

Minutes of the Pension Board

County Hall, Worcester

Friday, 17 September 2021, 10.00 am

Present:

Cllr Roger Phillips (Chairman), Andrew Lovegrove, Cllr Paul Harrison, Odette Fielding, Stephen Howarth, and Lucy Whitehead

Also attended:

Cllr Elizabeth Eyre attended as Chairman of the Pensions Committee.

Available papers

The Members had before them:

- A. The Agenda papers (previously circulated);
- B. The Agenda papers and Minutes of the Pensions Committee held on 29 June 2021 (previously circulated); and
- C. The Minutes of the meeting held on 16 June 2021 (previously circulated).

195 Apologies (Agenda item 1)

An apology was received from Kim Wright.

196 Declaration of Interests (Agenda item 2)

Cllr Roger Phillips declared interests as the Chairman of the Scheme Advisory Board (SAB) for the Local Government Pension Scheme and as a Director of PPL.

Cllr Paul Harrison declared an interest as a beneficiary of the West Midlands Pension Fund.

Andrew Lovegrove declared an interest as a Director of Hoople Ltd.

197 Confirmation of Minutes (Agenda item 3)

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RESOLVED that the Minutes of the meeting held on 16 June 2021 be confirmed as a correct record and signed by the Chairman.

198 Pensions Committee - 29 June 2021 (Agenda item 4)

Rob Wilson indicated that feedback from the Government on the GAD Pension Review was awaited and if received in time would be reported to the next Board meeting.

The Board noted the Committee Reports and Minutes.

199 Update on Scheme Advisory Board (SAB) (Agenda item 5)

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

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

- He would seek to arrange a meeting with the new Minister for Regional Growth and Local Government as soon as the appointment was confirmed. It was important to ensure that the new Minister had a clear understanding that the LGPS was for the benefit of employees not as a conduit to infrastructure investment
- The Public Service Pensions and Judicial Offices Bill was currently being determined by Parliament. Part of this legislation related to the McCloud Judgement. It was important that the McCloud Judgement was treated differently for each public service scheme and that the cost to individual schemes was spread over a longer period
- Responsible Investment – The Task Force on Climate Financial Disclosures – Legislation that currently applied to the private sector would also now apply to local government. Draft guidance from the Government was awaited
- Guidance on Good Governance arrangements was awaited from the Government
- The Code of Transparency - The Code was voluntary in nature and related to the need to provide transparent and consistent investment cost and fee information between investment managers and pension funds. This had exposed the fact that the true cost of managing funds which was higher than previously understood. As a result of the Code, it was anticipated that management costs would be reduced

In the ensuing debate, it was commented that the new Minister needed to be reminded that the average annual member pension amounted to a couple of thousands. The Chairman concurred and added that LGPS members included some of the lowest paid employees in the public sector. Therefore, how LGPS funds were invested was critical and the new Minister needed to understand the ramifications to members of decisions taken by Government.

The Board noted the update on Scheme Advisory Board.

200 Good Governance Update (Agenda item 6)

The Board reviewed the latest update on the LGPS SAB Good Governance project and on the Worcestershire Pension Fund Position Statement: Good Governance 31 08 2021.

In the ensuing debate, the following points were raised:

- There was a degree of inconsistency in the good governance arrangements for pension funds. It was important that administrative practices were improved to provide clear evidence to the Government of how well the Fund was run and its integrity
- Chris Frohlich suggested arranging informal Board workshops on good governance either before or after Board meetings.

The Board then reviewed the identified actions in the Appendix: Worcestershire Pension Fund Position Statement Good Governance 31 08 2021:

General - A3 - Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS fund as set out in the Guidance

- The Board suggested that before embarking on the identified action of benchmarking against peer funds, it would be desirable for officers to seek approval on who these should be to include LGPS Central partner funds, large funds and funds of a similar size
- Chris Frohlich commented that the benchmarking should be consistent for A3, C1 (representation) and E3 (KPIs) and that the Fund is likely to be more aware of the approach used by LGPSC funds and funds participating in the Shrewsbury Pension Officers group.

