Worcestershire County Council

Agenda

Pension Board

Monday, 7 March 2022, 2.00 pm
County Hall, Worcester

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DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and 'other disclosable interests'

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 spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **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
Monday, 7 March 2022, 2.00 pm, County Hall, Worcester

Membership: **Employer Representatives**
Cllr Roger Phillips (Chairman), Andrew Lovegrove, Cllr Paul Harrison, and Vacancy

Member Representatives
Odette Fielding, Stephen Howarth, Lucy Whitehead and Kim 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 17 November 2021 (previously circulated)	
4	**Pensions Committee - 8 December 2021 and 2 February 2022** To review the Agenda and Minutes of the Pensions Committee meetings held on 8 December 2021 and 2 February 2022: • Pension Administration Resourcing • Local Government Pension Scheme (LGPS) Central Update • Pension Investment Update • Pension Fund Annual Report for the year ended 31 March 2021 • Business Plan • Risk Register • Forward Plan • LGPS Central Budget and Strategic Business Plan 2022/23 The Agenda papers and Minutes have previously been sent to members.	
5	**Update on Scheme Advisory Board (SAB)** To receive a verbal update.	
6	**Investment Strategy Statement (ISS) and Climate Risk Strategy Update**	1 - 90
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Agenda produced and published by Abraham Ezekiel, Assistant Director for Legal and Governance, County Hall, Spetchley Road, Worcester WR5 2NP

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: Thursday, 24 February 2022

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PENSIONS BOARD
7 MARCH 2022

INVESTMENT STRATEGY STATEMENT (ISS) AND CLIMATE RISK STRATEGY UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the Board notes and comments on:**

   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) Note the Fund's ESG Workshop Review on the 2 February 2022 and recommended outcomes:
   - **Add SDG 12 Responsible consumption & Production to the Funds 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) Note the Funds 2nd Annual Climate Risk Report; and

   e) The 'Task Force on Climate related Financial Disclosures' (TCFD) Report be commented on. (Appendix 3)

Background

2. The LGPS Investment Regulations that came into effect from 1 November 2016 required all funds to publish a new ISS by 1 April 2017. The Fund's 2017 ISS was designed in collaboration with the seven other funds within LGPS Central to ensure a consistent approach to investment beliefs and responsible investment beliefs.

3. Under Regulation 7(6) and (7); the ISS must then be kept under review and revised from time to time and at least every three years. The Department for Communities and Local Government (DCLG) at the time, now known as the Department for Levelling Up, Housing &Communities (DLUHC) also previously outlined guidance on preparing and maintaining an Investment Strategy Statement.

4. The current 2021 ISS was approved by the Pensions Committee on the 16 March 2021 to particularly enhance and strengthen the 'Stewardship and Responsible Investment (RI) areas. This was after taking into account the Funds Environmental, Social & Governance (ESG) Audit, Sustainable Development Goals (SDG) mapping and the Funds first 2020 Climate Risk report provided by LGPS Central.

Funds ESG Review 2 February 2022

5. The Fund had an ESG Review workshop with Committee members on the 2 February 2022 which was to review progress against the Pension Committee ESG recommendations in March 2021 and ascertain what further changes may be required when looking ahead. Discussions and debate focussed on:-

a) Emphasis for targeting SDG's should remain focussed on the financial risk / return and if there is any desire to add any new goals to the existing beliefs. SDG 12 Responsible consumption & Production stood out as an SDG that met these criteria and it was agreed to extend the beliefs to include this, in the belief that this will lead to better returns for the fund over the long term;

b) Stewardship Code 2020 review and it was highlighted that in 2022 more effort would be made to engage with the wider members of the pension fund to get their views on E, S & G, recognising that this is a challenge with so many members;

c) Climate targets: The general feeling was that in 2022 it would be good to explore and agree an internal climate target for the pension fund, and speak to managers about how they would align to this target. This could then be rolled out publicly at a later date. Science based targets on the whole fund with broad interim deadlines, would be preferred, so as to avoid the pension fund becoming a hostage to fortune on individual parts of the portfolio.

   A first step might be to consider targets that other LGPS funds are setting, and to seek their views on how easy these have been to adhere to

d) Spectrum of Capital and the S in ESG: There was more caution about proceeding further along the spectrum of capital at this stage although this seemed because of a concern over the investment thesis: could social impact investments really deliver market-rate, risk-adjusted returns? The committee seemed willing in principle to consider this and further exploration of this will be taken forward.

6. The ESG workshop also received a number of presentations from our Equity Fund managers responding to how they were progressing with a number of climate related questions.

Investment Strategy Statement Guidance Requirements

7. Regulation 7(1) requires an Administering Authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:

a) A requirement to invest money in a wide variety of investments;
b) The authority's assessment of the suitability of particular investments and types of investments;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services.
e) The authority's policy on how social, environmental, or corporate governance considerations are taken into account in the selection, non-selection, retention, and realisation of investments; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

2022 Investment Strategy Statement proposed amendments

8. The key amendments are highlighted via tracked changes and are mainly the changes to the recommended inclusion of the additional SDG 12 within the report if approved.

Investment Strategy Target Allocation

9. Appendix A of the attached proposed 2022 ISS, takes on board the Pension Committee decision on the 8 December 2021 to a 6% decrease in the strategic asset allocation to Market Capitalisation Passive indices and the increase of 6% to the Actively Managed Equities to take on board the investment in Sustainable active equities as per the table below.

Passively Managed Equities – Market Capitalisation Indices	**35.0%**		**Passively Managed Equities – Market Capitalisation Indices**	**29.0%**
United Kingdom	20.5%		United Kingdom	17.0%
North America	8.0%		North America	6.5%
Europe ex UK	6.5%		Europe ex UK	5.5%
Actively Managed Equities	**20.0%**		**Actively Managed Equities**	**26.0%**
Total	**55.0%**		**Actively Managed Equities**	**55.0%**

Climate Risk Strategy

10. One of the recommendations of the ESG Audit presented to the Pensions Committee in March 2021 was to have a separate Climate Risk Strategy for the Fund. This Climate Risk Strategy was agreed and set out Worcestershire Pension Fund's (the Fund) approach to addressing the risks and opportunities related to climate change.

11. The development of a separate Climate Risk Strategy reflects the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund.

12. This has been updated to take on board the outcome of the ESG workshop that was conducted informally with the Pensions Committee members on the 2 February 2022.

Funds 2021 Climate Risk Report

13. The Fund has received its 2nd Climate Risk Report January 2022 report from LGPSC and our Investment Advisor has provided a brief synopsis on its contents as follows:

> *"Beyond reading this recently published report, I have gone back to the first report published back in October 2020. That report was very much focused on*

the then current "health" of the Fund's listed markets investments in comparison to carbon benchmarking. We came out as relatively "clean" in that exercise, but with some clear messages about how as a Fund we could make some changes to our portfolios to improve matters further and in a sense to provide some future proofing to the rising tide of concerns amongst at least some of our stakeholders.

This report is much more refined, dare I say it; glossier! Quite rightly they do highlight the enormous amount of work that the Fund has done in taking the information provided in their last report and the work undertaken by Minerva from the "talk about it" stage towards the implementation of considered changes to the management of Fund assets. In practical terms this has entailed changes to some of the listed markets mandates, as well as a greater focus on ESG and climate issues within our private markets investments.

While the report was again focused on carbon exposure/risk within the listed markets portfolios, reference is made to the likely climate related issues within private markets, although these are general comments rather than focused on the specifics of our investments. Ultimately it would be good to see these reports encompass all of the Fund's investments, so that we have a complete picture to consider and work with.

The main focus of our attention can be on listed equities, and it seems to split neatly into consideration of the passive mandates on one hand and active on the other. Starting with the passive mandates, our initial focus has been on the "Factor" based portfolios, with a transition of the greatest carbon "sinner", Low Volatility, into the LGPS Central Climate Multi Factor Fund. The Value portfolio was consolidated into the Quality portfolio, which has a lower carbon footprint. That remains with LGIM.

These actions provided the main reason for the Fund's carbon footprint reducing further from the already relatively low level recorded in the October 2020 report. Within the traditional regional passive mandates, the UK element has the highest exposure to fossil fuel companies. As part of the rebalancing process late last year £120m was switched from North America to the UK, so that will have had a small detrimental impact on our overall position. You will be aware that there will be a partial transfer into the newly established LGPS Central Active Sustainable Investment Fund with H1 2022, which will carry a lower carbon footprint. One further point to consider in general terms is that during 2021 non-renewable energy stocks saw a period of considerable outperformance as global energy prices soared from the low levels seen in mid-2020. As such they will have formed a greater percentage of traditional benchmark indices.

To some degree this point will also have had some impact in the active equity mandates managed by Nomura and LGPS Central. Both still have a much lower carbon exposure than their respective benchmarks, but both have seen an increase in their carbon exposure since the last review, but again less than the benchmarks. In the case of LGPS Central Emerging Markets this was as a result of UBS investing in two cement companies, that have high carbon footprints.

The one item of Work in Progress that was flagged relates to communication strategy in relation to climate risk. My understanding is that this needed to be *managed in order to ensure that Pensions Committee took appropriate decisions ahead of such communication on a wider basis and does form part of the continuing process.*

In conclusion, the report as a whole is very encouraging in terms of what the Fund has done and continues to do in response to the challenges presented by climate change. However, it does highlight the difficulties of trying to have your cake and eat it when a balance has to be maintained between investing appropriately to produce financial returns against the laudable aim of investing more sustainably.

Ultimately it is appropriate for the Fund to be part of the transition away from reliance on fossil fuels, but with an acknowledgement that this is not something that will be either quick or easy. In the meantime, the Fund's carbon exposure as measured on a relative market capitalisation basis will fluctuate with market movements and will to some extent be subject to investment decisions taken by our investment managers within their terms of reference."

Task Force on Climate related Financial Disclosures' (TCFD)

14. 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.

2. LGPSC have provided the fund with an updated TCFD report and is attached as Appendix 3.

Contact Points

Specific Contact Points for this report
Rob Wilson
Pensions Investment, Treasury Management & Capital strategy manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Supporting Information

- Investment Strategy Statement - Appendix 1
- Climate Risk Strategy - Appendix 2
- Task Force on Climate related Financial Disclosures' (TCFD) - Appendix 3
- Climate Risk Report January 2022 – Appendix 4

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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Investment Strategy Statement 2022

Contents

March 2022

1. Introduction

This is the Investment Strategy Statement (the 'Statement') of the Worcestershire Pension Fund (the Fund) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations"). In preparing this Statement, the Pensions Committee has consulted with such persons as it considered appropriate.

Fund Governance

Worcestershire County Council is the administering authority for the Fund under the regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises of elected members and one employee representative and two employer representatives. In addition, the Fund has a Pensions Board whose role is to assist with good governance by ensuring compliance with statutory and regulatory duty. Finally, the Pensions Investment Sub Committee advises the Pensions Committee on investment issues relating to the Fund. The Pensions Board has no decision-making powers whereas the Pensions Investment Sub Committee does.

The Fund's Strategic asset allocation benchmarks and ranges are shown in Appendix A.

The Statement is subject to review at least annually and from time to time on any material changes to any aspects of the Fund, its liabilities, finances, and its attitude to risk which is judged to have a bearing on the stated investment policy. In preparing this statement, the Committee has considered advice from the Funds independent investment adviser.

The responsibilities of relevant parties are set out in the Governance Policy Statement. Governance Policy Statement

The Funds List of Advisers are set out at Appendix B
The Fund's Statement of Investment Beliefs are set out in Appendix C.

The following are publicly available on the Fund's website:

- Funding Strategy Statement
- Governance Policy
- Policy Statement on Communications (Within Administration Policy)

2. The Fund's Objectives

The primary objectives of the Fund are to:

(a) Ensure that sufficient assets are available to meet liabilities as they fall due.
(b) Maximise returns at an acceptable level of risk.

The level of employer contribution is assessed every three years through an actuarial valuation of the Fund. This valuation establishes the solvency position of the Fund, that is, the extent to which the assets of the Fund are sufficient to meet the Fund's pension liabilities accrued to date. The objective is that the Fund should be at least 100% funded on an ongoing basis, taking account of any additional contributions paid by employer bodies to cover any past service deficit. The full funding projection is achieved over a 15-year time frame.

In addition, the Fund has the following objectives:

• To be a leading performer in the LGPS sector
• To provide excellent customer service

Funding Strategy Statement

The Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time. The FSS can be viewed on the website.

All Local Government Pension Scheme (LGPS) funds must produce, consult on, and publish a document called a "Funding Strategy Statement" (FSS). The purpose of the FSS is:

a) To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward.

b) to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and

c) to take a prudent longer-term view of funding those liabilities.

However, there will be conflicting objectives which need to be balanced and reconciled. For example, for most employer's objective a) implies low contribution rates, because they would see pension liabilities being "best met" by gaining as much help as possible from the investment strategy over the long term, which would lead you towards an equity-biased investment strategy. By contrast, objectives b) and c) imply stability and prudence of employer contribution rates, which would lead you towards a bond biased investment strategy.

Therefore, the best that can be achieved is a sensible balance between these different objectives

3. Risk

The risk tolerance of the Fund is determined through working with the Pensions Committee, investment managers, officers, and independent advisers to set investment beliefs, funding, and investment objectives. This is incorporated into the Strategic Investment Allocation Benchmark (SIAB), benchmarks and ranges. Risk is monitored by the Pensions Committee using a risk register and risk management tools as advised by the Fund's fund managers, investment advisers and the actuary.

The Fund is exposed to Investment, operational, governance and funding risks. These risks are identified, measured, monitored, and then managed. This is carried out using risk registers with section responsibility and oversight from the Chief Financial Officer.

The principal risks affecting the Fund are as follows:

Funding Risks Liabilities versus the Strategic Investment Allocation Benchmark (SIAB)

a) The risk of deterioration in the funding level of the Fund. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark assisted by the Fund's investment advisor. The strategic asset allocation benchmark seeks to achieve the appropriate balance between generating the required long-term return, while taking account of market volatility and the nature of the Fund’s liabilities. It assesses risk relative to that benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark.

b) The risk of changing demographics such as improvement in longevity and other demographic factors, increasing the cost of benefits.

The Fund monitors this by reviewing mortality and other demographic experience and assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

c) Systemic risk, i.e., the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through having a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

d) Inflation risk The Fund mitigates inflation risk through holding a portfolio of growth and inflation linked assets. Inflation risk is considered at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

e) Future Investment Returns (Discount rate) risk The Fund’s funding and investment strategies are inter-linked and discount rate risk is mitigated by reviewing them at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

f) Currency risk that the currency of the Fund’s SIAB underperforms relative to sterling (the currency of the liabilities). The currency risk of the benchmark is considered at least triennially in the setting of the SIAB. Recommended changes will be expressed through changes in the benchmark and implemented by the investment managers

Asset Risks (the portfolio versus the SIAB)

a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

b) Illiquidity risk i.e., that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

c) Currency risk i.e., that the currency of the Fund’s assets underperforms relative to the SIAB.

d) Manager underperformance, i.e., when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

e) Responsible Investment (RI) risks, i.e., including climate-related risks, that are not given due consideration by the Fund or its investment managers.

The Fund manages these asset risks by: -

- Constraining how far Fund investments deviate significantly from the SIAB by setting diversification guidelines and the SIAB strategic ranges.

- Investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.

- Investing across a range of liquid assets, including quoted equities and bonds; the Fund has recognised the need for some access to liquidity in the short term.

- Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process.

- Appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.

- Actively addressing environmental, social and governance (ESG) risks through implementation of its Responsible Investment (RI) beliefs.

The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, the Pensions Committee is comfortable taking this risk in general but may act to mitigate potentially significant risks as and when they are identified.

The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations.

Operational Risk

a) Transition risk of incurring unexpected costs in relation to the transition of assets amongst managers.

   When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers to mitigate this risk when it is cost effective to do so.

b) Risk of a serious operational failure by asset managers and/or LGPSC

   These risks are managed by having robust governance arrangements with LGPSC and by quarterly monitoring with asset managers

c) Custody risk of losing economic rights to Fund assets, when held in custody or when being traded.

These risks are managed by:

- The use of a global custodians for the custody of assets.
- The use of formal contractual arrangements for all investments.

When the Fund's investments are pooled in LGPSC, the asset servicer contract includes depositary protection over investment vehicles.

d) Risk of unanticipated events such as a Pandemic on normal operations

These risks are managed by back up arrangements for computer operations, including the ability to work remotely.

e) Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

- Maintaining a comprehensive risk register with regular reviews.
- In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny/oversight and reporting of KPIs of its service providers and audit of the operations they conduct for the Fund.

f) Cashflow management risks)

The Fund is becoming more mature and although its cashflow has been positive after taking investment income, the table below shows that net cashflow in 2021/22 will reduce mainly due to the impact of several employers who paid their contributions 3 years in advance in 2020/21. Therefore, managing cashflow will become an increasingly important consideration in setting the investment strategy. Mitigating actions are already being taken to manage the cashflow shortfall by investing in assets that produce cashflows such as Property, Infrastructure and fixed income that can be used to meet these payments.

The table below sets out the cashflow position of the Fund over the last six fiscal years and is continually monitored.

Cashflow Management	**2023-24 £'M**	**2022-23 £'M**	**2021-22 £'M**	**2020-21 £'M**	**2019-20 £'M**	**2018-19 £'M**	**2021-22 £'M**	**202 21 £'M**
Contributions receivable	101.3	98.4	95.5	201.6	87.5	81.8	83.8	19
Benefits Payable	-124.2	-118.3	-114.7	-112.6	-111.9	-106.3	-116.3	-11
	-22.9	**-19.9**	**-19.2**	**89.0**	**-24.4**	**-24.5**	**-32.5**	**7**
Investment income	48.0	48.0	48.0	29.1	48.6	51.7	50.0	4
Net Cashflow	**25.1**	**28.1**	**28.8**	**118.1**	**24.2**	**27.2**	**17.5**	**12**

4. Investment Strategy

Funding Policy

The objectives of the funding policy are expressed in its FSS. The Fund has a strong employer covenant, being funded largely by tax-raising local authorities. Therefore, the Committee can adopt a long-term view, without concern about the ability of its sponsors to meet their liabilities.

Given the on-going restructuring of public bodies the Fund is now maturing increasingly faster. Positive cashflow are declining (although investment income is available if the Fund does go Cashflow negative) and this position is being closely monitored. However, at this time it is not felt necessary to change the investment strategy of the Fund.

As the Fund has a deficit of assets against liabilities (91% funded at the 2019 Triennial Valuation), the Committee wishes to achieve the maximum assistance from investments in reducing this shortfall. This would suggest a higher risk strategy to generate returns, but this is moderated by the realisation that such a strategy can also lose significant amounts of money in the short-medium term.

It is the Fund's employers who would feel the result of unstable employer rates, and for the precepting authorities, ultimately the local taxpayer either through Council Tax or through service levels. Therefore, another very important consideration is the need for relative stability of investment returns, given that employee rates are fixed by statute and the tools available in the actuarial valuation process for smoothing of returns are limited. This can be achieved by investments that are inherently more stable, such as bonds. However, it is also aided by diversification (so that the ups and downs on particular investments do not arise together), and by seeking returns from both markets ("beta") and investment managers ("alpha") whose returns are skill based and relatively independent of the market.

Consequently, the Committee has set an overall investment goal that reflects these four factors.

Investment Strategies / Pots

In order that the Fund delivers on its key objectives (ensuring that each employer takes the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost), the Fund has introduced three distinct investment strategies (Growth, Medium and Cautious risk). These are detailed in Appendix A

Each investment strategy has its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating the required long-term returns, whilst taking account of market volatility, risk, and the nature of the Fund's liabilities.

The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund undertakes a fundamental review of the strategic asset allocation every three years following actuarial valuations. The Fund also monitors compliance with this statement at least quarterly and monitors progress towards the long-term funding objective for relevant groups of employers on a regular basis.

In addition to the fundamental review of the strategic asset allocation undertaken every three years, the Fund monitors the progress of employers within the Growth and Medium Strategies on a regular basis. This gives the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan.

This is an important mechanism used by the Fund to ensure that each employer continues to take the appropriate level of investment risk, giving each the best opportunity possible to achieve its long-term funding objective whilst increasing certainty of cost. The progress of employers in Cautious Risk Strategy will be monitored every year as these employers are already invested in their "target funding plan".

A full explanation of the process undertaken to assess employer funding progress is provided in the Fund's Investment Risk Management: All about Worcestershire Pension Fund's (the Fund's) Investment Pots which is published on the website

Investment Goal

The Fund's investment objective is to achieve a relatively stable "real" 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 into the Fund by employer bodies in respect of both past and future service liabilities.

Process for ensuring suitability of investments

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (see Appendix A) considering both the liability structure and the objectives set out above. The Fund's benchmarks are consistent with the Pensions Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The Investment beliefs in appendix C also assist in formulating the investment strategy.

The Pension Committee monitors investment strategy relative to the agreed asset allocation benchmarks and strategic ranges. If ranges are breached, then appropriate action is taken by the Chief Financial Officer. In addition to ongoing monitoring the investment strategy is formally reviewed annually by Pensions Committee. Furthermore, specific consideration is given to the investment strategy in the light of information arising from each triennial actuarial valuation. The Pension Investment Sub Committee monitors the asset allocation on a quarterly basis.

5. Diversification

The Fund is diversified across multiple asset classes with different risk return expectations and correlations to deliver the targeted return of the Fund. Appendix A shows the Strategic Investment Allocation Benchmark (SIAB) and strategic ranges.

6. Day-to-Day Management of the Assets

Investment management structure

The Pensions Committee retains responsibility for the investment strategy of the Fund but has delegated oversight of its implementation to the Chief Financial Officer. The day to day management of the Funds' investments is delegated to the Fund's external investment managers.

External Investment Managers
The Fund has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The investment managers are required to comply with LGPS investment regulations.

Suitable Investments
Subject to the LGPS regulations on allowable investments the Fund may invest in a wide range of assets and strategies including quoted equity, Government and Non-Government bonds, money markets, traded options, financial futures and derivatives, alternative strategies including Infrastructure and property Pooled funds. The fund uses external managers to carry out stock lending ensuring suitable controls/risk parameters are put in place to prevent losses. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

When new asset classes are considered and are not listed above then approval will be sought from the Pensions Committee after receiving advice on its suitability and diversification benefits.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation benchmarks for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

Expected Return on the Investments
Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation (the discount rate). The individual mandates are expected to match or exceed the specific targets set for each portfolio over time.

Investment Restrictions
The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Operating within the investment regulations, the Fund determines investments that are acceptable and approved as such by the Pensions Committee.

Additional Assets
Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Scottish Widows and Utmost Life.

The Fund monitors, from time to time, the suitability and performance of these vehicles.

Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's liquidity characteristics are monitored on a regular basis and the majority of the Fund's investments may be realised quickly if required. A number of the Fund's alternative investments in pooled Infrastructure and property funds, may be difficult to realise quickly in certain circumstances. The Fund will ensure that the liquidity of the investments is suitable to meet future cash flow requirements.

Monitoring the Performance of Fund Investments

The performance of the external investments is independently measured. In addition, officers of the Fund meet external investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Pensions Committee meets at least quarterly to review markets, asset classes and funds.

7. Day-to-Day Custody of the Assets

The Fund has appointed a global custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

8. Stock Lending

Stock lending is undertaken in respect of the Fund's quoted equities holdings through the custodian / asset servicer. There is a formal stock lending agreement and approved collateral. Stock lending may also take place in pooled investment vehicles held by the Fund.

For the assets managed by LGPSC on the Funds behalf, LGPSC has an active securities lending programme. To ensure that LGPSC can vote its shares at important meetings, it has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. LGPSC monitors the meetings and proportion of the securities on loan, and will restrict and/ or recall lent stock in select circumstances, with due consideration to the advantages of voting the shares versus the cost implications of recalling or restricting the loan of the stock

9. Approach to Pooling

The Fund has joined the LGPSC Limited pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to more uncorrelated asset classes. Becoming an FCA registered investment manager will lead to improved governance, transparency and reporting giving the Fund assurance that its investments are being carried out effectively.

LGPSC has been set up as an arms-length company, accredited by the Financial Conduct Authority, to manage the pooled investment assets of eight LGPS funds across the centre of England. The Fund is one of the eight partner funds, all of whom hold equal shares in the company. LGPSC started trading on 3rd April 2018 and all partner funds are starting to migrate assets to LGPSC.

The Fund is participating in the pool with the belief that the Fund will benefit from lower investments costs achieved through the aggregation of assets. In addition, the Fund will have greater access to a broader range of investable asset classes, including new and innovative products and services. LGPSC and the partner funds have put in place a robust governance framework to ensure the company operates effectively and delivers timely and transparent reporting to shareholders and client funds.

The Fund will retain full responsibility and control over its strategic investment allocation policy with LGPSC being responsible for implementing the strategy via the engagement and dismissal of managers and the day to day monitoring of manager investment performance. Subject to satisfactory due diligence and value for money considerations being satisfied, the Fund intends to continue to invest its assets with LGPSC. Investment strategy will be determined by the Fund with advice from fund managers, operators, and the Independent investment adviser.

10. Responsible Investment (RI) and Stewardship

What do we mean?

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.[1] 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).

Effective management of financially material ESG risks should support the requirement to protect investment returns over the long term. The Fund's investment team seeks to understand relevant ESG factors alongside conventional financial considerations within the investment process, and the Fund's external investment managers are expected to do the same. Non-financial factors may be considered to the extent that they are not detrimental to the investment return

ESG factors include:

Stewardship

We define the concept of stewardship in the same way as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code which was updated in 2020:

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”

Responsible Investment and LGPSC

From 1 April 2018 the implementation of parts of the Fund’s investment strategy has been undertaken by LGPSC, an investment management company set up by 8 Local Authorities (including Worcestershire County Council) in line with the latest scheme regulations. The Fund will seek to ensure that LGPSC is set up to deliver objectives of this RI policy alongside that of the other Funds involved.

LGPSC Limited has developed a Responsible Investment & Engagement Framework (LGPSC Framework) incorporating the investment beliefs and responsible investment beliefs of the eight funds within the LGPSC Limited Pool which will be applied to both internally and externally managed investment mandates. The Fund’s investment beliefs can be found in Appendix C

In collaboration with the eight Partner Funds, LGPSC has identified four themes that will be given particular attention in its ongoing stewardship efforts. The four themes, which will be reviewed after three years, are: Climate change; Single-use plastics; Fair tax payment and tax transparency; and Technology and disruptive industries. The partner funds and LGPSC believe that identifying core themes helps direct engagement and sends a clear signal to companies of the areas that the partner funds and LGPSC are likely to be concerned with during engagement meetings. WPF will monitor closely the effectiveness of LGPSC and their work in this area to support the Fund in its ongoing requirements.

LGPSC also supports the Fund through the annual preparation of a Climate Risk Report which supports the Fund in the preparation of the Fund’s Climate-related Financial Disclosure Report prepared in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

It is expected that the Fund’s ability to invest in a responsible way will be enhanced through LGPSC due to the inherent benefits of scale, collectivism and innovation that will result from being part of the pool. In order to broaden its stewardship activities, LGPSC appointed EOS at Federated Hermes as its stewardship provider, with the remit of engaging companies on ESG issues, and executing the LGPSC Voting Principles which are also the principles agreed by the Fund (see **shareholder voting** below).

RI Beliefs and Guiding Principles (See Appendix C)

The Fund’s RI Beliefs (see Appendix C) underpin its RI approach. Taking these beliefs as foundational, the Fund has adopted two RI aims: (1) primarily, to support the Fund’s investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace.

The Fund intends to realise these aims through actions taken both before the investment decision (which we refer to as the **Selection** of investments) and after the investment decision (the **Stewardship** of investments). Actions will be taken with reference to an evidence base, using the best available objective data sets. We aim to be **Transparent** to all stakeholders and accountable to our clients through regular **Disclosure** of RI activities, using best practice frameworks where appropriate. These ambitions yield the Fund’s three RI pillars: Selection, Stewardship and Transparency & Disclosure.

Climate Change

The Committee recognises that financial markets will be impacted by climate change and by the response of climate change policy makers. Risks and opportunities related to climate change are likely to be experienced across the whole of the Fund's portfolio. The current understanding of the potential risks posed by climate change, together with the development of climate-related measurements and disclosures, are still at an early stage, and there is considerable variability in the quality and comparability of carbon emission estimates. It is recognised that it will take time for companies to adapt to the changing regulatory and market positions.

Reflecting the potential material effect of climate change, and the global response to climate change on the assets and liabilities of the Fund, a separate Climate Risk Strategy has been developed, a copy of which can be found on the Fund's website

Selection

The Fund believes that effective management of financially material RI risks should support the Fund's requirement to protect returns over the long term. Investment managers will seek to incorporate RI into their investment process. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them. The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund believes that *Sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term*.' The Fund believes that this can be achieved by focussing on the specific United Nations Sustainable Development Goals (SDGs) that the Fund wants to target from an investment perspective. The SDGs are a global footprint for achieving a more sustainable future for everyone. Developed by the United Nations they recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth. For further information see: https://www.un.org/sustainabledevelopment/. The targeted SDGs are as follows:-

Economic Goals
SDG 8. Decent Work and Economic Growth
SDG 9. Industry, Innovation & Infrastructure
SDG 12 Responsible Consumption & Production
*Climate Goa*ls
SDG 7. Affordable and Clean Energy
SDG 13. Climate Action
Health Goal
SDG 3 Good Health and Wellbeing

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

- The Fund will set longer-term performance objectives for its investment managers.
- The Fund will seek to ensure that its long-term interests are aligned with that of its investment managers on all issues including on ESG considerations.
- Policies relating to ESG will be considered as part of the Fund's long-term investment planning process, following a thorough and robust investment appraisal.

We will use an **evidence-based** long-term investment appraisal to inform **decision-making** in the implementation of RI principles across our Investment strategy to make better more informed investment decisions and encourage / influence better corporate practices that lead to value creation and good risk management and:

- The Fund will consider the potential financial impact of ESG related issues on an ongoing basis (e.g., climate change or executive remuneration).
- The Fund will consider the potential financial impact of investment opportunities that arise from ESG related factors (e.g., investment in renewable energies or housing infrastructure).
- The Fund will consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e., Renewable energy and social impact investments
- The fund will consider investment opportunities that have positive impacts against the targeted SDGs agreed by the Fund

Stewardship

Company Engagement and Engagement through Partnership

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. The Fund adopts a policy of risk monitoring and engagement with companies on financially material RI issues, in order to positively influence company behaviour and enhance shareholder value; influence that would be lost through a divestment approach. The Fund extends this principle of "engagement for positive change" to the due diligence, appointment, and monitoring of external fund managers.

As part of the external Fund manager monitoring the Fund will request a report on the portfolio's alignment to the Funds targeted Sustainable Development Goals (SDGs) detailed above in the 'Selection' part above and Carbon Risk metrics on an annual basis.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. To this end, the Fund uses its membership of the Local Authority Pension Fund Forum (LAPFF) and being a partner to the LGPSC pool to assist it in pursing engagement activities.

The Fund will engage investee companies on issues, including ESG issues that are material to long term value creation and robust risk management in order to safeguard and grow the Fund

- The Fund is committed to compliance with the UK Stewardship Code[1] and working within the spirit of the Principles of Responsible Investment ("PRI").
- We will hold our investment managers to account to ensure compliance with this policy
- The Fund is committed to collective engagement through its membership of the Local Authority Pension Fund Forum (LAPFF), the LGPSC pool and other opportunities that arise from time to time.
- The Fund will exercise its voting rights in all markets where practicable

It should be noted that although disinvestment is not currently the Fund's policy, it could be considered in the future if a particular manager or company was not making any attempt to comply with our Fund's stated policies.

Shareholder Voting

On the 21st of June 2019 the Pensions Committee agreed that LGPSC would via EOS vote shares in certain discretionary and pooled funds on the Fund's behalf. These votes will be executed in line with LGPSC's published **Voting Principles**. The Fund believes that the advantage of a consistent signal and working collectively through the pool will have a positive influence on company behaviour.

Shares held in passively managed portfolios will be voted according to the voting policies of the Fund's appointed fund manager, Legal & General Investment Management (LGIM). The Pension Committee is satisfied that LGIM's approach to shareholder voting is sufficiently robust and aids in the delivery of the Fund's RI objectives.

Transparency & Disclosure

The Fund is committed to the UK Stewardship Code and was successful in its compliance with the 2020 version of the Stewardship Code.

LGPSC provides quarterly reporting for all funds managed by LGPSC detailing how votes have been cast in different markets and a vote by vote disclosure for full transparency. Engagement and voting disclosure is also done specifically for listed securities held across the Fund's portfolios

How Will We Monitor our Performance on Responsible Investment?

The Fund will ultimately be **transparent and accountable** in terms of its performance on Responsible Investment. This will be achieved through the following approach:

- The Fund will publish its Investment Strategy Statement and its Climate Risk Strategy on its website in line with the scheme regulations.
- Decisions relating to the setting of investment policy will be explained.
- The Fund will monitor closely its appointed investment managers whom the Fund rely on to implement its RI policy.
- The Fund will undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers.
- The Fund will publish an annual summary of voting and engagement activity
- The Fund will ensure that its decision makers are properly trained and kept abreast of ESG issues to make informed decisions.
- The Fund will include ESG as standing item on Pensions Investment Sub Committee (or equivalent) agendas (with a view to reporting on manager performance in relation to ESG investing and noting any hot topics / issues arising).
- The Fund will undertake a fundamental review of any specific ESG issues that are considered by the Pension Investment Sub Committee to be of potentially material financial impact.
- The Fund will consider and respond to feedback from stakeholders in relation to issues of concern.
- Reporting annually using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD)
- The Fund will request External Fund managers to report on their portfolio's alignment to the Funds targeted Sustainable Development Goals (SDGs) detailed above under 'Selection' and Carbon Risk metrics on an annual basis.

11. Compliance with This Statement

The Fund will monitor compliance with this statement. It will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

12. Compliance with Myners

Following from the Myners' report of 2000 into institutional investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations identifying investment principles to apply to pension schemes.

These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives with a focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Myners' principles have since been updated, and the Fund continues to support and comply with them. Details of compliance are set out in the Fund's Governance Compliance Statement within the Fund's Annual Report, which can be found on the Fund's website.

List of Appendices

Appendix A – Strategic Allocation Investment Benchmark (SIAB) and Ranges.
Appendix B – List of Advisers
Appendix C – Statement of Investment Beliefs

Appendix A – Strategic Allocation Investment Benchmark and Ranges

	Growth	Medium	Cautious	
Asset Allocation	**%**	**%**	**%**	**Manager, Method & Performance Target**
Actively Managed Equities				
Far East Developed	10.0	5.0	0.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	5.0	0.0	LGPSC active global emerging markets equity mandates with BMO, UBS and Vontobel - FTSE - Emerging Market Index +2.0%
LGPSC Global Sustainable	6%	3%	0.0	LGPSC active Global Sustainable equity mandates with Liontrust and Baillie Gifford - FTSE – All World +2.0% to 3%
Passively Managed Equities - Market Capitalisation Indices				
United Kingdom	17.0	13.0	0.0	Legal and General Asset Management - FTSE All Share Index
North America	6.5	5.0	0.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index
Europe ex - UK	5.5	4.0	0.0	Legal and General Asset Management - FTSE All World Europe ex UK Index - Developed Series Index
Passively Managed Equities – Alternative Indices				
Global	15.0	5.0	0.0	Legal and General Asset Management: 60% STAJ - CSUF - STAJ MF36726/36727 (Quality Factor) 40% LGPSC All World Equity Multi Factor Climate Fund
Fixed Income				
Fixed Income	10.0	40.0	80.0	- LGPSC Global Active Investment Grade Corporate Bond (Fidelity & Neuberger Berman) - Fund 50% GBP IG Corporate (Ex EM Issues) / 50 % Global IG Corporate ((ex IG Corporate & EM Issues) hedged to GBP +0.80% - Bridgepoint Corporate Private Debt
Actively Managed Alternative Assets				
Property & Infrastructure	20.0	20.0	20.0	Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street, Venn Partners, Stonepeak, First Sentier, AEW, Gresham House etc
TOTAL	**100.0**	**100.0**	**100.0**	

Tolerance Ranges

Asset Type	Growth	Medium & Cautious	Role (s) within the Strategy
Equities	**+/- 5%**	**+/-2.5%**	Deliver long term growth above inflation and generate investment income i.e., dividends.
Growth Fixed Income	**+/- 5%**	**+/-2.5%**	Provide protection from changes in real yields both in terms of capital value and income
Property	**+/- 5%**	**+/-2.5%**	Diversification; generate investment income; provide some inflation-sensitive exposure; illiquidity premium
Infrastructure			Provides the Fund with access to a diversified (but long term, illiquid) return and a stream of inflation related income
Index Linked Gilts	**+/- 5%**	**+/-2.5%**	Provide protection from changes in real yields both in terms of capital value and income
Diversified Growth / Multi Asset	**+/- 5%**	**+/-2.5%**	Diversification and dynamic asset allocation

Appendix B - Advisers as at March 2022

MJ Hudson – Philip Hebson
Investment policy, general investment matters.

Mercers
Actuarial matters

Local Authority Pension Fund Forum (LAPFF)
Company governance issues.

BNY Mellon
Custodian, Stock lending.

Appendix C - Statement of Investment Beliefs

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.

- Markets are dynamic and are not always efficient, and therefore offer opportunities for skilled active managers.
- In making investments in illiquid assets, a return premium should be sought.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.
- The Fund believes that investing for the long term can add value, as it allows the fund manager to focus on long term value and use short term volatility to establish favourable investments.
- Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it should not be held.

