

Minutes of the Pension Board

County Hall, Worcester

Monday, 7 March 2022, 2.00 pm

Present:

Cllr Paul Harrison, Stephen Howarth (Vice-Chairman), Andrew Lovegrove, Lucy Whitehead and Kim Wright

Also attended:

Councillor Elizabeth Eyre, Chairman of the Pensions Committee was also in attendance.

Available papers

The Members had before them:

- A. The Agenda papers (previously circulated);
- B. The Agenda papers and Minutes of the Pensions Committees held on 8 December 2021 and 2 February 2022 (previously circulated); and
- C. The Minutes of the meeting held on 17 November 2021 (previously circulated).

Stephen Howarth, Vice-Chairman in the Chair.

220 Apologies (Agenda item 1)

Apologies were received from Odette Fielding and Cllr Roger Philips.

221 Declaration of Interests (Agenda item 2)

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

222 Confirmation of Minutes (Agenda item 3)

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

223 Pensions Committee - 8 December 2021 and 2 February 2022 (Agenda item 4)

Noted.

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

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

Rob Wilson provided a verbal update and the following points were made:

- The Department for Levelling Up, Housing and Communities was introducing the Levelling Up White Paper which would require the LGPS to allocate at least 5% of its assets to projects to support people in local areas, in particular the funding of infrastructure projects. The Government had clarified that 'local' related to the UK
- The McCloud Judgement – The update to the Bill was awaited which would include details of the national implications for pension fund liabilities
- Investment in Russia – A number of pension schemes had indicated their intention to disinvest in Russian holdings. However, the Russian market was closed at present. This Fund had investments totalling £5m which represented 0.1% of the overall Fund and the Fund would look to take the appropriate action it could on these when it was able to do so.

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

225 Investment Strategy Statement (ISS) and Climate Risk Strategy Update (Agenda item 6)

The Board reviewed the Investment Strategy Statement (ISS) and Climate Risk Strategy Update.

In the ensuing debate, the following points were raised:

- The form and issues to be raised in the consultation exercise with the Fund members and wider Fund members was queried. Rob Wilson advised that it was intended to keep the consultation exercise as simple as possible with fairly basic questions. One of the key questions would be whether members felt the scheme was heading in the right direction overall. Chris Frohlich added that questions could also be raised about satisfaction with the stewardship arrangements, climate targets and implications for higher member contributions. An initial thought was to consult deferred pensioners and perhaps include an insert in the annual benefits statements. It was intended to release the consultation in June 2022 so it was at the early days of planning

- Some of the terminology within the Strategy might be difficult for members to understand. Chris Frohlich acknowledged that care needed to be taken in the use of language in the consultation exercise
- In response to a query about the possibility of sending information to members electronically, Chris Frohlich commented that there were staffing and resourcing issues associated with providing information electronically. A whole new process would need to be developed which would mean that the administration team would effectively be running two processes at the same time. Additional funding had been requested to enable member self-service but in the mean time it was not a practical solution
- The intention to consult with Fund members was welcomed. It was important that the consultation exercise was planned effectively in order to provide a manageable amount of information for officers to assess
- The introduction of a social impact element was an important change to the Fund's approach to investment management. It would be a difficult to facilitate but was a critical message to get across to investment managers.

The Board noted:

- a) **The Fund's 2022 Investment Strategy Statement (ISS) set out at Appendix 1;**
- b) **The Climate Risk Strategy set out at Appendix 2;**
- c) **The Fund's ESG Workshop Review on the 2 February 2022 and recommended outcomes:**
 - **Add SDG 12 Responsible consumption & Production to the Fund's existing investment beliefs within the ISS**
 - **Look to engage more with the wider members of the pension fund to get their views on Environmental, Social & Governance.**
 - **Explore and agree an internal climate target for the pension fund during 2022.**
 - **Explore further social impact investments as to whether they can deliver market-rate, risk-adjusted returns.**
- d) **The Fund's 2nd Annual Climate Risk Report; and**
- e) **The 'Task Force on Climate related Financial Disclosures' (TCFD) Report. (Appendix 3)**

226 Business Plan (Agenda item 7)

The Board reviewed the Business Plan.

In the ensuing debate, it was queried whether the high number of deaths (47) recorded in January 2022 could be attributed to the Covid pandemic. Chris Frohlich responded that the precise reasons for an individual death were not kept on record.

The Board noted the Worcestershire Pension Fund (WPF) Business Plan as at 22 February 2022 and the Fund's achievements in the 2021 / 2022 LGPS year.

227 Risk Register (Agenda item 8)

The Board reviewed the Risk Register.