Conflicts of Interest – B1 - Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential, and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance

- Chris Frohlich suggested the introduction of something like the Appendix 3 Record of Conflicts of Interest Declarations made that members would sign each time they attended a meeting
- Although the pension administration staff were Worcestershire County Council staff, they were funded by the Fund not the County Council
- The declaration of Interests documents needed to be SCULPT compliant. Chris Frohlich responded that as he did not envisage the document being made public and he managed the Fund's website, he was au fait with SCULPT
- Simon Lewis commented that there was a distinction between the record of declarations of interest for the purposes of the Local Government legislation at each Committee/Board meeting and any register established for the purposes of the administration of the Fund.

Knowledge and Understanding – D1 - Introduce a requirement in the Guidance for the key individuals within the LGPS, including LGPS officers

and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively

- Chris Frohlich confirmed that officers collated feedback from members after each training session to drive future training provision with the aim not only of improving knowledge but also personal development.

Service delivery for the LGPS function – E5 - Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including appropriate market supplements, relevant to the needs of their pensions function

- The work of the administration team was very important and therefore staff needed to be able to resourced adequately to enable them to carry out their duties effectively. Chris Frohlich responded that the level of resourcing of the administration team was currently being reviewed

Compliance and Improvement – F1 - Each administering authority must undergo a biennial Independent Governance Review (IGR) and, if applicable, produce the required improvement plan to address any issues identified

- The Fund must be ready to deal with any potential pilot projects that were forthcoming from the Government.

The Board:

- a) Noted the latest update on the LGPS Scheme Advisory Board's (SAB's) Good Governance project and on the Worcestershire Pension Fund Position Statement: Good Governance 31 08 2021;**
- b) Suggested that consideration be given to the creation of a benchmarking group; and**
- c) Welcomed the proposal to maintain a separate of conflicts of interest register.**

201 Business Plan (Agenda item 7)

The Board considered the Business Plan.

In the ensuing debate, the following points were made:

- Chris Frohlich reported that the GMP rectification had been successfully completed on time. The Chairman welcomed the successful completion of the project which provided evidence of the competency of the administration team. Chris Frohlich added that a GMP equalisation project would be established once guidance had been received
- Chris Frohlich indicated that more work was needed and expert advice was being sought to improve understanding of the cyber security risks faced by the Fund
- Cyber security was an issue that affected all public sector bodies and it would be interesting to find out what partner funds were doing and perhaps share knowledge and best practice

- How easy was it for members of the Fund to access information on line? The Chairman commented that there was an increased drive to provide information online. The main issue was the safety of the storage of information if the Fund was the target of a major ransom-ware cyber security attack.

The Board noted the Worcestershire Pension Fund Business Plan as at 8 September 2021

202 Risk Register (Agenda item 8)

The Board considered the Risk Register.

In the ensuing debate, the following points were raised:

- There had been an unprecedented change in the way staff had been carrying out their duties as a result of Covid with staff working from home on a regular basis. The recruitment of staff would be a major issue going forward as staff had the option to work from home and seek jobs from anywhere in the country. The work undertaken to introduce a professional qualification was welcomed because it showed that the Fund valued its staff
- A flexible employment approach was vital if the Fund was to be successful in retaining and attracting staff in the current employment market place
- In response to a query, Chris Frohlich explained that it was possible to undertake administration work from home and some staff had been recruited on this basis. The main issue was the impact on the integration of new staff members
- It should be made clear that the use of the term 'cash flow' in the context of the Fund related to the maturing of the Fund. Chris Frohlich added that the funding position rather than the size of the Fund was a better indication of the Fund's position
- It was important that the fund was in a strong position going forward given the challenging market situation and with the potential impact of a rise of inflation which could negatively impact on the actuary's assumptions. Rob Wilson commented that the market was providing mixed messages at the moment and it would be interesting to see how the Fund's actuary, who were cautious by nature, responded. The main issue was to protect employer contributions
- The Bank of England had indicated that inflation could rise for a year before lowering again. However, if inflation remained for a longer period then there would be repercussions in the market. It might therefore be prudent to add a long-term rise in inflation to the Risk Register.