Investment Strategy/Process Beliefs

Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

Risk should be viewed both qualitatively and quantitatively. Focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Listed Equities are expected to generate superior long-term returns relative to Government bonds and our beliefs in this Listed Equities are expanded below: _.

    a. Passively managed market cap-based investment has a balancing role to play in most pension schemes' equity allocations, bringing liquidity, transparency and reducing average fee levels.
    b. Market cap weighted indices have their drawbacks; adding carefully selected systematic, factor tilted equity strategies can improve risk-adjusted returns, benefiting from disciplined rebalancing (the "rebalancing premium").
        i. Exposure to "valuation factors" can improve risk adjusted returns over time. Even if outweighed by technical factors in the short-term, diversified exposure to valuation-based factor tilts can add excess return per unit of risk over a reasonable timeframe.
        ii. Exposure to the "low volatility factor" can reduce absolute equity volatility and improve risk-adjusted returns. Strategies can be implemented which manage downside risk while achieving market returns over time.
        iii. Exposure to the "small size factor" can improve risk-adjusted returns. A diversified tilt towards medium and smaller sized businesses is generally rewarded over time.
        iv. Carefully selected exposure to actively managed growth strategies can improve the balance of overall equity exposure and improve risk adjusted returns.
    c. Exposure to emerging markets provides diversification and the opportunity for higher returns due to the higher risk premium typically earned for investing in these markets.
    d. With sufficient research and governance, active equity management can be incorporated to add value relative to market cap weighted indices; overall active equity exposure should be focused predominantly on stock-specific risk.

e. Currency exposure associated with investing in equities can add volatility. Whilst it can be desirable to retain exposure to some currencies, hedging a proportion of non-domestic currency exposure can reduce the volatility of equity investing.

- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time, but it is not guaranteed and can be hard to access managers who consistently out-perform the relevant benchmark. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty, conflicts of interest and reputational risk need assessment and management, in addition to investment risk.
- Concentrated portfolios (smaller numbers of holdings or less external managers) allow for greater investment focus, lower investment costs, and enable more focused engagement with Responsible investment.
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

Organisational Beliefs

- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- When outperformance of a desired benchmark is not possible the fund will use index funds, financial instruments, or proxies (Investments that share similar characteristics) to gain exposure to the asset class in the most cost-effective way.
- Investment costs are necessary to generate outperformance in asset classes where outperformance is achievable. Investment costs are a certain cost that should be fully transparent and managed by the operator in the best interests of the pension Fund.

Responsible Investment Beliefs

- **Long termism:**

A long-term approach to investment will deliver better returns and the long-term nature of the Fund's liabilities allows for a long-term investment horizon

The Fund believes that *Sustainable economic growth that is done responsibly should support the Fund's requirement to protect returns over the long term*.' The Fund believes that this can be achieved by focussing on the specific United Nations Sustainable Development Goals (SDGs) as follows:-

Economic Goals
SDG 8. Decent Work and Economic Growth
SDG 9. Industry, Innovation & Infrastructure
SDG 12 Responsible Consumption and Production
*Climate Goa*ls
SDG 7. Affordable and Clean Energy
SDG 13. Climate Action
Health Goal
SDG 3 Good Health and Wellbeing

- **Responsible investment:**

Responsible investment is supportive of risk adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Fund and its investment managers.

- **Diversification, risk management and stewardship:**

Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well diversified portfolios face systematic risk. Systematic risk can be mitigated over the long-term through widespread stewardship and industry participation.

- **Corporate governance and cognitive diversity:**

Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision making, and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.

- **Fees and remuneration:**

The management fees of investment managers and the remuneration policies of investee companies are of significance for the Fund, particularly in a low return environment. Fees and remuneration should be aligned with our long-term interests, and value for money is more important than the simple minimisation of costs.

- **Risk and opportunity:**

Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Fund's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.

- **Climate change[1]:**

Financial markets could be materially impacted by climate change and by the response of climate policymakers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of likeminded investors where feasible. See also the Funds separate Climate Risk Strategy

[1] *By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk factor of particular importance to several stakeholders, and we have communicated our investment beliefs about climate change for reasons of transparency.*

DRAFT CLIMATE RISK STRATEGY

MARCH 2022

Contents

1. Introduction

This Climate Strategy sets out Worcestershire Pension Fund's (the Fund) approach to addressing the risks and opportunities related to climate change.

The Fund is supportive of the ambitions of the Paris Agreement on Climate Change to hold the increase in the global temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels – ratified by 191 parties.

The Pensions Committee (the Committee) is responsible for reviewing and approving the Fund's policies and strategies, including its Climate Strategy. The Climate Strategy works in tandem with the Fund's Investment Strategy Statement and Funding Strategy Statement.

The development of a separate Climate Strategy reflects the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund. For example, 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 Committee will review the Climate Strategy at least every two years, or at such time as the Committee determines it is appropriate to review the Fund's approach to addressing the risks and opportunities related to climate change.

Responsibility for the identification and management of climate-related risks, together with the implementation of the Fund's Climate Strategy, resides with the Chief Financial Officer and the Pensions Investment & Treasury Management Manager.

2. Climate Change

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. Most of this warming has occurred in the last 35 years, with the five warmest years on record taking place since 2010. The observed global mean surface temperature has risen from around 1950 onwards. Over 97% of climate scientists (Source: NASA) agree that this trend is the result of greenhouse gas (GHG) emissions which are being trapped in the atmosphere and creating a 'greenhouse effect' – a warming that occurs when the atmosphere blocks heat radiating from Earth towards space. These climate scientists have observed that these climactic changes are primarily the result of human activities including electricity and heat production, agriculture and land use change, industry, and transport.

This is causing more frequent and more extreme weather events and world governments have started to respond. The signatories to the 2015 Paris Agreement committed to keeping the global temperature rise this century to well below 2.0°C compared with pre-industrial levels and to aiming to limit the increase to 1.5°C (Article 2(1)a). The Paris Agreement commits signatories to the establishment of Nationally Determined Contributions (NDCs), which are intended to be individually equitable and collectively sufficient to achieve Article 2(1)a. It is estimated that under current global policies (and assuming successful implementation), the world is heading towards a warming of 3.2°C.

The low-carbon transition is already underway, with a number of governments and institutions around the world intensifying their climate change policies, and corporates responding in turn. Investors are exposed globally to the risks and opportunities presented by climate change adaption and mitigation. The risks might include holding companies whose business will be negatively impacted as the climate transition evolves (e.g. fossil fuel companies). The opportunities might include investing in companies that stand to gain from the transition to a low carbon economy.

Investors have an important role to play in the transition to a low carbon economy, influencing company behaviours and encouraging the development of better climate-related disclosures. However, investors cannot effect material change alone. Governments, policy makers, consumers, companies, and investors all have a role to play in the transition to a low carbon economy.

If policy and corporate action does not progressively transition towards the net zero goal, it will be extremely challenging for investors to achieve a portfolio of assets that has net zero emissions in 2050.

The Fund recognises that:

- Human activities have caused a change in the earth's climate which presents material risks to human and eco-systems and to global economies.
- A global coordinated policy response and a change in consumer behaviour will be required to limit the damaging rise in global temperatures.
- Climate change is a long-term financial material risk for the Fund, across all asset classes, and has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.

The Fund believes that:

- The risks and opportunities of climate change should be considered as part of asset allocation decisions, manager selection decisions and individual investment decisions.
- Diversification across asset classes, regions and sectors is an important risk management tool to reduce the unpredictability of climate-related risks such as unexpected events (weather) and expected events (such as melting ice) where the implications of these events aren't fully understood as yet.
- In order to fully integrate climate-related risk into the Fund's investment processes, the consistency, comparability, and quality of climate-related data, including the identification and measurement of companies' Scope 3 emissions will need to improve. **Scope 3 emissions** are the result of activities from assets not owned or controlled by the reporting organisation, but that the organisation indirectly impacts in its value chain. Scope 3 emissions, also referred to as value chain emissions, often represent the majority of an organisation's total Greenhouse Gas (GHG) emissions
- The low-carbon transition is already underway, but the pathway is unclear, and the transition will not occur by focusing only on the suppliers of energy; the demand for energy must also be addressed.
- It is possible for a company to shift its business model in order to thrive in the transition to a low carbon future; such a shift is more likely with the support and stewardship of responsible investors.

3. Climate-related Objectives

The Fund aims to have access to the best possible information available on the risk and opportunities presented by climate change. This includes impacts to the Fund's investment strategy, or its funding strategy, as a result of transition risks, physical risks, and opportunities.

The Fund aims to ensure that its investment portfolio will be as resilient as possible to climate-related risks over the short, medium, and long term. For an effective first line of defence, the Fund aims to integrate climate-related factors into the investment process, including the selection of investment managers.

The Fund intends to reduce the carbon intensity of its portfolio through its selection of investments and investment managers.

4. Collaboration and Transparency

The Fund aims to collaborate with like-minded organisations to support the ambitions of climate-related initiatives and aims to be fully transparent with its stakeholders through regular public disclosure, aligned with best practice.

- The Fund supports the Paris Agreement on Climate Change.
- The Fund will actively participate in selected initiatives that lend support to the Fund's Climate Strategy, including working with other like-minded investors to engage with high-emitting companies.
- The Fund supports the Taskforce on Climate-related Financial Disclosures (TCFD) and adopts its recommendations for the Fund's climate disclosures.
- The Fund will use its membership of the Local Authority Pension Fund Forum (LAPFF) and being a partner to the LGPS Central Limited pool to assist it in pursing engagement activities.

5. Strategic Actions

5.1 Measurement & Observation

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.

The Fund will make regular measurements and observations on climate-related risks and opportunities relevant to the Fund. This will include:

- Identification of the most material climate-related risks to the Fund.
- Economic assessment of the Fund's asset allocation against plausible climate-related scenarios.
- A suite of carbon metrics for the Fund's listed equity portfolio to allow the Fund to assess progress in responding to climate-related risks and opportunities, including carbon intensity; weight in companies with fossil fuel reserves; weight in companies with thermal coal reserves; and weight in companies with clean technology. A more complete analysis of all of the Fund's assets classes will be carried out when reliable carbon-related data becomes available for non-listed equity assets.
- Assessment of progression against the Fund's carbon footprint and low carbon & sustainable investment targets.

Methodologies for assessing the impact of future climate-related scenarios, including the possibility of measuring against alignment with the Paris Agreement, remain at an early stage of development, and the Fund will support efforts to develop more reliable and comparable methodologies.

The Fund recognises that there is currently significant variability in the relevance, consistency, comparability, and quality of companies' climate-related disclosures. The Fund supports adoption, and encourages disclosure, in line with the recommendations of the TCFD.

5.2 Asset Allocation & Targets

Where there is a credible evidence base, the Fund will integrate climate-related factors into asset class reviews, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement. The Fund will aim to:

- Reduce further the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio compared to its weighted benchmark in 2021 by the end of 2022; and look to set a future target during 2022.
- Continue to invest a proportion of the Fund's portfolio in low carbon & sustainable investments by the end of 2022.

The Fund will review the setting of carbon footprint and low carbon & sustainable investment targets during 2022 and thereafter on a triennial basis.

5.3 Manager Selection and Monitoring

The Fund will assess material climate-related risk and opportunities using an evidenced based long term investment appraisal to inform decision making, alongside other relevant investment factors, as part of the investment manager selection process.

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

5.4 Stewardship

The Fund's annual Responsible Investment Stewardship report will include a section on climate-related stewardship plans. This will set clear goals of engagement with investee companies and investment managers to manage risks and opportunities within the Fund's investment portfolio, focusing on those risks and opportunities which will have the greatest impact.

The Fund will collaborate with other like-minded investors where possible and the Fund will participate in selected collaborative initiatives where these support the Fund's climate-related objectives. The Fund will make full use of its voting rights and will co-file or support climate-related shareholder resolutions where these support the Fund's climate-related objectives.

6. Transparency & Disclosure

The Fund will:

- Prepare a TCFD Report annually
- Report on the progression against the Fund's carbon footprint and low carbon & sustainable investment targets annually
- Report on a suite of carbon metrics in the Fund's annual report.
- Disclose the stewardship reports of the Fund's key investment managers on a quarterly basis.
- Report on progress against the RI Stewardship Plan engagement goals annually.

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Worcestershire Pension Fund

WORCESTERSHIRE PENSION FUND CLIMATE-RELATED DISCLOSURES REPORT

FEBRUARY 2022

Contents

Management Summary

Recognising that climate change is a risk to financial markets, the Financial Stability Board (FSB) felt that it would be desirable to have clear, comprehensive, high-quality information on its impact and created the Task force on Climate-related Financial Disclosures (TCFD) to improve and increase the reporting of climate-related financial information.

The TCFD came up with recommended disclosures in the four thematic areas that it felt represent the core elements of how organisations operate:

• **Governance**: Disclose the organisation's governance around climate-related risks and opportunities.

• **Strategy**: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

• **Risk management**: Disclose how the organisation identifies, assesses, and manages climate-related risks.

• **Metrics and targets**: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

The Fund believes that:

1. Better disclosure of the risks and opportunities presented by rising temperatures, climate related policy, and emerging technologies in our changing world is in our interests as we will be able to:

    a. More effectively evaluate climate-related risks to us and our employers.

    b. Make better-informed decisions on where and when to allocate our assets.

2. The TCFD's recommendations provide the optimal framework to describe and communicate the steps that pension funds are taking to manage climate-related risks and to incorporate climate risk management into their investment processes.

3. TCFD-aligned disclosure from asset owners, asset managers, and corporates is in the best interest of our stakeholders.

Further background to the TCFD's recommendations is also provided in Appendix 1 and 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 Statement and our annual reports include a Governance 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 Pensions Committee.

The Pension Committee ('the Committee') is responsible for the oversight of climate-related risks and the Fund's Climate Change Risk Strategy. The Committee meet four times a year, or otherwise as necessary and includes quarterly engagement and voting reports (including climate change) from the Fund's investment managers as a standing item on the agendas. Quarterly engagement reports are made available by the Fund on their website. The Committee also approve the Investment Strategy Statement (ISS), which includes the Fund's approach to responsible investment and a specific section on climate change. 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 Climate Change Risk Strategy is premised on five foundational evidence-based beliefs about climate risk, considering climate science, the energy transition, and climate stewardship. The Climate Change Risk Strategy is reviewed at least every two years by the Committee.

The Pension Investment Sub Committee are responsible for identifying and approving investment in climate related opportunities. The Committee is currently exploring the potential for additional allocations to sustainable and/or low carbon equities.

The Committee, Pension Investment Sub-Committee and Pension Board receive focused training and workshops on responsible investment topics (including climate change).

In late 2020 the Fund undertook an external Environmental, Social and Governance (ESG) audit of the Funds' investments and at the same time sought to map all the Fund's investments to the United Nations Sustainable Development Goals (SDGs) including SDG13 Climate action. 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.

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

In January 2022 the Committee received its second Climate Risk Report which is being used to implement the Fund's Climate Change Risk Strategy.

The 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 LGPS.

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

The Chief Financial Officer and the Pensions Investment & Treasury Management 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 ESG factors and how these are integrated into their investment process is assessed as part of the manager selection process. The manager selection guidelines on impact criteria and TCFD Compliance further strengthens this process. External portfolio managers are monitored on a regular basis by the Pension Investment Sub-Committee.

In 2020, Fund Officers received a 2020 Climate Risk Report (updated report received January 2022 relating to 2021) and an ESG Audit which mapped the Fund's Investment to the SDGs. Both of these enabled 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. Completion of an SDG mapping is expected to occur every two to three years

As detailed in the Climate Change Risk Strategy, the Fund leverages partnerships and initiatives – including the Institutional Investors Group on Climate Change (IIGCC) – to identify and manage climate risk.

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.

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 and / or low carbon equities where this supports the Fund's investment and funding objectives.

The Fund aims to target investments in global companies that are sustainable in financial, environmental, social and governance terms and, where appropriate, providing solutions to sustainability challenges. Furthermore, the Fund has invested in several renewable energy opportunities, and continues to actively assess and explore additional 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 in a 2°C scenario.

Partly to reduce its climate-related risks, the Fund transitioned out of a very carbon intensive passive fund and invested £200m in a climate multi-factor fund in November 2021. While seeking exposure to five style factors, the fund tilts away from companies that are carbon intensive or own fossil fuel reserves, and tilts towards companies that generate green revenues. In addition, during 2021 the Fund transitioned assets from a further carbon intensive passive fund into an existing passive fund that has a very low carbon footprint. The Fund also recently decided to invest £50m per annum for the next 3 years into a Forestry Growth and Sustainability Fund. 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 will also use the analysis of the SDG Mapping exercise which shows £1.4bn of its £2bn of listed assets had exposure to SDG13 Climate Action through some of the most influential global companies contained within the World Benchmarking Alliance's SDG2000 benchmark. 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 7 Classified as Confidential

➢ 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.

In 2020 the Fund engaged the expertise of an external contractor, Mercer LLC[1] , to understand the extent to which the Fund's risk and return characteristics could 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, sustainable equities, and sustainable infrastructure.

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 (detracting by 0.08% annually over the same period). Over the longer time frame to 2050, the 2°C outcome continues to add positively to 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.

[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.

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 to assess financially material risks in support of the Fund's Climate Change Risk Strategy which includes both top-down and bottom-up analyses of its listed holdings and a Sustainable Development Goals Audit 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 the Fund's monitoring process will be more focussed in future to review the integration of climate risks into the managers portfolio management approaches, and to understand their engagement activities.

Engagement activity is conducted with investee companies through selected stewardship partners including LGPSC, 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 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. As set out in the Fund's Climate Change Risk Strategy, the main management techniques are utilising the best possible tools and techniques for assessing climate-related risks; accessing the best possible climate change data available; and working collaboratively with other investors.

Although the Fund's Climate Change Risk Strategy involves 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 a 1.5°C and disclose effectively using the TCFD recommendations.

Either through its own membership or through LGPSC 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.
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.

The use 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 LGPSC are instructed according to LGPSC's Voting Principles, to which the Fund contributes during the annual review process. LGPSC'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. LGPSC has co-filed shareholder resolutions that relate to climate change.

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 Committee and Pension Investment Sub-Committee. LGPSC's activities are reported in Quarterly Stewardship Updates which are available on the LGPSC website.

Based on its first Climate Risk Report, the Fund has developed a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, EOS at Federated Hermes, and LAPFF, includes targeted engagement with eight investee companies of particular significance to the Fund's portfolio. The Fund believes that all companies should align their business activities with the Paris Agreement on climate change.

Table 4: Companies included in the Climate Stewardship Plan

Company	Sector
BHP	Materials
Duke Energy	Utilities
Keppel DC Reit	Real Estate
Nextera Energy	Utilities
Rio Tinto	Materials
The Southern Company	Utilities
Taiwan Semiconductor Manufacturing Company	Info Tech
Wizz Air	Industrials

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 Committee. While specific macro-economic risks are not usually included in isolation, the Fund has included climate risk on the Fund's Risk Register.

Climate risk is further managed through the Fund's Climate Stewardship Plan.

Metrics and 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 LGPSC on carbon risk metrics for its listed equities portfolios, which represent 71% 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).

In 2020 the Fund undertook an external ESG audit of the Funds' investments to the SDGs. This was to establish a baseline of the Fund's current position and to help formulate future strategic actions for the Fund's investment approach.

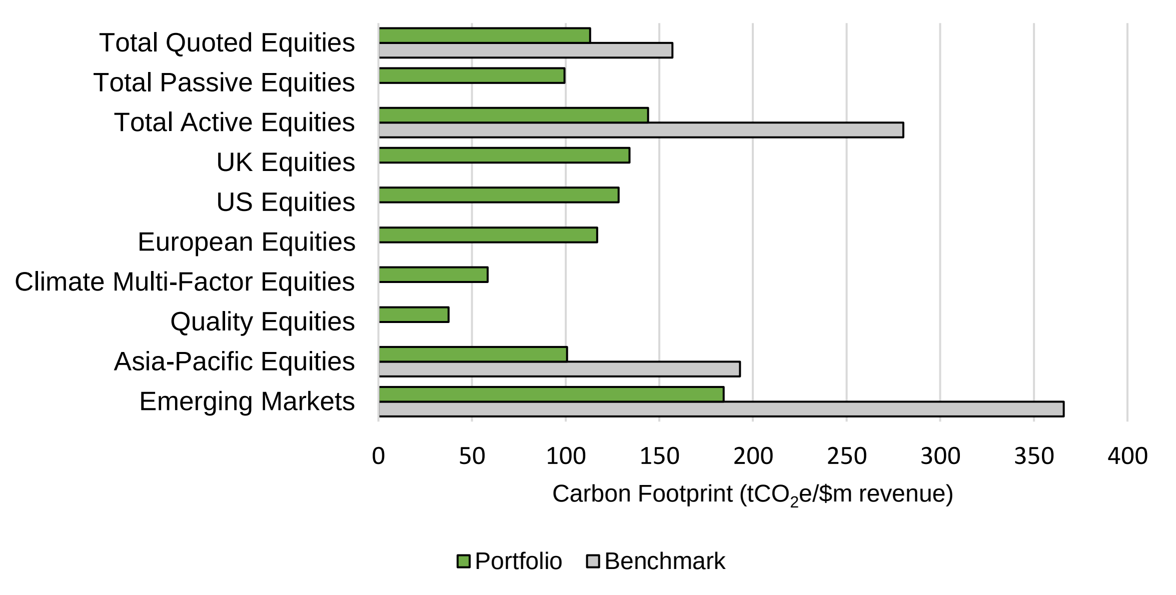
This involved examining the existing Investment Portfolio holdings and their relationship (positive/ negative) to the 17 SDGs, specifically highlighting a number of specific SDGs one of these being SDG13 Climate Action that will be used to identify the risks and opportunities associated with the analysis.

[3] Following TCFD guidance we use weighted average portfolio carbon footprints.

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]:

Figure 4: Portfolio Carbon Footprint in each regional equity portfolio[5]



The Fund's Total Equities portfolio is 28.05% (23.75% in 2020) 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 28.05% 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.49% (57% in 2020) 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 5) and thermal coal reserves (Figure 6) 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).

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[4] Analysis undertaken on the listed equities portfolios with holdings data as of 30th November 2021 unless otherwise stated. The information in Figure 4, 5, 6, 7 & 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 Multi-Manager Fund, LGIM UK Equity, LGIM North America Equity, LGIM Europe Ex-UK Equity, LGIM Global Fund. The Total Active Equities portfolio comprises the Nomura Asia-Pacific and LGPSC 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 fund. The LGPSC Emerging Market Equity Active Multi-Manager fund contains 3 underlying strategies: BMO, UBS and Vontobel.

[5] Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

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.

Figure 5: Exposure to fossil fuel reserves in each regional equity portfolio[6]

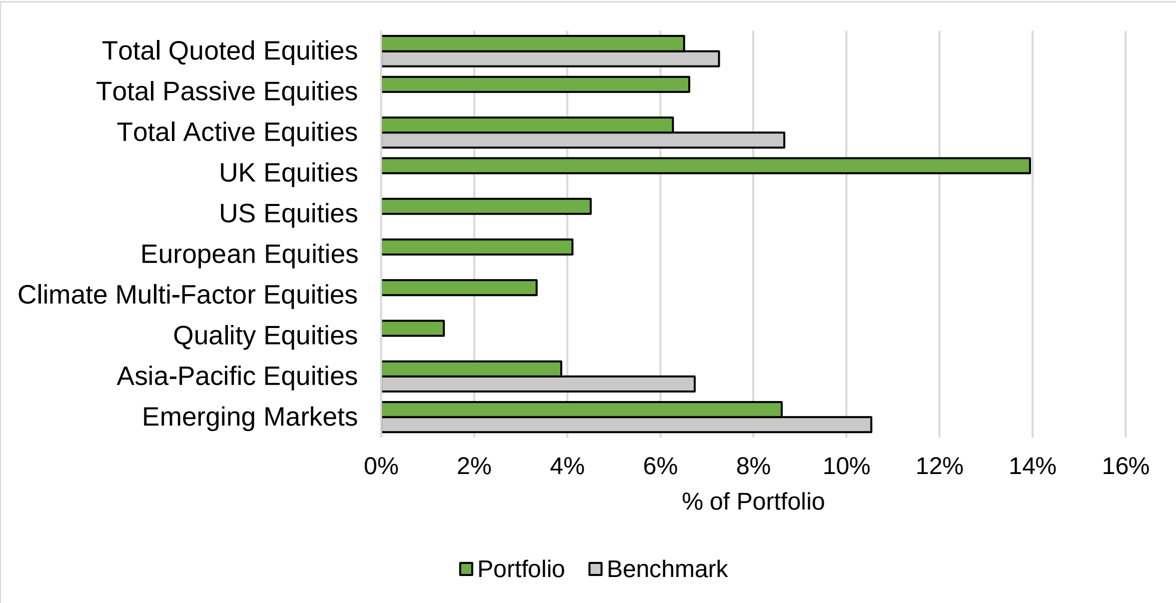


Figure 6: Exposure to coal fuel reserves in each regional equity portfolio[7]

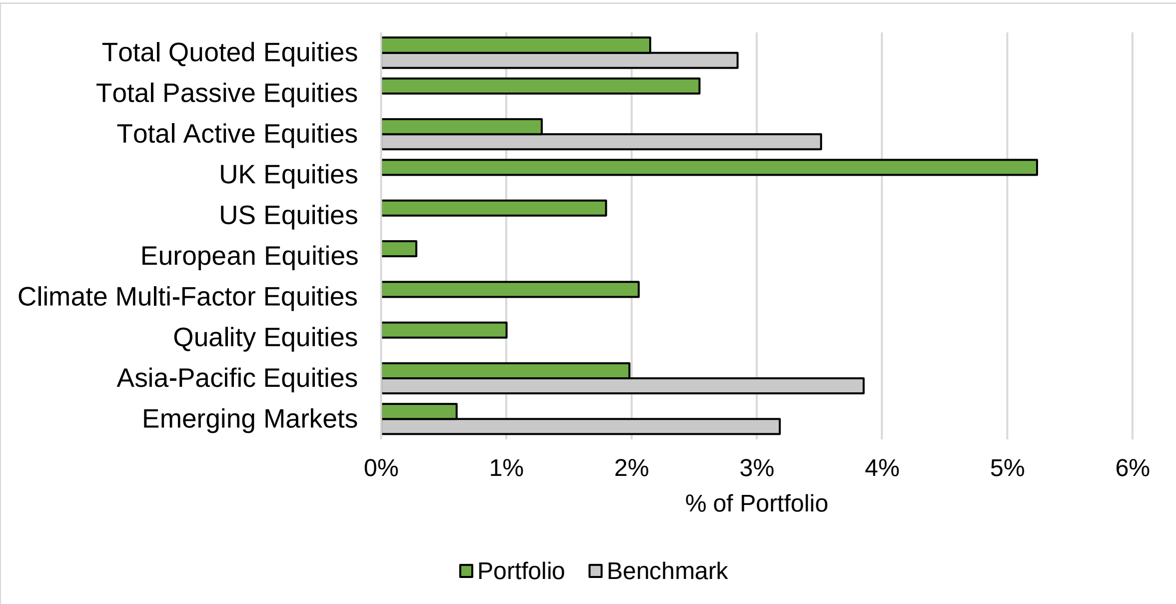
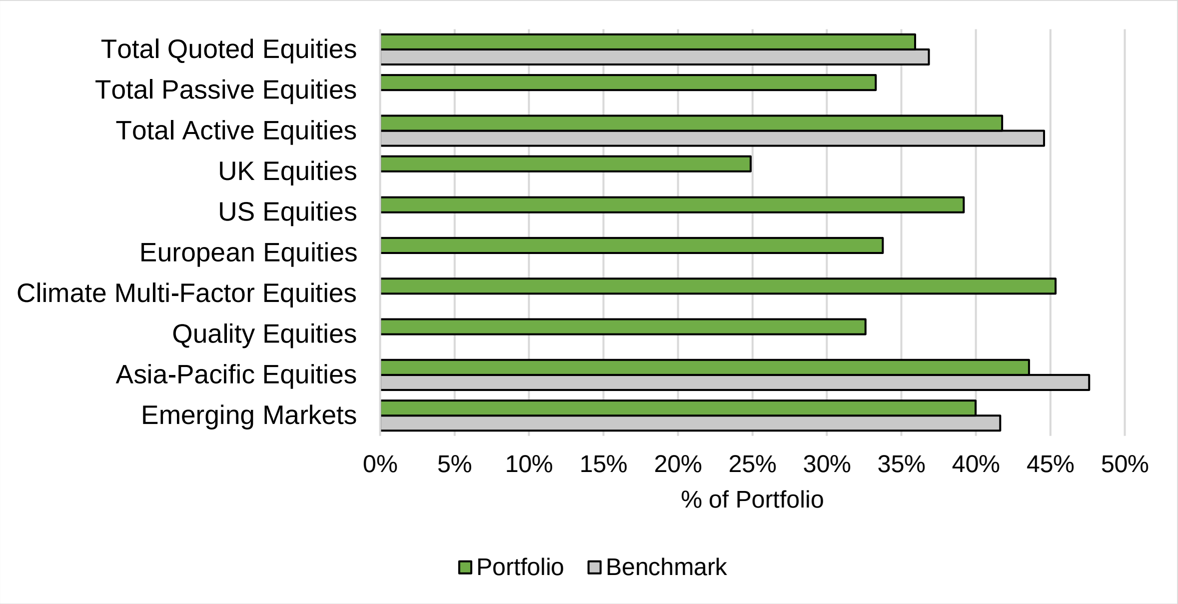


Figure 7 below indicates that the Fund’s Total Quoted Equities portfolio has slightly less exposure to clean technology compared to the blended portfolio benchmark. The Fund notes that this measure should be viewed with some caution as there appears to be a moderate

[6] Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.
[7] Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

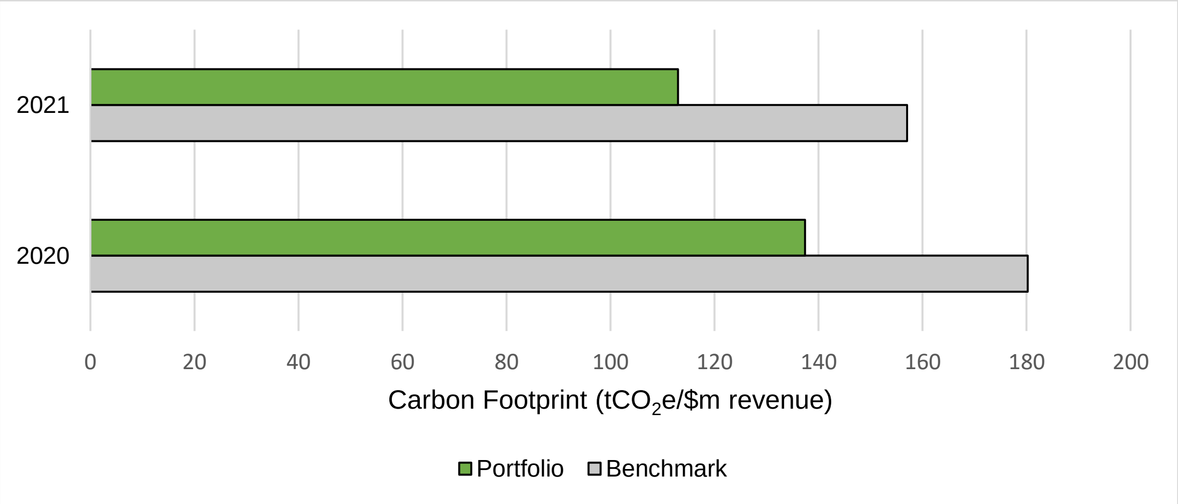
positive correlation in the dataset between sectors that have a high carbon intensity (or a higher weight in fossil fuel reserves) and those that have a higher weight in clean technology. For example, Utilities and Oil & Gas are the sectors with the third and fourth highest weight in clean technology. 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. Furthermore, the analysis takes no account of the Fund's unquoted on-shore & offshore, solar, and hydro renewable energy infrastructure investments.

Figure 7: Exposure to clean technology in each regional equity portfolio[8]



As per Figure 8, the Fund's carbon footprint has improved between 29th May 2020 and 30th November 2021. Within this timeframe, the carbon footprint of the Total Equities portfolio decreased by 17.77%. The Total Equities' exposure to fossil fuel reserves, thermal coal exposure and weight in clean technology remained largely unchanged year on year.

Figure 8: Total Equity portfolio carbon footprint, May 2020 vs November 2021[9]



[8] Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.
[9] Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

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.

SDG Mapping to the Fund's portfolio undertaken by Minerva

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 deemed likely by the WBA to have the greatest potential to help deliver the SDGs, if managed in a sustainable manner.

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.

The Fund also assessed the number of its portfolio companies referencing TCFD disclosures. This found that almost 47% of the Fund's in scope equities under coverage have made some material reference to TCFD in their latest Annual Report and Accounts. The Fund aims to request that managers present their TCFD report in future.

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

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

The Fund has reviewed the use of targets. As per the Climate Change Risk Strategy, the Fund has set the following targets:

No.	Target	Progress
1	Reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio compared to its weighted benchmark in 2020 by the end of 2021; and look to set a future target by March 2022.	Between 29th May 2020 and 30th November 2021, the Fund experienced a 17.77% reduction in its Total Equities portfolio carbon footprint, resulting in the fund being 28% more carbon efficient than the blended benchmark.
2	Invest a proportion of the Fund's portfolio in low carbon & sustainable investments by the end of 2021.	• In November 2021, the Fund invested £200m into a Climate Multi Factor Fund. • Transitioned £100m of assets from a carbon intensive passive fund into an existing passive fund that has a very low carbon footprint. • Invested £50m into a Forestry Growth & Sustainability Fund. • Invested £75m into an infrastructure fund with strategic objectives that combines return generation and a positive contribution to environmental and social challenges.

APPENDIX 1

Introduction to the TCFD

Introduction to the TCFD The Task force 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.

About this report

This report is Worcestershire Pension Fund's (WPF or 'the Fund') second climate-related disclosures report. It describes the way in which climate-related risks are currently managed within the Fund.

The report follows the release of WPF's Climate Strategy in early 2021. The Climate Strategy draws, in part, from the findings of the Fund's first Climate Risk Report; an in-depth review of the Fund's climate risks under different climate change scenarios from the Fund's pooling company, LGPS Central Ltd. The Fund has since received its second Climate Risk Report from LGPS Central Ltd.

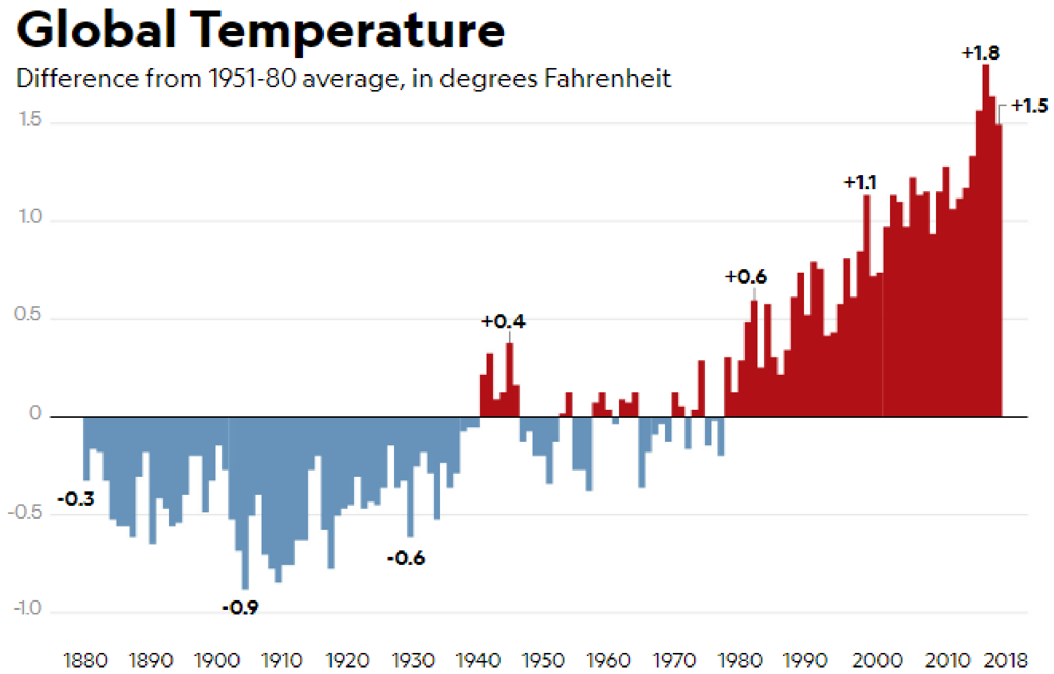
This climate-related disclosure report aims to provide an up-to-date overview of the Fund's approach to managing climate risk, encompassing both the recent changes to the Fund's climate strategy and the findings of the 2021 Climate Risk Report. In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, this report also discloses the Fund's most recent Carbon Risk Metrics analysis.

APPENDIX 2

Climate-related risks

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. 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 1 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 will be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

Figure 2: Selected extracts from the Paris Agreement on climate change.[10]

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.

