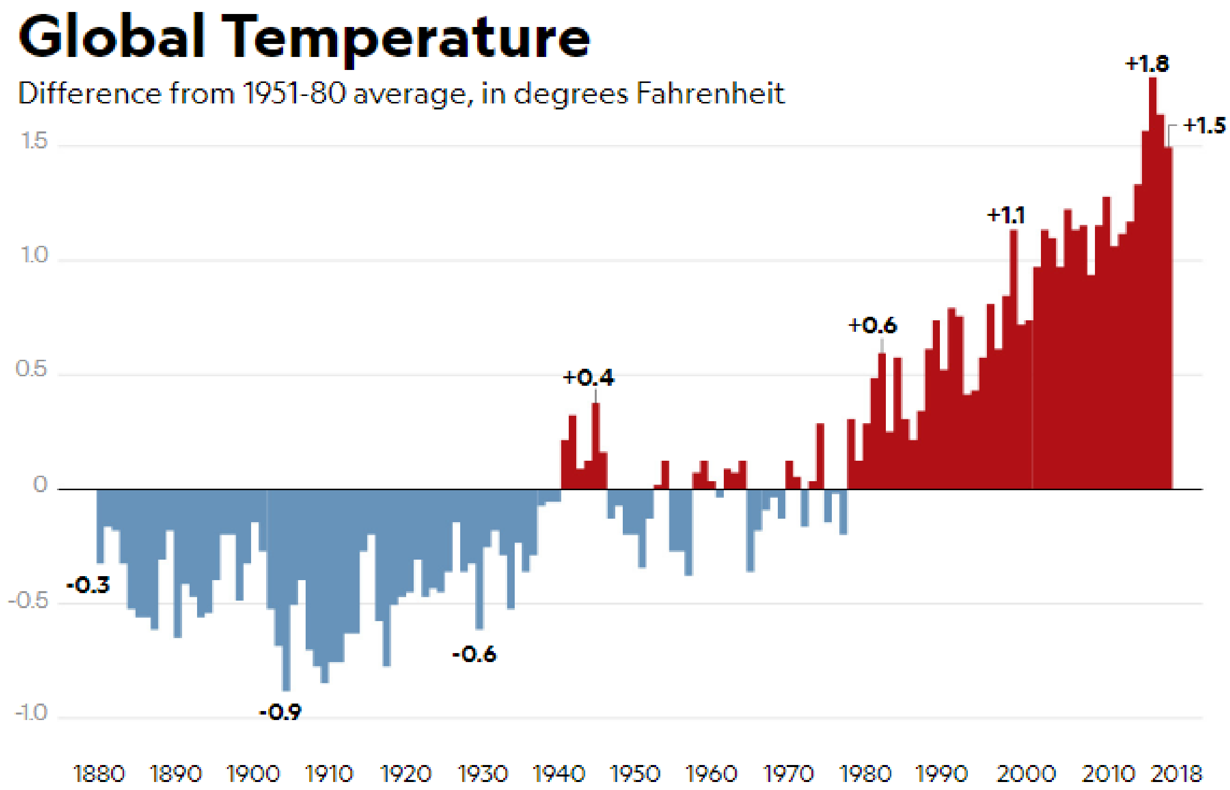
The Fund's climate-related disclosures will develop over time and this report will be updated after a Climate Strategy and a Climate Stewardship Plan have been developed for the Fund. It is anticipated that climate-related disclosures will be included in the Pension Fund's Annual Report.

APPENDIX 2

Climate-related risks

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. As shown in Figure 2 ,Most of this warming has occurred in the past 35 years, with the five “warmest” years on record taking place since 2010. Between the years 2006-2015, the observed global mean surface temperature was 0.87°C higher than the average over the 1850-1990 period. The overwhelming scientific consensus is that the observed climactic changes are the result primarily of human activities including electricity and heat production, agriculture and land use change, industry, and transport.

Figure 2 Graph showing Global Temperature Difference from 1951-80 average. Source: NASA



In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the majority of climate scientists anticipate that given the current level of climate action, by 2100 the world is estimated to be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement (see Figure 3 for selected extracts of the Paris Agreement), which reflects a collective goal to hold the increase in the climate’s mean global surface temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

Figure 3: Selected extracts from the Paris Agreement on climate change. Source: UNFCCC.