In the ensuing debate, the following points were raised:

- In response to a request for a progress update on the Fund valuation, Rob Wilson indicated that initial meetings to discuss the valuation had been held with the Fund's actuary. The main issue affecting the outcome of the valuation was the impact of the war in Ukraine on markets. The Fund had been valued at 103% funded but had lowered to 101% in February 2022. It was anticipated that the Fund's value would reduce further in the first week in March 2022
- If a resolution to the conflict in Ukraine was found, would that have an impact on the valuation? Rob Wilson responded that it would certainly have a positive impact on the markets
- In response to a query about employer contributions, Chris Frohlich explained that some employers had liabilities going forward and deficits to catch up
- A representative of the employers' side commented that the Fund had some smaller employers who were heavily impacted by employer contribution rates and the hidden risk to the Fund was that these employers might be unable to continue in the scheme
- Was the Government's intention to use LGPS to fund infrastructure projects recognised as a risk in the Risk Register? Rob Wilson advised that the Levelling Up White Paper included a requirement that 5% of a fund's investment equity be set aside for local infrastructure projects. The Fund had already invested in Infrastructure projects in excess of 5%. The other associated issue in this White Paper was the Government's guidance for LGPS in relation to ESG investment, in particular and what type of projects it considered were appropriate for ESG investment.

The Board noted the 22 February 2022 WPF Risk Register.

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

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

The Board noted the proposed changes to the existing April 2021 Worcestershire Pension Fund (WPF) Pension Administration Strategy (PAS) including the WPF Policy Statement on Communications.

229

Worcestershire County Council Pension Fund Administration Budget 2022/23 (Agenda item 10)

The Board reviewed the Worcestershire County Council Pension Fund Administration Budget 2022/23.

In the ensuing debate, the following points were made:

- In response to a query about the Fund's approach to investment management fee negotiation, Rob Wilson commented that aside from investment performance, a key issue in determining whether to employ an investment manager was their willingness to negotiate on the fee level. As part of the consideration, benchmark data for fees was taken into account and the fee negotiated down. Due diligence on the investment manager was undertaken using the expertise of the Fund's independent investment advisor and LGPS Central where appropriate
- Rob Wilson confirmed that under the SAB cost transparency initiative, investment managers were required to be more transparent in setting out details of their fees. Some partner funds appeared to be not fully reporting transactional costs yet so there remained work to be done on transparency across the LGPS
- In response to a query about future proposals to implement member self-service, Chris Frohlich advised that the eventual aim was to provide self-service access to members. The main stumbling blocks to its introduction at the moment were the associated one-off implementation cost and the need to increase and retain key members of staff.

The Board noted:

- a) The Pension Fund Administration Budget, including manager fees, for 2022/23 shown in the Appendix totalling £21.015m;**
- b) The indicative budget allocations for 2023/24 and 2024/25; and**
- c) That variations against budget will be monitored.**

230

Funding Strategy Statement (Agenda item 11)

The Board reviewed the Funding Strategy Statement.

In the ensuing debate, concern was expressed that parish councils did not understand the LGPS or the basis for their contribution rate to the Fund. Chris Frohlich commented that town and parish councils represented only a small part of the overall contributions to the Fund. If a parish council was unable to pay its contribution rate, it would not impact greatly on the finances of the Fund.

The Board noted the proposed February 2022 Funding Strategy Statement (FSS).

231 Local Government Pension Scheme (LGPS) Central Update (Agenda item 12)

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

In the ensuing debate, the following points were raised:

- In response to a query about the proposed pay increases for non-executive LGPS Central staff, Rob Wilson advised that partner funds had expressed their concerns and requested that more checks be undertaken before agreement could be reached
- A concern was expressed that the role of LGPS Central was to act on behalf of partner funds but there did not appear to be any positive progress in this regard, for example the pool did not appear to be informing the Government of the measures that partner funds were already undertaking to invest in local infrastructure projects in response to the Levelling Up White Paper. Rob Wilson advised that LGPS Central had made improvements in its approach to addressing the needs of partner funds, particularly in terms of investment product development. The Chief Executive of the pool and a PAF representative met on a regular basis with Government representatives so there was a dialogue with the Government albeit he recognised that the approach could be more proactive.

The Board noted the LGPS Central update.

232 Government Actuary Department (GAD) Pension Review Update (Agenda item 13)

The Board reviewed the Government Actuary Department (GAD) Pension Review Update.

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233 Governance Review and Update (Agenda item 14)

The Board reviewed the Governance Review and Update.

The Board Governance noted the Governance Review Update, in particular the proposed changes to:

- a) The Fund's Governance Policy Statement; and**
- b) The terms of reference (TOR) for the Pension Board, Pensions Committee and Pension Investment Sub Committee.**

234 Review of Training Policy and Programme (Agenda item 15)

The Board reviewed the Training Policy and Programme.

In the ensuing debate, it was commented that the current approach to training, particularly the use of training videos had worked well.

The Board noted the Fund’s proposed Training Policy and Programme also known as the Skills & Knowledge Framework.

235 Forward Plan (Agenda item 16)

The Board noted the Forward Plan.

The meeting ended at 3.35pm

Chairman