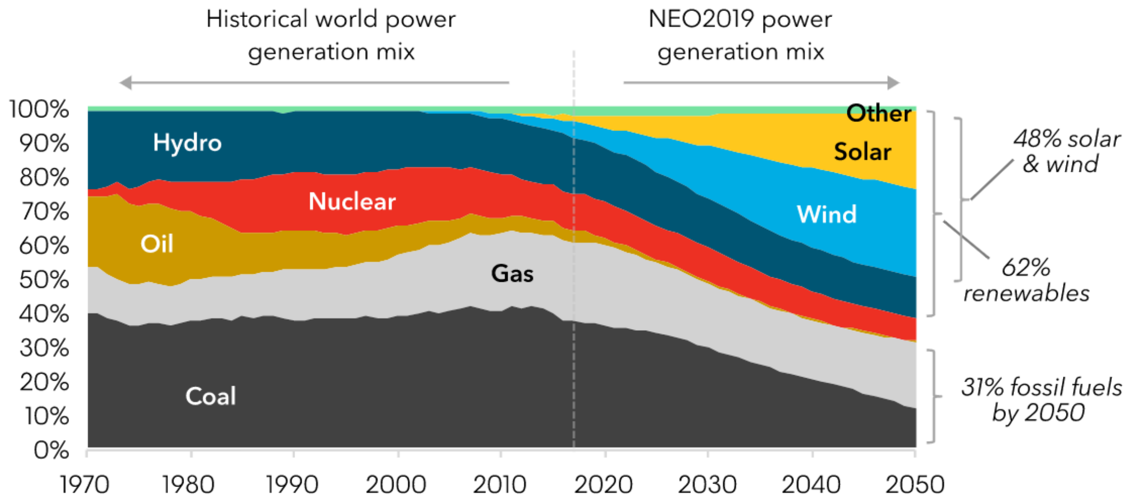
Given its contribution to global green-house gases (GHG) emissions, the energy sector is expected to play a significant role in the long-term decarbonisation of the economy. Figure 3 suggests that in one climate scenario the proportion of coal, oil, and gas in the global power generation mix will shrink to 31% of total by 2050. It is important to recognise however 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.

The issue faced by diversified investors (such as pension funds) is not limited to the oil & gas and power generation sectors, but also to downstream sectors. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors. Research suggests that the oil & gas sector is not homogeneous with regards to climate risk: were climate policies to affect the oil price, those companies with assets lower down the cost curve are less likely to be financially compromised by those companies with higher cost assets. Investors that assume each fossil fuel company bears an equal magnitude of climate-related risk could be led towards sub-optimal decision-making.

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.

[10] Source: UNFCCC

Figure 3: The Bloomberg New Energy Outlook global power generation mix. Source: BloombergNEF.



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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.

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Glossary of Terms

Clean Technology/ Weight in Clean Technology: the weight of a portfolio invested in companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

Coal Reserves/ Portfolio exposure to thermal coal reserves: the weight of a portfolio invested in companies that own thermal coal reserves.

Engagement: dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

Fossil Fuel Reserves/ Portfolio exposure to fossil fuel reserves: the weight of a portfolio invested in companies that own fossil fuel reserves.

Physical risk/ climate physical risk: the financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Portfolio Carbon Footprint/ Carbon Footprint: A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.

Scope 1 Greenhouse Gas Emissions: Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles.

Scope 2 Greenhouse Gas Emissions: Indirect emissions from the generation of purchased energy

Scope 3 Greenhouse Gas Emissions: Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Stewardship: the promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Transition risk/ climate transition risk: the financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

Abbreviations

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

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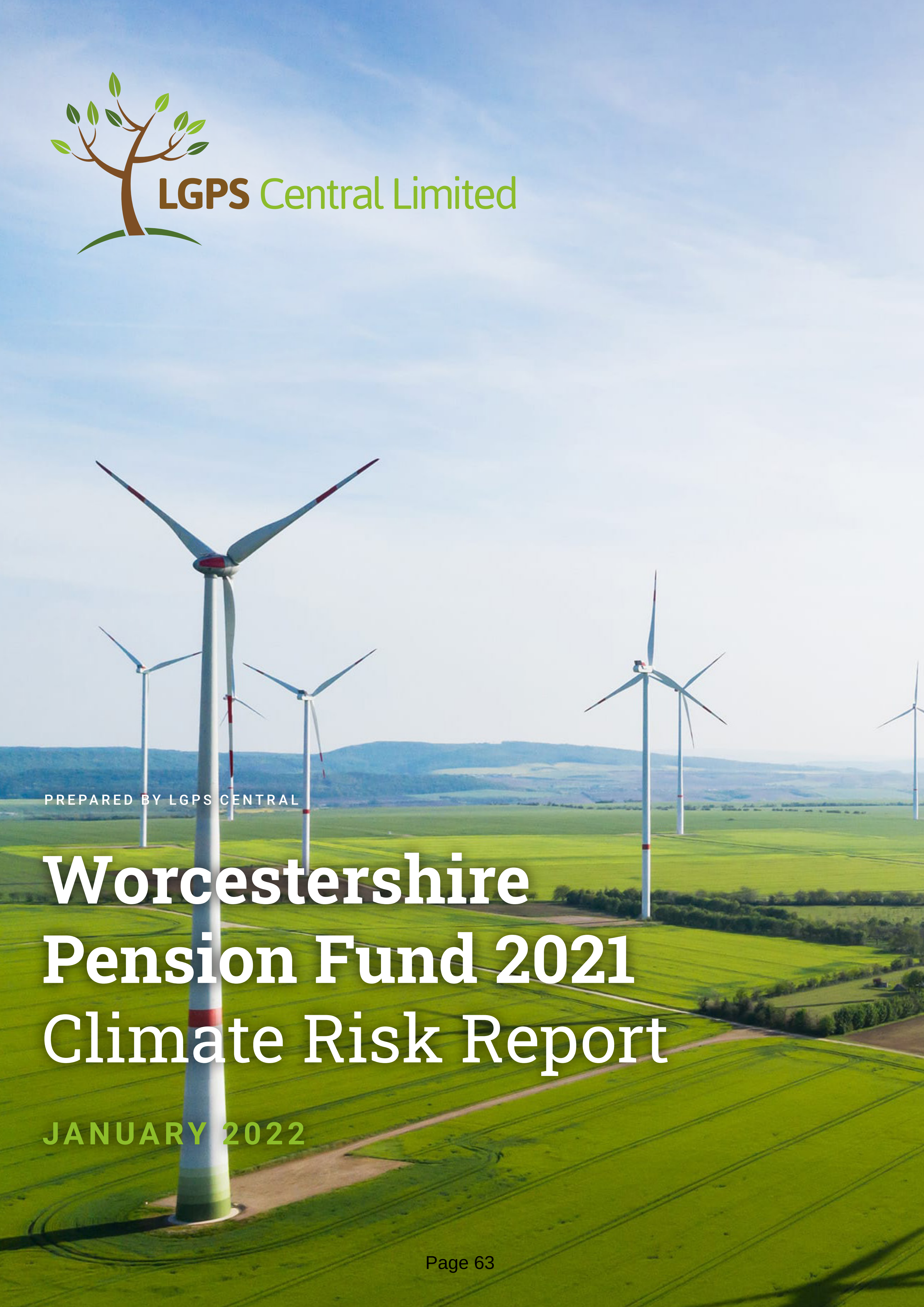


LGPS Central Limited

PREPARED BY LGPS CENTRAL

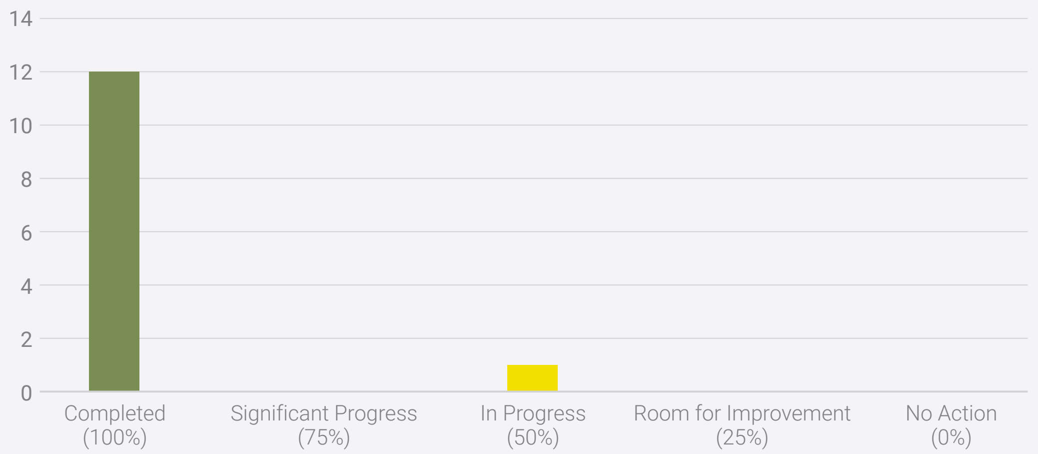
Worcestershire Pension Fund 2021 Climate Risk Report

JANUARY 2022

Contents

1.0 Executive Summary

Governance Recommendations and Considerations Implemented by WPF



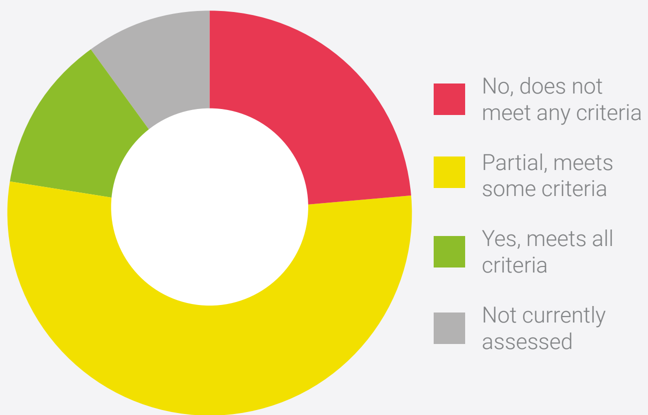
Disclosed the Fund's first standalone TCFD Report

92% of governance recommendations and considerations completed

Reported against the 2020 Stewardship Code

~£200m invested into low carbon factor fund

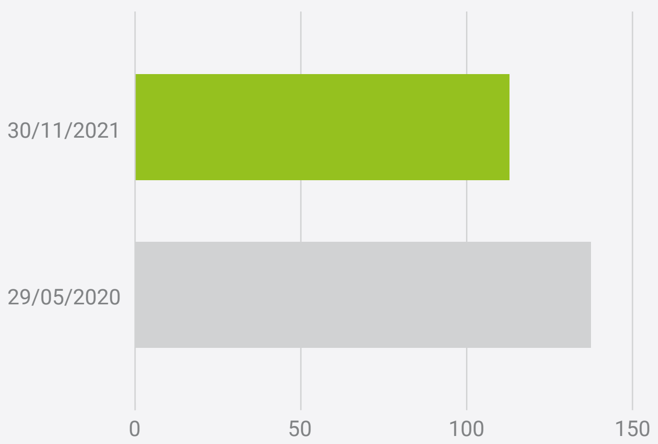
CA100+ Benchmark Alignment of CSP Companies



Total Equities carbon footprint 28.05% below Blended Benchmark

Published a Climate Strategy

Total Equities Carbon Footprint (tCO_2e/\$m revenue)[1]



17.77% carbon reduction in Total Equities portfolio between 29.05.2020 and 30.11.2021

Regular training on RI and climate change matters

6.51% of the Total Equities portfolio invested in Fossil Fuel reserves

All active equity strategies more carbon efficient than the benchmark

[1] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission

This report is Worcestershire Pension Fund's (WPF) second Climate Risk Report. In September 2020, WPF received its first Climate Risk Report. Through a combination of bottom-up and top-down analysis, the report was designed to allow WPF a view of the climate risk held throughout its entire asset portfolio, accompanied by proposed actions the Fund could take to manage and reduce that risk. In the past 16 months WPF have been actively implementing the report's recommendations. The purpose of this second Climate Risk Report is threefold. We aim to: analyse progress against the baseline of data and recommendations established in the first report; to reassess the financially material risks and opportunities in the Fund to provide a refreshed view of the Fund's exposure to climate-related risk, and; to identify a series of further measures by which WPF can continue to manage material risks.

The report is structured to align with the four pillars of the Taskforce on Climate-Related Financial Disclosures (TCFD) and facilitates the Fund's annual public disclosure against this framework. We provide below a summary of the key findings from each section[2].

GOVERNANCE

The Fund has made progress in enhancing its responsible investment and climate change practice in the last 16 months. This includes publishing its first TCFD-disclosure report, reporting against the 2020 Stewardship Code and producing a Climate Change Risk Strategy. Out of the 13 recommendations and considerations issued in the first Climate Risk Report, 12 have been completed.

STRATEGY

Section 4.2 provides a literature review of climate risk management within alternative asset classes. Outside of listed equities, the lack of transparency and established reporting standards limits investors' ability to leverage climate data for analysis. To bridge this gap, we suggest several alternative actions that WPF could consider utilising to further manage climate risk within non-listed investments.

RISK MANAGEMENT

We have reviewed ongoing engagements with the companies in the Fund's Climate Stewardship Plan. All of the companies are making clear progress which is evidenced by achievement of several measures of success. Despite this, most of these companies have not attained all of the indicators within the CA100+ benchmark assessment, and they are not aligned with a 1.5°C scenario.

METRICS & TARGETS

The Carbon Risk Metrics we have analysed suggest that climate risk is better managed by the Fund than in the benchmarks. Between 29th May 2020 and 30th November 2021, the carbon footprint of the Total Equities portfolio has decreased by 17.77%. At the latter date, the Total Equity carbon footprint was 28.05% more carbon efficient than the benchmark. Exposure of the Total Equities to fossil fuel reserves also decreased between 2020 and 2021.

Climate change is, for asset owners, a risk that cannot be fully diversified. Almost all asset classes, sectors and regions are likely to be affected by the physical, policy, or market-related consequences of climate change over the long term. Climate risk is not reserved for oil & gas companies, nor for listed equities, and we suggest that investors seeking to manage climate risk should cast their net wider than is commonly assumed in public discourse (where divesting from energy suppliers is taken as a synonym for climate risk management).

It is our aim that this Climate Risk Report will assist the Fund in continuing its journey to integrate climate risk into its investment decisions.

[2] Source of all carbon risk metrics data: MSCI ESG. Attention is drawn to Section 8.0 "Important Information"

2.0 Recommendations and Considerations

2.1 Governance

CATEGORY	PORTFOLIO	RECOMMENDED ACTION	REPORT REFERENCE
Governance	Total Fund	• **R:** Continue to implement the recommendations and considerations from the 2020 Climate Risk Report	§4.1

2.2 Strategy

CATEGORY	PORTFOLIO	RECOMMENDED ACTION	REPORT REFERENCE
Strategy	Alternative Asset Classes[3]	• **R:** Explore the potential options to monitor and manage climate risk in alternative asset classes	§4.2

2.3 Risk Management

CATEGORY	PORTFOLIO	RECOMMENDED ACTION	REPORT REFERENCE
Company Stewardship	Total Equities	• **R:** Continue to engage the companies highlighted in the Climate Stewardship Plan through selected stewardship partners • **R:** Report progress in the next Climate Risk Report	§4.3.2

2.4 Metrics & Targets

CATEGORY	PORTFOLIO	RECOMMENDED ACTION	REPORT REFERENCE
Metrics	Total Fund	• **R:** Repeat Carbon Risk Metrics analysis annually • **R:** Report annually on progress on climate risk using the TCFD Framework • **R:** Continue to include key carbon intensive and fossil fuel stocks in the Climate Stewardship Plan • **R:** Continue to monitor manager's stewardship activities with key carbon intensive and fossil fuel holdings	§4.4.1

[3] By 'Alternative Asset Classes' we refer to those outside listed equities where data is more limited. This includes, Fixed Income, Private Equity & Debt, Infrastructure and Property.

3.0 Introduction

3.1 Scope of the Report

In September 2020 Worcestershire Pension Fund ("WPF" or "the Fund") received its first Climate Risk Report. Through a combination of top-down and bottom-up analyses the report aimed to identify the nature and magnitude of the Fund's climate-related risks, and suggest actions that could be taken to manage the risk. In the past 16 months WPF has been implementing many of these recommendations.

The purpose of this report is threefold. We aim to:

- analyse progress against the baseline of data and recommendations established in the first report;
- to reassess the financially material risks and opportunities in the Fund to provide a refreshed view of the Fund's exposure to climate-related risk, and;
- to identify a series of further measures by which WPF can continue to manage material risks.

Our mode of analysis is consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The TCFD set out four disclosure pillars and each section in chapter four of this report corresponds to one of those pillars (Table 3.1.1). Our analyses aim to facilitate the Fund's annual disclosure against the TCFD framework.

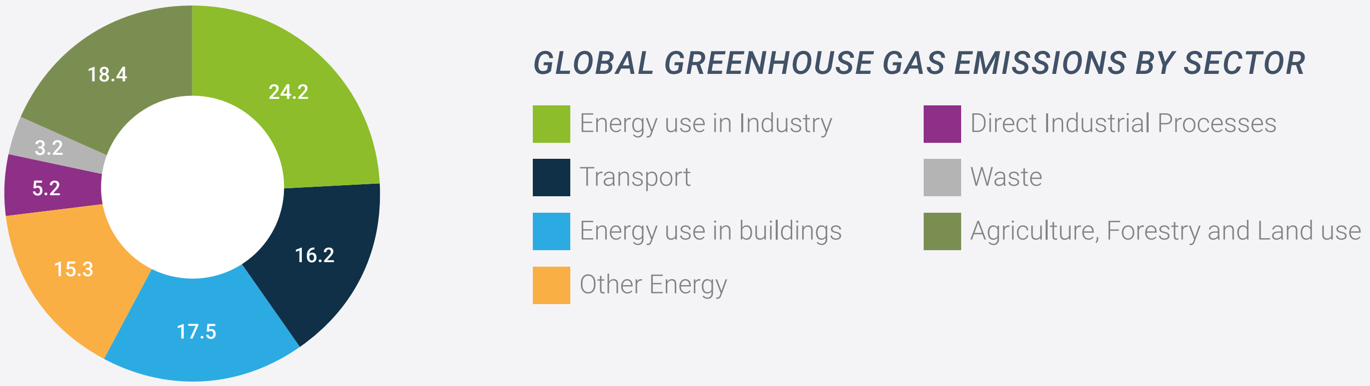
TABLE 3.1.1: THE FOUR PILLARS OF TCFD RECOMMENDED DISCLOSURE

PILLAR	ABOUT	REPORT REFERENCE
Governance	Organisations should describe how climate-related risks and opportunities are assessed and managed by an organisation's management team and overseen by its board.	§4.1
Strategy	Organisations should disclose the actual and potential impacts of climate-related risks and opportunities on their businesses, strategy, and financial planning.	§4.2
Risk Management	Organisations should disclose how they identify, assess and manage climate risk.	§4.3
Metrics & Targets	Organisations should disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.	§4.4

3.2 Climate Change as a Fiduciary Issue

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. 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 1950-1990 period. The overwhelming scientific consensus is that the observed climatic changes are primarily the result of human activities including electricity and heat production, agriculture and land use change, industry, and transport (Figure 3.2.1).

Figure 3.2.1: Total anthropogenic Green House Gas ("GHG") emissions ($GtCO_2eq/yr$) by economic sectors.



Source: Climate Watch, the World Resources Institute (2020).

Despite the need for urgent action, the majority of climate scientists anticipate that with the current response to climate change, the world will be between 2°C and 4°C warmer by 2100, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

The magnitude and speed of a Paris-aligned climate transition leads to climate-related risks and opportunities about which investors ought, as far as is possible, be aware. The Task Force on Climate-Related Financial Disclosure divides climate risks into two major categories. The first is the transition risk that could crystallise as society attempts to move into a low-carbon economy, and the second is the physical damages that are likely to occur as the natural world changes (Tables 3.2.1 and 3.2.2).

TABLE 3.2.1: EXAMPLES OF TRANSITION RISKS

RISK	DESCRIPTION
POLICY	• Increased pricing of GHG emissions • Enhanced emissions-reporting obligations • Mandates on and regulation of existing products and services • Exposure to litigation
TECHNOLOGY	• Substitution of existing products and services with lower emissions options • Unsuccessful investment in new technologies • Costs to transition to lower emissions technology
MARKET	• Changing consumer behaviour • Uncertainty in market signals • Increased cost of raw materials
REPUTATION	• Shifts in consumer preferences • Stigmatisation of sector • Increased stakeholder concern or negative stakeholder feedback

Source: Taskforce on Climate Related Financial Disclosures (2017)

TABLE 3.2.2: EXAMPLES OF PHYSICAL RISKS

RISK	DESCRIPTION
ACUTE	• Increased severity of extreme weather events, including more severe storms, wildfires and droughts
CHRONIC	• Changes in precipitation patterns and extreme variability in weather patterns • Rising mean temperatures • Rising sea levels

Source: Taskforce on Climate Related Financial Disclosures (2017)

Climate change is for asset owners a risk that cannot be fully diversified. Almost all asset classes, sectors and regions are likely to be affected by the physical, policy or market-related consequences of climate change over the long term. Climate risk is not reserved to the oil & gas and power generation sectors, but also to downstream sectors. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors. Speaking generally, a Paris-aligned transition to a low carbon economy would lead to lower economic damages and is for long-term investors preferable to alternative climate scenarios.

For investors, climate change is a fiduciary issue. Local authority pension funds typically have multidecadal time horizons, with both their investment beliefs and liability profiles thoroughly long-term. Significant uncertainty remains, and no single tool can provide an accurate and complete observation on a pension fund's climate risk. For responsible investors looking to proactively manage climate risk, a combination of metrics and methodologies represents the best possible information set currently available.

4.0 Analysis

4.1 Governance

4.1.1 SCOPE

In the Fund's 2020 Climate Risk Report we reviewed the Fund's published documentation and governance arrangements from the perspective of climate strategy setting. We identified areas in which the Fund's governance and policies could further embed and normalise the management of climate risk. The purpose of this section is to refresh this review. We provide a progress update against the recommendations and considerations issued in the first report and suggest further policy extensions the Fund could consider. We recognise that the Fund's existing climate governance is already to a high standard, and our perspectives offered below are suggestive only.

4.1.2 KEY FINDINGS

The Fund has made considerable progress in terms of its responsible investment and climate change practice in the last 16 months. In March 2021, the Fund published its first TCFD report, which is an effective disclosure medium for keeping stakeholders abreast of the Fund's latest actions and viewpoints on climate risk management. During that same month the Fund developed its first Climate Change Strategy which we find to be a clear, ambitious document that supports the Fund's investment objectives. Since the previous Climate Risk Report, the Fund's Investment Strategy Statement, Risk Register and Funding Strategy Statement have been updated to include more explicit references to climate risk. In 2021, the Fund attained signatory status to the 2020 Stewardship Code.

We issued 13 recommendations and considerations in the last Climate Risk Report, all with medium term horizons (i.e. they were not designed to be implemented immediately). We also note that it was at the Fund's full discretion to decide which recommendations were most appropriate to execute. Given the already high volume of RI activity within the Fund, we acknowledge that a degree of prioritisation will have been required and the following progress update should be interpreted with this in mind. 92% of the recommendations have been completed while 8% are in progress. Figure 4.1.2.1 provides a high-level summary of the progress made, while the tables below provide a more comprehensive overview of the actions taken by WPF.

Figure 4.1.2.1: Progress against the governance recommendations and considerations from the 2020 Climate Risk Report.

RECOMMENDATIONS PROGRESS

ITEM	RECOMMENDATION	PROGRESS UPDATE	STATUS
1	Develop a Climate Strategy	The Fund published its first Climate Change Risk Strategy in March 2021. The strategy recognises the importance of climate change and draws together the Fund's climate related policies, objectives and statements into one consolidated document. The document considers: more detailed investment beliefs related to climate change; integration of climate risks into asset allocation and asset selection; a climate stewardship plan; and strategic actions.	100%
2	Schedule time at Pension Fund Committee meetings at least annually for discussion of progress on climate strategy	The Pension Committee include a specific ESG section in the meeting every quarter, which include climate change when appropriate.	100%
3	Schedule one training session on general RI matters and one climate-specific training per year	In the past 12 months the Fund has received training on both RI and climate change. This includes a comprehensive ESG workshop in March 2021, which is due to conducted again in February 2022. In addition, committee members attended the LGPSC RI Summit which included several sessions focusing on climate change, engagement and net zero.	100%
4	Integrate communications on climate risk into communications strategy	The Fund has acknowledged this recommendation and will be looking to update as part of their Communication strategy review being reported to Committee in March 2022.	50%
5	Report against the 2020 Stewardship Code	The Fund attained signatory status to the 2020 Stewardship Code, making it one of the first local authority pension funds in the UK to do so.	100%

PROGRESS

0%	No Action	75%	Significant Progress
25%	Room for Improvement	100%	Completed
50%	In Progress		

CONSIDERATION PROGRESS

ITEM	CONSIDERATION	PROGRESS UPDATE	STATUS
6	In the ISS make clear the roles of key governance committees	The Fund has updated its ISS to include a specific section on climate change. In addition, the Fund has incorporated sections and references to its Climate Strategy, TCFD Report and SDG work.	100%
7	Update the Governance Policy Statement to explain how climate risks are governed	The Fund updated its Governance Policy Statement in March 2021 to include RI oversight in its terms of reference.	100%
8	Integrate climate risk advice in advisor's reports	The Fund's Investment Advisor includes explicit reference to climate risk in investment advice if required.	100%
9	Review as part of the FSS the extent to which climate risks could affect other risks noted in the FSS	The Fund's Climate Change Strategy makes explicit reference to the potential that climate change may affect the funding level of the Fund through impacts on employer covenant, asset pricing, longer-term inflation and interest rates and life expectancy.	100%
10	Consider including climate risk in the Risk Register	Climate risk was added to the Fund's Risk Register in November 2021.	100%
11	In the 2020/21 Annual Report include a summary of this Climate Risk Report in a manner consistent with the TCFD Recommendations	The Fund has expanded the Responsible Investment section of its 2020/21 Annual Report to include a specific section on climate change and reference to their TCFD Report.	100%

PROGRESS

0%	No Action	75%	Significant Progress
25%	Room for Improvement	100%	Completed
50%	In Progress		

ITEM	CONSIDERATION	PROGRESS UPDATE	STATUS
12	In the 2020/21 Annual Report include more detailed information on the engagement and voting carried out	The Fund has reviewed its FSS and published an updated policy in September 2021.	100%
13	Continue to include Quarterly Stewardship updates in Pension Committee meetings	The Fund has continued to publish the Quarterly Stewardship updates in Pension Committee meetings.	100%

PROGRESS

0%	No Action	75%	Significant Progress
25%	Room for Improvement	100%	Completed
50%	In Progress		

4.1.3 RECOMMENDATIONS AND CONSIDERATIONS

The following recommendations were successfully achieved in 2020 but due to their ongoing nature we recommend they continue as regular practice in future years.

- Continue to schedule time at Pension Fund Committee meetings for the discussion of climate-related risks and climate strategy
- Continue to schedule training on RI and climate risk for members of the Pension Fund Committee

We recommend that the following recommendations/ considerations are carried over from the 2020 Climate Risk Report.

- Integrate communications on climate risk into communications strategy

4.2 Strategy

4.2.1 ALTERNATIVE ASSET CLASS REVIEW

At the present time, the novelty of climate change means there is a paucity of data on which a portfolio assessment can be based. This is most pertinent for unlisted asset classes where datasets are not sufficiently complete to facilitate the carbon risk metrics analyses used to observe climate risk within public equity portfolios. This section aims to address this gap and provide a set of alternative techniques that an Asset Owner could utilise to enhance climate risk analysis within unlisted portfolios. The commentary is not designed to be a complete and exhaustive list, rather it seeks to provide a repository of potential steps, some of which the Fund could consider enacting to further manage the risk of climate change.

ASSET CLASS	FIXED INCOME	PRIVATE EQUITY	INFRASTRUCTURE	PROPERTY
TRANSITION RISK	Reduced credit rating and in extremis default risk of issuers that finance high carbon assets and activities.	Contingent on the policy response to climate change, private equity companies in high emitting sectors face asset impairment, large operating costs and stranded asset risk.	Policy and technology advancements could reduce the value of some infrastructure assets that are less suitable in a low carbon world, or in some cases it could render assets redundant.	Core property that is poorly rated on energy efficiency standards is likely to underperform highly rated assets. Older property assets likely to need capital injection to improve energy efficiency.
PHYSICAL RISK	Eroded value of corporate debt that finances companies and assets which suffer repeated and persistent damage from climate-related weather events.	Lower valuation of assets, reduced profitability, increased risks to supply chains and potentially increased insurance and regulatory costs.	Higher insurance costs and lower valuation of assets located in climate vulnerable locations. Lower valuation of some assets due to higher investment and adaptation maintenance costs.	Higher insurance costs and decline in value of property assets that are at high risk from climate-related weather events.
CHALLENGES	• Availability of consistent and reliable climate change data. • Lack of climate focused investment products.	• Limited amount of publicly disclosed information	• Lack of data, analytical tools and services. • No established standard for conducting physical climate risk analysis	• Data extraction • Proliferation of green buildings certification schemes
EMERGING REGULATION	1. EU Green Bond Standard 2. Green Bond Principles	• No regulation specifically aimed at private equity	1. UK Net Zero by 2050	• UK Minimum Energy Efficient Energy Standards • EU Taxonomy • Renovation Wave • Energy Performance of Buildings Directive
INITIATIVES	1. Climate Bond Initiative	1. Initiative Climat International (iCI) 2. One Planet Private Equity Funds Initiative (OPPEF)	1. SteelZero 2. LED	1. RE100 2. EP100
WHAT CAN BE DONE?	1. Engagement 2. Beyond Ratings 3. Data Providers	1. Annual Questionnaire 2. ESG KPIs 3. Climate Change Reporting 4. ESG Data Provider	1. Annual Questionnaire 2. ESG KPIs 3. Physical Climate Risk Assessment 4. GRESB 5. ClimateWise Transition Risk Framework	1. Regular ESG Risk Assessment 2. Engagement 3. GRESB 4. Carbon Risk Real Estate Monitor (CRREM) 5. MSCI Real Estate Value at Risk

4.3 Risk Management

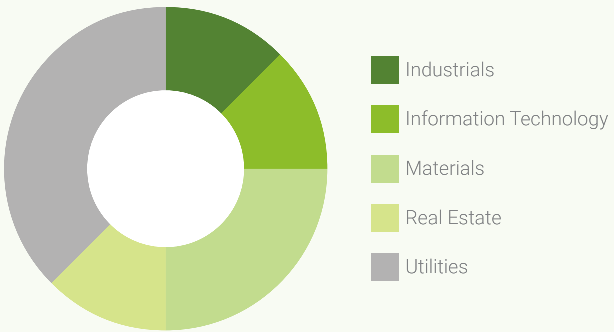
4.3.1 CLIMATE STEWARDSHIP PLAN SCOPE

Based on the findings of its 2020 Climate Risk Report the Fund has developed a Climate Stewardship Plan ("CSP"). The CSP identifies the areas in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the Fund. It is split into two main sections.

PART 1: COMPANY ENGAGEMENT

The Fund's 2020 Climate Risk Report identified eight companies considered to be of most relevance to WPF's climate risk. Figure 4.3.1.1 details the sectors these eight companies are found in. Reflecting the externally managed nature of WPF, the Fund's portfolio managers and suppliers are engaging with these companies on behalf of the Fund. The CSP outlines the rationale, objectives and strategy of the engagement activity. A progress update based on the identified measures of success will be provided annually as part of the Fund's Climate Risk Report.

Figure 4.3.1.1 Sectors included in the Fund's CSP



PART 2: MANAGER MONITORING

The Fund aims to monitor its major appointed investment managers to ensure that climate-related risk is integrated into the investment process. Table 4.3.1.1 provides a high-level summary of the key manager monitoring issues the Fund seeks to address.

TABLE 4.3.1.1 MANAGER MONITORING ISSUES

ASSET CLASS	TOPIC
EQUITIES	• The influence of climate factors on sector positioning • Stewardship activities with companies identified in the 2020 Climate Risk Report
FIXED INCOME	• Approach to assessing climate risk in the absence of reported GHG emissions data • Engagement with the most intensive carbon issuers • Extent of investment in green bonds
REAL ASSETS	• Physical risk resilience • GRESB participation

4.3.2 COMPANY ENGAGEMENT UPDATE

We have reviewed ongoing engagements with the eight investee companies identified in the Fund's CSP. Table 4.3.2.1 details the manager responsible for conducting the engagement. For each company, we provide below the context of the engagement, including the rationale, objectives and strategy, alongside issuing the first annual progress update as at 10th January 2022. The Climate Action 100+ Benchmark is used as a key tool to monitor progress throughout the Fund's CSP. We therefore provide below a high-level summary of this initiative, before assessing each of the eight companies in turn.

CLIMATE ACTION 100+ (CA100+)

CA100+ is an investor-led initiative set up to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The engagement initiative currently encompasses 167 companies that are estimated to collectively emit more than 80% of industrial GHG emissions globally. Investor participants, including LGPSC Central, have committed to engage these high emitters to:

- Implement a **strong governance** framework which clearly articulates the board's accountability and oversight of climate change risk;
- Take action to **reduce GHG emissions** across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to below two degrees Celsius above pre-industrial levels, aiming for 1.5 degrees. Notably, this implies the need to move towards net-zero emissions by 2050 or sooner; and
- Provide enhanced **corporate disclosure** in line with the final recommendations of the Task Force on Climate related Financial Disclosures (TCFD) and sector-specific Global Investor Coalition on Climate Change (GIC) Investor Expectations on Climate Change guidelines (when applicable), to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below two degrees and improve investment decision-making.

In September 2020, CA100+ introduced a Benchmark Framework which identifies ten key indicators of success for business alignment with a net-zero emissions future and goals of the Paris Agreement. Assessments for each CA100+ company against the ten indicators were published on 22 March 2021 and offers comparative assessments of individual focus company performance against the three high-level commitment goals. The ten indicators included in the CA100+ are:

1. Net-zero GHG emissions by 2050 (or sooner) ambition
2. Long-term (2036-2050) GHG reduction target(s)
3. Medium-term (2026-2035) GHG reduction target(s)
4. Short-term (up to 2025) GHG reduction target(s)
5. Decarbonisation strategy
6. Capital allocation alignment
7. Climate policy engagement
8. Climate governance
9. Just Transition
10. TCFD Disclosure

TRANSITION PATHWAY INITIATIVE

The Transition Pathway Initiative (TPI) framework evaluates companies based on their climate risk management quality and their carbon performance. The former includes an assessment of policies, strategy, risk management and targets. There are six management quality levels a company can be assigned to:

- Level 0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue
- Level 1 – Acknowledging Climate Change as a Business Issue
- Level 2 – Building Capacity
- Level 3 – Integrated into Operational Decision-making
- Level 4 – Strategic Assessment
- Level 4* – Satisfies all management quality criteria

TABLE 4.3.2.1 COMPANIES INCLUDED IN THE CLIMATE STEWARDSHIP PLAN

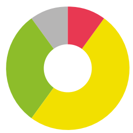
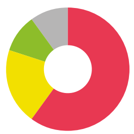
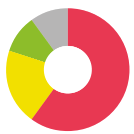
COMPANY	SECTOR
BHP	Materials
DUKE ENERGY®	Utilities
Keppel DC REIT	Real Estate
NEXTera ENERGY	Utilities
RioTinto	Materials
Southern Company	Utilities
tsmc	Info Tech
Wizz wizzair.com	Industrials

Between 29th May 2020 and 30th November 2021, several asset allocation changes were made by WPF. This includes exiting the LGIM FTSE RAFI Developed Equity portfolio and the MSCI World Minimum Volatility Total Return Fund, and transitioning the assets into the LGPS Central Climate Multi Factor Fund and the LGIM Global Fund. As a result, four of the companies listed in the Fund's Climate Stewardship Plan are no longer material enough in terms of climate risk to warrant inclusion in the Plan. In addition, Nomura Asset Management have exited its position in Keppel DC REIT and BMO its position in Wizz Air. In light of this, we recommend removing Duke Energy, Keppel DC REIT, NextEra, The Southern Company and Wizz Air, and replacing them with the companies identified in the updated Carbon Risk Metrics analysis in section 4.4. Table 4.3.2.2 provides a list of the companies we recommend adding to the Fund's Climate Stewardship Plan moving forward.

TABLE 4.3.2.2 RECOMMENDED ADDITIONS TO THE CLIMATE STEWARDSHIP PLAN

COMPANY	SECTOR
bp	Energy
CEMEX	Materials
CRH	Materials
GLENCORE	Materials
Shell	Energy

As a result, the proposed forward Climate Stewardship Plan includes the following: BHP, BP, Cemex, CRH, Glencore, Rio Tinto, Royal Dutch Shell, and Taiwan Semiconductor Manufacturing.

COMPANY	TPI MQ	TPI PARIS ALIGNMENT	CA100+[4]	COMPANY CONTEXT	ENGAGEMENT OBJECTIVES	ENGAGEMENT STRATEGY	MEASURES OF SUCCESS
BHP	4*	Not Aligned		• World's largest diversified resource company • Top five global producer of iron ore, metallurgical copper in concentrate • In 2020 set a net-zero by 2050 target	1. For BHP to suspend memberships from any association that is not aligned with their own climate change goals. 2. For BHP to establish clear short-, medium- and long-term GHG reduction targets that cover all material scope 1, 2 and 3 GHG emissions and are aligned with a 1.5°C warming trajectory	Direct engagement by LGIM and LGPS Central via the CA100+	1. Set medium-term emission reduction targets that are science based and aligned with its net zero strategy. 2. Strengthened the link between climate performance and executive remuneration
DUKE ENERGY	3	Below 2 degrees		• Engages in the distribution of natural gas and energy related services • Recently upgraded its short and long-term emissions targets • Set a net-zero emissions aspiration for 2050	1. Achievement of high-level CA100+ objectives	Direct engagement by LGIM	1. Company have put forward a proposal to accelerate the retirement of their coal fleet and replace their energy mix.
KEPPEL DC REIT	-	-	-	• Real estate investment trust investing in data centres across Asia Pacific and Europe • The company is a signatory of the Climate Neutral Data Centre Pact • The company does not have a net zero commitment	1. Reduction in Scope 1 and 2 emissions 2. Incorporation of climate change performance into company remuneration	Direct engagement by Nomura	1. Improved renewable energy use in Europe and Singapore 1. Developed and implemented asset enhancement works to improve energy efficiency
NEXTERA ENERGY	2	Paris Pledges		• American electricity company • World's largest producer of wind and solar energy, with plans to boost renewable capacity by 30GW by 2024. • Poor corporate lobbying practices	1. Methane Emissions reduction 2. Capital allocation alignment with the Paris Agreement 3. Attainment of Indicator 7 "Climate Policy Engagement in CA100+ benchmark 4. Net Zero Emissions by 2050 ambition	Direct engagement by LGPS Central alongside collaborative engagement by CA100+ focus group.	1. Made progress on its corporate lobbying transparency by agreeing to conduct an annual review of its trade association memberships and committing to an annual disclosure update. 2. Set a target for reducing its GHG emissions up to 2025. This covers at least 95% of scope 1 and 2 emissions and the most relevant scope 3 emissions.