Paris Agreement Article 2(1)a
Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

Paris Agreement Article 2(1)c
Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Paris Agreement Article 4(1)
In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.

Given its contribution to global GHG emissions, the energy sector is expected to play a significant role in the long-term decarbonisation of the economy. Figure 4 suggests that in one climate scenario the proportion of coal, oil, and gas in the global power generation mix will shrink to 31% of total by 2050. However, it is important to recognise that not only is the supply of energy expected to be a factor in global decarbonisation, but the demand for energy plays a crucial role too. In addition, the behaviour of private and state-owned energy companies (not commonly invested in by UK pension funds) is as important as their publicly traded counterparts.

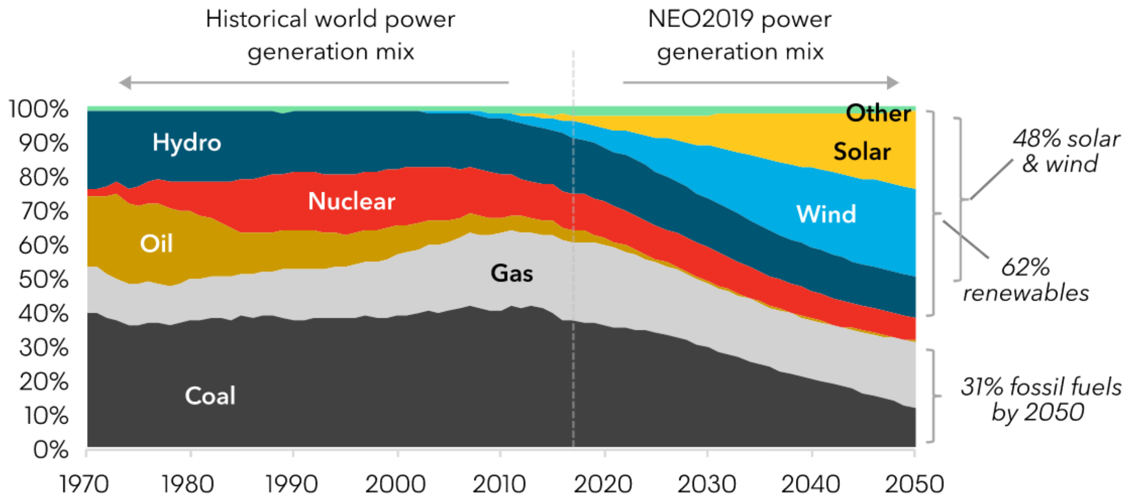
However, the potential climate-related issues faced by diversified investors (such as pension funds) are not limited to the oil & gas and power generation sectors. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors. There is considerable uncertainty in the crystallisation pathway for climate risk.

Well known concepts such as stranded assets risk are not homogeneous within certain sectors (e.g. oil & gas and power generation), and robust due diligence will be required in order to identify the potential winners and losers.

The uncertainty of climate change stems from the complexity and interrelationship of value and supply chains, the flow through of fossil fuels to by-products and services across multiple sectors and industries, the pass through cost of carbon, policy fragmentation, and the consideration that certain companies are too big to fail. The likelihood of asset stranding depends on the commodity, the asset quality, the customer base, the rate of technology change, cost curve dynamics, mitigating strategies (e.g. company diversifying portfolio), and the ability of the market to price risk and timing thereof.

The Fund recognises that climate-related risks can be financially material, and that the due consideration of climate risk falls within the scope of the Fund's fiduciary duty. Given the Fund's long-dated liabilities and the timeframe in which climate risks could materialise, a holistic approach to risk management covering all sectors and all relevant asset classes is warranted.

Figure 4: The Bloomberg New Energy Outlook global power generation mix. Source: BloombergNEF.



APPENDIX 3

TCFD
Recommendations for Asset Owners (source: TCFD)

Governance

Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities.

Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

Recommended Disclosure (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Recommended Disclosure (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.

Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.

Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Metrics and Targets

Recommended Disclosure (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Recommended Disclosure (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Appendix 4: Important Information

Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated 18 September 2020 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Worcestershire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

The following notices relate to Table 4 (above), which are produced for the Fund by LGPS Central Limited based on a product licensed by MSCI ESG Research LLC. This report confers no suggestion or representation of any affiliation, endorsement or sponsorship between LGPS Central and MSCI ESG Research LLC. Additionally:
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Glossary of Terms

Anthropogenic
Anthropogenic in terms of climate change refers to the impact humans have had on climate change, primarily through emissions of greenhouse gases.

Financial Stability Board
The Financial Stability Board is an international body that monitors and makes recommendations about the global financial system. It was established after the G20 London summit in April 2009 as a successor to the Financial Stability Forum.

Greenhouse Gases
Greenhouse gases are gases in the Earth's atmosphere that are capable of absorbing infrared radiation and thereby trap and hold heat in the atmosphere. The main greenhouse gases are:

- water vapour
- carbon dioxide
- methane
- nitrous oxide.

Scope 1 Greenhouse Gas Emissions
Scope 1 emissions are direct emissions produced by the activities of the emitter.

Scope 2 Greenhouse Gas Emissions
Scope 2 emissions are indirect emissions generated by the electricity, heat, or steam consumed and purchased by the emitter.

Scope 3 Greenhouse Gas Emissions
Scope 3 emissions are other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities not covered in Scope 2, outsourced activities, waste disposal, etc.

UNFCCC
The UNFCCC secretariat (UN Climate Change) is part of the United Nations and was established in 1992 when countries adopted the United Nations Framework Convention on Climate Change (UNFCCC).

Abbreviations

Acronym	Meaning
CO_2	Carbon Dioxide
CH_4	Methane
WPF	Worcestershire Pension Fund
ESG	Environmental, Social & Governance
GHG	Greenhouse Gas
LGIM	Legal & General Investment Management
LGPSC	LGPS Central Limited
NDC	Nationally Determined Contribution
TCFD	Taskforce on Climate-related Financial Disclosures
WEF	World Economic Forum

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PENSION BOARD
26 FEBRUARY 2021

CONSULTATION ON REGULATIONS ENTITLED: "TAKING ACTION ON CLIMATE RISK: IMPROVING GOVERNANCE AND REPORTING BY OCCUPATIONAL PENSION SCHEMES"

Recommendation

1. **The Chief Financial Officer recommends that the Consultation on regulations entitled: "Taking action on climate risk: improving governance and reporting by occupational pension schemes" be noted.**

Background and update

2. A policy consultation response and Consultation on regulations entitled **Taking action on climate risk: improving governance and reporting by occupational pension schemes** was launched on the 27 January 2021 and runs until 10 March 2021. The scope of the regulations do not include the LGPS however regulations are expected from MHCLG to substantially mirror the requirements set out in this document and are likely to come in around 2023.

3. The UK government published draft climate risk reporting and governance rules for pension funds that are in line with the main thrust of proposals outlined last year but incorporate some changes in response to feedback.

4. Its consultation on the proposed rules comes after the Chancellor in November announced plans to roll out mandatory climate reporting requirements across the UK economy by 2025, with a significant proportion in place by 2023. The DWP had by then already proposed mandatory action by pension funds.

5. Guy Opperman, minister for pensions and financial inclusion, said: "Trustees can be sure that the UK-regulated organisations on which they depend not only for data and information but also day-to-day management of climate change risk will be subject to the same obligations and requirements."

6. On 26 August 2020, the DWP published a consultation on pension schemes' governance and reporting on climate change. Initially, the proposed changes will be targeted at larger schemes, which will need to comply from October 2021. The proposals would require schemes to assess and manage climate risks and opportunities, and to publish a climate change report annually (in line with recommendations by the Taskforce on Climate-related Financial Disclosures ("TCFD")).

TCFD recommendations

7. In 2017, the TCFD published 11 recommendations for all organisations, aimed at identifying, assessing, managing and disclosing climate-related financial risks and opportunities. In March 2020, the Pensions Climate Risk Industry Group launched a consultation on guidance on applying the TCFD recommendations to a pension scheme.

