

Minutes of the Pension Board

County Hall, Worcester

Wednesday, 17 November 2021, 9.30 am

Present:

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

Also attended:

Cllr Elizabeth Eyre attended as Chair 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 8 October 2021 (previously circulated); and
- C. The Minutes of the meeting held on 17 September 2021 (previously circulated).

209 Apologies (Agenda item 1)

None.

210 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.

All attendees signed a Record of Conflicts of Interest Declarations which was circulated on behalf of the Pension Fund.

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211 Confirmation of Minutes (Agenda item 3)

RESOLVED that the Minutes of the meeting held on 17 September 2021 be confirmed as a correct record and signed by the Chairman.

212 Pensions Committee - 8 October 2021 (Agenda item 4)

Noted.

213 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:

- SAB had updated the Code of Transparency. The Code required all investment managers to declare each time a charge was made against a pension fund. This had resulted in an increase in the level of fees charged by investment managers because the true cost of the work was now in the open
- The Government guidance on the management of the risks associated with climate change was still awaited. The changes would come into effect in April 2022 which meant the timeframe for their introduction would be tight
- In relation to exit payments, the Government had changed its approach and would now be consulting each individual department
- CIPFA had wound up its pension panel. SAB had therefore decided to set up its own compliance committee to oversee pensions
- SAB would continue to monitor the McCloud arrangements and bring in its own methodology to address factors such as ill-health, the lowest paid and tax relief. Trade unions were considering the submission of a request for a judicial review of the McCloud Judgement arrangements.

The Board noted the update on the Scheme Advisory Board.

214 Local Government Pension Scheme (LGPS) Central Update (Agenda item 6)

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

In the ensuing debate, the following points were raised:

- The transition of the LGIM Passive Low volatility factor fund (circa £200m) into the LGPS Central All World Climate Factor Passive Fund was evidence of the proactive approach that the Fund took in relation to climate change. Was the focus of this investment UK or global based?

Rob Wilson explained that LGPS Central had been asked to focus on global low carbon investment

- There would be pressure for the Fund to focus on low carbon investments in the UK, but it was incumbent on the Fund to seek the best possible investment opportunities for its members. Rob Wilson added that the Pension Investment Sub-Committee would be considering investment opportunities in Forestry through a company called Gresham House who were UK based
- It was encouraging to see that a significant number of PAF working groups had been established by LGPS Central. It was important that good working relationships were established between partner funds. Rob Wilson responded that due to the speed in which the pooling arrangements had been established, it had taken some time to set up this level of partnership working
- Would it be possible to provide more information to members regarding the level of sustainable investments? Rob Wilson advised that although there were benefits in providing more information for members, it could lead to requests for more detailed information and the possibility that information could be deliberately or otherwise misinterpreted. It would also not explain some of the nuances, for example, that some of the fossil fuel companies were actually the biggest investors in renewable energy. The Climate Strategy Report would be the best means for members to understand where the Fund was in relation to the performance benchmark for climate change located on the Fund's website.

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

215 Pension Fund Annual Report for the year ended 31 March 2021 (Agenda item 7)

The Board reviewed the Pension Fund Annual Report for the year ended 31 March 2021.

In the ensuing debate, the following points were made:

- Rob Wilson indicated that due to technical issues associated with the County Council's Statement of Accounts, the Pension Fund Accounts had yet to be signed off by the external auditor. He hoped that the Annual Report would be signed off by 1 December 2021, the statutory deadline for publication
- The Chairman recognised the achievements of the Fund over the last financial year despite the very challenging circumstances experienced during the Covid pandemic
- The table in the report that set out the carbon footprints in each regional equity portfolio reinforced the good work that the Fund was undertaking to address climate change particularly in relation to Volatility Equities
- The key issue was to establish a base line for sustainable investment. Without that base line, it was impossible to monitor progress

- It was important that cash flow was monitored effectively as the Fund matured
- The work undertaken by the SAB to develop a Code of Transparency was welcomed
- The Annual Report was a well-written document and a good reference point for members. The Government also used the Report to influence its thinking
- The Chairman thanked officers for their work in producing the Annual Report.

The Board:

- a) Noted the Pension Fund Annual Report for the year ended 31 March 2021 and welcomed it as a well-written reference document;**
- b) Recognised that the delay in the sign-off of the Statement of Accounts for the Pension Fund related to technical auditing issues associated with the audit of the County Council's Accounts;**
- c) Welcomed the rise in the value of assets and the efforts to reduce costs;**
- d) Acknowledged the achievements of the Fund particularly in relation to the establishment of the Climate Change Risk Strategy and the efforts to address its carbon footprint in each regional equity portfolio, despite a very challenging year with covid restrictions.**

216 Business Plan (Agenda item 8)

The Board reviewed the Business Plan.