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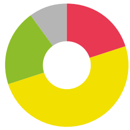
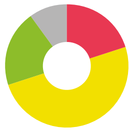
[4] The following key is utilised for the pie charts above. Red represents "no criteria met". Yellow represents "partial, some criteria met". Green represents "all criteria met". Where grey is shown it is because an indicator is not currently assessed.

COMPANY	TPI MQ	TPI PARIS ALIGNMENT	CA100+[4]	COMPANY CONTEXT	ENGAGEMENT OBJECTIVES	ENGAGEMENT STRATEGY	MEASURES OF SUCCESS
RIO TINTO	4	Below 2 degrees		• Anglo-Australian multinational diversified mining company • No exposure to coal • Net zero by 2050 target covering scope 1 and 2 emissions	1. Achievement of the high-level objectives of the CA100+ Initiative.	1. Direct engagement by Nomura 2. Collaborative engagement by CA100+	1. Set 2030 emission reduction targets, consistent with the IPCC pathways to 1.5°C. 2. Intend to increase renewable energy proportion to 70% 3. In March 2021 the company for the first time backed shareholder resolutions focusing on climate change.
THE SOUTHERN COMPANY	3	Below 2 degrees		• One of the largest electricity producers in the US • In 2018 the firm set a low-to-no carbon reduction pledge which was widely regarded as ambiguous. • Firm appears to lobby against climate change regulations and policies.	1. Achievement of the high-level objectives of the CA100+ Initiative	• Direct engagement by LGIM	2. In April 2020, the firm announced a commitment to reach net-zero emissions by 2050. The commitment includes medium and long-term emission reduction targets, and scope 3 emissions where applicable. 3. Company have reduced their thermal coal capacity from 30% in 2017 to 17% in 2021. 4. Improvement in Company's TPI score from a 2 to a 3
TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY	-	-	-	• Engages in the manufacture and sale of integrated circuits and wafer semiconductor devices. • The main climate risks facing the company stem from its direct operations through increased compliance costs if carbon regulations tighten in the future.	1. Creation of a robust climate change strategy aligned with Net Zero 2. Improved water management efficiency	• Direct engagement by EOS at Federated Hermes	1. Company announced a Net Zero Target in September 2021. 2. Released a public statement committing to improved water efficiency.
WIZZ AIR	2	Paris Pledges	-	• Low cost airline operating throughout Europe • As of March 2021, the company had published no information on its scope 1 and 2 emissions	1. Improved carbon risk management quality (measured by TPI Score) 2. Publication of GHG emissions data	• Direct engagement by EOS at Federated Hermes and BMO	1. Committed to an emissions intensity target for 2030 2. Committed to disclose against the TCFD Recommendations 3. Established a sustainability committee 4. Plans to disclose a 2050 decarbonisation strategy

[4] The following key is utilised for the pie charts above. Red represents "no criteria met". Yellow represents "partial, some criteria met". Green represents "all criteria met". Where grey is shown it is because an indicator is not currently assessed.

4.4 Metrics and Targets

4.4.1 SCOPE AND DEFINITIONS OF TERMS

The following Carbon Risk Metrics section is a bottom-up analysis conducted at the company and portfolio level. The purposes of this analysis are:

- To observe climate transition risks and opportunities in the portfolio
- To identify company engagement opportunities
- To support manager monitoring of climate risk management

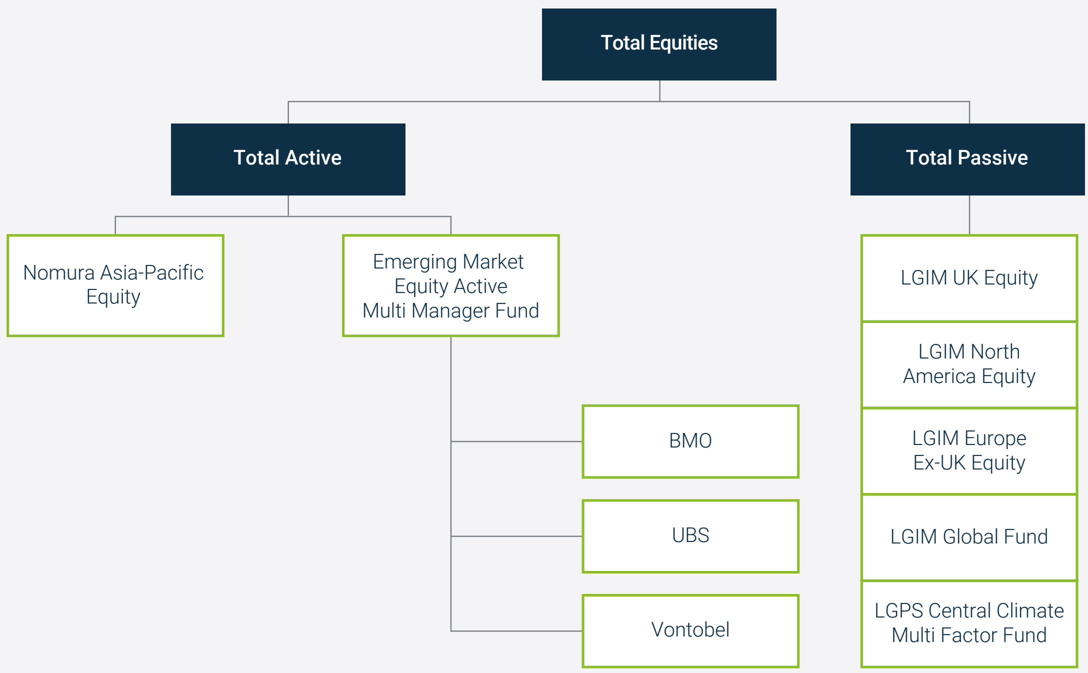
The scope of the analysis comprises the equities portfolios as at 30th November 2021. The results are compared to a baseline of data collected in the first Climate Risk Report, which used holdings data from 29th May 2020. The analysis seeks to identify and assess how the portfolio carbon risk metrics have changed within this timeframe.

The analysis is limited to the equities portfolios as unlisted asset classes do not have sufficiently complete and comparable data to facilitate carbon risk metrics analysis at this time.

TABLE 4.4.1.1: SCOPE OF CARBON RISK METRICS ANALYSIS AS AT 30TH NOVEMBER 2021.

	EQUITIES
NUMBER OF STRATEGIES ANALYSED	9
INDIVIDUAL COMPANIES INCLUDED	2,055

Figure 4.4.1.1: Portfolios Included in the Carbon Risk Metrics Analysis



The analysis is based on a dataset provided by MSCI ESG Research LLC (MSCI)[5]. Table 4.4.1.2 provides an overview of the types of carbon risk metric utilised. We are aware that the raw numbers are not a complete guide to climate risk and have published elsewhere our views on the limitations of carbon footprinting[6]. We believe, however, that this kind of bottom-up quantitative analysis can assist an asset owner in identifying the parts of the portfolio to prioritise, and in framing relevant questions to put to investee companies and external fund managers.

[5] Certain information @ 2021 MSCI ESG Research LLC. Reproduced by permission. Attention is drawn to Section 8.0 Important Information.
[6] https://www.responsible-investor.com/articles/carbon-footprint-piece In collaboration with other asset owners.

TABLE 4.4.1.2: CARBON RISK METRICS USED

CARBON RISK METRIC	DEFINITION	USE CASE	LIMITATIONS
PORTFOLIO CARBON FOOTPRINT (WEIGHTED AVERAGE CARBON INTENSITY)	Is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.	A proxy for carbon price risk. Were a global carbon price to be introduced in the form of a carbon tax, this would (ceteris paribus) be more financially detrimental to carbon intensive companies than to carbon efficient companies.	This metric includes scope 1 and 2 emissions but not scope 3 emissions. This means that for some companies the assessment of their carbon footprint could be considered an 'understatement'.
EXPOSURE TO FOSSIL FUEL RESERVES	The weight of a portfolio invested in companies that (i) own fossil fuel reserves (ii) thermal coal reserves (iii) utilities deriving more than 30% of their energy mix from coal power.	A higher exposure to fossil fuel reserves is an indicator of higher exposure to stranded asset risk.	It does not consider the amount of revenue a company generates from fossil fuel activities. Consequently, diversified businesses (e.g. those that own a range of underlying companies, one of which owns reserves) would be included when calculating this metric. In reality, these companies may not bear as much stranded asset risk as companies who do generate a high proportion of revenue from fossil fuels.
EXPOSURE TO CLEAN TECHNOLOGY	The weight of a portfolio invested in companies whose products and services include clean technology (Alternative Energy, Energy Efficiency, Green Buildings, Pollution Prevention, and Sustainable Water).	Provides an assessment of climate-related opportunity so that an organisation can review its preparedness for anticipated shifts in demand.	There is no universal standard, definitive list of green revenues; the EU has been developing such a taxonomy for several years. Even the EU's taxonomy is not likely to be a complete and exhaustive list of technologies relevant for a lower-carbon economy.
CARBON RISK MANAGEMENT VIA THE TPI	The TPI framework evaluates companies based on their climate risk management quality and their carbon performance. The former includes an assessment of policies, strategy, risk management and targets.	Contextualises the companies contributing to a portfolio's carbon footprint or fossil fuel exposure. Can be used to track how companies are managing climate risk and whether their strategies are aligned with the goals of the Paris Agreement.	Does not assess every company, only the world's largest high-emitting companies. The data are also not updated very frequently, which can make some assessments outdated.

4.4.2 TOTAL EQUITIES

TABLE 4.4.2.1 OVERVIEW OF WPF TOTAL EQUITY CARBON RISK METRICS[7]

	2020			2021			% DIFFERENCE BETWEEN 2020 AND 2021	
	PF	BM	% DIFF	PF	BM	% DIFF	PF	BM
Portfolio Carbon Footprint (tCO_2e/ $m)	137.41	180.22	-23.75%	113.00	157.05	-28.05%	-17.77%	-12.85%
Weight in fossil fuel reserves (%)	6.58%	7.71%	-1.13%	6.51%	7.26%	-0.75%	-0.07%	-0.45%
Weight in thermal coal reserves (%)	2.17%	2.95%	-0.78%	2.15%	2.85%	-0.70%	-0.02%	-0.10%
Weight in coal power (%)	1.20%	1.53%	-0.32%	0.41%	0.83%	-0.42%	-0.79%	-0.70%
Weight in clean tech (%)	34.55%	34.67%	-0.13%	35.92%	36.84%	-0.92%	1.38%	2.17%

We provide comments on the Carbon Risk Metrics results at the Total Equities level. The Total Equity portfolio comprises all the listed equity portfolios we were able to cover in the analysis and are included in Figure 4.4.1.1.

The carbon footprint of the Total Equities portfolio has decreased by 17.77% between 29th May 2020 and 30th November 2021. This is largely driven by WPF's asset allocation actions, most notably the decision to transition assets out of both the MSCI World Min Vol TR fund and the FTSE RAFI DEV fund into the LGPS Central Climate Multi Factor fund and the LGIM Global Fund. With carbon footprints of only 58.3 tCO_2e/$m revenue and 37.4 3 tCO_2e/$m revenue respectively, the LGPS Central Climate Multi Factor fund and the LGIM Global Fund are significantly more carbon efficient than the MSCI World Min Vol TR fund and the FTSE RAFI DEV fund. As a result, this transition drives down the carbon footprint at the Total Equity level. We find this to be evidence of good carbon risk management on behalf of LPF. The Total Equities portfolio continues to be more carbon efficient than its blended benchmark, achieving outperformance of 28.05% as of 30th November 2021.

The exposure of the Total Equity portfolio to fossil fuel producers remained largely unchanged between 31st December 2019 and 31st March 2021. This trend is similarly observed in the exposure to thermal coal reserves and coal power, where only marginal changes occurred between the aforementioned dates. The Total Equity weight in clean technology has increased by 1.38% between 29th May 2020 and 30th November 2021.

As of 30th November 2021, 200 companies (out of 2055) in the Total Equity portfolio are ranked by the TPI. 79.5% of these companies are classed as having a management quality of Level 3, 4 or 4* (159 companies). This suggests the Fund's appointed portfolio managers are, on average, investing in above average to 'best in class' companies in terms of climate risk management. The number of companies aligned with the Paris Agreement, however, is significantly lower than the proportion with good management quality (Figure 4.4.2.4). We suggest that the targeting of Paris-alignment through company engagement (to be executed via the Fund's portfolio managers and service providers) would further improve the management of carbon risk within the Fund.

Echoing the trend observed in 2020, the portfolio carbon footprint of many strategies remains concentrated in only a handful of companies. Most of these names are included in the Fund's Climate Stewardship Plan, and we recommend that the Fund continues to use this as a tool for monitoring company engagement and manager stewardship activities.

[7] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission

TABLE 4.4.2.2 OVERVIEW OF WPF ACTIVE AND PASSIVE EQUITY CARBON RISK METRICS[8]

	PORTFOLIO CARBON FOOTPRINT (TCO_2E/$M REVENUE)			WEIGHT IN FOSSIL FUEL RESERVES (%)			WEIGHT IN THERMAL COAL RESERVES (%)			WEIGHT IN CLEAN TECHNOLOGY		
	2020	2021	% DIFF	2020	2021	% DIFF	2020	2021	% DIFF	2020	2021	% DIFF
Total Equities	137.41	113.00	-17.77%	6.58%	6.51%	-0.07%	2.17%	2.15%	-0.02%	34.55%	35.92%	1.38%
Total Active Equities	93.24	143.98	54.41%	5.58%	6.27%	0.70%	1.79%	1.28%	-0.51%	41.67%	41.76%	0.09%
Total Passive Equities	160.35	99.36	-38.04%	7.11%	6.62%	-0.48%	2.37%	2.54%	0.17%	30.81%	33.27%	2.46%

Figure 4.4.2.1 Total Equities Carbon Footprint[9]

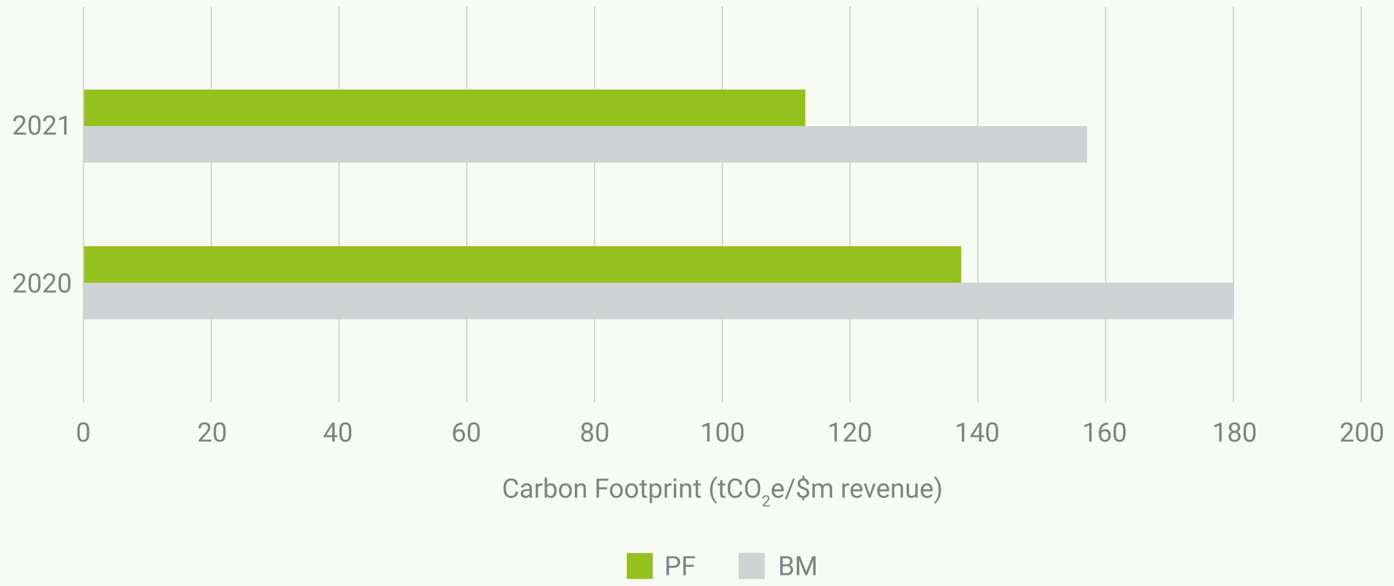
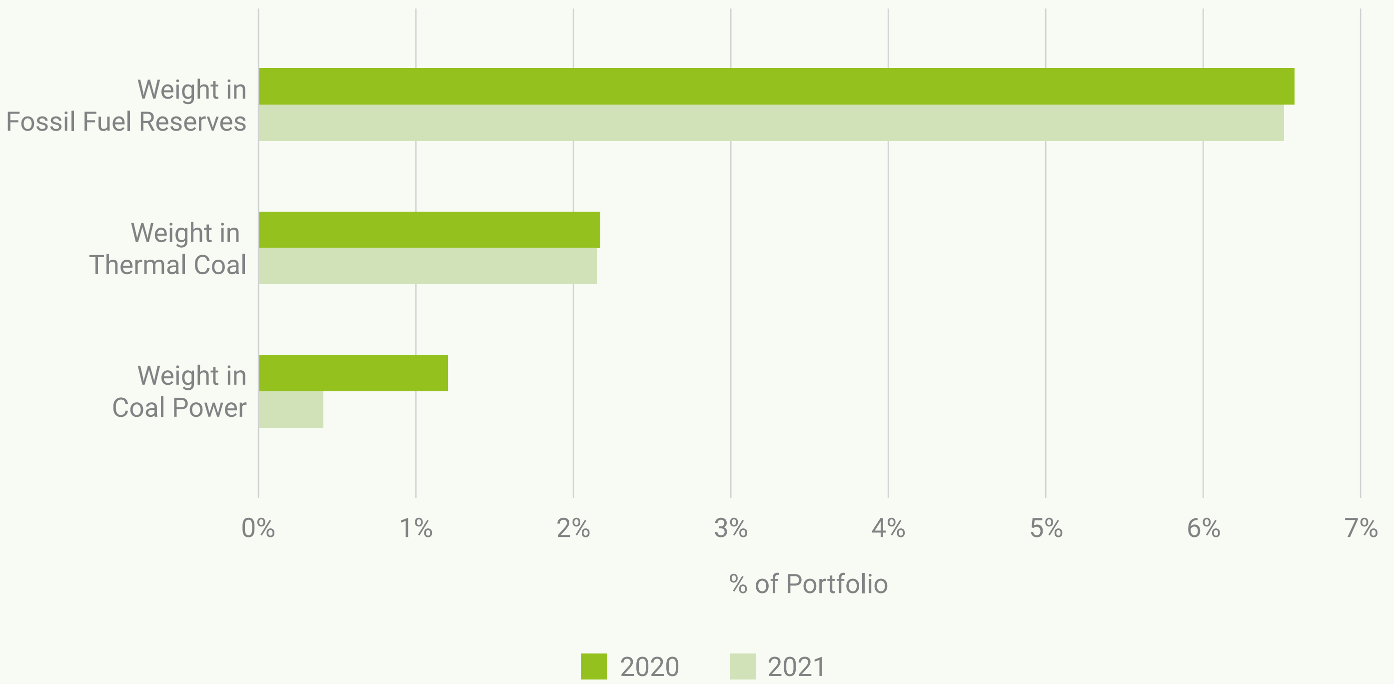


Figure 4.4.2.2 Total Equities Weight in Fossil Fuel Reserves[10]



[8] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission
[9] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission
[10] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission

Figure 4.4.2.3 Total Equities Weight in Clean Technology[11]

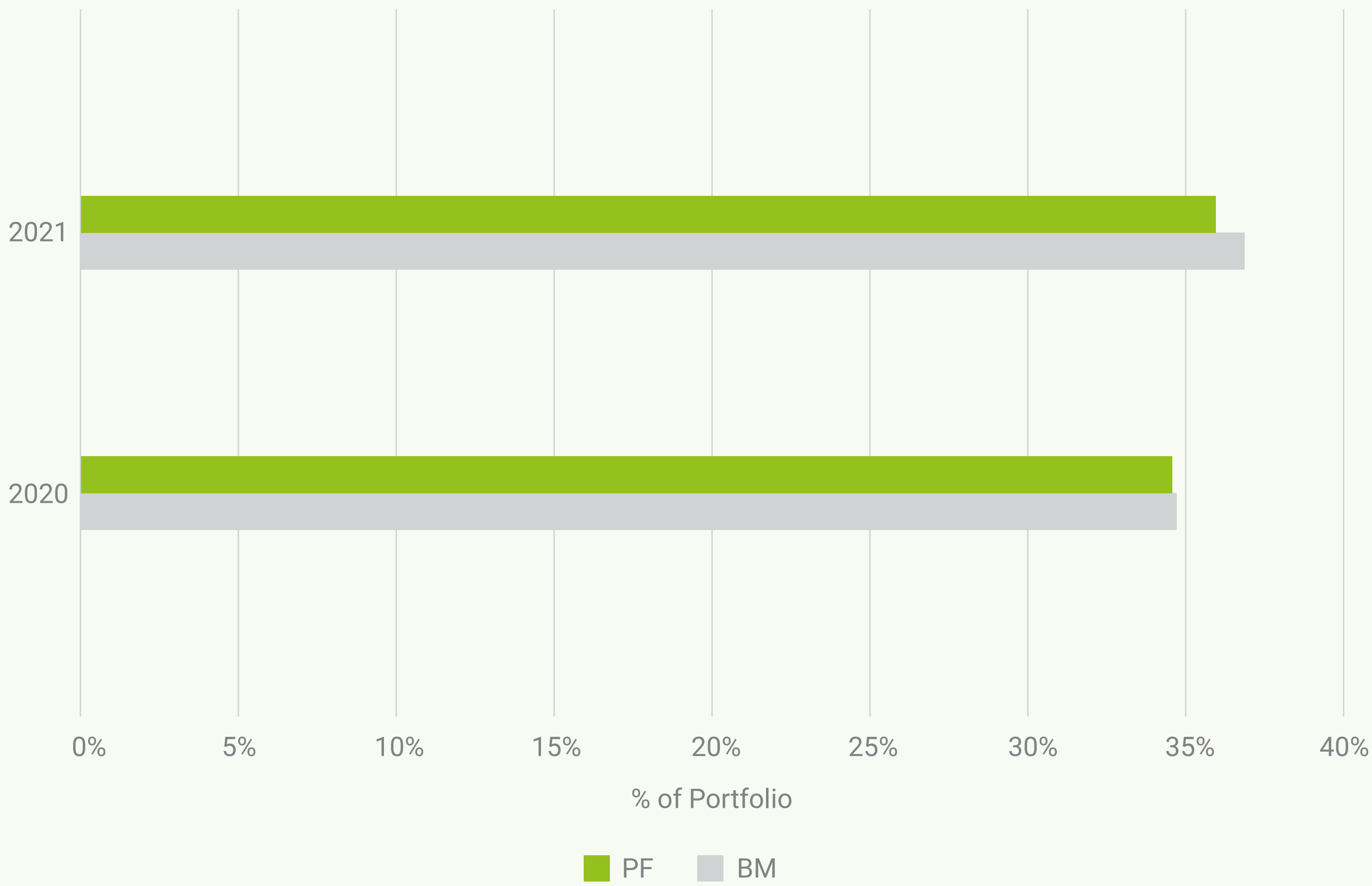
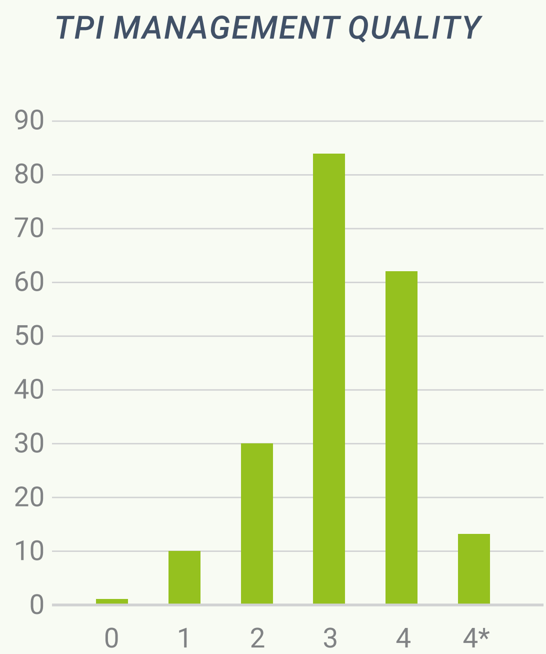
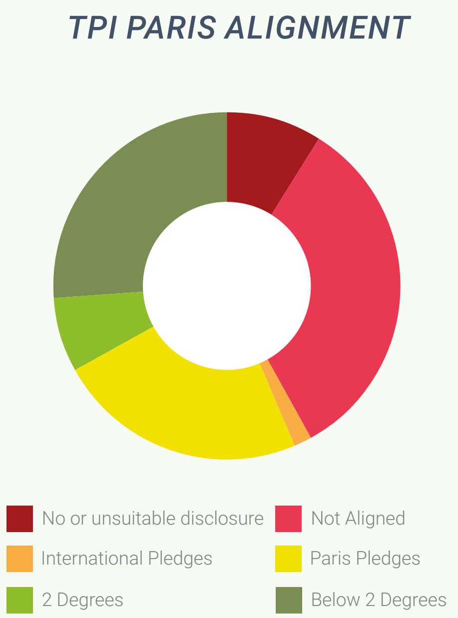


Figure 4.4.2.4 Total Equities TPI Assessment





[11] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission

5.0 Conclusion

In this, WPF's second Climate Risk Report, we continue to argue that climate-related risks can be financially material and that the management of climate risk is a fiduciary issue. Through physical events, policy or market changes, climate risks are likely to affect almost all asset classes, sectors and regions. While there remains a great deal of uncertainty, it is not likely that climate risks can be mitigated through diversification alone.

In the Fund's first Climate Risk Report we used a combination of top-down and bottom up analyses to explore the nature and magnitude of the Fund's climate-related risks. The report established a baseline for WPF's climate risk management and supported the Fund in shaping its strategic approach to climate risk. In this second report we focus on providing the Fund with a progress update.

We find that WPF has made significant enhancements to its published documentation and governance arrangements in the past year. The Fund has implemented 12 of the 13 recommendations issued in the first Climate Risk Report including, publishing its first TCFD-disclosure report, developing a Climate Change Risk Strategy and reporting against the 2020 Stewardship Code. In our view, the Fund's approach to RI, including climate risk management, is above industry average standards and significantly in excess of the regulatory minimum. We suggest that the Fund maintains this current level of practice and implements any recommendations that are still outstanding from the first report.

Due to our prior recommendation that Climate Scenario Analysis be conducted only on a biennial basis it is not provided as part of this Climate Risk Report. In lieu, we conduct a literature review on the techniques that the Fund could consider enacting to further manage climate risks within alternative asset classes. We suggest that the Fund explores some of these options to determine if they are viable and value-accretive additions to the Fund's current risk management process.

The Risk Management section outlines the scope of the Fund's Climate Stewardship Plan and provides the first progress update against the eight investee companies recommended for engagement. We find that over the past year engagement progress with these companies has been steady, with several companies having strengthened their climate change commitments as a result. For example, Rio Tinto, for the first time, backed a shareholder resolution on climate change at its AGM.

The updated Carbon Risk Metrics implies that the existing management of carbon risk in the Fund continues to exceed that of the benchmarks. Between 29th May 2020 and 30th November 2021, the carbon footprint of the Total Equity portfolio decreased by 17.77%. At the latter date, the Total Equity carbon footprint was 28.05% more carbon efficient than the blended benchmark. Exposure of the Total Equity portfolio to fossil fuel reserves remained largely unchanged between May 2020 and November 2021.

We encourage the Fund to repeat its Carbon Risk Metrics analysis annually and consider repeating its Climate Scenario Analysis in 2022 or 2023.

6.0 Glossary

Carbon Risk Management: How well a company is managing ESG risks and opportunities. A higher score is indicative of better management.

Clean Technology/ Weight in Clean Technology: the weight of a portfolio invested in companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

Coal Power Generation/ Portfolio exposure to coal power generation: the weight of a portfolio invested in electricity utilities where more than 30% of the fuel mix derives from coal power.

Coal Reserves/ Portfolio exposure to thermal coal reserves: the weight of a portfolio invested in companies that own thermal coal reserves.

Divestment/exclusion/negative screening: the exclusion, usually on moral grounds, of particular types of investments, possibly affecting in a negative way the riskreturn profile of a portfolio.

Engagement: dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

ESG factors: determinants of an investment's likely risk or return that relate to issues associated with the environment, society or corporate governance.

Ethical investment: an approach to investment where the moral persuasions of an organisation take primacy over investment considerations.

Fossil Fuel Reserves/ Portfolio exposure to fossil fuel reserves: the weight of a portfolio invested in companies that own fossil fuel reserves.

Interaction effect: The combined impact of sector allocation decisions and stock selection decisions.

Non-financial factors: determinants of an investment's likely risk or return that cannot be, or cannot straightforwardly be, given a monetary value for insertion into an organisation's financial statements.

Physical risk/ climate physical risk: the financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Portfolio Carbon Footprint/ Carbon Footprint: A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.

Responsible Investment factor/RI factor: an aspect of an investment which relates to environmental, social or corporate governance issues.

Responsible Investment/RI: the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes both before and after the investment decision.

Scope 1 Greenhouse Gas Emissions: Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles.

Scope 2 Greenhouse Gas Emissions: Indirect emissions from the generation of purchased energy.

Scope 3 Greenhouse Gas Emissions: Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Sector Allocation Effect: The impact of over or underweighting portfolio sectors relative to a benchmark. Negative value comes from underweighting sectors with carbon footprints higher than the benchmark or overweighting sectors with carbon footprints lower than the benchmark.

Social investing/social impact investing: investments that seek to achieve a positive social impact in addition to a financial return.

Stewardship: the promotion of the longterm success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Stock Selection Effect: The impact of specific security selection within a sector relative to the benchmark. A negative value indicates the fund manager is choosing more carbon-efficient assets than the benchmark.

TCFD: Taskforce on Climate-related Financial Disclosures. A body established by Mark Carney in his remit as Chair of the Financial Stability Board whose recommendations have come to be seen as the best practice framework for climate-related disclosures by companies, asset managers, asset owners, banks and insurance companies.

Transition risk/ climate transition risk: the financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

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LGPS Central Limited

worcestershire county council

PENSION BOARD
7 MARCH 2022

BUSINESS PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Board reviews the Worcestershire Pension Fund (WPF) Business Plan as at 22 February 2022 and notes the Fund's achievements in the 2021 / 2022 LGPS year.**

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; and
   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 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. This includes updates on service improvements and good governance.

4. Appendix 1 provides a one-page update on all the one-off (shown as shaded) and annually recurring (shown as unshaded) large pieces of work or projects that we are progressing to achieve our 14 supporting aspirations.

5. We are not aware of any matters that we need to escalate.

6. We have not received any new IDRPs, experienced any new data breaches or had to report anything to The Pensions Regulator since the last quarterly, rolling Business Plan. In 2021 / 2022 we have had 0 data breaches, 1 IDRP and 1 complaint (NB complaints generally do not escalate to IDRPs).

7. Our latest pensions administration KPIs are reassuring and in line with targets set. As detailed in Section 5, in January 2022 and for the ten months to 31 January, we met our average target turnaround for all 12 of our key measured processes. We had 47 deaths in January 2022 and the average monthly number of deaths in 2021 / 2022 is 35. The average monthly number of deaths in 2019 / 2020 was 15 and in 2020 / 2021 it was 25.

8. Our Fund performance / funding levels are in line with our targets.

9. Our projects / budgets are on schedule and members' attention is drawn to:

   a) The addition of a pensions dashboards project (project 35) to our list of projects in Appendix 1 following the issue of the DWP consultation;.

   b) The addition of an investment service providers' re-procurements project (project 36) to our list of projects in Appendix 1;

c) The removal of the CIPFA benchmarking project (project 14) from our list of projects in Appendix 1 on the grounds of us deciding not to participate any more as supplying data for the SF3 project (projects 16/17) delivers similar information.

10. As we are expecting more detail on the application of the McCloud remedy to the LGPS soon, we have, in preparation for delivering the remedy to our members, asked our employers to complete a McCloud checklist / declarations form by 8 April 2022 and, where appropriate, to follow up by providing any missing data by 30 June 2022.

11. We have prepared a Cyber Security Data Transmission Grid (see the covering report to our latest Risk Register for the Pension Board meeting of 7 March) detailing who we send data to or receive data from and how that data is protected when transmitted / received.

12. Looking back on the Fund's achievements in the 2021 / 2022 LGPS year:

a) Investment performance has been good, with our solvency funding position reaching 103% as at 31 December 2021;
b) The successful application for signatory status to the UK Stewardship Code 2020, the 2021 asset allocation review, Climate Change Risk Strategy, Climate-Related Financial Disclosures, and the 2021 climate risk review were delivered on schedule;
c) The Fund invested in a number of infrastructure projects and also disinvested out of a number of very carbon intensive passive equity funds into a Climate Factor Equity Fund and into another Passive Equity Fund with a low carbon footprint;
d) The 2021 annual benefit statements / newsletters, the 2021 pension increases the 2021 pensioner P60s, FRS information for employers' accounts, the GMP reconciliation / rectification project, and business as usual activities were delivered on schedule, with the Fund's data remaining in good shape;
e) The 2021 annual report & accounts and statutory reporting were delivered on schedule;
f) As detailed in the Governance Review and Update, good progress in preparation for SAB's Good Governance proposals being taken forward by DLUHC was made, and the 2021 reviews of the Fund's governance material (including our FSS, GPS, ISS, PAS, TORs, and Training Policy & Programme) were delivered on schedule;
g) The implementation of a new pensions administration structure is underway.

Supporting information

- Appendix - WPF Business Plan 22 February 2022

Contact Points

Specific Contact Points for this report

Chris Frohlich, Engagement Manager
Tel: 01905 844004
Email: cfrohlich@worcestershire.gov.uk

Rob Wilson
Pensions Investment, Treasury Management & Capital Strategy Manager
Tel: 01905 846908
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.

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Worcestershire Pension Fund

Business Plan

As at 22 02 2022

MANAGEMENT SUMMARY

This Business Plan is designed to be a one-stop-reference-shop for everything going on at Worcestershire Pension Fund and in the LGPS world.

Committee and Board members' attention is drawn to the following underlying key indicators (about which further detail is provided later in this Plan) of whether all is currently well at the Fund and whether we are delivering on the issues that we are required to do by regulations / that The Pensions Regulator takes a special interest in:

1. We are not aware of any matters that we need to escalate.

2. We have not received any new IDRPs, experienced any new data breaches or had to report anything to The Pensions Regulator since the last quarterly, rolling Business Plan. In 2021 / 2022 we have had 0 data breaches, 1 IDRP and 1 complaint (NB complaints generally do not escalate to IDRPs).

3. Our latest pensions administration KPIs are reassuring and in line with targets set. As detailed in Section 5, in January 2022 and for the ten months to 31 January, we met our average target turnaround for all 12 of our key measured processes. We had 47 deaths in January 2022 and the average monthly number of deaths in 2021 / 2022 is 35. The average monthly number of deaths in 2019 / 2020 was 15 and in 2020 / 2021 it was 25.

4. Our Fund performance / funding levels are in line with our targets.

5. Our projects / budgets are on schedule and members' attention is drawn to:
    a. The addition of a pensions dashboards project (project 35) to our list of projects in Appendix 1 following the issue of **the DWP consultation**.
    b. The addition of an investment service providers' re-procurements project (project 36) to our list of projects in Appendix 1.
    c. The removal of the CIPFA benchmarking project (project 14) from our list of projects in Appendix 1 on the grounds of us deciding not to participate any more as supplying data for the SF3 project (projects 16/17) delivers similar information.

6. As we are expecting more detail on the application of the McCloud remedy to the LGPS soon, we have, in preparation for delivering the remedy to our members, asked our employers to complete a McCloud checklist / declarations form by 8 April 2022 and, where appropriate, to follow up by providing any missing data by 30 June 2022.

7. We have prepared a Cyber Security Data Transmission Grid (see the covering report to our latest Risk Register for the Pension Board meeting of 7 March) detailing who we send data to or receive data from and how that data is protected when transmitted / received.

1 INTRODUCTION

1.1 Our Business Plan:

a) Outlines our (Worcestershire Pension Fund's) purpose, goals and key result areas / supporting aspirations (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**. And in our **Governance Policy Statement**.

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 85 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 Sep 2021	As at 31 Dec 2021
Employers with active members	190	192
Employee member records	21,910	22,233
Pensioner member records	19,945	20,091
Deferred member records	22,575	22,997
Total member records	64,430	65,321

2.7 We manage a **£3,647m** (as at 31 12 2021) pension fund to pay benefits as they are due and as at 31 December 2021 our solvency (the minimum risk funding position is much lower) funding position was 103%.