8. The DWP proposed that regulations require trustees to satisfy the 11 recommendations of the TCFD, and to report on how they have done so. Statutory guidance would support schemes in achieving this, and trustees would need to explain any divergence from that guidance in their reporting.

9. The proposed requirements for satisfying the 11 TCFD recommendations are split between four areas:

a) **Governance:** establish and maintain, on an ongoing basis, oversight of climate-related risks and opportunities, and processes by which trustees satisfy themselves that persons managing the scheme are assessing and managing those risks and opportunities.
b) **Strategy:** identify, on an ongoing basis, climate-related risks and opportunities that will have an effect on the investment and, in the case of DB schemes, funding strategy, over the short, medium and long term, and assess the impact of those risks and opportunities. Schemes would be required to use scenario analysis at least annually to assess the scheme's resilience to climate-related risks.
c) **Risk management:** adopt and maintain, on an ongoing basis, processes for identifying, assessing and managing climate-related risks, and integrating climate-related risks into the trustees' overall risk management.
d) **Metrics and targets:**
    i. select at least one appropriate greenhouse gas emissions-based metric and at least one other non-emissions-based metric, calculating them quarterly to assess scheme assets against climate-related risks and opportunities (and keep the metric selections under review).
    ii. at least annually, set at least one target for one of the metrics calculated above and measure against the target(s) at least quarterly.

10. The outcomes of the ESG Audit workshops and working group are reported elsewhere on this agenda.

Contact Points

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Background Papers
In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.

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AGENDA ITEM 12

PENSIONS BOARD
26 FEBRUARY 2021

WORCESTERSHIRE COUNTY COUNCIL PENSION FUND ADMINISTRATION BUDGET 2021/22

Recommendation

1. The Chief Financial Officer recommends that:

a) The Board reviews the proposed Pension Fund Administration Budget, including manager fees, for 2021/22 shown in the Appendix totalling £12.331m; and

b) The indicative budget allocations for 2022/23 and 2023/24 be considered and noted.

Purpose of the report

2. This report seeks the Board to review the 2021/22 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. The budget and Forecast Outturn for 2020/21 are also shown.

3. The Appendix also shows indicative budgets for the following two years 2022/23 and 2023/24. These budgets are indicative and incorporate the actions to meet the next Triennial valuation, the Investment Strategy and improved communication and engagement.

Background

4. To ensure good governance budgets are required to monitor the stewardship of the Fund's expenditure and financial plans assist in mitigating risks by allocating necessary resources to develop the service.

5. A number of services are required to ensure delivery of the Local Government Pension Scheme (LGPS) administering authority function. The Committee has ultimate responsibility for the procurement and monitoring of these services. It should be noted, however, that Worcestershire County Council, which is one of the employer bodies whose interests the Committee is responsible for, is at present also the provider of a number of these services.

Forecast outturn 2020/21

6. The attached Appendix shows the forecast outturn estimated to be £12.083m compared to a budget of £13.519m, an underspend of £1.436m. The main reasons for the variance are:

a. Investment management fees (decrease of £1.674m) due to the full year effect of savings through the transition of assets to LGPSC and also a reduction in the anticipated Infrastructure set up costs than were budgeted.
b. An increase above budget for investment professional fees (£0.170m) for increased meetings with Fund Managers relating to the impact of Covid-19 on investment performance and support and procurement on the ESG Audit & Sustainable Development Goal mapping undertaken during the year.
c. An increase in the Pensions Admin software (£0.085m) due to the provider now hosting the service and providing data back-up facilities and risk management
d. An increase in forecast staffing requirements (£0.040m) to cope with the increasing changes and complexity of the pensions legislation such as McCloud.
e. An increase in the actuarial services (£0.210m) due to additional support on McCloud and the implementation of PFaroe the Employer risk monitoring system to help track and support employers who may have future covenant risk.
f. and a reduction on the Custodial Services (£0.276m) due to the transition of Funds to LGPSC

7. This is within the £0.5m variation limit delegated to the Chief Financial Officer Committee and in line with the Admin budget reported to the October Committee where the variations were agreed.

Key features of the proposed 2021/22 budget

8. The budget now proposed for 2021/22 is £12.331m, a decrease of £1.188m (-8.8%) from the original 2020/21 budget (see Appendix). The largest proportion of the budget (£10.437m) 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.