The Board noted the 8 September 2021 WPF Risk Register and suggested that an additional risk be added in relation to the impact of a long-term rise in the level of inflation.

203 Local Government Pension Scheme (LGPS) Central Update (Agenda item 9)

The Board considered the Local Government Pension Scheme (LGPS) Central Update.

In the ensuing debate, the following points were made:

- The Chairman welcomed the greater collaboration between partner funds on investment opportunities which helped to emphasise that the pool worked on behalf of partner funds and not the other way round. The mapping of the work associated with this collaboration was also very helpful
- Rob Wilson explained that discussions were still taking place with partner funds in relation to the Ministry of Health, Communities and Local Government (MHCLG) pooling return. The Board would be updated as soon as a resolution had been agreed
- The Chairman advised that further advice from the Government on the future pooling arrangements was awaited. Pooling arrangements remained Government policy but whether it would seek to reduce the number of pools or change the emphasis on infrastructure investment remained to be seen.

The Board noted the LGPS Central Update.

204 UK Stewardship Code 2020 (Agenda item 10)

The Board reviewed the Fund's outcome from the revised UK Stewardship Code 2020 submission and the areas requiring improvement.

In the ensuing debate, the following points were made:

- Rob Wilson confirmed that the Stewardship Code was an annual submission and would need to be resubmitted in April 2022. The completion of the Code for this year added to the positive reputation of the Fund
- The Chairman of the Pensions Committee indicated that she would report this positive outcome to full Council
- There was a tremendous amount of work undertaken to complete the submission and the fact that it needed to be completed annually added to the heavy workload.

The Board noted the Fund's outcome from the revised UK Stewardship Code 2020 submission and the areas requiring improvement and thanked the Finance team for the work undertaken to achieve this target.

205 Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2021/22 and

updated Indicative Budget 2022/23 & 2023/24 (Agenda item 11)

The Board reviewed the Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2021/22 and updated Indicative Budget 2022/23 & 2023/24.

In the ensuing debate, the following points were raised:

- The forecast outturn was £18m against a budget of £12m, the main reason being the increase in investment management fees and transaction costs which were difficult to forecast. Part of the reason for the increase was due to the significant bounce back in market valuations where the Fund had gone from a pre-covid funding level of 80% to more recently a level of 101%
- The cost transparency initiative where investment managers were having to report the full costs was helping the identification of previously somewhat hidden transactional costs. These were now being recognised and it was hoped that the budgets now set were more in line with the forecast costs being incurred. Rob Wilson added that the Fund would now be able to track transaction costs and report them to the Board and Committee more clearly
- In response to a query, Rob Wilson explained that every effort was made to keep future budget forecasts as accurate as possible.

The Board noted:

- a) the variations to the Pension Fund Administration Budget, including manager fees, for 2021/22 shown in the Appendix totalling £18,401,026; and**
- b) the proposed Investment Managers' Fees budget forecast outturn of £15,757,500 as shown in the Appendix to the report. This would result in an overall proposed 2021/22 budget of £18,385,900.**

206 Training and 'Deep Dive' Programme Update (Agenda item 12)

The Board considered the Training and 'Deep Dive' Programme Update.

It was highlighted that a knowledge and skill questionnaire would be provided for both members and employees to gauge and inform future training requirements and that this would be reported back to the Board. It was also noted that the Training policy would be reviewed.

The Board endorsed the recommendations coming out of the 6 September meeting with the Chairs of Committee / Board / Investment Sub Committee.

207 Pension Fund Unaudited Annual Report and Accounts 2020/21 (Agenda item 13)

The Board considered the update on the Pension Fund Unaudited Annual Report and Accounts 2020/21.

In the ensuing debate, it was highlighted that if approved at the Audit and Governance Committee on 24 September, Worcestershire County Council's Statement of Accounts would be one of only a small group of accounts that would be completed on time and the pensions team should be congratulated for their efforts.

The Board noted the update on the Pension Fund Unaudited Annual Report and Accounts 2020/21.

208 Forward Plan (Agenda item 14)

The Board noted its Forward Plan.

The meeting ended at 11.50am.

Chairman