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 that is likely to see staff working from home for 3 days a week, 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**; **increasing the normal minimum pension age**; **Pensions Dashboards**; 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 (like member online access and employer data transmission).
h) Central government asset pooling requirements (we are a partner fund in LGPS Central Limited, LGPSC).
i) Re-procurements for services currently delivered by Heywood / Mercer / Scottish Widows / WCC Legal services / Barclays / CFH Docmail / Adare / Pop Creative / Portfolio Evaluation Limited (PEL) / MJ Hudson.

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.

<u>KRA: Accounting</u>

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.

<u>Accounting KRA Commentary:</u>

Our budgets for 2021 / 2022 to 2023 / 2024 are detailed in section 6 below. Budget Report updates on the agendas of Pension Board and Pensions Committee meetings detail the reasons for any variances.

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

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

We are preparing for the external audit programme that will commence at the end of February.

<u>KRA: Administration</u>

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 in the 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.

<u>Administration KRA Commentary (in alphabetical order):</u>

Dashboards:
We have added a pensions dashboards project (project 35) to our list of projects in Appendix 1, as the Department for Work and Pensions has launched a consultation on **<u>pensions dashboards</u>**.

Data quality:

We will be using the **National LGPS Frameworks'** Member Data Services framework for mortality screening and subsequently to trace members for whom we have no address ("gone-aways") first having decided which categories of gone-away to prioritise.

We will be purchasing the Heywood Insights module to enable us to improve our range of management information and run data quality reports whenever we wish, rather than paying Heywood to do this for us once a year for TPR reporting.

Employer changes:
We are aware of the following employer changes in 2021 / 2022:

- Hill and Moor Parish Council wanting to offer the LGPS to their staff.
- Worcester Community Trust expected to be terminating in 2022.
- Maid Marions joining as a new employer.
- Perdiswell Primary School joining Tudor Grange Academy Trust on 1 April 2021.
- Liberata's Finance and Accounting services and maybe its HR Consulting service to return to WCC on 30 June 2021.
- Pencombe joining Hereford Marches Federation of Academies.
- The Orchard School (Sidemoor) joining Black Pear Trust on 1 April 2021.
- Cater Link Ltd (TG Perdiswell) to be joining.
- Turning Point (services) Limited joining on 1 April 2021.
- Barrs Court School setting up a new MAT called Accordia Academies Trust that will include a new school opening September 2021 called The Beacon College.
- Glen Cleaning joining as a new employer on 12 July 2021.
- Holy Family Catholic MAC merging with Our Lady of Lourdes with effect from 1 Sep 2021 to become Our Lady of the Magnificat MAC.
- Waseley Hills joining Regions Schools Trust (formerly Central RSA) on 1 Nov 2021.

FRS:
We have supplied employers with a 31 December year end the required information for their accounts.

We are working with Mercer to reduce the amount of resource that we are increasingly having to devote to a matter that is not really a ball that should be in our court as pensions administrators.

KPIs:
As detailed in Section 5, in January 2022 and for the ten months to 31 January, we met our average target turnaround for all 12 of our key measured processes.

We had 47 deaths in January 2022 and the average monthly number of deaths in 2021 / 2022 is 35. The average monthly number of deaths in 2019 / 2020 was 15 and in 2020 / 2021 it was 25.

We introduced the new £100 writing off pensions overpayments policy on 23 Feb 2021. In 2021 /2022 we have written off 8 cases (£194.27 / £1,452.63 / £237.44 / £103.77 / £249.78 / £535.38 / £438.13 and £155.52).

In 2021 / 2022 we have had 0 data breaches, 1 IDRP and 1 complaint (complaints generally do not escalate to IDRPs).

We will be purchasing the Heywood Insights module to enable us to develop our KPI monitoring.

Regarding outstanding payments from employers or debtors for whom we have raised an invoice, we have no current concerns.

McCloud:
As we are expecting more detail on the application of the McCloud remedy to the LGPS soon, we have, in preparation for delivering the remedy to our members, asked our employers to complete a McCloud checklist / declarations form by 8 April 2022 and, where appropriate, to follow up by providing any missing data by 30 June 2022.

As we have been processing the hours changes, casual hours notifications and service breaks that we have continued to receive from our employers, and we are not requiring anything already supplied to us to be resent.

For employers who have only had Worcestershire County Council (WCC) and Liberata as a payroll provider, we are currently missing 2017/ 2018 hours changes, casual hours from 2016/17 to date and breaks in service due to unpaid leave not paid back from 2014.

Public sector exit payments:
We are monitoring the situation and have added text to our redundancy calculations about HM Treasury's statement that it will bring forward proposals at pace to tackle unjustified exit payments. We introduced higher strain costs for all redundancy / efficiency retirement dates after 20 July.

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. We have sorted our two male civil partners and are awaiting regulatory guidance on our opposite-sex widowers.

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 website's page views were 6,039 in Jan 22 (5,823 in Jan 21).

5 of our employers are on risk for ill health liability insurance.

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:

As detailed in the Governance Review and Update for the Pension Board meeting of 7 March, good progress in preparation for SAB's Good Governance proposals being taken forward by DLUHC is being made, and we have reviewed the Fund's governance material (including our FSS, GPS, ISS, PAS, TORs, and Training Policy & Programme).

Job descriptions for our new pensions administration structure are being reviewed by HR.

We have appointed an internal candidate as a replacement for the grade 4 member of staff who will be retiring on 31 March and have recruited an external candidate as a replacement for the member of staff who received a promotion to a grade 3 post.

We have prepared a Cyber Security Data Transmission Grid (see the covering report to our latest Risk Register that will be tabled at the Pension Board meeting of 7 March) detailing who we send data to or receive data from and how that data is protected when transmitted / received.

We have updated our processes / documentation for transfers out following **The Pensions Regulator's 8 November guidance**.

Training update:

As detailed in a separate agenda item for the Pension Board meeting of 7 March, we have reviewed our Training Policy & Programme.

The next training sessions will be on equities / equity protection and the early results of the actuarial valuation as at 1 March 2022.

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 2021 was £3,647m and its solvency funding level was 103% 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.

On 6 December some of our larger employers were briefed on the expected issues that will arise as part of the actuarial valuation as at 31 March 2022 and supplied with their indicative (as at 31 October 2021) positions.

Analysis of the indicative position for employers in the Medium investment pot has also been prepared.

The Fund invested in a number of infrastructure projects and also disinvested out of a number of very carbon intensive passive equity funds into a Climate Factor Equity Fund and into another Passive Equity Fund with a low carbon footprint.

We are considering not offering employers the option of paying 1 or 3 years' worth of contributions up front.

As detailed in the next section (section 4), the Fund has generated an average annual return of 10.6% compared to its benchmark of 10.9% over the 3 years to 31 12 2021.

Over the year to 31 12 2021 the Fund generated a return of 11.7% compared to its benchmark of 12.7%.

The government's **Levelling Up** white paper is asking the LGPS funds working with the eight LGPS asset pools to publish plans for increasing local (UK) investment, including setting an ambition of up to 5% of assets invested in projects which support local areas.

We continue to investigate making infrastructure, private debt, passive climate factor fund investments and sustainable active equity investments.

We ran an ESG / responsible investment workshop for the Pensions Committee on 2 February.

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 Dec 2021 v benchmark
Far East Developed	FTSE All World Asia Pacific Index + 1.5%	11.9% (2.0% 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	8.4% (0.1% above benchmark)

Sector	Benchmark	Average annual Performance over the 3 years to 31 Dec 2021 v benchmark
North America	FTSE All World North America - Developed Series Index	23.6% (= benchmark)
Europe ex - UK	FTSE All World Europe ex UK Index - Developed Series Index	15.3% (0.2% 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	15.8% (0.8% 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 8.3% (2.0% above benchmark)
Property / Infrastructure	Various absolute benchmarks for different fund managers	Property 1.9% (7.7% below benchmark) Infrastructure 8.3% (1.2% 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 2022	% Processed within KPI in Jan 2022	Av turnaround (working days) in Jan 2022	Target turnaround (working days)	2021/2022 average number processed per month
Joiners notification of date of joining	270	98	12	40	327
Process and pay refund	51	96	5	10	42
Calculate and notify deferred benefits	112	99	7	30	115
Letter notifying actual retirement benefits	38	100	2	15	44
Letter notifying amount of dependant's benefits	35	100	2	10	17
Letter acknowledging death of member	47	91	3	05	35
Letter detailing CETV for divorce	10	100	1	45	11
Letter notifying estimate of retirement benefits	132	100	3	15	124
Letter detailing transfer in quote	27	100	2	10	40
Process and pay lump sum retirement grant	97	100	7	23	86
Letter detailing transfer out quote	34	100	2	10	32
Letter detailing PSO	0	n/a	n/a	15	0

Activity / Process	Number processed for year 2021 / 2022	% Processed within KPI for year 2021 / 2022	Av turnaround (working days) for year 2021 / 2022	Target turnaround (working days)
Joiners notification of date of joining	3275	86	21	40
Process and pay refund	420	98	4	10
Calculate and notify deferred benefits	1154	95	8	30
Letter notifying actual retirement benefits	442	100	2	15
Letter notifying amount of dependant's benefits	172	98	3	10
Letter acknowledging death of member	358	80	3	05
Letter detailing CETV for divorce	116	100	2	45
Letter notifying estimate of retirement benefits	1241	100	3	15
Letter detailing transfer in quote	403	100	2	10
Process and pay lump sum retirement grant	860	99	11	23
Letter detailing transfer out quote	323	97	3	10
Letter detailing PSO implementation	2	100	5	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**.

The table below does not reflect the proposals to increase pensions administration resources.

Details of the updated budget forecast for 2021/22 are detailed within the proposed budget report for 2022/23 which is on the agenda of the March Board / Committee meetings. This budget section will be updated in the next quarter once the decision for next year's budget has been made at Committee.

Pension Fund Administration Forecast Outturn 2021/22 & indicative budgets 2022/23 & 2023/24

2021/22 Budget £	2021/22 Forecast Outturn £	2021/22 Variance	Description £	2022/23 Annual Change £	2023/24 Annual Change £	Comments
			Fund Investment			
9,702,400	**15,757,600**	**6,055,200**	INVESTMENT MANAGEMENT FEES	**16,022,500**	**16,457,800**	*Includes LGPS central Fees, Equity Protection and increasing commitment to Property & Infrastructure.*
148,000	141,526	-6,474	Investment Administration Recharge	151,000	154,000	*Increased Investment support*
734,500	734,500	0	LGPS Central Governance and Running Costs contribution	756,500	779,200	*Was previously shown under Management Fees*
100,000	90,000	-10,000	Investment Custodial and related services	102,000	104,000	*Reduced Custodial services due to transition of assets to LGPSC*
131,500	106,000	-25,500	Investment Professional fees	187,000	112,500	*Increased support for ESG Audit in 20.21 & 21.22*
28,600	28,400	-200	Performance Measurement	29,200	29,800	*CEM Benchmarking and Portfolio Evaluation*
1,142,600	**1,100,426**	**-42,174**	INVESTMENT ADMINISTRATION COSTS	**1,225,700**	**1,179,500**	
			Scheme Administration			
1,075,700	1,104,116	28,416	Pension scheme Administration recharge	1,166,400	1,194,500	*Increase due to Admin software requirements and additional staff for increased workload*
338,000	360,000	22,000	Actuarial services	388,000	338,000	*Employer monitoring through Actuary system Pfaroe 20/21 and Triennial valuation allowed for April 2022/23*
27,500	34,068	6,568	Audit	34,100	34,100	
33,500	33,816	316	Legal Fees	33,500	33,500	
11,000	11,000	0	Committee and Governance recharge	11,000	11,000	
1,485,700	**1,543,000**	**57,300**	SCHEME ADMINISTRATION COSTS	**1,633,000**	**1,611,100**	
2,628,300	**2,643,426**	**15,126**	GRAND TOTAL (Excluding Investment Mgt Fees)	**2,858,700**	**2,790,600**	
12,330,700	**18,401,026**	**6,070,326**	GRAND TOTAL (Including Investment Mgt Fees)	**18,881,200**	**19,248,400**	

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
Admin	Pensions Administration
Admiss	Admission
Admit	Admitted
Aq Hey	Aquila Heywood
AH	Aquila Heywood
App	Application
BCP	Business Continuity Plan
Bods	Bodies
Calcs	Calculations
CARE	Career average revalued earnings
CB	Corporate bonds
CC	County Council
CEM	CEM Benchmarking Inc
Cert	Certificate
CIPFA	Chartered Institute of Public Finance & Accountancy
CMA	Competition and Markets Authority

Coll	Colleges
Config	Configuration
Consult	Consultation
Conts	Contributions
Covs	Covenants
Cttee	Pensions Committee
DC	District Council
DLUHC	Department for Levelling Up, Housing and Communities
EM	Emerging markets
Engage	Engagement
Er	Employer
ESG	Environmental, Social, Governance
Expend	Expenditure
FI	Fixed interest
FRS	Financial Reporting Standards
FSS	Funding Strategy Statement
GMP	Guaranteed Minimum Pension
Gov	Governance
GPS	Governance Policy Statement
Inc	Income
Inv	Investments, Funding & Actuarial
ISS	Investment Strategy Statement
KRA	Key result area
LGPS	Local Government Pension Scheme
LGPSC	LGPS Central Limited
Manag	Management
Med	Medium
MSS	Member Self Service (online access to a member's pensions record)
ONS	Office for National Statistics
Q	Query
Recti	Rectification
RI	Responsible investment
Rtn	Return
SAB	Scheme Advisory Board
Sch	Scheduled bodies
SF	Superannuation Fund
SI	Statutory Instrument
Sub	Pension Investment Sub-Committee
Term	Termination (of an employer's membership of the Fund)
TBD	To be determined
TOR	Terms of reference
TPR	The Pensions Regulator
TV	Transfer (of member benefits)
W	With
Y/End	Year end

~ ENDS ~

Operational Plan: Projects 22 Feb 2022 NOTES: (35) / (36) added and (14) removed	KRA	Aspiration	Lead	Started	Mar 22	Apr 22	May 22	Jun22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	Comments
11 LGPSC budget	A/C	1	RW		Cttee			Cttee				Cttee		Cttee			Cttee		√ to date/scheduled, with 22/23 budget discussed at 2/2 Cttee
12 Annual Report & Accounts / associated docs (30 09 22)	A/C	2	RW					Cttee		signed off	Publish	Cttee							2022 on schedule
15 ONS Inc / Expend return	A/C	1	RW			¼ rtn			¼ rtn			¼ rtn			¼ rtn			¼ rtn	√ to date and scheduled
16/17 DLUHC SF3 LGPS Funds account (31 08 22)	A/C	1	RW							Annual									2022 on schedule
18 TPR Annual return /survey	A/C	1	NW		Survey								Annual				Survey		2022 on schedule
19 CEM investment benchmarking (31 07 22)	A/C	1	RW						Annual										2022 on schedule
2 GMP equalisation	Ad-min	7	SH	TBD															awaiting guidance NB non-club TVouts 1990 to 1997 in scope
4 Valuation / FSS / pots / admiss term etc policies	Ad-min	7	RW		Cttee			Cttee				Cttee		Cttee			Cttee		Oct 21 CCs/DCs/Fire/Police/Meds review & FSS consult done
32 Reprocure pension admin system (30 04 2024)	Ad-min	4	NW	May-20															contract extended to 30 April 2024 and adding Insights
10 Pension Administration Strategy review (01 04 22)	Ad-min	10	CF		Cttee	publish										consult	Cttee	publish	2022 consult done
13 Review data quality	Ad-min	4	NW									Aq Hey results		Mercer results					2022 on schedule
25 Revalue CARE accounts (06 04 2022)	Ad-min	4	SH			System config.												System config.	2022 on schedule
26 Provide FRS info	Ad-min	7	AL		Sch				Coll	Ac				admit bods			Sch		√ to date and scheduled
3 Branding and digital strategy (MSS)	Eng-age	5	CF	Oct-18															check out pensions dashboards / UPM with Dorset
20 Monitor employer covenants / pots / conts	Eng-age	10	RW		Cttee	reset erconts		Cttee				Cttee		Cttee	ask ers		Cttee	reset erconts	Pfaroe in place and Bond requirements being updated
21 Deferred annual benefit statements (31 08 22)	Eng-age	9	CF					Annual	Q manag										2022 on schedule
22 Employee annual benefit statements (31 08 22)	Eng-age	9	CF		Y/End					Annual	Q manag						Y/End		2022 on schedule
23 Pensioner P60s (29 05 22)	Eng-age	3	SH				Annual	Q manag											2022 on schedule
24 Payslips reflecting pension increase (30 04 22)	Eng-age	3	SH			Annual												Annual	2022 on schedule
27 Pension Savings Statements (06 10 22)	Eng-age	3	NW									Annual							2022 on schedule
29 Pensioner newsletter / life cert (30 11 22)	Eng-age	9	CF										Annual						2022 on schedule
28 /30 Good Governance incl TPR	Gov Staff	11	RW	TBD	Cttee			Cttee				Cttee		Cttee			Cttee		√2022 review w updated SAB pos state / GPS / TOR / training
33 McCloud: data collection; er rates; and calcs	Ad-min	3	NW	Aug-20	Cttee			Cttee				Cttee		Cttee			Cttee		employers asked to complete dec/ checklist and supply data
5/6 Review of Asset Allocation / ISS (31 03 22)	Inv	14	RW		Cttee			Cttee Sub			Sub	Cttee	Sub	Cttee			Cttee		2022 on schedule
9 Increase assets managed by LGPS Central Limited	Inv	14	RW	Feb-19	Cttee			Cttee Sub				Cttee		Cttee			Cttee		looking into infrastructure / private debt / sustainable equity
34 Progress the Fund's RI journey	Inv	14	RW	Jan 20	Cttee			Cttee				Cttee		Cttee			Cttee		√ Climate Risk Report 2021 and 2/2 workshop
35 Pensions Dashboards (2024)	Ad-min	7	TBD	Feb 22	Cttee			Cttee				Cttee		Cttee			Cttee		DWP consultation issued 31 01 2
36 Investment service providers' reprocurements	Inv	13	RW	Feb 22					MJH		PEL								

PENSION BOARD
7 MARCH 2022

RISK REGISTER

Recommendation

1. **The Chief Financial Officer recommends that the Pension Board reviews the 22 February 2022 WPF Risk Register.**

Background and update

2. The Risk Register is kept under regular review and, following the February 2022 review by officers, an updated Register is attached as an Appendix.

3. The review resulted in the addition of no new risks.

4. The review resulted in no residual risk scores being increased or reduced.

5. Mitigating actions have been updated for:

   a) **new measures** e.g. progress on the actuarial valuation as at 31 March 2022; the McCloud employer checklist / declaration; and preparing a Cyber Security Data Transmission Grid (see the supporting information to this Risk Register) detailing who we send data to or receive data from and how that data is protected when transmitted / received.

   b) **previous measures that have been completed / developed further / have changed timelines** e.g. making additional investment in infrastructure; investing in a passive Climate Factor Fund & in a Sustainable Active Equities Fund; the 2021 Climate Risk Report; updating our governance material; reviewing our training policy and programme; and progressing the pensions administration restructure.

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

Supporting information

- Appendix 1 - WPF Risk Register 22 February 2022
- Appendix 2 - Cyber Security Data Transmission Grid

Contact Points

<u>Specific Contact Points for this report</u>

Chris Frohlich, Engagement Manager
Tel: 01905 844004

Email: cfrohlich@worcestershire.gov.uk

Rob Wilson
Pensions Investment, Treasury Management & Capital Strategy Manager
Tel: 01905 846908
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.

Risk Register

As at 22 February 2022

About this Risk Register

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

- Red > = 45 (03 risks)
- Amber >= 25 but < 45 (12 risks)
- Green < 25 (16 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 08 09 2021 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 32 risks logged in this register are in highest Residual Risk Score order:

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 20 Having insufficient resources in pensions administration, perhaps as a result of staff leaving or going on long term absence.
4. 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.
5. WPF 07 Future change to LGPS regulations or other legislation, for example from government legislation on minimum normal pension age or exit payments.
6. WPF 33 Climate change.
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 24 Employers having insufficient skilled resources to supply our data requirements.
9. WPF 11 Failure to pool assets using LGPS Central Limited.
10. WPF 06 Fair Deal consultation proposals being implemented.
11. WPF 02 Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members.
12. WPF 08 Failure to appoint suitable investment managers and review their performance / markets / contracts.
13. WPF 03 Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix.
14. WPF 28 Cyber-attack leading to loss of personal data or ransom or our hardware being disabled or from financial loss from our banking / custody arrangements being compromised.
15. WPF 34 Inflation.
16. WPF 09 Being reliant on LGPS Central Limited's investment approach.
17. WPF 30 Failure to maintain the quality of our member data.
18. WPF 19 Failure to procure a pensions admin system for the future.
19. 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; and life expectancy.
20. WPF 18 Failure of existing pension admin system to deliver the services contracted.
21. WPF 21 Failure of business continuity planning.
22. WPF 13 Liquidity / cash flow is not managed correctly.
23. WPF 14 Failure to exercise proper stewardship of our assets.
24. WPF 26 Fraud by staff.
25. WPF 15 Failure of the actuary to deliver the services contracted.
26. WPF 01 Failure of governance arrangements to match up to recommended best practice.
27. WPF 17 Failure of custodian to deliver the services contracted.
28. WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy.
29. WPF 16 Failure of investment adviser to deliver the services contracted.
30. WPF 25 Fraud by scheme members.
31. WPF 29 Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline.
32. WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

WPF Risk Register 22 Feb 2022 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-abilit	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 (the current one was approved by the Pensions Committee in March 2021 and Committee will be asked to approve an updated one on 23 March), 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. We have discussed with major employers their funding positions as at 31 Oct 2021 and their possible contribution rates from 01 04 2023 and reviewed the position for the medium investment pot employers as at 31 Oct as preparation for the actuarial valuation as at 31 March 2022. Strategic asset allocation is reviewed quarterly by the Pension Investment Sub Committee. We have equity protection arrangements in place up to April 2022 for all of our passive market cap equity funds. We continue to liaise with all our investment managers in response to the ongoing market volatility caused by COVID-19. 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 their latest budgets that have been challenged mean 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, the cost savings from pooling, and the performance of assets (that we have advised LGPSC is of most importance to us, as this will far outweigh the perceived cost savings from pooling) under LGPSC's management.	25	2	50

WPF Risk Register 22 Feb 2022 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-abilit	Resi-dual Risk Score
WPF 20 (Chief Financial Officer and Pensions Administration Manager)	Having insufficient resources in pensions administration, perhaps as a result of 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 are restructuring and will be adding resources to our pensions administration team. Our recruitment activities may be constrained by having to follow WCC policies re where we can advertise and re which agencies we can use and by a market where other LGPS funds are advertising 100% WFH positions that do not require the jobholder to go to the LGPS fund, something that may even cause us to lose staff. We have internally promoted to replace the grade 4 full time member of staff who will be retiring on 31 03 2022 and recruited an external candidate to the position vacated when an existing staff member was promoted to a grade 3 position. Home working has reduced the risks posed by COVID-19 re illness. Absences are managed in line with Worcestershire County Council's attendance policy. Exit interviews / questionnaires are used to explore the reason for anyone leaving.	25	2	50
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. We have discussed with major employers their funding positions as at 31 Oct 2021 and possible contribution rates from 01 04 2023 and reviewed the position for the medium investment pot employers as at 31 Oct as preparation for the actuarial valuation as at 31 March 2022 during which we will again be issuing interim results and offering 1:1s with the actuary. We will also offer some flexibility in exceptional circumstances such as phasing 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 collected employers' 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

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WPF Risk Register 22 Feb 2022 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-abilit	Resi-dual Risk Score
WPF 07 (Chief Financial Officer)	Future change to LGPS regulations or other legislation, for example from government legislation on minimum normal pension age or exit payments.	Increasing administrative complexity or failure to comply with The Pensions Regulator.	25	3	75	We have produced a 2022 FSS to strengthen our DDA appeals process. We have added Pensions Dashboards to our list of projects. We have, in preparation for delivering the remedy to our members, asked our employers to complete a McCloud checklist / declarations form by 8 April 2022 and, where appropriate, to follow up by providing any missing data by 30 June 2022. We have been processing the hours changes that we have historically received and identifying the likely gaps in our data. In Dec 2020 we implemented revised unisex GAD capitalisation factors in response to the £95K exit cap proposals that were disapplied. On 21 July we introduced revised factors that better reflect the funding cost of redundancies and are monitoring the situation, as HM Treasury wants 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, introduced employer grouped investment strategies on 1 April 2020 and work with at risk employers.	20	2	40
WPF 33 (Chief Financial Officer)	Climate Change	Investment under-performance	20	3	60	LGPSC have provided the latest annual climate risk report which is used to target managers where required. We ran an ESG / responsible investment workshop for the Pensions Committee on 2 February and continue to engage with funds and associated companies which have a high carbon footprint to see what measure they are taking to reduce their carbon output. We are looking to disinvest from some of our high carbon funds and reinvest this into passive climate factor funds and also sustainable active equities which should enhance returns in the future. We have a Climate Change Risk Strategy in place. We have produced our Climate Related Financial Disclosures. We ask our investment managers to present their TCFD report and to deliver carbon risk metrics on their portfolios.	20	2	40

WPF Risk Register 22 Feb 2022 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-abilit	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	3	60	Whilst we have successfully moved to home-working supported by a small postal / scanning service at County Hall and adapted 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. As we are experiencing problems with Liberata delivering data timely, we have escalated their performance with WCC HR OD & Engagement who manage the relationship. 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. We have introduced the facility to send written communications electronically to a distribution house to print / envelope and post. We have also 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.	20	2	40
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.	20	3	60	As we are experiencing problems with Liberata delivering data timely, we have escalated their performance with WCC HR OD & Engagement who manage the relationship. As we are expecting more detail on the application of the McCloud remedy to the LGPS soon, we have, in preparation for delivering the remedy to our members, asked our employers to complete a McCloud checklist / declarations form by 8 April 2022 and, where appropriate, to follow up by providing any missing data by 30 June 2022. We have been processing the hours changes that we have historically received and identifying the likely gaps in our data. Following our annual employer consultation we will be updating the Pension Administration Strategy on 1 April 2022. We support employers with monthly newsletters / an area on our website / employer fora (the latest of which was held on 19 October). 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 '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.	20	2	40

WPF Risk Register 22 Feb 2022 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-abilit	Resi-dual Risk Score
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. Committee approved an indicative investment in infrastructure investments and agreed to invest in the passive climate factor fund in Nov 2021. Also the Fund is considering investment in the sustainable active equities.	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 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	We have reviewed our Training Policy and Programme.	15	2	30

WPF Risk Register 22 Feb 2022 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-abilit	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 is delivering more effective decision making than its predecessor, the Pension Investment Advisory Panel, that 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 and are reviewed and reported to Committee around every 6 months.	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	Our review of our Training Policy and Programme included officers. Officers participate in various scheme / industry groups / fora to keep up-to-date on pensions issues. They also review specialist publications.	25	1	25

WPF Risk Register 22 Feb 2022 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-abilit	Resi-dual Risk Score
WPF 28 (Pensions Administration Manager)	Cyber attack leading to loss of personal data or ransom or our hardware being disabled or from financial loss from our banking / custody arrangements being compromised.	Data Protection breach / fraud.	25	2	50	We have prepared a Cyber Security Data Transmission Grid detailing who we send data to or receive data from and how that data is protected when transmitted / received. Although moving to the Cloud and training our staff on the risks have mitigated this risk, as we have established that our pensions administration system supplier is not meeting the requirements of Cyber Essentials, we required them to complete our security assessment form to be completed and will be looking closely at their future lists of their backlog of critical and high (not medium) risks awaiting remediation and their planned programme to resolve them to include when detected / when hoped to be resolved. Measures that are updated constantly are in place to stop malicious emails; to remove malicious links in emails; to prevent outbound emails being sent to unacceptable recipients; to prevent access to fake websites; to encrypt our emails; to keep our laptops clean; and to catch ransom demands. We have addressed the issues raised by Grant Thornton's July 2021 IT audit report by introducing new control measures for removing access to our pension administration system for staff who leave; for password strength; and for reporting on access attempts / amendments to non-member data.	25	1	25
WPF 34 (Chief Financial Officer)	Inflation	Higher employer pay settlements leading to increases in liabilities. Lower real investment returns requiring increases in employer conts and leading to weaker employer covenants. Increased pension payments putting pressure on	25	2	50	Intervaluation monitoring gives us our up to date funding position. The impact of inflation is mitigated to some degree, as we invest in (1) equities that via dividends have historically maintained real rates of return and in (2) assets which are sensitive to changes in inflation e.g. infrastructure / real estate / index-linked Government bonds. Higher short term inflation will increase liabilities. We are investigating liability driven investments as a potential option to aid further protection against higher inflation. Preliminary actuarial valuation as at 31 March 2022 discussions on inflation assumptions and their affect on liabilities and on employers' funding positions as at 31 Oct 2021 have been held with the actuary. We intend to develop the investment pots further to provide greater inflation protection.	25	1	25

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WPF Risk Register 22 Feb 2022 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-abilit	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. The Partner Fund Investment Working Group meet monthly with LGPSC to discuss and monitor performance as well as strategy to ensure the company are delivering in line with the Business Plan and strategy agreed by shareholders.	20	1	20
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	We will be using the National LGPS Frameworks' Member Data Services framework for mortality screening and subsequently to trace members for whom we have no address ("gone-aways") first having decided which categories of gone-away to prioritise. We undertake regular data quality reviews. An extract of data on 5 October has revealed that the quality of our data has improved. The percentage of member records passing ALL tests required by The Pensions Regulator was: Common data 95% (our 2020 score was 94.7%) and Scheme-specific data 98.7% (our 2020 score was 93.6%). We have been resolving the issues identified.	15	1	15
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), Insights (that can deliver improved M.I.) and Member Self Service (online access for members to their pension record).	15	1	15

WPF Risk Register 22 Feb 2022 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-abilit	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; and life expectancy.	Increases required in employer contributions.	20	2	40	To respond to the now disapplied £95K exit cap in Dec 2020 we adopted (and on 21 July implemented revised) 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. We have added wording to our redundancy calculations about the government's intention to bring forward proposals to tackle unjustified exit payments. 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 22 Feb 2022 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-abilit	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 are probing the supplier of our pension administration system about: (1) what they have been doing to keep the cloud / our data / our login arrangements / sending (bulk / individual) emails from Altair safe; (2) what new threats they have popped mitigations in place for; (3) what recent changes or patches have been made to their disaster recovery arrangements; (4) evidencing (perhaps via internal or external audits) the things that they have done recently to keep up to date; and (5) the ongoing vulnerability scanning they have in place alerting them to new vulnerabilities. We have obtained business continuity assurance from Heywood and contract service is reviewed annually, with regular meetings / robust system maintenance routines / internal and external systems support / back-up procedures in place. The Pension Administration Strategy reminds employers of their responsibility to provide accurate and timely information on pay. As the National LGPS Framework for pension admin systems confirms Heywood are an approved supplier, we have independent validation of our supplier.	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 ensure that WCC includes delivery of support services to us in its Risk Register.	15	1	15

WPF Risk Register 22 Feb 2022 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-abilit	Resi-dual Risk Score
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 14 (Chief Financial Officer)	Failure to exercise proper stewardship of our assets.	Potential erosion of investment returns or reputational damage.	15	2	30	We have been successful in our application to the FRC for signatory status to the UK Stewardship Code 2020 and received guidance on areas we should improve. 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 and we ran an ESG / responsible investment workshop for the Pensions Committee on 2 February. We have conducted an ESG audit and a sustainable development goals (SDGs) mapping exercise 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 and require them to maintain a task list of the work they are doing for us.	15	1	15

WPF Risk Register 22 Feb 2022 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-abilit	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	As detailed in the Governance Review and Update for the Pension Board meeting of 7 March, good progress in preparation for SAB's Good Governance proposals being taken forward by DLUHC is being made, and we have reviewed the Fund's governance material (including our FSS, GPS, ISS, PAS, TORs, and Training Policy & Programme). Our 2021 annual report that includes our Governance Compliance Statement met audit requirements. We have reviewed our Statement of policy on our discretions (as an administering authority). We are monitoring The Pensions Regulator's plans to combine 10 of its 15 existing codes of practice into a new, single, combined and expanded modular document that identifies the legal duties of pension funds and provides advice on how to meet them. TPR expects to lay the new code in Parliament after spring 2022 with it becoming effective after summer 2022.	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 / audits of the suppliers, BNY Mellon and Northern Trust.	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 be in place on 1 April 2022.	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 22 Feb 2022 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-abilit	Resi-dual Risk Score
WPF 25 (Pensions Administration Manager)	Fraud by scheme members.	Financial loss.	5	1	5	We have updated our processes / documentation for transfers out following The Pensions Regulator's 8 November guidance. 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 be in place on 1 April 2022. Employee annual benefit statements that are returned to us are passed on to the member's employer. The 2021 deferred and employee annual benefit statements were despatched before 31 Aug along with an accompanying newsletter. In November 2021 we despatched our third 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 use it to report overpayments to the Pensions Committee. Life Certificates are also used.	5	1	5

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Cyber Security Data Transmission Grid V3 dated 25 01 2022

Who we send data to or receive data from	How that data is protected when transmitted / received
Pensions administration software provider – (currently Aquila Heywood)	We input data into Altair (that is protected by Heywood's cyber security arrangements and our login controls re our staff accessing Altair) via our laptops (that are protected by WCC IT security measures) that access Altair over the internet, with our data residing in the Cloud (that is protected by Heywood's cyber security arrangements). Heywood transmit data to us by email (that is protected by WCC IT security measures) or by us running reports whilst in Altair (that is protected by Heywood's cyber security arrangements and our login controls re our staff accessing Altair).
Banker – (currently Barclays)	We make payment instructions by supplying a BACS file to Neil Coleman (WCC IT) via email (that is protected by WCC IT security measures), which then gets processed through an application called Transform, which converts our data / instructions into our pay slips' printing formatting and into a file for processing by the banking team who seek appropriate authorisation and securely input our instructions using Barclays' cyber security arrangements.

Overseas payments provider to transmit payments to members and beneficiaries with non-UK accounts – (currently Equiniti)	We make payment instructions by supplying a BACS file to Neil Coleman (WCC IT) via email (that is protected by WCC IT security measures), which then gets processed through an application called Transform, which converts our data / instructions into our pay slips' printing formatting and into a file for processing by the banking team who seek appropriate authorisation and securely input our instructions using Equiniti's cyber security arrangements.
Printing companies – (currently CFH Docmail Ltd and Adare SEC)	In Adare's case we upload and receive data via Smart Transfer (adaresec.com) In Docmail's case we upload and receive data via Docmail - Please log in (cfhdocmail.com)
Suppliers of printers – (currently Worcestershire County Council IT Services)	We send data to our Altair printer from Altair (that is protected by Heywood's cyber security arrangements and our login controls re our staff accessing Altair) via Heywood's VPN (virtual private network) / Cloud (that is protected by Heywood's cyber security arrangements).
Custodian for our assets not managed by LGPSC – (currently BNY Mellon)	We receive data via a secure email that is password protected and is also protected by WCC IT security measures. The data that is maintained on our investments is protected by BNY Mellon's cyber security arrangements.
LGPSC (when acting as the Fund's custodian)	We receive data via a secure email that is password protected and is also protected by WCC IT security measures. The data that is maintained on our

	investments is protected by LGPSC's cyber security arrangements.
Investment managers including LGPSC	We receive data by email (that is protected by WCC IT security measures) that normally requires a log in to the relevant manager's password protected website and any changes in access to these websites is agreed by an authorised signatory. We complete payment instructions to the BACS system after appropriate authorisation. Our inputs are protected by Barclay's cyber security arrangements.
Additional voluntary contribution (AVC) providers – (currently Scottish Widows / Utmost Life and Pensions)	We send and receive data by email (that is protected by WCC IT security measures).
Actuary – (currently Mercer)	We upload and receive employer cashflow / documents / schedules data via Mercer - Sign In (okta.com) We supply member data actuarial valuation extracts via Mercer's secure email using a password and code that has been supplied in an email (that is protected by WCC IT security measures) from Mercer.
Provider of pensions tax workshops – (currently Aon)	We send and receive data by email (that is protected by WCC IT security measures).
External auditor – (currently Grant Thornton)	We send and receive data by email (that is protected by WCC IT security measures). Grant Thornton also has its own security system to receive information

	that is password protected as well as its own cyber security measures.
LGPS National Insurance database – (South Yorkshire Pensions Authority)	We upload and receive data via National Insurance database | Fund sign in (findlgpspension.org)
Administering authorities of other LGPS funds (or their agents, such as third-party administrators) where you have been a member of another LGPS fund and the information is needed to determine the benefits to which you or your dependants are entitled	We send and receive data by email (that is protected by WCC IT security measures).
Government departments	We provide data to the Finance Survey of Pensions (quarterly submission) via the Office of National Statistics' secure website that is password protected: https://surveys.ons.gov.uk/sign-in. We also provide a year-end financial return to the Local Government Finance Data Collection Data, Analysis & Statistics Division via DELTA, a secure website which is password protected: https://delta.communities.gov.uk/login#
The Cabinet Office – for the purposes of the National Fraud Initiative	We email (that is protected by WCC IT security measures) data to internal audit who upload it to the NFI secure site.
HMRC	Tax codes are received and automatically updated via Altair (that is protected by Heywood's cyber security arrangements and our login controls re our staff accessing Altair).