In the ensuing debate, the following points were made:

- In response to queries about the set-up of the administration team, Chris Frohlich explained that at present, there was a lack of opportunities available to staff for career progression within the existing pension administration structure. Changes to the new structure aimed to address this. There was also a lack of training qualifications available for staff within pension administration. Therefore, staff would be encouraged to undertake personal development. The danger was that staff would become more marketable to other pension funds etc. The market place was very competitive and it was increasingly difficult for the Fund to recruit new staff therefore efforts would be concentrated on developing the Fund's own staff
- In response to a query about the progress made in addressing the McCloud findings, Chris Frohlich indicated that employers had been informed that additional information would be required from them. However, a more measured approach was being undertaken to ensure that the Fund did not waste valuable resources replicating work that had already been done. Other funds had taken a different approach and it

was debatable whether a more proactive approach from the outset would be successful. The key issue for the Fund was to ensure that there was sufficient capacity within the schedule to undertake the work

- It was queried whether the KPIs set out in the Business Plan were realistic and achievable. Chris Frohlich commented that the targets were standard CIPFA targets and the Fund used them as an early warning mechanism for potential issues.

The Board:

- a) Noted the Worcestershire Pension Fund Business Plan as at 1 November 2021; and**
- b) Highlighted the need for the Fund to make the necessary resources/capacity available to undertake the work associated with McCloud.**

217 Risk Register (Agenda item 9)

The Board reviewed the Risk Register.

In the ensuing debate, the following points were made:

- The Chairman commented that the issue of cyber-security had been raised at a recent meeting with other pension board chairmen. There was no clear consensus about how technology would help to defend pension funds against cyber-attack other than the need to create the necessary firewalls within IT systems
- Chris Frohlich indicated that following a request at the last Board meeting, inflation had been included as a risk in the Risk Register. There was an element of inflation risk mitigation built into asset allocations but some assets were more sensitive than others to inflation. Discussions would be held with the actuary about inflation assumptions going forward.

The Board noted the 1 November 2021 WPF Risk Register.

218 Forward Plan (Agenda item 10)

The Board noted its Forward Plan.

219 Pension Administration Resourcing (Agenda item 11)

The Board reviewed the proposals to develop the Pension Administration function ahead of consideration by the Pensions Committee.

In the ensuing debate, the following points were raised:

- In response to a query about staff consultation, Michael Hudson explained that management in the function had been engaged in the review and all staff had been made aware of its context and the future

vision for the service. The details of the proposals including the proposed structure chart had not yet been shared with staff

- The Chairman welcomed the proposals which showed the extent to which the Fund valued the administration team. Michael Hudson added that there was clear evidence of changes to work-place arrangements following the Covid pandemic, with an increased demand for staff to work from home. Working from home had had a particular impact on pension administration teams nationally and there was growing evidence of more opportunity to work for other funds in the country with working from home giving rise to higher salaries. It was therefore vital that the Fund acted quickly in order to protect staffing levels
- In response to a query, Michael Hudson indicated that as part of the flexible approach to recruitment, the Fund would be working with Worcestershire Children First to seek apprentices from care leavers. A lack of English or Maths qualifications would not necessarily be a bar to recruitment. Apprentices would be provided with a mentor and day release to attend appropriate training courses
- The management and support provided for care leavers was vital for them to thrive. Michael Hudson responded that the intention was to provide extra support for all apprentices and to link training to the realities of the day job as far as possible
- It was important that the benefits and the exciting nature of the work in pensions was emphasised when advertising the jobs
- It was important that candidates understood the wider complexities of working in pension administration
- There was clear evidence that, aided by the impact of the Covid pandemic, the employment market had shifted in favour of employees. Michael Hudson added that there were only 2 administration systems in operation nationally which provided candidates with more flexibility to seek employment anywhere within the country.

The Board:

- a) Welcomed the timely proposals to develop the Pension Administration function;**
- b) Recognised the need for succession planning within the Pension Administration team and the opportunity to set out appropriate training programmes for new and existing staff and the sharing of best practice; and**
- c) Emphasised that the resourcing of the Pension Administration function came from the Pension Fund budget and that the proposals should be properly supported financially.**

The meeting ended at 11.30am.

Chairman