9. The key reason for the decrease in budget in the management fees are as follows: -

a) The full year effect of savings through the transition of assets to LGPSC and also a reduction in the anticipated Infrastructure set up costs than were budgeted.

10. The Fund's "controllable" budget (i.e. excluding investment management fees) is £1.894m, which is a reduction of £0.020m (1.0%) net decrease on the original budget. The key reasons for this decrease are:

a) An increase above budget for investment professional fees (£0.064m) for increased anticipated support in the implementation of the ESG Audit & Sustainable Development Goal mapping project and increase in the performance monitoring of the Fund due to the increases in investment and complexities of reporting requirements.
b) An increase in the Pensions Admin software (£0.045m) due to the provider now hosting the service and providing data back-up facilities and risk management
c) An increase in forecast staffing requirements (£0.040m) to cope with the increasing changes and complexity of the pensions legislation such as McCloud.
d) An increase in the actuarial services (£0.098m) due to additional support on McCloud and the implementation of PFaroe the Employer risk monitoring system to help track and support employers who may have future covenant risk.

e) A reduction on the Custodial Services (£0.267m) due to the transition of Funds to LGPSC,

Summary

11. The budget attempts to maintain service standards, fulfil statutory requirements while developing areas in response to the scheme changes. Comparability of data is difficult between funds nationally due to different methodology of reporting costs.

12. The budgeted Worcestershire Pension Fund administration costs are currently £20.41 per member for 2020/21. The proposed budget for 2021/22 will take these costs up to £23.18 per member (0.04% of the market value of the Fund's assets as at December 2020).

13. In terms of investment costs, the budget indicates spend of 38p per £1,000 (0.38% of market value as at December 2020) on managing its assets for 2020/21, including all pooled mandate costs

Risk Assessment

14. The Committee is asked to recognise that some costs, particularly investment fees, are dependent upon factors that are outside of the Council's control. As such fees may go up or down, depending on market conditions.

15. The approval of this budget is essential to continue the good governance of the Fund. When viewed in relation to the overall value of assets, these 'controllable' costs represent 0.07% of the total Fund value.

16. In line with good governance practice, officers are bringing budget monitoring reports back to Committee twice a year. In the interim, variations against budget will be monitored and if they become very significant, the Chief Financial Officer to the Pension Fund will approve variations to the budget and report these to the Committee retrospectively for ratification.

Contact Points

Specific Contact Points for this report
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Supporting Information

- Appendix detailing the 2020/21 Administration Budget monitoring and proposed 2021/22 Administration Budget with indicative budget allocations for 2022/23 and 2023/24

Background Papers

In the opinion of the proper officer (in this case the Chief Finance Officer) there are no background papers relating to the subject matter of this report.

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Appendix 1

Pension Fund Administration Forecast Outturn 2020/21, Proposed Budget 2021/22 & indicative budgets 2022/23 & 2023/24

2020/21 *Budget* £	**2020/21** *Forecast Outturn* £	**2020/21** *Variance*	*Description* £	**2021/22** *Annual Change* £	**2022/23** *Annual Change* £	**2023/24** *Annual Change* £	**Comments**
			Fund Investment				
11,605,000	**9,931,400**	**-1,673,600**	INVESTMENT MANAGEMENT FEES	**10,436,900**	**10,486,900**	**10,673,300**	*Includes LGPS central Fees, Equity Protection and increasing commitment to Property & Infrastructure.*
142,300	142,300	0	Investment Administration Recharge	148,000	151,000	154,000	*Increased Investment support*
367,200	91,500	-275,700	Investment Custodial and related services	100,000	102,000	104,000	*Reduced Custodial services due to transition of assets to LGPSC*
81,000	251,000	170,000	Investment Professional fees	131,500	187,000	112,500	*Increased support for ESG Audit in 20.21 & 21.22*
15,500	26,200	10,700	Performance Measurement	28,600	29,200	29,800	*CEM Benchmarking and Portfolio Evaluation*
606,000	**511,000**	**-95,000**	INVESTMENT ADMINISTRATION COSTS	**408,100**	**469,200**	**400,300**	
				63,600			
			Scheme Administration				
995,700	1,118,364	122,664	Pension scheme Administration recharge	1,075,700	1,101,100	1,127,200	*Increase due to Admin software requirements and additional staff for increased workload*
240,000	450,000	210,000	Actuarial services	338,000	388,000	338,000	*Employer monitoring through Actuary system Pfaroe 20/21 and Triennial valuation allowed for April 2022/23*
27,500	27,500	0	Audit	27,500	27,500	27,500	
33,500	33,500	0	Legal Fees	33,500	33,500	33,500	
11,000	11,000	0	Committee and Governance recharge	11,000	11,000	11,000	
1,307,700	**1,640,364**	**332,664**	SCHEME ADMINISTRATION COSTS	**1,485,700**	**1,561,100**	**1,537,200**	
1,913,700	**2,151,364**	**237,664**	GRAND TOTAL (Excluding Investment Mgt Fees)	**1,893,800**	**2,030,300**	**1,937,500**	
13,518,700	**12,082,764**	**-1,435,936**	GRAND TOTAL (Including Investment Mgt Fees)	**12,330,700**	**12,517,200**	**12,610,800**	