	RTI files are sent via Altair (that is protected by Heywood's cyber security arrangements and our login controls re our staff accessing Altair).
Local and foreign courts, tribunals and arbitrators, other judicial committees of enactments of laws, including the Courts of England and Wales for the purpose of processing pension sharing orders on divorce.	We send and receive data by email (that is protected by WCC IT security measures).
Persons in connection with any transfer of employment of a scheme member or members under TUPE which results in a transfer out of this scheme to another pension scheme	We send and receive data by email (that is protected by WCC IT security measures).
Members	We send and receive data by email (that is protected by WCC IT security measures).
Employers	We send and receive data by email (that is protected by WCC IT security measures). Some payroll providers employ additional cyber security measures like password protecting attachments or using bespoke portals. Liberata (WCC's and other employers' payroll provider) drop spreadsheets into an application called Transform. We (the relevant officer if a report, otherwise pensions@worcestershire.gov.uk) are notified by email (that is protected by WCC IT security measures) that files are there for us.
National LGPS Frameworks' member data services for address tracing and mortality screening	We send and receive data via a secure portal run by Target Professional Services (UK) Limited. Their file transfer system (DataSafe) is hosted on their own

	server within a UKFAST data centre which is ISO 27001 certified, secure to government IL4 standards and designed specifically for government organisations. We are provided with a log in for each user giving access to the system. The system provides an automatic email advice when data is either uploaded or returned by Target. Built into the system is an automatic email warning if transferred data has not been downloaded within predetermined timescales.

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PENSION BOARD
7 MARCH 2022

PENSION ADMINISTRATION STRATEGY including POLICY STATEMENT ON COMMUNICATIONS

Recommendation

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

Background and update

2. The LGPS regulations do not require us to have a PAS, but, if we have a PAS as we have done since April 2019, they require us to keep it under review.

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

4. Our existing PAS was introduced on 1 April 2021 following a consultation with our employers on the changes we proposed making to the PAS that was introduced on 1 April 2020.

5. On 21 December 2021 we issued our April 2021 PAS to our employer contacts marked up with our proposed changes for 2022 and asked our employers to provide us with their comments by close of play on 11 February.

6. We received no employer comments on the proposed changes, but, after we had issued the consultation, felt that we would also like to add the following wording to section 4 of our Policy Statement on Communications specifically committing us to provide information about our approach to responsible investment / ESG (environmental, social and governance) / climate change issues: '(including information about our approach to responsible investment / ESG / climate changes issues)'.

7. The key areas of proposed change are:

- Adding a responsibility for us to maintain our signatory status to the UK Stewardship Code 2020.
- Adding a responsibility for employers to familiarise themselves with investment pots and the arrangements for ceasing participation in the Fund.
- Adding references to employers being required to notify us specifically about address changes to their responsibilities regarding notifying us about changes in member circumstances.
- Adding a responsibility for employers to consider ill health liability insurance.

Supporting information

- Appendices 1 and 2 - April 2021 Worcestershire Pension Fund (WPF) Pension Administration Strategy (PAS) including the WPF Policy Statement on Communications marked up with proposed changes for 2022.

Contact Points

Specific Contact Points for this report

Chris Frohlich, Engagement Manager
Tel: 01905 844004
Email: cfrohlich@worcestershire.gov.uk

Rob Wilson
Finance Manager – Pensions and Treasury Management, Finance
Tel: 01905 846908
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 e.g. an address change 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.

CONTENTS

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 digitalisation 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.

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 the Fund's Investment Strategy Statement, Climate Change Risk Strategy and Climate-Related Financial Disclosures.

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.~~ To maintain our signatory status to the UK Stewardship Code 2020.

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.

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.

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.

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.

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 and arrangements for ceasing participation in the Fund.
   c. Governance Policy Statement.
   d. Investment Strategy Statement.
   e. Actuarial valuation report.
   f. Climate Change Risk Strategy
   g. Climate-Related Financial Disclosures

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.

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.
   o. Address change

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.

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.

7. To consider taking out ill health liability insurance (IHLI).

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 employer's Policy Statement on discretions.

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.

3. FURTHER INFORMATION

We administer the LGPS and manage £3,~~000~~540 million of worldwide assets on behalf of about ~~20~~190 employers and 6~~3~~4,000 members.

As at 30 September 2021~~the 31 March 2019 actuarial valuation~~ we were 103~~90~~% funded.

We have a budget of £1.~~3~~5m for pensions administration and have 2~~4~~5 staff in our pension administration department. We work with the following:

AEW
Barclays
BNY Mellon
Bridgepoint
BSIF Housing and Infrastructure
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
Northern Trust
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

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: Final (following the second annual review)
Author: Chris Frohlich, Engagement Manager
Dated: ~~April~~ December 2021
To be Signed Off: Pensions Committee ~~16~~ 23 03 202~~1~~2

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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~~8 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~~ Cllr Elizabeth Eyre 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.

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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Author: Chris Frohlich, Engagement Manager
Dated: ~~April~~ December 2021
To be Signed Off: Pensions Committee 23~~16~~ 03 202~~1~~2

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worcestershire
countycouncil

PENSIONS BOARD
7 MARCH 2022

WORCESTERSHIRE COUNTY COUNCIL PENSION FUND ADMINISTRATION BUDGET 2022/23

Recommendation

1. **The Chief Financial Officer recommends that the Board note and comment on:**

   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) **Variations against budget will be monitored be noted.**

Purpose of the report

2. This report seeks the Boards comments on the proposed 2022/23 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. The budget and Forecast Outturn for 2021/22 are also shown.

3. The Appendix also shows indicative budgets for the following two years 2023/24 and 2024/25. 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 Pensions 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 2021/22

6. The attached Appendix shows the forecast outturn estimated to be £20.081m compared to a budget of £18.386m, an overspend of £1.695m. The main reasons for the variance are:

a) Investment management fees (increase of £1.529m) due to the increase in investments that have occurred throughout the year and in particular since November 2021. This has also meant an increase in transaction costs through the transition of assets to LGPSC and the restructuring of the Equity Protection strategy being more than were budgeted; The Funds asset value has also continued to increase more than anticipated resulting in higher fee levels;

b) An increase above budget for administration costs (£0.034m) for increased fund investment performance reporting information due to increasing Funds and improvements to monitoring the performance benchmark. Also there has been a slight increase in custodial services due to the increase in asset valuation;

c) An increase in the Pensions Admin costs to support improvements in Governance, recognised as good practice (£0.132m) due to:
   - Admin software (£0.071m) due to implementing improvements to the system to enable staff to run their own data quality reports, including matching of deceased record, of which £0.036m is one off.
   - An increase in the cost of the dispatch and postage relating to payslips and annual benefit statements (£0.035m) which is due also to increasing members.
   - An increase in the actuarial services (£0.022m) due to some early work on the valuation and support on terminations and Funding Strategy Statement.

7. Excluding the uncontrollable costs of the management fees, this forecast overspend is within the £0.5m variation limit delegated to the Chief Financial Officer by the Committee and in line with the Admin budget reported to the October Committee where the variations were agreed.

Key features of the proposed 2022/23 budget

8. The budget now proposed for 2022/23 is £21.015m, an increase of £2.629m (12.5%) from the original 2021/22 budget (see Appendix). The largest proportion of the budget (£18.029m) 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. Also, to comply with the Cost transparency code initiative this also includes all known transaction and associated costs.

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

a) The full year effect in 2022/23 of the investment in a number of new Funds (5) during 2021/22;.
b) The increase in the Funds anticipated investment performance resulting in an increase in fees given most are based on the Net asset value; and
c) More transparency on the fees being charged from the submission of Fund managers cost transparency reports which provides greater detail on the costs of the investments.

10. The Fund's "controllable" budget (i.e. excluding investment management fees) is £2.987m, which is an increase of £0.358m (12.0%) net increase on the original budget. The key reasons for this decrease are:

a) An increase for investment administration costs of £0.088m and the main reasons are:-
    - £0.012m for increased support from the Pensions Investment Team
    - £0.016m for increased reporting requirements due to the increasing size and complexity of the fund
    - £0.044m for increased governance and running costs of LGPS Central.
    - £0.011m for increased custodial services due to increasing valuation;

b) An increase in the Pensions Admin costs of £0.270m and the amin reasons are:-
    - software (£0.030m) due to the provider now providing improved self service facilities for staff particularly in running their own reports on data quality
    - An increase in forecast staffing requirements in line with the restructure agreed at the December 2021 Committee (£0.200m) to cope with the increasing changes and complexity of the pension legislation such as McCloud and to aid retention and training of staff.
    - An increase in the cost of the dispatch and postage relating to payslips and annual benefit statements (£0.035m) which is due also to increasing members. Work is progressing to automate and reduce this in future years but this will take time to implement;

c) An increase in the actuarial services (£0.050m) due to additional support required for the pensions valuation; and

d) A reduction on the anticipated pension deficit recharge to Admin (£0.040m) due to the improved valuation.

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 current budgeted 2021/22 Worcestershire Pension Fund administration costs are currently £23.07 per member. The proposed budget for 2022/23 will take these costs up to £27.26 per member (0.04% of the market value of the Fund's assets as at December 2021).

13. In terms of investment costs, the budget indicates spend of 47p per £1,000 (0.47% of market value as at December 2021) on managing its assets for 2021/22, including all pooled mandate costs

Risk Assessment

14. The Board 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 0.08% 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
Rob Wilson
Pensions Investment, Treasury Management & Capital strategy manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Supporting Information

- Appendix detailing the 2021/22 Administration Budget monitoring and proposed 2022/23 Administration Budget with indicative budget allocations for 2023/24 and 2024/25

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.

Appendix 1

Pension Fund Administration Forecast Outturn 2021/22 & Propsed Budget 2022/23 with indicative budgets 2023/24 & 2024/25

2021/22 *Budget*	2021/22 *Forecast Outturn*	2021/22 *Variance*	*Description*	2022/23 *Annual Change*	2023/24 *Annual Change*	2024/25 *Annual Change*	Comments
£	£		£	£	£	£	
			Fund Investment				
15,757,600	**17,286,500**	**1,528,900**	INVESTMENT MANAGEMENT FEES	**18,028,500**	**19,740,200**	**20,996,500**	*Includes LGPS central investment management Fees, Equity Protection and increasing commitment to Property & Infrastructure.*
148,000	157,100	9,100	Investment Administration Recharge	160,200	163,400	166,700	*Increased Investment support*
734,500	734,500	0	LGPS Central Governance and Running Costs contribution	777,000	808,100	840,400	*Was previously shown under Management Fees*
100,000	111,000	11,000	Investment Custodial and related services	113,200	115,500	117,800	*Slight increase in Custodial services due to increase in value of assets assets*
131,000	131,500	500	Investment Professional fees	136,500	161,500	91,500	*Increased support for Asset allocation review in 22.23 and further ESG Audit in 23.24 allowed for.*
28,600	42,400	13,800	Performance Measurement	43,500	44,400	45,300	*CEM Benchmarking and increase in Portfolio Evaluation due to increase in investments and complexity of the benchmark reporting*
1,142,100	**1,176,500**	**34,400**	INVESTMENT ADMINISTRATION COSTS	**1,230,400**	**1,292,900**	**1,261,700**	
				88,300			
			Scheme Administration				
1,099,700	1,205,700	106,000	Pension scheme Administration recharge	1,292,100	1,330,500	1,369,900	*Increase due to Admin software requirement, increase in postage and printing costs for Benefit statements and payslips.Also staffing restructure full year implications in 2022.23 agreed at Dec 21 Committee*
338,000	360,000	22,000	Actuarial services	410,000	360,000	360,000	*Employer monitoring through Actuary system Pfaroe from 20/21 and Triennial valuation allowed for April 2022/23*
27,500	34,068	6,568	Audit	34,100	35,100	36,200	
10,000	8,938	-1,062	Legal Fees	10,000	10,000	10,000	
11,000	10,000	-1,000	Committee and Governance recharge	10,000	10,000	10,000	
1,486,200	**1,618,706**	**132,506**	SCHEME ADMINISTRATION COSTS	**1,756,200**	**1,745,600**	**1,786,100**	
2,628,300	**2,795,206**	**166,906**	GRAND TOTAL (Excluding Investment Mgt Fees)	**2,986,600**	**3,038,500**	**3,047,800**	
18,385,900	**20,081,706**	**1,695,806**	GRAND TOTAL (Including Investment Mgt Fees)	**21,015,100**	**22,778,700**	**24,044,300**	

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worcestershire county council

PENSION BOARD
7 MARCH 2022

FUNDING STRATEGY STATEMENT

Recommendation

1. **The Chief Financial Officer recommends that the Board reviews the proposed Feb 2022 Funding Strategy Statement (FSS).**

Background

2. The LGPS regulations require us to have an FSS and to keep it under review.

3. Our FSS sets out how each Fund employer's pension liabilities are to be met going forward.

4. Our existing FSS was approved by the Pensions Committee on 29 June 2021 following a consultation with our employers on the changes we proposed making to the March 2020 FSS.

5. To reassure ourselves that we have a solid appeal process for employers challenging Deferred Debt Arrangements (DDA) / exit credits in place, we sought independent legal counsel from Addleshaw Goddard on our existing FSS, our Statement of Policy on our Discretions as an administering authority, our Appeals form, and our Making a formal representation for an exit credit payment document.

6. We then asked our actuary, Mercer, to review Addleshaw Goddard's counsel and incorporated Mercer's review before issuing a proposed Feb 2022 FSS to our employer contacts on 3 Feb, asking our employers to provide us with their comments by close of play on 18 February.

7. We received no employer comments on our proposed changes.

8. The key areas of change are in:

- The EMPLOYERS LEAVING THE FUND area of section 5.
- The Review of contributions area of section 8.
- Appendix D.
- Appendix G.

Supporting information

- Appendix - Proposed FSS Feb 2022.

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

<u>Specific Contact Points for this report</u>

Chris Frohlich, Engagement Manager
Tel: 01905 844004
Email: cfrohlich@worcestershire.gov.uk

Rob Wilson
Finance Manager – Pensions and Treasury Management, Finance
Tel: 01905 846908
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.

FUNDING STRATEGY STATEMENT

for employer consultation of Feb 2022

This Funding Strategy Statement has been prepared to set out the funding strategy for the Worcestershire Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Executive Summary

Ensuring that the Worcestershire Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Worcestershire County Council).

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this FSS will have a financial and operational impact on all participating employers in the Worcestershire Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in it.

Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given opportunity to comment prior to this FSS being finalised and adopted. This FSS takes into consideration all comments and feedback received.

The results of the 2019 valuation show the liabilities to be 90% covered by the current assets using the prudent assumptions set out in Appendix A. The Fund's long-term objective is to achieve a 100% solvency level with the funding deficit of 10% being covered by deficit recovery contributions. Deficit recovery periods vary by employer category, with a maximum deficit recovery period of 15 years.

The key financial assumptions used to determine the funding liabilities and the future service ("Primary") contribution rate for each investment pot at the valuation date are:

	Growth pot	**Medium pot**	**Cautious pot**
Funding liabilities discount rate:	4.05% p.a.	3.8% p.a.	2.65% p.a.
Future service discount rate:	4.65% p.a.	4.4% p.a.	2.65% p.a.
CPI price inflation	2.4% p.a.	2.4% p.a.	2.4% p.a.

In assessing the value of the Fund's liabilities, allowance has been made for asset out-performance (above CPI inflation) by taking into account the investment strategy adopted by the Fund. If, at the valuation date, the Fund had been invested in a "minimum risk" portfolio, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 54%.

To help maintain stability of contributions in the future, the Fund has implemented a number of strategies to help manage risk:

- Investment pots to offer to employers which exhibit lower investment risk than the current whole fund strategy with effect from 1 April 2020. Further detail regarding the asset strategy for each pot is available in the Fund's Investment Strategy Statement (ISS).
- Equity Protection strategy to protect against potential falls in the equity markets via the use of derivatives.
- Covenant assessment and monitoring for participating employers, as detailed in Appendix E.
- Provided employers with the facility to take out ill-health liability insurance to ensure that the eligible employers are not exposed to potentially large funding strains on the ill health retirement of one or more of their members.

The Fund has a number of key aims and objectives. The key funding objectives are referred to throughout the FSS and are summarised below:

- Achieve and maintain assets equal to 100% of liabilities within a target 15-year average timeframe, whilst remaining within reasonable risk parameters.
- Determine employer contribution requirements to maintain long term cost efficiency, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible.
- Strike the appropriate balance between long-term investment performance and the Fund's funding objectives.
- Ensure net cash outgoings can be met as/when required.
- Minimise unrecoverable debt on employer termination.
- Ensure that the future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.
- To provide more certainty in employer contribution outcomes (within reasonable parameters) by implementing a number of risk management techniques to manage various aspects of the Fund's financial risks, specifically an Equity Protection strategy and investment strategies reflective of the risk associated to each employer.

The FSS has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the Fund and the "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as this relates to the Fund.

Key elements of the funding strategy are as follows:

- To include appropriate margins to allow for the possibility of adverse events (e.g., material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency objective.
- Deficit recovery periods are determined by the Fund with the aim of recovering deficits as quickly as participating employers can reasonably afford given other competing cost pressures, taking into account the Fund's view of the employer's covenant and the risk to the Fund.
- The deficit recovery periods will be set by the Administering Authority with a maximum deficit recovery period of 15 years, although employers will be free to select any shorter deficit recovery period if they wish.
- Employers who are expected to have a shorter participation period e.g., closed to new entrants will generally have a shorter recovery period.
- Deficit recovery contributions will be expressed in £s.
- Similar principles are applied to employers who have a surplus of assets over liabilities where the surplus is being run off over the period as an offset to future service contributions.
- It is possible for employers to prepay their contributions for the full 3 years or annually at each April in return for a cash saving.
- The key financial assumption – the discount rate – is derived for each investment pot by considering the prudent long term expected return on the underlying assets over and above assumed future Consumer Prices Index (CPI) inflation.
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund's membership along with a review of other LGPS funds.
- As part of the Fund's risk management framework, employer type, maturity, funding position, status and ongoing covenant strength will be considered by the Fund when allocating an employer to a specific investment pot.

It is strongly recommended that employers also consider and understand the detailed Fund policies in the main body as these impact on your participation in the Fund over the short and long term.

Contents

Appendices

1. Introduction

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; “the Regulations”) provide the statutory framework from which an Administering Authority is required to prepare an FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Fund will prepare and publish their funding strategy.
- In preparing the FSS, the Fund must have regard to:

  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the LGPS are specified in the governing legislation contained in the Regulations referred to above. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The LGPS is a defined benefit arrangement with final pensionable pay related benefits and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the member’s retirement benefits and pay 50% of the normal member contribution.

CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations.

Employer contributions and deficit recovery contributions are determined by in accordance with the Regulations.

PRIMARY RATE

The “Primary rate” for an employer is the contribution rate in the Fund Actuary's opinion required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and the employer’s covenant. This includes provision for ancillary death in service and ill health benefits (subject to any external insurance arrangement) and administration costs. 5

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment that should, in the Fund Actuary's opinion, be made to the Primary rate to address any past service deficit or surplus. In addition, as part of the 2019 actuarial valuation, the Secondary rate will also include any contributions which an employer agreed should be included in respect of the estimated cost of McCloud. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

In addition to paying the Primary rate for future accrual of benefits, employers are required to make any required deficit recovery contributions via the Secondary rate.

Secondary rates for the whole Fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole Fund payroll in respect of percentage rates and the total amount across all employers in respect of cash adjustments.

Contribution plans are normally determined as part of an actuarial valuation although in some circumstances they may be reviewed in between valuations in accordance with the Regulations.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding should be assessed, implementation of the funding strategy is the responsibility of the Fund, acting on the professional advice provided by the Fund Actuary.

The Fund's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this FSS is therefore:

- To establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities.
- To establish contributions at a level to "secure the solvency" of the Fund and the "long term cost efficiency".
- To have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this FSS to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected, including the disparate investment pots, it must remain a single strategy for the Fund to implement and maintain.

3. Aims and purpose of the Fund

THE AIMS OF THE FUND ARE TO:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.
- Enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining the Fund solvency and long-term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes.
- Maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- Receive monies in respect of contributions, transfer values and investment income, and
- Pay out monies in respect of benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

4. Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties are the Administering Authority, the Pensions Committee, the individual employers and the Fund's Actuary and details of their roles are set out below. Other parties required to play their part are bankers, custodians, investment managers, auditors, legal/investment/governance advisors and the Local Pension Board.

KEY PARTIES TO THE FSS

The **Administering Authority,** through delegation to the Pensions Committee, should:

- Operate the Fund
- Collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations
- Pay from the Fund the relevant entitlements as stipulated in the Regulations
- Invest surplus monies in accordance with the Regulations
- Ensure that cash is available to meet liabilities as and when they fall due
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default
- Manage the valuation process in consultation with the Fund Actuary
- Prepare and maintain a FSS and an ISS, both after proper consultation with interested parties
- Monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- Effectively manage any potential conflicts of interest arising from it also being a Fund employer, and
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.

In practice the Pensions Committee may delegate responsibility for the implementation of some of the above responsibilities to Fund officers.

The **Individual Employers** should:

- Deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations) and pay all contributions, including their own as determined by the Fund Actuary, promptly by the due date and ensure that any payroll estimates notified to the Fund (for example as part of any prepayment calculations) are as accurate as possible

- Develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain
- Have regard to The Pensions Regulator's focus on data quality and comply with any requirement set by the Fund in this context
- Notify the Fund promptly of any changes to membership which may affect future funding
- Understand the pensions impacts of any changes to their organisational structure and service delivery model, and
- Understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.

The **Fund Actuary** should:

- Prepare actuarial valuations including the setting of employers' contributions after agreeing assumptions with the Fund and having regard to their FSS and the Regulations
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, etc.
- Provide advice and valuations on the termination of admission agreements including in relation to exit payments and exit credits
- Provide advice to the Fund on bonds and other forms of security against the financial effect on the Fund of employer default
- Assist the Fund in assessing whether employer contributions need to be revised between valuations when the Administering Authority decides to review them
- Advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- Ensure the Fund is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5. Solvency Funding Target

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements, the long-term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG-TERM EFFICIENCY

Each employer’s contribution rates and deficit recovery contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

The FSS has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the Fund and “long term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY CONTRIBUTIONS

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The assumptions for deficit recovery contributions are set out in **Appendix B**.

Underlying these assumptions are:

- That the Fund is expected to continue for the foreseeable future; and
- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer-term view when assessing the contribution requirements for certain employers.

In considering this the Fund, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Fund, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

The employer contributions will be expressed and certified as two separate elements:

- the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits, ancillary death in service, ill health benefits / ill health premiums and administration costs.
- the Secondary rate: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit (with the exception of the Town and Parish Council Group where contributions will be certified as a % of pensionable pay).

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to review from 1 April 2023 based on the results of the 2022 valuation.

Employers may also elect to make lump sum prepayments of contributions.

DEFICIT RECOVERY CONTRIBUTIONS

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Fund's view of the employer's covenant and risk to the Fund.

Deficit recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit recovery contributions in one lump sum either on an annual basis or a one-off payment. The Fund does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.

The key principles when considering deficit recovery plans are as follows:

- The Fund will consider whether it is appropriate for deficit recovery contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain. This will be based on assessment of the employer covenant (including affordability of the existing funding plan) and any other relevant factors.

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit. The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.
- Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Fund considers this to be warranted (see Deficit Recovery Assumptions in Appendix B). The average deficit recovery period adopted by all employers will be set out within the Fund Actuary's report. Employers will be notified of their individual deficit recovery contribution amounts as part of the provision of their individual valuation results. Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, at the sole discretion of the Fund the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum of 3 years, depending on affordability of contributions as determined by the administering authority. This will be notified to employers as part of the valuation process. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.
- As part of the process of agreeing funding plans with individual employers, the Fund will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities.
- It is acknowledged by the Fund that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Fund therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.
- For those bodies identified as having a weaker covenant, the Fund will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.
- Notwithstanding the above principles, the Fund, in consultation with the Fund Actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment (see Employers Leaving the Fund below).

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain (i.e. the increase in liability caused by paying a member's benefits early) by immediate capital payments into the Fund.

FUNDING FOR ILL HEALTH RETIREMENT COSTS

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment.

With the exception of any employers that have elected to take up ill-health liability insurance, the contributions payable over 2020/23 include an allowance for ill-health retirement costs (alongside those for voluntary early retirements). Where an ill-health retirement occurs, no additional contributions will be due immediately from the employer although any funding strain or profit will emerge following the subsequent actuarial valuation through increased/reduced deficit, depending on the difference in the funding cost of the ill health retirement (on the actuarial valuation assumptions) and the expected cost built into the contributions payable.

For those employers who have elected to take out ill-health liability insurance, they have the option to reduce their certified primary contribution rate by the ill health allowance included at the actuarial valuation. The employer will pay an additional premium to the insurer. Where an ill-health retirement occurs, no additional contributions will be due immediately from the employer and a payment will be received from the insurer. Any funding strain or profit will emerge following the subsequent actuarial valuation through increased/reduced deficit, depending on the difference in the updated funding cost of the ill health retirement (on the actuarial valuation assumptions) and the payment received from the insurer.

EMPLOYERS LEAVING THE FUND

The policy for employers who have a guarantor participating in the Fund:

Where an employer with a guarantor (including where there is a Pass Through arrangement – see Appendix C) leaves the Fund, the termination assessment will be calculated using a valuation funding basis which will take account of the exiting employer's investment pot. Further details are set out in the Termination Policy in Appendix D.

The residual assets and liabilities and hence any surplus or deficit will normally transfer back to the guarantor but in circumstances where an exiting employer is expected to still be responsible for the termination deficit or surplus, an exit payment/exit credit may be payable from/to the exiting employer.

Where there is a surplus and a risk sharing arrangement is in place the Administering Authority will decide whether an exit credit may be payable. This is subject to representation (as required under the Regulations from 20 March 2020) from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. [If representation is not made to the satisfaction of the Fund, then the surplus will not be paid directly to the exiting employer following cessation (despite any other agreements that may be in place).

A similar approach will be taken where there is a deficit, where the default would be to collect the exit payment in the absence of the representation from the interested parties.]

The information that will be required by the Fund from employers to make a determination on whether an exit credit should be paid where a risk sharing arrangement is in place [or guarantee] will be supplied to the interested parties at the appropriate time. A determination notice will be provided alongside the termination assessment from the Fund Actuary. The notice will cover the following information and process steps:

- Details of the employers involved in the process (e.g., the exiting employer and guarantor).
- Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority, and all other information provided to the Administering Authority and considered as part of the decision-making process. A key factor will be whether an exiting employer would have been responsible for a deficit.
- The final termination certification of the exit credit by the Fund Actuary.
- The Administering Authority's determination based on the information provided.
- Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority

Further information on the process for making a formal representation is available in the Fund's "Making a formal representation for an exit credit payment" document.

The policy for employers who do not have a guarantor participating in the Fund:

Where an employer with no guarantor leaves the Fund and leaves liabilities in the Fund, the termination assessment will be calculated using a discount rate based on a minimum risk investment strategy and a more prudent life expectancy assumption. Further details are set out in the Termination Policy in Appendix D. For the avoidance of doubt this will include an appropriate provision for potential costs of the McCloud case remedy as per the approach set out in this FSS.

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Fund Actuary).
- In the case of a deficit, the Fund would require the exiting employer to pay the exit payment to the Fund as a lump sum cash payment (unless agreed otherwise by the Fund at their sole discretion) following completion of the termination process and in line with the Regulations.
- The Fund can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Fund Actuary and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers.

  At the discretion of the Administering Authority, repayment plans over an agreed period or a Deferred Debt Agreement may be agreed subject to the Fund's policy in relation to flexibilities in recovering exit payments.

Further detail is available in the Termination Policy in **Appendix D**.

6. Link to investment policy and the Investment Strategy Statement (ISS)

The results of the 2019 valuation show the liabilities to be 90% covered by the current assets, with the funding deficit of 10% being covered by future deficit recovery contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of negative 0.9% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 54%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The overall strategic asset allocation is set out in the Investment Strategy Statement (ISS).

Based on the investment strategy in the ISS and the Fund Actuary's assessment of the return expectations for each asset class, this leads to an overall best estimate average expected return of 3.0% per annum in excess of CPI inflation as at the valuation date. For the purposes of setting funding strategy however, the Fund believes that it is appropriate to take a margin for prudence on these return expectations (i.e. to use an assumption that has a greater than 50% chance of being achieved) and this is expected under the Regulations and guidance. This margin, however, has been adjusted to take account of the risk management strategies implemented to reduce the volatility of returns within the investment strategy. In isolation, this allows a lower margin for prudence to be used than would otherwise be the case if these risk management strategies were not in place.

RISK MANAGEMENT

In the context of managing various aspects of the Fund's financial risks, the Fund has implemented a number of risk management techniques. The principal aim of these risk management techniques is to effectively look to provide more certainty of contribution outcomes within reasonable parameters.

In particular:

- Equity Protection - the Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit recovery contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality). Further information in relation to the equity protection arrangement is available within the Fund's Investment Strategy Statement and Committee papers.
- Investment 'pots' – the Fund has implemented alternative investment strategies with differential levels of investment risk with effect from 1 April 2020. The aim is to provide greater control over employers' exposure to investment risk (see Appendix F for further information). The pot an employer sits in will be reflected in the relevant employer's asset share, funding basis and contribution requirements.

7. Identification of risks and countermeasures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or deficit will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Fund has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Fund Actuary's formal valuation report includes quantification of some of the major risk factors. The risk mitigations are set out in the Fund's separate risk register which is included in the Committee papers.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Protection and risk management fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment fund managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation turning out to be significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle, and
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates or deficit recovery contributions (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation (including in each separate investment pot) is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

DEMOGRAPHIC

The demographic risks are as follows:-

- Future unanticipated changes in life expectancy (longevity)
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions (or level of ill-health insurance protection, where relevant)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. An external ill health insurance arrangement can also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members.

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not normally affect the solvency of the Fund because they are the subject of a direct charge.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employers should be doing everything in their power to minimise the number of ill-health retirements.**

With regards to increasing maturity (e.g., due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Fund regularly monitors its cashflow requirements and considers the impact on the investment strategy.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g., changes to the benefits package, retirement age, potential new entrants to Fund
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Pensions Committee and Pension Board) to make their views known to the Fund and to participate in the decision-making process. Previous versions of this FSS were consulted on prior to being approved at a Pensions Committee meeting, a practice that is being continued with this version.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Fund unaware of structural changes in employer's membership (e.g., large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Fund not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements, and
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Fund by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

8. Monitoring and review

The Fund has taken advice from the Fund Actuary in preparing this FSS and has consulted with the employers participating in the Fund.

The Fund will monitor the progress of the funding strategy and, if considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- Has been a significant change in market conditions, and/or deviation in the progress of the funding strategy.
- Have been significant changes to the Fund membership, or LGPS benefits e.g., resolution of the McCloud remedy.
- Have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy.
- Have been any significant special contributions paid into the Fund.
- Has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Fund considers that any action is required, the relevant employers will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

The structure and make-up of the investment pots will also be periodically reviewed between valuations based on the size and maturity of the liabilities within each pot. This will also allow for any movements of employers between the pots due to changes in funding position, covenant and also at the request of an employer.

A full review of this FSS will occur no less frequently than every 3 years, to coincide with completion of a full actuarial valuation.

Review of contributions

In line with the Regulations, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.

The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.

An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them and undertake to meet the costs.

Further information is set out within the policy in Appendix G.

The McCloud judgment

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation.

The Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Fund Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, it has been assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers were able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they were able to make allowance within their budgets and advised that backdated contributions could be payable if the remedy is known before the next valuation.

The mechanism to achieve this has been set out in the Fund Actuary's certificate.

Appendix A

ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers who are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rates for the investment pots have been derived based on the expected return on the Fund assets based on the long-term strategy set out in the Investment Strategy Statement (ISS). The discount rates include appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below).

These real returns will be reviewed from time to time based on the investment pot strategy, market outlook and the Fund's overall risk metrics. The discount rates will be reviewed as a matter of course at the time of a formal valuation or a formal employer rate review.

Growth investment pot

For employers in the Growth investment pot the discount rate at the valuation has been derived based on an assumed return of 1.65% per annum above CPI inflation i.e. a real return of 1.65% per annum and a total discount rate of 4.05% per annum.

Medium investment pot

For employers in the Medium investment pot the discount rate at the valuation has been derived based on an assumed return of 1.4% per annum above CPI inflation i.e. a real return of 1.4% per annum and a total discount rate of 3.8% per annum.

Cautious investment pot

For employers in the Cautious investment pot the discount rate at the valuation has been derived based on an assumed return of 0.25% per annum above CPI inflation i.e. a real return of 0.25% per annum and a total discount rate of 2.65% per annum.

Inflation
The inflation assumption will be taken to be the investment market's expectation for Retail Prices Index (RPI) inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

1. an allowance for supply/demand distortions in the bond market is incorporated, and
2. an adjustment due to retirement pensions being increased annually by the change in the Consumer Prices Index rather than the Retail Prices Index.

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take in to account the reform of the calculation methodology for RPI, as announced by the Chancellor of the Exchequer. The change will then be implemented for the policies set out in this statement.

Salary increases
In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long-term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. The assumption used for an employer will be notified to them separately as part of the discussions but typically will be a minimum of 2% per annum until 31 March 2023.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Fund but as a minimum must be reasonable and practical. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits
Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g., some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy
The mortality in retirement assumptions are based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a

separate paper as supplied by the Fund Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2018 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2018 projections and a long-term improvement trend of 1.75% per annum.

As an indication of impact, assumed life expectancies at age 65 are:

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.5	24.9
Actives aged 45 now	24.1	26.9
Deferreds aged 45 now	22.6	25.8

For example, a male pensioner, currently aged 65, would be expected to live to age 88.1. Whereas a male active member aged 45 would be expected to live until age 89.6. This is a reflection of the expected improvement in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation
It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths cash sum (available as standard under the pre-1 April 2008 benefit structure). The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up regardless of age.

Other Demographics
Following an analysis of Fund experience carried out by the Fund Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate. Other assumptions are as per the last valuation.

Expenses
Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits
The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer

as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED I N CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (the future accrual cost) as stable as possible, so this needs to be taken into account when setting the assumptions.

As future accrual contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. This reflects the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only, and therefore, these contributions will be invested for a longer period.

FINANCIAL ASSUMPTIONS – FUTURE ACCRUAL

The financial assumptions in relation to future accrual of benefits are not specifically linked to investment conditions as at the valuation date itself, and the following overall assumed real discount rates apply for each investment pot:

Growth investment pot

For employers in the Growth investment pot, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2.25% per annum above the long-term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

Medium investment pot

For employers in the Medium investment pot, the financial assumptions in relation to future service (i.e. the primary rate) are based on an overall assumed real discount rate of 2% per annum above the long-term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.4% per annum.

Cautious investment pot

For employers in the Cautious investment pot the discount rate at the valuation has been derived based on an assumed return of 0.25% per annum above CPI inflation i.e. a real return of 0.25% per annum and a total discount rate of 2.65% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the asset share for each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the pot for the employer unless agreed otherwise between the employer and the Fund at the sole discretion of the Fund.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on the employer's investment pot.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY O F KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST O F FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2 0 1 9 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.4% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate (Growth pot)	4.05% p.a.
Investment return/Discount Rate (Medium pot)	3.8% p.a.
Investment return/Discount Rate (Cautious pot)	2.65% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases*	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate (Growth pot)	4.65% p.a.
Investment return/Discount Rate (Medium pot)	4.4% p.a.
Investment return/Discount Rate (Cautious pot)	2.65% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

*Short term salary increases may also apply, and each employer will be notified of this separately. Typically this is a total pay increase of 2% p.a. until 31 March 2023.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Pensioner	Normal Health	99% S3PMA_CMI_2018 [1.75%] 91% S3PFA_M_CMI_2018 [1.75%]
	Dependant	131% S3PMA_CMI_2018 [1.75%] 91% S3DFA_CMI_2018 [1.75%]
	Ill Health	118% S3IMA_CMI_2018 [1.75%] 130% S3IFA_CMI_2018 [1.75%]
	Future Dependant	126% S3PMA_CMI_2018 [1.75%] 108% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	104% S3PMA_CMI_2018 [1.75%] 92% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	120% S3IMA_CMI_2018 [1.75%] 142% S3IFA_CMI_2018 [1.75%]
Deferred	All	128% S3PMA_CMI_2018 [1.75%] 107% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	133% S3PMA_CMI_2018 [1.75%] 115% S3DFA_CMI_2018 [1.75%]

Other demographic assumptions are set out in the Fund Actuary’s formal report.

Appendix B

EMPLOYER DEFICIT RECOVERY CONTRIBUTIONS

The Fund's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. As the assets of the Fund are less than the liabilities at the effective date of the 2019 actuarial valuation, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the deficit.

Deficit recovery contributions will be expressed as £s amounts (with the exception of the Town and Parish Council's group where deficit recovery contributions will be paid as a % of pensionable pay), and it is the Fund's objective that any funding deficit is eliminated within a timeframe determined by the Fund given its view on the participating employer's covenant and associated risk of delayed or non-payment to the Fund

Deficit recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit recovery contributions in one lump sum either on annual basis or a one-off payment.

The approach to the determination of the deficit recovery periods is summarised in the table below:

Category	Default Deficit Recovery Period	Derivation
Fund Employers	15 years	Determined by reducing the period from the preceding valuation by at least 3 years (where appropriate)
Open Admitted Bodies	15 years	Determined by reducing the period from the preceding valuation by at least 3 years
Closed Employers	Lower of 15 years and the future working lifetime of the membership	Determined by reducing the period from the preceding valuation and the membership of the employer
Employers with a limited participation in the Fund	Determined on a case-by-case basis	Length of expected period of participation in the Fund

In determining the actual deficit recovery period to apply for any particular employer or employer grouping, the Fund may take into account some or all of the following factors:

- The size of the funding deficit,
- The business plans of the employer,
- The assessment of the financial covenant of the employer, and security of future income streams,
- Any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit recovery contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the deficit recovery period) where possible.

For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is unwound over a 15-year period for open employers, or the lower of 15 years and the future working lifetime of the membership for closed employers, unless agreed otherwise with the Fund (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions payable by the employer may also be phased down to the reduced level as appropriate.

OTHER FACTORS AFFECTING THE EMPLOYER DEFICIT RECOVERY CONTRIBUTIONS

As part of the process of agreeing funding plans with individual employers, the Fund will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer deficit recovery period being acceptable to the Fund, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Fund that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Fund therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Fund will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit recovery contribution must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Fund, in consultation with the Fund Actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Appendix C

ADMISSION POLICY

INTRODUCTION

This document details the Fund's policy on the methodology for assessment of ongoing contribution requirements and admissions into the. It supplements the general policy of the Fund as set out in the FSS.

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the Fund is kept as a live document and will be updated by the Fund as bodies are admitted to or leave the Fund.

ENTRY TO THE FUND

Unless agreed otherwise by the Fund, prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Fund. If the risk assessment and/or bond amount is not to the satisfaction of the Fund (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions. Some aspects that the Fund may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves.
- If the admitted body has an expected limited lifespan of participation in the Fund.
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

At the discretion of the Fund, where an admission is in respect of 10 or less LGPS posts the Admitted Body will be admitted to the Fund on a ‘Pass Through’ basis where the Admitted Body's ongoing contribution requirements are agreed between the Letting Employer and the Admitted Body, without an individual contribution assessment being carried out.

SECOND GENERATION O U T S O U R C I N G S FOR STAFF NOT EMPLOYED B Y THE SCHEME EMPLOYER CONTRACTING THE SERVICES T O AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the main Councils, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a ‘Related Employer’ for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor.

“Related employer” is defined as “any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)”.

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARA 8

Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a) a person who funds the admission body in whole or in part;

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(c) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

> (i) the transfer of the service or assets by means of a contract or other arrangement,

(ii)a direction made under section 15 of the Local Government Act 1999 (115) (Secretary of State's powers),

(iii) directions made under section 497A of the Education Act 1996 (116);

(d) a person who—

(i) owns, or

(ii)controls the exercise of the functions of the admission body; or

(iii) which is a provider of probation services under section 3 of the Offender Management Act 2007 (power to make arrangements for the provision of probation services) or a person with whom such a provider has made arrangements under subsection (3)(c) of that section.

In accordance with the above Regulations, the Fund requires a guarantee from the related employer. The related employer may seek a bond from the admitted body taking into account the risk assessment carried out by the Fund Actuary.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service (including those admitted on a Pass-Through basis) will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Fund. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the Fund Actuary. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund it must also be satisfied (along with the Fund) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Fund, the level of the bond amount will be subject to review on a regular basis. In the case of an Admission Body admitted on a Pass-Through basis, the requirement to carry out an assessment of the level of risk on premature termination of the contract may be waived at the agreement of the Fund and the Letting Employer who act as guarantor to the Admission Body.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer. Please see the Fund's Termination Policy for further details.

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund the Fund may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions.

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions as detailed in the Fund's Termination Policy. This will substantially reduce the risk of an uncertain and potentially large exit payment being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular, the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the notional investment returns generated by the investment strategy for the employer's investment pot. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Fund or depending on any case specific circumstances.

Appendix D

TERMINATION POLICY, FLEXIBILITIES FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

INTRODUCTION

This document details the Fund's policy on the methodology for assessment of exit payments in the event of the cessation of an employer's participation in the Fund, spreading exit payments and Deferred Debt Agreements (DDA). It supplements the general policy of the Fund as set out in the FSS.

TERMINATION OF AN EMPLOYER'S PARTICIPATION

Unless entering a DDA or where a Suspension Notice has been issued as the exiting employer is likely to have active members again within three years, an employer ceases to participate within the Fund when the last active member leaves the Fund. This includes where the employer ceases to be eligible for membership e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation.

When an employing body ceases to participate within the Fund for any reason, employees may transfer their past service benefits to another employer, either within the Fund or elsewhere. If this does not happen the employees will retain pension rights i.e. either deferred benefits or immediate retirement benefits within the Fund.

The Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund or elsewhere.

TERMINATION ASSESSMENTS

When an employing body ceases to participate within the Fund, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of liabilities in respect of the exiting employer's current and former employees along with a termination contribution certificate (a **termination assessment**). Any costs associated with the termination assessment will be payable by the exiting employer and will either be invoiced to the employer (or guarantor as appropriate) by the

Fund or included by increasing the exit payment / reducing the exit credit by the appropriate amount.

The policy for employers who have a guarantor participating in the Fund:

If the exiting employer (including those admitted on a Pass-Through basis) has a guarantor within the Fund or a successor body exists to take over the exiting employer's liabilities, the Fund's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise. The costs associated with the termination assessment will be charged directly to the exiting employer unless the guarantor directs otherwise.

The amount of exit payment which the exiting employer is required to pay (if any) will be determined in accordance with the commercial agreement.

The residual assets and liabilities, and hence any surplus or deficit will normally transfer back to the guarantor of the exiting employer. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the guarantor, constitute a complete amalgamation of assets and liabilities with those of the guarantor.

In circumstances where an exiting employer is expected to still be responsible for all or part of an exit payment, an exit credit may not be payable to the exiting employer. This is subject to representation by all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'risk-sharing' agreements that may exist. In line with the amending Regulations (**The Local Government Pension Scheme (Amendment) Regulations 2020**) the parties will need to make representation to the Fund if they believe an exit credit should be paid outside the policy set out above, or if they dispute the determination of the Fund.

The information required by the Fund from an exiting employer to exercise its discretion on whether an exit credit should be paid where a guarantee or risk sharing arrangement is in place, and a representation has been made, will be supplied to the interested parties at the appropriate time. A determination notice will be provided alongside the termination assessment from the Fund Actuary. The notice will cover the following information and process steps:

1) Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2) Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision-making process. A key factor will whether an employer is responsible for a deficit. This is subject to the information provided and any risk sharing arrangements in place, as well as all other factors that the Administering Authority considers relevant.

3) The final termination certification of the exit credit by the Fund Actuary.
4) The Administering Authority's determination based on the information provided and all other relevant factors.
5) Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

Further information on the process for making a formal representation is available in the Fund's "Making a formal representation for an exit credit payment" document.

The policy for employers who do not have a guarantor participating in the Fund:

A termination assessment will be made based on a minimum risk funding basis. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a deficit emerges in the future (after participation has terminated).

- In the case of a surplus, the Fund pays any exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Fund Actuary).

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Fund at their sole discretion) following completion of the termination process.

The Fund can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it taking into account the advice of the Fund Actuary.

The Fund currently groups Town and Parish Councils for contribution rate setting purposes. The Fund's policy is that, on termination of participation within the group, the termination assessment will be based on a simplified share of deficit/surplus approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit/surplus share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the body and the group as a whole, and then adjusting to the date of exit. The share of deficit/surplus will be assessed based on the ongoing valuation funding basis for the group as a whole at the last actuarial valuation. The adjustment to the date of exit will normally be made in line with the funding assumptions adopted for the group as at the last actuarial valuation unless the Fund Actuary and Fund consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.

In addition, for some Multi-Academy Trusts (MAT), a grouped approach has been taken with individual academies within a Trust no longer being separately identifiable on the Fund's administration system or for funding or contribution purposes. On termination of participation of one of the academies within such a MAT, the termination assessment will be based on a simplified share of deficit/surplus approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit/surplus share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the employees of the exiting academy and the MAT a whole, and then adjusting to the date of exit. The share of deficit/surplus will be assessed based on the ongoing valuation funding basis for the MAT as a whole at the last actuarial valuation. The adjustment to the date of exit will normally be made in line with the funding assumptions adopted for the MAT as at the last actuarial valuation unless the Fund Actuary and Fund consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.

Unless agreed otherwise by the Fund, any unfunded liability that cannot be reclaimed from the outgoing grouped body will be underwritten by the group/MAT and not all employers in the Fund. Following termination, the residual liabilities and assets in respect of that body will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the group/MAT.

Any costs associated with the termination assessment will be payable by the exiting employer and will either be invoiced to the employer by the Fund or included by increasing the exit payment / reducing the exit credit by the appropriate amount.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former employees' benefits to another LGPS Fund in England and Wales. In these cases, no termination assessment is required as there will no longer be any employer liabilities in the Fund. Therefore, a separate assessment of the assets to be transferred will be required. Any costs associated with the asset transfer will be payable by the exiting employer and will be invoiced to the employer by the Fund.

Allowing for the McCloud Judgment in termination valuations

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not currently known with any certainty although it is expected to be similar to the allowance made in employer rates at the 2019 valuation (where applicable). Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations and the impact will be considered for the subsuming employer at the next contribution rate review. However, if a representation is made to the Administering Authority in relation to an exit credit, then a reasonable estimate for the potential cost of McCloud will need to be included within the termination assessment.

Where a surplus or deficit isn't being subsumed, McCloud will be allowed for as a matter of policy.

The allowance will be calculated in line with the treatment set out in the Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing Regulations and guidance in force at the time.

FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Fund becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Fund that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. For example, on agreement with the employer, by moving the employer to a lower risk funding basis or a notional minimum risk funding basis. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Fund, or depending on any case specific circumstances.

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Minimum risk assumptions	31 March 2019
Discount Rate	1.5% p.a.
CPI inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

These financial assumptions will be reviewed on an ongoing basis to allow for changes in market conditions along with any structural or legislative changes.

In particular, since the valuation date it has been confirmed that RPI inflation will be reformed with effect from 2030 to align the index with the CPIH inflation measure. This therefore needs to be reflected when deriving an updated market estimate of the CPI inflation. For example, when assessing a termination position from 25 November 2020 we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting [0.6%] per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. This adjustment will be kept under review over time.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2.25% p.a. from 1.75% used in the 2019 valuation for ongoing funding and contribution purposes.

POLICY IN RELATION TO SPREADING EXIT PAYMENTS AND DEFERRED DEBT PAYMENTS (DDA)

The Fund's policy for spreading exit payments (referred to as payment plans) is as follows:

1) The default position is for exit payments to be paid immediately in full (adjusted for interest where appropriate) unless there is a risk sharing arrangement in place with a guaranteeing employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.

2) Exit payment spreading and DDAs will always be discussed with employers, whether at the employer's request or not. However, spreading an exit payment, or a DDA will only be agreed at the discretion of the Administering Authority, subject to the policy in this Appendix.

If an employer wants the Fund to agree to spread an exit payment or a DDA, they must make a request in writing covering the reasons for such a request. The Administering Authority will assess whether the full exit payment is affordable, and whether it is in the interest of the Fund to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements (see further below).

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be invoiced to the employer by the Fund or added to the contribution plan (for a DDA) or exit payment (where the exit payment is to be spread).

The following policy and processes will be followed in line with the principles set out in the statutory guidance dated 2 March 2021.

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1) The Administering Authority will request updated financial information from the exiting employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided, then the default policy of immediate payment will apply.

2) Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit payment over a period of time. Depending on the length of the period and also the amount of the exit payment, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payment.

3) The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

4) The initial process to determine whether an exit payment should be spread may take up to 6 months from receipt of data, so it is important that employers who request to spread exit payment notify the Fund in good time.

5) If it is agreed that the exit payment can be spread then the Administering Authority will engage with the exiting employer regarding the following:

   a) The spreading period that will be adopted (this will be subject to a maximum of 5 years).
   b) The initial and annual payments due and how these will change over the period
   c) The interest rates applicable and the costs associated with the payment plan devised.
   d) The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account, etc.
   e) The responsibilities of the exiting employer during the exit payment spreading period including the supply of updated information and events which would trigger a review of the situation.
   f) The views of the Fund Actuary, covenant, legal and any other specialists necessary
   g) The covenant information that will be required on a regular basis to allow the payment plan to continue.
   h) Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances).

6) Note that proposed exit payment spreading will always be discussed with the employer, whether at the employer's request or not. Once the Administering Authority has reached its decision, the arrangement (where applicable) will be documented, and any supporting agreements will be included.

DEFERRED DEBT ARRANGEMENT

As opposed to paying the exit payment (immediately or spread over an agreed period of time) an employer may request to utilise the "Deferred Debt Agreement" (DDA) facility at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority. An employer who enters into a DDA will continue to participate in the Fund with no contributing members.

The following process will determine whether the Fund will agree to enter into a DDA:

1) The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided, then a DDA will not be entered into by the Administering Authority.

2) Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit payment that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Fund Actuary, covenant and legal advisor where necessary).

3) The initial process to determine whether a DDA should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.

4) If the Administering Authority's assessment confirms that the potential exit payment is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a DDA using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered:

   - What security the employer can offer whilst the employer remains in the Fund. In general, the Administering Authority won't enter into a DDA unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery plan and other funding arrangements.
   - The investment strategy that would be applied to the employer e.g. the growth, medium or cautious pot strategy which could support the arrangement.

- Whether an upfront cash payment should be made to the Fund initially to reduce the potential future exit payment.
- What the updated Secondary rate of contributions would be required up to the next valuation.
- The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- The advice of the Fund Actuary, covenant, legal and any other specialists necessary.
- The responsibilities that would apply to the employer while they remain in the Fund.
- What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the Secondary rate of contributions (e.g. provision of security).
- The circumstances that would trigger a variation in the length of the DDA (if appropriate), including a cessation of the arrangement e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months. Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer and confirm the terms that are required.

5) For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the agreed triggers are met.

6) The costs associated with the advice sought and drafting of the DDA will be borne by the employer and will be invoiced to the employer by the Fund or included in the contribution plan (depending on the circumstances).

Appendix E

COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the Fund relative to the size of the employer's operating cashflow
- The relative priority placed on the Fund compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contributions for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks, and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1) Parental Guarantee and/or Indemnifying Bond.
2) Transfer to a more prudent actuarial basis (e.g. the termination basis).
3) Shortened deficit recovery periods and increased cash contributions.
4) Managed exit strategies.
5) Contingent assets and/or other security such as escrow accounts.

Appendix F

Worcestershire Pension Fund

INVESTMENT POT RISK MANAGEMENT POLICY

In the context of managing aspects of the Fund's financial risks, the Fund has implemented a range of "investment" pots for employers (with effect from 1 April 2020) which exhibit different levels of investment risk based on alternative underlying investment strategies. The three available investment pots are called:

- The Growth pot;
- The Medium pot; and
- The Cautious pot

This strategy will be reviewed periodically as part of the governance of the Fund's overall risk management framework. This policy should be considered alongside the Fund's Covenant Assessment and Monitoring Policy

INVESTMENT STRATEGIES

The current Fund investment strategy will apply to the "Growth pot". The "Medium pot" and "Cautious pot" will provide reduced levels of investment risk, which may be appropriate particularly for those employers that are considering leaving the Fund.

The strategic allocation for the Fund as a whole and for each of the investment pots is set out in the Investment Strategy Statement.

The investment strategy underlying each investment pot will be reviewed formally at each actuarial valuation along with the overall Fund investment strategy. This will also allow for any movements of employers between the investment pots due to changes in funding position, covenant and also at the request of an employer.

In addition, a high-level health check will be performed annually allowing for market changes and outlook as well as underlying changes in the maturity and profile of the liabilities of the employers within each pot. However, a formal review may be undertaken mid-valuation if there is a material shift of employers between pots and/or material shift in the funding position in order to more efficiently manage the overall risk.

The investment pots will be managed within the overall Fund investment strategy as far as possible. If any investment options are unavailable, and are deemed to be desirable, then the Fund will consider obtaining access to these options through the LGPS Central Limited pool or potentially directly.

EMPLOYER ALLOCATIONS

The allocations of employers to investment pots will be reviewed in detail alongside the actuarial valuation every 3 years. The Fund will take into account the following employer factors when considering overall risk and allocating an employer to a specific pot:

- Employer type e.g. tax raising body, academy, admitted body.
- Employer ongoing covenant strength incl. any guarantee or security.
- Employer size, maturity and funding position.
- Employer status e.g. open/closed to new members and objectives.

If, based on a covenant assessment carried out by the Fund, an employer is deemed to have a weak covenant, or is expected to exit the Fund in the near future, the Fund reserves the right to move an employer (typically following discussions with that employer) into either the Medium or Cautious investment pot to provide some protection against deterioration in funding position for the employer and the Fund as a whole. Any orphaned liabilities, once an employer exits the Fund, will generally be automatically moved into the Cautious investment pot as these liabilities have no sponsoring employer and are ultimately underwritten by all employers within the Fund.

As part of a triennial valuation, any employer can elect to move to a lower risk investment strategy to reduce their level of investment risk exposure and the potential volatility in their future funding position.

The choice of investment pot will be reflected in each employer's asset share, funding basis and contribution requirements. It dictates the financial assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is determined based on the notional investment strategy for the relevant investment pot's investment strategy. This is expressed as an expected return over CPI.

The above employer factors will be monitored regularly between actuarial valuations and the allocation to a specific investment pot may be reviewed between actuarial valuations in the following circumstances:

- Material change in certain types of employers' funding position
- Material change in an employer's status or covenant
- Request from an employer to move investment pots, subject to the agreement of the Fund.

Appendix G

Worcestershire Pension Fund

REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

In line with the Regulations that came into force on 23rd September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1) The Administering Authority may review the contributions of an employer where it appears likely to the Administering Authority that there has been a significant change to the liabilities of an employer.
2) The Administering Authority may review the contributions of an employer where it appears likely to the Administering Authority that there has been a significant change in the employer's covenant.
3) An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (or changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation. However, changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a contribution review would not be undertaken close to next actuarial valuation date, except in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.

- However, where there has been a material change in covenant, a review will be considered on a case-by-case basis to determine if a contribution review should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if any of the following scenarios appear likely to the Administering Authority. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1) **Significant changes in the employer's liabilities**

This includes but is not limited to the following scenarios:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:

i. Restructuring of an employer
ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
iii. A bulk transfer into or out of the employer
iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not using ill-health liability insurance) or, large numbers of withdrawals

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total of the employer's liabilities at the previous triennial funding valuation.

[Any review of the contributions will normally only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions].

2) Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.
b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
c) The Fund becoming (or ceasing to be) subordinate behind other creditors of the employer such as banks or other pension funds.
d) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately, and the Administering Authority will set out the requirements.

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. Note that employers are required to support any reasonable information request to allow the Fund to effectively monitor changes in covenant. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contributions would include consideration of the updated funding position both on an ongoing and termination basis (if applicable) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions (see further comments below):

- The contributions changing or staying the same depending on the conclusion and/or;
- Security to improve the covenant to the Fund and/or;
- If appropriate, a change in the investment strategy for the employer.

PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intention to review contributions. Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of an employer's restructuring plans. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Fund Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and/or administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in membership data is expected to have a material impact on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contributions, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (e.g. the Growth pot, Medium pot or Cautious pot) in line with the Funding Strategy Statement.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change.
- Whether the Secondary contribution rate should be adjusted including whether the length of the deficit recovery period adopted at the previous valuation remains appropriate. The remaining deficit recovery period from the last valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Fund Actuary).

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor, then the guarantor would be consulted as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contributions. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review. This may, for example, be for an employer to be made to confirm annually that there has been no change to their circumstances that would have a detrimental impact on their covenant and in the interim, should any such change occur, the expectation is that they inform the Fund immediately, in line with the notification requirements in the above section.

Appendix H

GLOSSARY

50/50 Scheme:
In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Actuarial valuation:
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contributions with the Fund to fund the cost of new benefits and make good any existing deficits as set out in the separate FSS. The asset value is based on market values at the valuation date.

Administering Authority:

The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies:
A specific type of employer under the “LGPS” who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark:
A measure against which fund performance is to be judged.

Best estimate assumption:
An assumption where the outcome has a 50/50 chance of being achieved.

Bonds:
Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career average revalued earnings scheme (CARE):
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Cautious investment pot:
An investment strategy linked to income generating assets which target a minimum yield above CPI inflation allowing for default, reinvestment risk and any other reasonable margins of prudence deemed appropriate.

Contingent assets:
Assets held by employers in the Fund that can be called upon by the fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

Covenant:
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI:
Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS have been linked to the annual change in CPI since April 2011.

CPIH:
An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

Deferred Debt Agreement (DDA):
A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA

Deficit:
The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions). The deficit in relation to an employer is the extent to which the value of the past service liabilities for which the employer is liable exceeds the value of the appropriate part of the Fund's assets.

Deficit recovery period:
The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount rate:
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's cost of future accrual:
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employer's investment pot:
The investment strategy which applies to an employer being either the Growth pot, the Medium pot or the Cautious pot.

Employing bodies:
Any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities:
Shares in a company which are bought and sold on a stock exchange.

Equity protection:
An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit credit:
The amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Exit payment:

The amount payable by an exiting employer to the Fund in the case where the exiting employer is determined to be in deficit at the point of cessation based on a termination assessment by the Fund Actuary.

Fund Actuary: The Actuary appointed to the Fund as required under statute.

Fund / Scheme employers:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency level:
The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement (FSS):
This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD):
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Growth investment pot:
A predominantly growth asset biased investment strategy targeting long term additional outperformance above CPI inflation. Further information is available in the Investment Strategy Statement.

Guarantee / guarantor:
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment pot:
This describes the portion of assets invested in one of the three investment strategies.

Investment strategy:
The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer:
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities:
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS:
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Lower risk funding basis:
An approach where the discount rate used to assess the liabilities is determined based on the expected long-term return achieved on the Fund's lower risk investment strategy. This is usually adopted for employers who are deemed to have a weaker covenant than others in the Fund, who are planning to exit the Fund or who would like to target a lower risk strategy. This basis is adopted for ongoing contribution rate purposes as the employers' asset share is invested in the lower risk investment strategy.

Mandatory scheme employers:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate

eligibility, unlike the Part 2 Scheme Employers. For example, these include councils, colleges, universities and academies.

Maturity:
A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Medium investment pot:
An alternate investment strategy available to employers who wish to reduce investment risk to some extent compared to the Growth investment pot but still target long term additional outperformance above CPI inflation. Further information is available in the Investment Strategy Statement.

Members:
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis:
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities:
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Pass through:
Arrangement whereby the risks of participating in the LGPS are retained by the Letting Employer with the Admission Body's contributions being a reflection of the rate of the Letting Employer (subject to any specific adjustment required under the separate contractual arrangement).

Percentiles:
Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions:
When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling:
Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment:
The payment by employers of contributions to the Fund earlier than that certified by the Fund Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present value:
The value of projected benefit payments, discounted back to the valuation date.

Primary rate:
The contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile:
The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent assumption:
An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate:
A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the Fund Actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

Real return or real discount rate:
A rate of return or discount rate net of (CPI) inflation.

Recovery plan:
A strategy by which an employer will make up a funding deficit over the deficit recovery period.

Scheduled bodies:
Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to

a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary rate:
The adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund, plus any provision made by an employer in respect of the estimated cost of McCloud.

Section 13 Valuation:
In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency funding target:
An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Surplus:
The extent to which the value of the Fund's assets exceeds the value of the Fund's past service liabilities. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions). The surplus in relation to an employer is the extent to which the value of the appropriate part of the Fund's assets exceeds the value of the past service liabilities for which the employer is liable.

Valuation funding basis:
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.
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PENSIONS BOARD
7 MARCH 2022

LOCAL GOVERNMENT PENSION SCHEME (LGPS) CENTRAL UPDATE

Recommendation

1. **The Chief Financial Officer recommends the LGPS Central update be noted.**

Background

2. The government set out in 2014 its approach and reasoning (Opportunities for collaboration, cost savings and efficiencies) for asset pooling with responsibility for asset allocation staying with the 90 administering authorities. Worcestershire Pension Fund (WPF) in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) set up a collective investment vehicle called LGPS Central. The Company was authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1 April 2018.

3. LGPS Central has been in operation since the 1 April 2018 and several the local authorities have transitioned some of their existing asset allocations to be managed by the company. WPF transferred its Active Emerging Market funds into the LGPS Central's Global Active Emerging Market managed mandate in July 2019, its Active Corporate Bond Fund into the LGPS Central 'Global active Investment Grade Corporate Bond Fund in March 2020 and more recently in November 2021 a £200m investment into the LGPSC All World Climate Factor Passive Fund

Transition of existing Assets and investment in LGPSC investment products

4. Investment Sub Committee have agreed an indicative £30m per annum for the next 2 years into LGPSC Infrastructure strategy subject to due diligence. The fund is also in the process of transitioning around £200m into LGPSC Global Sustainable Active Equity Fund for which LGPSC have appointed 3 managers. Investment Sub Committee on the 24 November 2021 agreed to invest with 2 out of the 3 managers being Liontrust and Baillie Gifford.

LGPS Central Strategic Business Plan & proposed budget for 2022/23.

5. The proposed budget and business plan was presented to Pensions Committee on the 2 February 2022 and whilst there was some concern regarding the pay envelope this was delegated to the Shareholder to take forward. The Shareholders and company meeting was on the 22 February 2022 and the budget and business plan received unanimous agreement from the 8 partner funds who have an equal shareholding.

6. The budget agreed for financial year 2022/23 is **£13.495m,** compared to **£12.355m** in 2021/22 **an increase of 9.2%**. This is made up of a 4.9% inflation adjusted fixed budget of £11.202m plus individual permanent variations totalling £0.387m and specific AUM costs of £1.906m.

7. The costs of the company are shared out between the 8 partner funds based on a cost sharing model provided by LGPSC and agreed between the partner funds. The Table below shows the forecast costs of £0.777M that will be incurred by WPF in 2022/23 being an increase of 5.7% overall.

Table 2: Estimated LGPSC Cost Sharing allocation 2022/23

Partner Fund	2021/22 Budget (£)	2022/23 Draft Budget (£)	Change (£)	GOPD (£)	IMMC (£)	Diff (£)
PF 1	1,402,829	1,533,539	130,709	27,995	102,714	-
PF 2	1,005,391	1,105,301	99,910	26,743	73,167	0
PF 3	1,345,123	1,562,936	217,812	26,343	191,470	-
PF 4	1,069,185	1,197,439	128,254	27,223	101,031	0
PF 5	532,988	734,741	201,753	23,200	178,553	-
PF 6	1,274,232	1,346,684	72,452	27,490	44,962	-
PF 7	4,763,020	5,110,151	347,131	41,692	305,439	(0)
PF 8	39,076	39,423	346	346	-	0
Worcestershire	734,945	777,209	42,264	24,366	17,898	-
Unallocated	188,210	87,578	(100,632)	-	(100,632)	-
Charge exc. Mark-Up	**12,355,000**	**13,495,000**	**1,140,000**	**225,398**	**914,602**	**(0)**

- *GOPD = Governance, Operational & Product Development costs*
- *IMMC = Investment Management & Monitoring Charges*

8. As the need for new products diminishes the company focus will begin to focus more on 'business as usual' operations and looking at new ways to support efficiency, resilience and cost effectiveness.

February Company Meeting 22 February 2022

9. The meeting was held on the 22 February 2022 and the proposed shareholder resolutions covered the following and all were agreed apart from resolutions 4 to 6. Some shareholders wanted more clarity on the remuneration and benefits policy and there is planned further dialogue with shareholders to look to get these approved hopefully during March 2022.

1	**Approval of the Appointment of an External Auditor**
2	**Approval of the Board development plan and the succession of Non-Executive Directors**
3	**Approval of the Strategic Plan (which includes a proposed budget) and Regulatory Capital Statement for the period 1 April 2022 to 31 March 2023**
4	**Approval of the Executive Directors Remuneration and Benefits Policy**
5	**Approval of the Non-Executive Directors Remuneration and Benefits Policy**
6	**Approval of the individual remuneration packages for the Chair and Directors.**
7	**Articles of Association**

Staffing

10. Although the recruitment market is very competitive at the moment, LGPSC have managed to recruit to a number of vacant posts. An interim Chief Legal Compliance & Risk Officer has been appointed and the recruitment process is now at the second stage of interviews for the permanent appointment to this post. LGPSC have also appointed a Communication Manager role as well as a number of additional posts within the RI&E team being a manager and senior analyst.

Office Accommodation

11. The company have now signed their lease agreement and have moved into the new I9 building in Wolverhampton.

Practitioner Advisory Forum (PAF) Working Groups

12. PAF have a number of Work streams which meet regularly and aims to work closely with LGPS Central to ensure that all the funds requirements are met. These are

- Governance Working Group (meeting monthly)
- Investment Working Group (IWG) (Meet Monthly)
- Responsible Investment Working Group (Now part of IWG and discussed quarterly)
- Finance Working Group. (Meetings as and when required)

13. The Partner Funds have also established an Internal Audit working group which provides a co-ordinated approach to enable the Joint Committee, individual partner funds, and their respective external auditors to be satisfied on the standards of control operating across the pool. There will be 2 separate audits taking place, one focusing on investments and the other on governance.

Investment Working Group

14. It is worth just updating the Committee on the focus of the Investment Working Group. The quarterly meeting cycle, with a change in focus each month, continues to work well.

- Month 1 (Jan, Apr, Jul, Oct) – Product Development & Responsible Investment.
- Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
- Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

15. The following table illustrates the new products that are currently in progress and indicates the next step in the process of their development. The areas highlighted are those where we have an interest in potential future investment as they fit into our Strategic Asset Allocation plan.

2020/21 and 2021/22 Products	**Next Step (as at January 2022)**
Private Equity (2021 Vintage)	*Launched*
Direct Property	*Manager Procurement completed*
Global Sustainable Active Equities	*Managers Appointed and transition meeting*
Private Debt	*Launched*
Targeted Return	*Procurement process underway*
Indirect Property	*Product Development focussing on residential property in first tranche*

16. The products to be developed in 2022/23 were collectively agreed by Partner Funds at their next SAA Day on the 16 September 2021. As most sub-funds, which have targeted the higher levels of assets under management (AUM), have now been launched or in progress, the focus will ensure that these are delivered.

Contact Points

Specific Contact Points for this report
Rob Wilson
Pensions Investment & Treasury Management manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

- LGPSC Budget and strategic business plan - Pension Committee 2 February 2022
- LGPS Central business case submission to government 15 July 2016.

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PENSIONS BOARD
7 MARCH 2022

GOVERNMENT ACTUARY DEPARTMENT (GAD) PENSION REVIEW UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the Board notes and comments on the Government Actuary Department (GAD) Pension Review update.**

Background and detail

2. In addition to the normal actuarial valuation carried out the by the Fund Actuary, the Public Service Pensions Act 2013 means that the Department for Levelling Up, Housing and Communities (DLUHC) are required to commission a “Section 13” valuation which will look at the 2019 valuation results for LGPS Funds and check whether, in their opinion, the various Funds have carried out their valuations in a way that:

- **Compliance:** whether the fund’s valuation is in accordance with the scheme regulations.
- **Consistency:** whether the fund’s valuation has been carried out in a way which is not inconsistent with the other fund valuations within Local Government Pension Scheme England and Wales (LGPS).
- **Solvency:** whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund.
- **Long term cost efficiency:** whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

3. The Section 13 valuation is carried out by the Government Actuary’s Department (GAD). GAD who produce a report which analyses each of the 88 LGPS Fund’s valuation results from 2019. An update was provided to the Committee in June and the Fund was awaiting the final GAD publication which was finally published on the 16 December 2021 see GAD's report on the 2019 fund valuations. GAD have highlighted the progress made against the 2016 recommendations in the table below.

2016 Recommendation	Progress
1: We recommend that the Scheme Advisory Board should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports to better facilitate comparison, with a view	We are pleased to report that good progress has been made on this recommendation. The Scheme Advisory Board agreed standard disclosures which

2016 Recommendation	Progress
to making a recommendation to the DLUHC minister in advance of the next valuation. We have included a draft dashboard in this report to facilitate the Scheme Advisory Board's consultation with stakeholders.	were included as an annex in each actuarial valuation report
2: We recommend that the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the DLUHC minister in advance of the next valuation	Some progress appears to have been made in this area. Fund actuaries have engaged with the Scheme Advisory Board and provided more consistent rationalisation of assumptions in funding strategy statements. However there remains some evidence of inconsistency.
3: We recommend that the Scheme Advisory Board seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to the DLUHC minister in advance of the next valuation.	The Scheme Advisory Board established a working group in 2018, including stakeholders with a range of perspectives, and discussed a variety of options for achieving a common basis for academy conversion. However, a common basis has not yet been implemented and further discussions are necessary to determine if a common basis is achievable and if so, what that should consist of
4: We recommend that all funds review their funding strategy to ensure that the handling of surplus or deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience	We are pleased to report there has been progress on this recommendation with most funds now maintaining their deficit recovery end points. However, our analysis shows that further improvements could be made

4. GAD have looked at the 4 key areas as detailed in paragraph 2 being Compliance, Consistency and Solvency and Long term cost efficiency. They have arrived at 4 recommendations as follows:-

1: **Consistency** - Recommendation 1: The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.
2: **Long term cost efficiency** Recommendation 2: We recommend the Scheme Advisory Board considers how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.
3: **Long term cost efficiency** Recommendation 3: We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard
4: **Long term cost efficiency** Recommendation 4: We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that

appropriate governance is in place around any such transfers to ensure long term cost efficiency.

5. GAD produced more detail in their Appendices showing the results per Fund and some brief highlights of the [Appendices (publishing.service.gov.uk)](publishing.service.gov.uk) relating to the Fund are as follows:-

Funding

- Page 12 of the appendices indicates that under our own assumptions as at 31st March 2019 we were 90% funded that rises to 113% on the Scheme Advisory Board standard basis:

Solvency Measure by Fund

- Pages 34 reveals the solvency of the fund:

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Worcestershire County Council Pension Fund	Yes	102.0%	7.9%	2.5%	Surplus

Note the Asset Shock is a stress test. It considers what may happen if there is a sustained reduction in the value of return seeking assets of tax raising employers (those employers whose income is covered by core spending and financing data). For example, a market correction in which asset values do not immediately recover and losses are not absorbed by changes in assumptions.

Long term cost efficiency of the Fund

- Page 45 reveal the long term cost efficiency of the Fund:

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Worcestershire County Council Pension Fund	7.7 (42)	Surplus	3% (36)	Surplus	1.8% (15)	Green

6. The GAD assessment is a positive outcome for the Fund and all our assessments were green for the three tests around solvency and five tests on long-term cost efficiency (Deficit Recovery period, Required Return, Repayment Shortfall, Return scope and Deficit Recovery Plan).

Contact Points

Specific Contact Points for this report

Rob Wilson
Pensions Investment & Treasury Management manager
Tel: 01905 846908
Email: RWilson2@worcestershire.gov.uk

Background Papers
In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

GAD report to the Pensions Committee on 29 June 2021.

worcestershire countycouncil

PENSION BOARD
7 MARCH 2022

GOVERNANCE REVIEW AND UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the Board reviews this Governance Review and 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.**

Background

2. The Fund regularly reviews all its statements of policy / strategy, particularly when new legislation or guidance is issued.

3. The Fund has been updating its Business Plan and Risk Register quarterly since March 2019 and continues so to do.

4. The Fund's 1 November 2021 Business Plan included:

   a) An updated Good Governance Position Statement; and
   b) An update on reviewing the objectives for and performance of the Fund's independent investment adviser.

5. An updated (Feb 2022) **Good Governance Position Statement** is included with this Governance Review and Update's supporting information.

Review

6. As it is good practice to (and LGPS regulation 55 requires funds to) review and publish the Fund's **Governance Compliance Statement** - ours is presented in our annual reports and in our **Governance Policy Statement** - officers have reviewed our existing Governance Policy Statement and prepared a draft Governance Policy Statement Feb 2022 (on which track changes has been set) that is attached as Appendix 2.

7. The changes to the Policy Statement relate to updated pension scheme numbers; Government Departments; policy reference documents; document links; job titles; representation on the LGPS Central Joint Committee; and other minor textual amendments. As these changes are not significant, they will not need to be referred to Council for approval.

8. As the Benchmarking of Governance Compliance Statements and Policies on Representation 25 10 2021 (that was reported to the Board at its meeting of 17 November 2021 in item A3 of Appendix 2 of the Business Plan of 1 November 2021 and is also included with this Governance Review and Update's supporting information)

confirmed that we are complying with existing best practice, we do not plan at this point to pick up the findings contained in the attached WPF Governance Compliance Statement 2021 benchmarked against Appendix 2 of the Phase 3 Good Governance Report presented to the SAB that was Appendix 4 to the Good Governance Update presented at the Board meeting of 17 September 2021. We will, however, continue to monitor developments on SAB's Good Governance project closely and take account of any audit recommendations to see if we need to accelerate action on this.

9. Reviews of the terms of reference **(TOR) for our Pension Board, Pensions Committee and Pension Investment Sub Committee** were undertaken in February 2022. As a result, the Pension Board's TOR will need to be updated to make reference to 'The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016' as well as some other minor textual changes. The Pensions Committee and Pension Investment Sub-Committee TOR will also need to be amended to reflect the changes made to the proposed draft Governance Policy Statement Feb 2022. Again, as these changes are not significant, they will not need to be referred to Council for approval

10. As detailed in this meeting's agenda item about our **Funding Strategy Statement**, we propose making changes to our existing FSS, our Statement of Policy on our Discretions as an administering authority, and our Making a formal representation for an exit credit payment document.

11. As detailed in this meeting's agenda items about our **Pension Administration Strategy**, our **Application for Continued Signatory Status to the UK Stewardship Code**, our **Climate Risk Strategy**, our **Climate Related Financial Disclosures**, and our **Investment Strategy Statement**, we propose making changes to these statements of policy / strategy.

Supporting information

- Appendix 1 - Good Governance Position Statement Feb 2022
- Appendix 2 - Draft Governance Policy Statement Feb 2022
- Appendix 3 - Benchmarking of Governance Compliance Statements and Policies on Representation 25 10 2021
- Appendix 4 - WPF Governance Compliance Statement 2021 benchmarked against App 2 of the Phase 3 Good Governance Report presented to the SAB

Contact Points

Specific Contact Points for this report

Chris Frohlich, Engagement Manager
Tel: 01905 844004
Email: cfrohlich@worcestershire.gov.uk

Rob Wilson
Pensions Investment & Treasury Management Manager
Tel: 01905 846908
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.