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AGENDA ITEM 13

PENSION BOARD
26 FEBRUARY 2021

FEEDBACK FROM EVENTS / DISCUSSION ON THE BOARD'S 'DEEP DIVE' PROGRAMME

Recommendation

1. **The Chief Financial Officer recommends that the Board:**

    a) **Receives verbal feedback from recent conferences and seminars attended by Board members; and**

    b) **Discusses the 'deep dive' programme.**

Background and update

2. At a meeting on 3 December the Board's Chairman and Vice-Chairman asked officers to deliver a programme of informal deep dives. The intention was for the programme to supplement the Pension Board's / Pensions Committee's schedule of training by de-layering individual, often complex, subjects, so that greater understanding amongst Board members across a wider range of subjects could lead to improved scrutiny of the Fund's activities.

3. The training on 18 January to members of the Pension Board and Pensions Committee (covering risk considerations in an investment strategy) was followed by a discussion on the way forward for training and deep dives.

4. The discussion concluded that an appropriate way forward would be, after each training or deep dive session, arranging just the next one hour session 6 weeks or so after the current one (with no clear preference on day / time excluding Friday afternoons that should be avoided) and by arranging the session on the basis that the session would be recorded / separate to existing meetings.

5. On 19 January a deep dive was arranged into pooling. Representatives of the Board were provided with pre-dive information on pooling and some information on changes to survivor benefits (as these were the areas identified to test the template for pre-dive information).

6. The next deep dive is scheduled for 4 March 2021 on The Pensions Regulator / annual benefit statements and pre-dive information has been supplied to the Board.

7. The next Pension Board and Pensions Committee training session is scheduled for 22 March and is planned to cover admissions / bulks / terminations.

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer), there are no background papers relating to the subject matter of this report.

worcestershire county council

AGENDA ITEM 14

PENSIONS BOARD
26 FEBRUARY 2021

FORWARD PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Board comment and approve the Forward Plan.**

2. The forward plan highlights the key areas that are anticipated to be reported in the future. This is attached as an Appendix and the Pension Board are asked to comment and approve the plan.

Supporting Information

Appendix – Forward Plan

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

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Pensions Board Proposed Forward Plan

Appendix 1

Pension Board Items	16/06/2021	22/09/2021	17/11/2021
SAB Good Governance Principles (Including TPR Findings)	Y	Y	
CMA Investment Advisor Objectives		Y	
SAB Responsible Investment Consultation Feedback	Y		
New Stewardship Code	Y		
Business Plan Progress update (to include Administration and Investment areas)	Y	Y	Y
Annual Business Plan			
Annual Admin Strategy			
Annual investment Strategy Statement			
Pension fund admin Budget Approval			
Training Requirements	Y	Y	Y
Update on Pooling (including any feedback on MCHLG Investment Pooling consultation	Y	Y	Y
Risk Register	Y	Y	Y
Regulatory Updates including Scheme Advisory Updates	Y	Y	Y
Outcome / update from Task and Finish Groups Topics for Further Exploration	Y	Y	Y

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