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Worcestershire Pension Fund Updated Position Statement: Good Governance   Feb 2022

This position statement has been prepared to summarise progress on how we are taking forward the LGPS Scheme Advisory Board's (SAB) Good Governance workstream in preparation for draft statutory guidance being issued. The numbering relates to the recommendations in the November 2019 Hymans Robertson Phase II report 'Good governance in the LGPS'. We are also closely monitoring The Pensions Regulator's plans to combine 10 of its 15 existing codes of practice (including CoP 14: Governance and administration of public service pension schemes) into a new, single, combined and expanded (to incorporate climate change, cyber security, (ESG) stewardship of investments, administration and remuneration policies) modular document that identifies the legal duties of pension funds, provides advice on how to meet them and incorporates changes introduced by the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 (the governance regulations). TPR expects to lay the new code in Parliament after spring 2022 with it becoming effective after summer 2022.

Good Governance proposal	**Current position**	**Identified actions (that are owned by # / with a target delivery date of #)**
A. General		
A.1 MCHLG will produce statutory guidance to establish new government requirements for funds to effectively implement the proposals below. ("the Guidance")	Awaiting the draft Guidance to review and benchmark	Prepare for the Guidance (MH / TBD)
A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for the fund ('the LGPS senior officer')	Our Chief Financial Officer is so named	Review the effectiveness of our Risk Register (MH / 17 09 2021)
A.3 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. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer	We publish a governance compliance statement as part of our annual reports The 16 March 2021 Pensions Committee approved our updated Governance Policy Statement	Benchmark our Governance Compliance Statement against Appendix 2 of the Phase 3 Report, (CF / 17 09 2021) and once it is issued against the Guidance and peer funds annually (CF / TBD) 2021: benchmarked against 2021 annual reports / latest versions on website

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
B. Conflicts of interest		
B.1 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	Elected members' (not officers') conflicts of interest are declared at the start of each Pensions Committee meeting	Using P10/33 of the Phase 3 Report produce a statement of possible conflicts of interest and ask Board / Committee members and Fund Officers to confirm their compliance before meetings. (CF / 17 09 2021) ✓ form has been in use since 17 Nov 2021 Review best practices employed at other funds (including private sector) to help identify possible conflicts and approaches in preparation for producing a policy (SH / TBD) for POG ✓ and (RW / 11 11 2021) for LGPSC funds ✓ At Joint Committee meetings for LGPSC conflict of interest is a standard agenda item. Publish conflicts of interest policy (CF / TBD)
B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB	Awaiting the draft Guidance	Prepare for publicising the Guidance and delivering training on it (MH / TBD)
C. Representation		

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party	Information about the Pensions Committee is available via our website The Pension Board's terms of reference are available via our website Our annual reports, our Investment Strategy Statement and para K of appendix 1 of the Worcestershire County Council constitution contain information about representation	Review whether the current position remains adequate annually using comparator funds' annual reports to benchmark practices (CF / 17 11 2021) benchmarked against 2021 annual reports Publish representation policy (CF / TBD)
D. Knowledge and understanding		
D.1 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	We deliver a one-hour informal welcome to the fund for new members of our Board / Committee covering their role; where to find information; the required time commitment / knowledge expectations; what type of scheme the LGPS is; about our fund; and the range of material from previous training sessions (slides and video recordings) that is available for them to access We deliver a deep dive into an aspect of the LGPS and a training session every couple of months for Board / Committee members and our senior team,	Review the current position with the Chairs of the Board / Committee annually (RW / 06 09 2021) Conduct knowledge assessment of key individuals (CF / 17 11 2021 TNA completed by 12 Board / Committee members and awaiting new structure for pensions administration being in place for officers with an interim action being for CF to match our draft officer knowledge assessment v CIPFA member training needs analysis by 06 09 2021)

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	agreeing with attendees what the next session will cover at the current session and an update on our training programme is tabled at most Board / Committee meetings Our officers attend various groups comprised of representatives from a number of LGPS funds, receive LGPC bulletins and develop the LGPS knowledge of our employers through monthly employer newsletters	
D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding	Our s151 officer's previous role was the most senior officer at another LGPS fund and our deep dives / training sessions / Committee papers top this strong baseline position up	s151 to complete skills framework and personal competencies assessments and address within his CPD programme (MH / 17 09 2021)
D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements	Our current training policy was tabled at the 17th March 2020 Pensions Committee meeting	Review the current position with the Chairs of the Board / Committee annually (RW / 06 09 2021) 2021 Note: Reviews should take account of the level and scope of training for officers, the latest external training available and the attendance records of elected members

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for S151 officers to consider including LGPS training within their training qualification syllabus	Awaiting guidance	Respond to CIPFA's and CIPP's expected guidance and consider peer / CIPFA / LGA review (MH / TBD)
E. Service delivery for the LGPS function		
E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with the descriptions and business processes	The Worcestershire County Council constitution and our annual reports contain information about roles and responsibilities, and we have job descriptions for every officer's role The s151 Officer also delegates to the Head of Finance (Corporate) matters requiring a purely County Council decision affecting the Pension Fund to ensure no conflict of interest arises over other employers	Publish a matrix that meets the requirements and clarifies the role and responsibility of everyone involved in every stage of the processes we carry out during a member's administration lifecycle (MH / 17 11 2021) awaiting finalisation of the new structure for pensions administration
E.2 Each authority must publish an administration strategy	We comply with this requirement Prior to making changes to our 17 03 2020 strategy and asking our Committee to approve our 2021 strategy, we consulted with our employers from 23 12 2020 to 12 02 2021	Review our Pensions Administration Strategy annually, consulting our employers and benchmarking our strategy with comparator funds (CF / 28 02 2022) ✓
E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of the service	These are included in our annual reports and the quarterly	Continually work with the Pension Board to check and develop our KPIs and seek out benchmarking, identifying in the first instance

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	Business Plans tabled at [Pensions Committee meetings]	what KPIs from Ps 17-18 / 33 of the Phase 3 Report the Fund is able to produce and what would be needed to produce the missing information (CF/ 17 09 2021) identification. The Fund will be purchasing Altair Insights.
E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year	Rolling Business Plans are tabled at [Pensions Committee meetings]	Review the effectiveness of our rolling Business Plan (MH / 17 11 2021)
E.5 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. Administering authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function	Our recruitment and staffing levels are not constrained by Worcestershire County Council and we are able to use market forces adjustments	Bring forward proposals to the 8 December Pensions Committee that seek to improve our service by ensuring that we have the resources in place to deliver the Worcestershire Pension Fund of the future, a fund resourced up for the challenges and projects ahead (MH / 08 12 2021) all job descriptions have been drafted
F. Compliance and improvement		
F.1 Each administering authority must undergo a biennial Independent Governance Review (IGR) and, if applicable, produce the required improvement plan to address any issues identified IGR reports to be assessed by a SAB panel of experts	We do not currently do this	Prepare for IGRs. The s151 Officer has raised this at Society of County Treasurers and CIPFA working groups and is keen to explore options early in 2022 (MH / 08 12 2021) awaiting more info
F.2 LGA to consider establishing a peer review process for LGPS funds	We do not currently do this	Prepare for the process and investigate external benchmarking like [PASA]

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Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
		(MH / 08 12 2021) awaiting more info

Note: in the last column CF = Chris Frohlich; SH = Suzie Hawkes; MH = Michael Hudson; and RW = Rob Wilson

Governance Policy Statement

01~~6~~ February~~March~~ 2022~~1~~

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 191~~over 200~~ other Scheme employers in the administrative area of Herefordshire and Worcestershire, with 22,000 contributing members, 20~~18~~,000 pensioners and beneficiaries and 23~~1~~,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 the Ministry of Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities~~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 s~~S~~taff.

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 p~~P~~rincipal 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.

3

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 Limited 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, Governance Policy Statement ~~on Governance Strategy~~, Funding Strategy Statement, signatory status to the UK Stewardship Code, Climate Change Risk Strategy, 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 Fund’s Risk Register and k~~K~~ey 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’s arrangements 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 Fund's 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 r~~R~~ules 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

A~~Please see~~ separate Pension Board Terms of Reference document is available at ~~-~~https://worcestershire.moderngov.co.uk/documents/s24004/Pension%20Board%20Terms%20of%20Reference.pdf

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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 and a non-voting member:

- 3 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)
  ~~Non-voting~~
- 1 (non-voting) 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 Sub Committee~~Panel~~ to fulfil its role of~~and~~ providing~~e~~ advice to the Pensions Committee regarding the administration of the F~~f~~und'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. Monitoring investment managers' investment performance and recommending decisions to terminate mandates on performance grounds to Committee.
d. Monitoring the t~~T~~ransition of investments to LGPS Central Limited or other p~~P~~ooling arrangements
e. Researching and providing a report back to the Worcestershire Pension Fund Pensions 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 Fund~~Scheme~~ employers and for ~~Scheme~~ employers to provide advice to, and raise concerns with, the employer representative.

8.2

~~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)
- Fund officers~~the administering authority's Pensions Manager and HR & OD Service Commissioning Manager~~
- and the employer representative and employee representative of the Pensions Committee.

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Terms of reference:

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

- Discuss ~~an Annual~~ a~~A~~dministration ~~Report and respond to any~~ issues ~~raised by employers~~.
- Discuss Government c~~C~~onsultations 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 a stakeholders' perspective to all aspects of the ~~Pension~~ Fund's 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 Communications~~ Strategy~~ explains in more detail the Fund's 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, Governance Policy Statement~~ on Governance Strategy~~, Funding Strategy Statement, Business Plan, signatory status to the UK Stewardship Code, Climate Change Risk Strategy 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 i~~I~~nvestment 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 f~~F~~unds ~~across the Midlands~~ (Partner Funds) to form an asset pool, known as LGPSC.

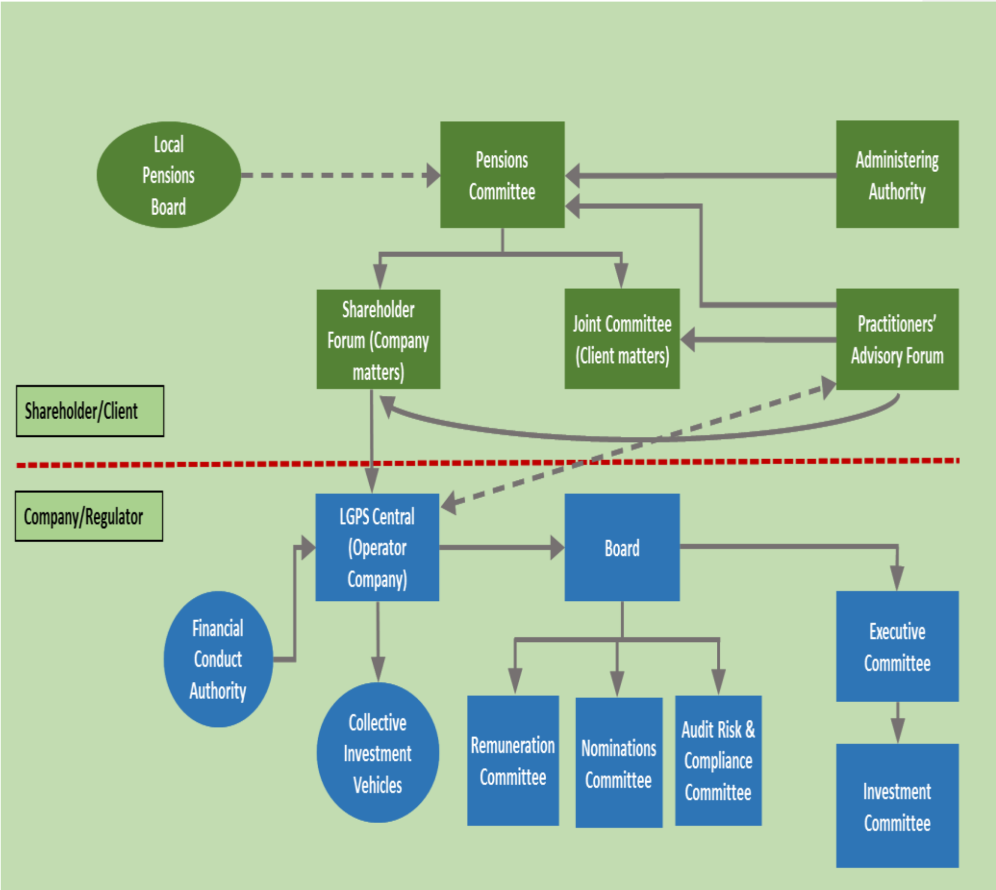
10.2 LGPSC is the c~~C~~ompany formed by the Partner Funds which is authorised as the operator of the Authorised Contractual Scheme (ACS), to provide investment services to the Partner Funds, by the Financial Conduct Authority (FCA). The company is therefore subject to the regulator's conduct of business 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 f~~F~~unds.

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~~ has~~ve~~ an impact on the roles of the Pensions Committee and the Pensions Investment Sub Committee. However, the impact~~changes~~ will be gradual, as the transfer of the management activity to the new company progresses. Consequently, the existing g~~G~~overnance arrangements and t~~T~~erms of r~~R~~eference 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 Limited 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 p~~P~~ool, 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 will be either~~is~~ the Chair of the Pensions Committee or the Chair of the Pension Investment Sub 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 s~~S~~hareholding Councils within the LGPSC pool. The Shareholders' Forum is independent of the company, and its meetings are distinct from company meetings.~~,~~ H~~h~~owever, members of the Shareholders' Forum represent the Councils at company meetings. The Councils, as individual investors in the company, have put 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 Pensions Committee or the Chair of the Pension Investment Sub 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.
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

Ref.	Principles	Compliance Status	Evidence of Compliance
			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 perform on either a main or secondary committee.	Compliant	The Pensions Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of Pensions Committee meetings are published 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. Members have also

Ref.	Principles	Compliance Status	Evidence of Compliance
			from December 2021 made declarations regarding conflicts of interest. 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 Council's constitution. The Fund's Governance Policy Statement sets out~~Fund's Governance Policy Statement along with~~ the number of Committee meetings required each year. The Fund has an approved ~~Joint~~ Training Policy and programme ~~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 panels, or any other form of secondary forum.	Compliant	These polices apply to all committee members and this is clearly set out in the Fund's Governance Policy Statement and~~, Knowledge and Skills Policy Statement & the Joint~~ Training Policy and Programme ~~for the Pensions 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	Regular training needs analyses are conducted as detailed in the Fund's Training Policy and Programme. ~~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 ~~a~~ log of all ~~such~~

Ref.	Principles	Compliance Status	Evidence of Compliance
			training undertaken is~~to be~~ maintained. Regular updates~~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 employee representatives on its Pensions Committee and its Pension Board. It 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 committee papers, documents and advice that are due to be considered at meetings of the main committee.	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 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**		

Ref.	Principles	Compliance Status	Evidence of Compliance
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 Pensions 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 Fund~~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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Good Governance A3 & C1 benchmarking V1 dated 25 10 2021

Governance Compliance Statement: Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance**.**	**Representation:** Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.
- Bedford Borough Council Home (bedspensionfund.org) The draft 2021 annual report does not have a GCS, and I could find no GCS on the Fund's website despite reg 55, but there was a GPS.	- Bedford Borough Council Home (bedspensionfund.org) The draft 2021 annual report shows a Committee of 8 of which 1 is a non-voting member rep and the other 7 are Cllrs. The GPS shows 2 of the 7 Cllrs are non-voting, and there is also a non-voting academy school rep observer.
Browse Meetings, 2021 (gloucestershire.gov.uk) Local Government Pension Scheme (LGPS) - Gloucestershire County Council The latest GCS is dated July 2017 and uses the table approach we use.	Browse Meetings, 2021 (gloucestershire.gov.uk) Local Government Pension Scheme (LGPS) - Gloucestershire County Council A Sep 2021 governance review proposed increasing the number of non-voting, non-AA employer reps on the Committee to 2 (retaining the practice of 1 being from DCs) and keeping the 1 non-voting member rep. There are 7 voting Cllrs on the Committee.
CMIS > Committees > Pensions Committee Home | Norfolk Pension Fund The draft 2021 annual report (see P127 of the 5 Oct 2021 Committee papers) indicates plans to have a GCS as its appendix 4, but I could find no GCS on the Fund's website.	CMIS > Committees > Pensions Committee Home | Norfolk Pension Fund There are 7 Cllrs and 1 staff rep on the Committee (see P88 of the 5 Oct 2021 Committee papers)
Browse Meetings, 2021 (oxfordshire.gov.uk) The Oxfordshire Pension Fund | Oxfordshire County Council The latest GCS is dated June 2014 and uses the table approach we use, explaining reasons for non-compliance.	Browse Meetings, 2021 (oxfordshire.gov.uk) The Oxfordshire Pension Fund | Oxfordshire County Council There are 5 voting Cllrs plus 4 non-voting, non-AA employer reps plus 1 non-voting member rep.

Browse meetings - Pensions Authority - South Yorkshire Pensions Authority South Yorkshire Pensions Authority > Members (sypensions.org.uk) An GCS is included in the 2021 annual report (page 252 / 260) and uses the table approach we use. In addition, the annual governance statement details arrangements for ensuring compliance with each of the Fund's 7 Core Principles	Browse meetings - Pensions Authority - South Yorkshire Pensions Authority South Yorkshire Pensions Authority > Members (sypensions.org.uk) There are (see item 9) 12 Cllr members of the Committee. Page 4 / 260 of the 2021 annual report shows 13 Cllr members plus 3 non-voting member reps.
Browse meetings - Pensions Committee :: Wolverhampton City Council (moderngov.co.uk) West Midlands Pension Fund - West Midlands Pension Fund (wmpfonline.com) The June 2021 GCS uses a narrative approach followed by the table approach we use.	Browse meetings - Pensions Committee :: Wolverhampton City Council (moderngov.co.uk) West Midlands Pension Fund - West Midlands Pension Fund (wmpfonline.com) The Committee (see P 44 / 48 of Part 3 of the constitution) is made up of 16 Cllrs from Wolverhampton and the DCs and four observer employee representatives from trade unions.
Browse meetings - Pensions Committee - Worcestershire County Council (moderngov.co.uk) Worcestershire Pension Fund We show this in a table in our 2021 annual report, providing a couple of paras of evidence of compliance for each of the 16 principles (Aa, Ab, Ac, Ba, Ca, Cb, Da, Ea, Eb, Ec, Fa, Fb, Fc, Ga, Ha and Ia)	Browse meetings - Pensions Committee - Worcestershire County Council (moderngov.co.uk) Worcestershire Pension Fund Visitors to our website can reach details of our Pensions Committee of 8 with equal voting rights that has 1 employer rep (not from the AA) and 1 employee rep, with the other members being 5 Worcestershire Cllrs and 1 Herefordshire Cllr.

WPF Governance Compliance Statement 2021 benchmarked against App 2 of the Phase 3 Good Governance Report V1 dated 06 09 2021

Our Governance Compliance Statement 2021 (the four-column table) is reproduced in full at the end of this benchmarking.

What follows immediately below is Appendix 2 of the Phase 3 Good Governance Report with a red benchmarking (against our Governance Compliance Statement 2021 and our ways of working) commentary.

A Conflicts of interest

A1. Conflicts of Interest Policy

This area is mentioned but not fully covered in sections A (a), C (b) and I (a) of our Governance Compliance Statement 2021, but we have no separate conflicts of interest policy although we have drafted a declaration of conflicts of interest. We do publish our Funding Strategy Statement and our Pension Administration Strategy on our website.

The Fund has published a conflict of interest policy which sets out:

- How it identifies potential conflicts of interest (including those set out in recommendation B1)
- How it ensures that understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- That the policy applies to officers, elected members, members of the local pension board and advisers and contractors;
- Systems, controls and processes for managing and mitigating conflicts of interest effectively;
- How it reviews the effectiveness of its conflict of interest policy and updates it as required;
- How it embeds a culture which supports the management and mitigation of conflicts of interest.

The Governance Compliance Statement includes a link to this policy.

A2. Conflicts of Interest Process

The fund embeds the management of conflicts of interest into its everyday processes. This includes:

- Providing regular training to members of the pension committee, pension board and officers on identifying and managing potential conflicts of interest;
- Ensuring a record is kept of situations where the Conflict of Interest Policy has been applied to mitigate or manage a potential conflict situation;
- Ensuring that a declaration of interests forms part of the agenda for all pension committee and pension board meetings and that an annual declaration of interests is completed;
- Ensuring actual and potential conflicts of interest are considered during procurement processes; and
- Ensuring that conflicts of interest form part of the Fund's suite of policies for example the Funding Strategy Statement and Administration Strategy.

A3. The Council as administering authority and employer

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all of the Fund's employers and scheme members are treated fairly and equitably.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Committee. The approach to contribution setting is based on specific employer characteristics such as its time horizon, strength of covenant and risk profile. This approach ensures a consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.
- The Fund also has an admissions policy which details its approach to admitting new employers to the Fund. This includes it approach to the use of guarantors, bonds and the setting of a fixed contribution rate for some employers. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted into the Fund.
- The Fund's administration strategy sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.
- The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. Decisions regarding pension fund resource are taken to the Pension Committee who then make recommendation to the S151 officer.

B Clarity of Roles and Responsibilities

B.1 Clear decision making

This area is mentioned but not fully covered in sections A (a) - (c), B (a), C (a), D(a), F (a) – (c), G(a), H(a) and I(a) of our Governance Compliance Statement 2021, but we have no decision matrix.

The Council's constitution and scheme of delegation set out the terms of reference for the Pension Committee.

The Pension Board's terms of reference and the membership and terms of reference for any sub-committees are also published.

The scheme of delegation is supported by:

- clearly documented role and responsibilities for the LGPS Senior Officer, S151 and pension fund officers / Head of Pension Fund; and
- a decision matrix which sets out the key decisions that are required to be made in the management of the Fund and the role that the main decision makers have in

those decisions. The matrix sets out when an individual or body is responsible for a decision, accountable for a decision or where they must be consulted or informed of a decision.

On a regular basis the Fund's business processes are referenced against the decision matrix, to ensure that they properly reflect the correct responsibility and accountability.

The terms of references for the Committee & Board are publicly available and should be reviewed on a regular basis.

C Sufficiency of resources for service planning and delivery

This area is not mentioned in our Governance Compliance Statement 2021, but we table rolling, quarterly Business Plans that include KPIs / budgets and our Risk Register to the Pensions Committee and Pension Board. We publish our Pension Administration Strategy, our annual reports and our structure on our website. A programme of internal audits is in place. We participate in benchmarking.

In order to ensure that the Fund has the appropriate resource to deliver its statutory obligations it has adopted a 3 stage approach.

C.1 Business planning and budget setting

The Fund operates a 3-year business plan which sets out the priorities for the Fund's services. It is comprehensively reviewed, updated and agreed by the Pension Committee before the start of each financial year. If necessary, the plan is reviewed and updated on a more frequent basis. The business plan is publicly available.

The business plan takes into account the risks facing the Fund, performance of the Fund (including backlogs of work) and anticipated regulatory changes.

The business plan also includes the Fund's budget. Resource requirements (including staff recruitment, procurement and other specialist services) are determined by the requirements of the Fund's business plan.

The business plan also sets out the Key Performance Indicators (KPIs) which will be used to monitor progress against the business plan.

Progress against the business plan, including actual spend, is monitored by the Pension Committee on a regular basis and published in the Fund's annual report and accounts.

C.2 Service delivery

The Fund publishes an administration strategy which sets out how it will deliver the administration of the Scheme. The strategy includes:

- details of the structures and processes in place for the delivery of the pension administration function;
- expected levels of performance for the delivery of key Fund and employer functions;
- the Fund's approach to training and development of staff;
- the Fund's approach to the use of technology in pension administration.

C.3 Monitoring delivery and Control environment

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done on the following ways:

- Performance against KPIs is reported to the Pension Committee and Pension Board on a regular and agreed basis. KPI performance is reported in the Fund's annual report. Plans to address any backlogs added to business planning process above.
- Every year the Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. The areas for

review are agreed in advance with the Pension Committee and findings are reported to them.

- This year the internal audit also included an assessment of the Fund's performance against the requirements of The Pension Regulator's Code of Practice 14. The assessment recognised that the Fund is fully compliant in most areas but did make a number of suggestions about how the Fund could improve its internal controls for managing data. These suggestions have been adopted into the Fund's data improvement plan.
- Last year the Pension Board assisted the committee by undertaking an independent review of the sufficiency and appropriateness of the Fund's governance and operational resources. The review found that the Fund was for the most part properly resourced although the use of regular staff to tackle a backlog of aggregation cases was causing the backlog project to fall behind and having an adverse impact on business as usual. The review suggested procuring additional temporary resource in order to address the backlog issue.
- The Fund also participates in national benchmarking exercises which provides information on how costs, resource levels and quality of service compare with other LGPS funds and private sector schemes. The benchmarking did not identify any significant areas of concern.

D. Representation and engagement

This area is mentioned but not fully covered in sections A (b), B (a), C (a), D(a), F (a) – (c), G(a), H(a) and I(a) of our Governance Compliance Statement 2021. We have a Policy Statement on Communications, a Governance Policy Statement, terms of reference for the Pensions Committee and the Pension Board and run employer forums. We consult on changes to our Funding Strategy Statement via our monthly employer bulletins. We do not offer online access to a member's pension record.

The Fund has published a Policy on representation and engagement.

D.1 Representation on the main decision-making body

The policy recognises all scheme members and employers should be appropriately represented in the running in the Fund while at the same time ensuring that the Council, as the body with ultimate responsibility for running the Fund, maintains a majority position on the key governance bodies. To this end the Fund's representation policy and the Council's constitution specify that the Council shall maintain a majority of voting members on the Pension Committee. The present Pension Committee is constituted as follows;

Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	*Meeting Date*				Attendance (%)
		MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
Voting Members						
Cllr A (chair)	Administering Authority	Y	N	Y	Y	75%
Cllr B (vice-chair)	Administering Authority	Y	Y	Y	Y	100%
Cllr C	Administering Authority	Y	N	Y	Y	75%
Cllr D	Administering Authority	N	Y	Y	N	50%
Cllr E	Administering Authority	Y	Y	Y	Y	100%
F	Employer representative	Y	Y	N	Y	75%
G	Member representative	N	Y	Y	Y	75%
Vacancy		N	N	N	N	0%
Average attendance (including vacancies) %						78%
Average attendance (excluding vacancies) %						69%
Proportion of voting members not from the Administering Authority						2 out of 7 (28%)
Non-Voting Members						
H	Member representative	Y	Y	Y	N	75%
I	Member representative	Y	Y	Y	Y	100%

D.2 Membership of the Local Pension Board

The Local Pension Board is constituted as follows;

- 4 employer representatives comprising;
  - 2 elected members of the Council
  - 1 elected member of the District Council
  - 1 member representing all other employers
- 4 scheme member representatives comprising;
  - 1 member appointed by trade unions
  - 3 members representing active, deferred and pensioner Scheme members (to be appointed by an open election process)
- 1 independent chair

With the exception of the Chair, all members are full voting members.

The Pension Board has an independent adviser.

D.3 Engagement with employers

The Fund carries out a range of activities that are designed to engage employers. These are set out within the Fund's Communication strategy and include:

- An Annual Employer Forum which provides an opportunity for employers to receive an update on the performance of the Fund, provide feedback on the service and receive updates on the LGPS and related issues;
- The Fund engages and consults with employers during the actuarial valuation and specifically on key strategies such as the Funding Strategy Statement;
- A quarterly employer newsletter provides update on technical changes, process reminders and a calendar of key upcoming dates;
- Training sessions which can be provided on request covering the main areas of employer responsibility, for example year end returns, processing ill health cases and internal dispute resolution procedures; and

- The Fund is available to provide support on issues such as outsourcing services or workforce restructuring.

D.4 Engagement with members

The Fund's Communication Strategy sets out how it engages with active, deferred and pensioner scheme members including:

- The Fund maintains a website which provides general advice, information and updates including copies of all current policies.
- Members have secure online access to their own pension records in order to run retirement estimates.
- Member's annual benefit statements are available online or in writing (including large text) on request.
- Scheme members are able to arrange one to one appointments, by phone or at our offices, with members of the pension team to discuss specific matters.

E. Training

This area is mentioned but not fully covered in sections E (a) – (c) of our Governance Compliance Statement 2021. We have a Training Needs Assessment and for officers of the Fund a Knowledge Assessment. Our annual reports detail the training we have delivered.

E.1 Training Strategy

The Fund has adopted a training strategy which establishes how members of the Pension Committee, Pension Board and Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision-making responsibility placed upon them. The training strategy sets out how those involved with the Fund will:

- Have their knowledge assessed; and
- Receive appropriate training to fill any knowledge gaps identified.

The Fund will measure and report on progress against the training plans.

E.2 Evidencing standards of training

Details of the training undertaken by members of the Pension Committee and Pension Board are reported in the Fund's annual report and in this statement.

Committee and Board members' subject knowledge is assessed on an annual basis. The results are analysed and any gaps identified are addressed as part of the ongoing training plans.

Targeted training will also be provided that is timely and directly relevant to the Pension Committee and Board's activities as set out in the business plan.

Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

The CIPFA requirement for continuous professional development for s151 officers now includes a regular LGPS element. This requirement applies to the s151 officer for the Council as well as the district and borough councils within the Fund. The fund has complied fully with this requirement.

Pensions Committee – Training for Financial Year YYYY/YY

Training Completed (hours)		*Subject*				Total (hours)
		Governance	*Investment*	*Pensions Administrati*	*Other (specify)*	
Pensions Committee						
Cllr A (chair)		2	5	1	1	9
Cllr B (vice-chair)		2	4	1	1	8
Cllr C		4	5	2	2	13
Cllr D						
Cllr E						
F						
G						
Vacancy						
					Sub-Total	130
Pensions Board						
R (chair)		2	5	1	1	9
S (vice-chair)		2	4	1	1	8
T		4	5	2	2	13
U						
V						
W						
X						
					Sub-Total	100
Officers						
LGPS Senior Officer		6	8	3	4	9
X						
Y						
Z						

Our Governance Compliance Statement 2021:

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	Compliant	The Pensions Committee membership includes an employee and employer representative. Full membership details are set out in the Fund's Governance Policy

Ref.	Principles	Compliance Status	Evidence of Compliance
	(including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.		Statement.
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**		

Ref.	Principles	Compliance Status	Evidence of Compliance
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	The Pensions Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of Pensions Committee meetings are published 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	Compliant	These polices apply to all committee members and this is clearly set out in the

Ref.	Principles	Compliance Status	Evidence of Compliance
	members of committees, sub-committees, advisory panels or any other form of secondary forum.		Fund's Governance Policy Statement, Knowledge and Skills Policy Statement & the Joint Training Policy for the Pensions 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	Compliant	All members of the Pensions Committee, Pension Investment Sub Committee and the Pension Administration Advisory Panel have

Ref.	Principles	Compliance Status	Evidence of Compliance
	secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.		equal access to committee papers, documents and advice that are due to be 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

PENSION BOARD
7 MARCH 2022

REVIEW OF TRAINING POLICY AND PROGRAMME

Recommendation

1. **The Chief Financial Officer recommends that the Board reviews the Fund's proposed Training Policy and Programme AKA Skills & Knowledge Framework.**

Background

2. The Pensions Committee agreed a Training Policy and Programme for members of the Pensions Committee, Pension Investment Sub Committee and Pension Board at its meeting on 17 March 2020.

3. These were based on the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice and CIPFA's Knowledge and Skills Framework for members. The latter has been updated by the June 2021 version for members and LGPS Officers. CIPFA has also announced plans to refresh its current training and support programme for pension board members.

4. The Pensions Committee received updates on training at its meeting of 26 June 2020, its meeting of 9 October 2020, its meeting of 9 December 2020, its meeting of 16 March 2021, its meeting of 29 June 2021 and its meeting of 8 October 2021.

5. The training delivered by Fund Officers to members (and selected, invited Fund Officers) in the last 3 years has included:

- The upcoming (as at) 31 March 2022 actuarial valuation and how this feeds into funding strategy (risk / asset allocation / investment pots) 09 02 2022
- Environmental, Social & Governance Fund Review workshop 02 02 2022
- Being an LGPS employer 02 12 2021
- Stewardship 14 10 2021
- Investment in infrastructure / property / private debt 21 09 2021
- Our Statement of policy on our discretions 10 08 2021
- How an LGPS employee member can improve their lot 20 07 2021
- Our annual report 08 06 2021
- Welcome to the Pensions Committee 03 06 2021
- Admissions / bulks / terminations 22 03 2021
- The Pensions Regulator / annual benefit statements 04 03 2021
- Pooling 19 01 2021
- Risk considerations in investment strategy 18 01 2021
- Current issues / paying pensions 10 11 2020
- Year-end / Career Average Revalued Earnings (CARE) revaluation / annual benefit statements / Pension Savings Statements 18 09 2020
- About the LGPS / the role of the administering authority / where you fit in (governance) / valuation, funding & investment 30 06 2020
- Responsible investment and engagement 04 02 2020

- The spectrum of capital 31 01 2020
- Investing in infrastructure / property and risk considerations in investment strategy 28 11 2019
- Fixed income investments and the administration lifecycle part 2 (additional voluntary contributions (AVCs), nominations, divorce, decisions / appeals, and the Pensions Ombudsman) 08 07 2019
- Actuarial valuations, funding strategy, risk strategy and benchmarking 19 06 2019
- Transitioning assets to LGPS Central Limited / equities / the administration lifecycle part 1 (employers, membership, transfers, leavers, and data quality) 18 12 2018

6. In addition, several workshops on responsible investment have been delivered; members have been made aware of a number of conferences being run by LGPS Central Limited and the Local Government Association; and members are made aware of The Pensions Regulator's Trustee code of practice for public sector schemes and The Pensions Regulator's Trustee toolkit.

7. A meeting with the Chairs of Committee / Board / Investment Sub Committee was held on 6 September 2021 to discuss a paper that summarised our previous training deliverables; our existing training policy; a draft Officer knowledge assessment; our existing elected member training needs questionnaire; our Good Governance position statement on 'knowledge and understanding'; and the approaches used / available in the market.

8. That September 2021 meeting supported the following way forward:

a) Not to introduce Hymans Robertson's (or another supplier's) online training platform for members of the Committee / Board / Investment Sub Committee at this stage.
b) Continuing the existing approach that was agreed at the training session on 18 January 2021 of separate (to meetings), recorded, online, one-hour, preceded by pre-dive information in the case of deep dives, regular training sessions / deep dives that are arranged one at a time following a discussion at the preceding event to identify the preferred topic for the next event.
c) Conducting a fresh training needs assessment of members of Committee / Board / Investment Sub Committee.
d) Undertaking a knowledge assessment of Fund Officers.
e) Reviewing the Fund's training policy in the light of the results from carrying out recommendations (c) and (d) above to include the production of a master list of topics that Officers would aim to cover over a training cycle.

9. In October / November 2021 the Fund conducted a Training Needs Analysis (TNA). This revealed that members of the Committee and Board felt that they had more than a basic understanding of all the prescribed areas of knowledge. The lowest average scores were in:

- Knowledge of how discretionary powers operate.
- A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.
- An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.
- Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.

10. In January 2022 three bespoke TNAs based on the latest CIPFA material were drafted in preparation for future TNAs, for example for use as part of or after the pensions administration restructure: (1) for Committee members, (1) for Board members and (1) for senior Fund officers.

11. In September 2021 the Fund introduced financial and time off support for Fund officers who wish to obtain a qualification from the Chartered Institute of Payroll Professionals.

12. In preparation for Fund officers having more time to devote to personal development after the restructure of pensions administration, Hymans Robertson have been approached about using parts of their online training platform. Whilst this platform is primarily targeted at members of pension boards / committees (and was agreed by the Chairs of Committee / Board / Investment Sub Committee at a meeting on 6 September 2021 as not to be their preferred approach to training), it could perhaps be used as part of an in-house package of personal development options for Fund Officers that would support movement up link grades through:

a) Experienced Officers delivering bespoke training on our key processes.
b) Using our pensions administration system supplier's training material on the Altair system.
c) Exposing Officers to areas of administration that the Officer had not yet had the chance to work on.
d) Attendance at external training run by the LGA or bespoke training on a particular aspect of the LGPS that is primarily targeted at employer HR / Payroll representatives, for example Hymans Robertson's training on pensionable pay / assumed pensionable pay or on ill health.

Supporting information

- Appendix 1 -The Fund's proposed Training Policy and Programme.
- Appendix 2 - TNA for Pensions Committee members
- Appendix 3 - TNA for Pension Board members
- Appendix 4 - TNA for senior Officers

Contact Points

Specific Contact Points for this report

Chris Frohlich, Engagement Manager
Tel: 01905 844004
Email: cfrohlich@worcestershire.gov.uk

Rob Wilson
Pensions Investment & Treasury Management Manager
Tel: 01905 846908
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.

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Introduction

Responsibility for training rests with Worcestershire County Council's CFO.

The Fund maintains a formal and comprehensive training policy for the effective acquisition and retention of knowledge and skills for those responsible for management, delivery, governance and decision making in the LGPS as it:

- Recognises that effective decision making can only be achieved where those involved have the requisite knowledge and skills.
- Seeks to operate in line with the Myners Review, CIPFA's Knowledge and Skills Framework and CIPFA's Code of Practice.
- Seeks to deliver the 'knowledge and understanding' proposals of the LGPS Scheme Advisory Board (SAB)'s Good Governance project.

Formal training programme for members

The Fund's formal training programme for members of its Pensions Committee / Pension Board / Pension Investment Sub Committee will consist of a minimum of four sessions each year.

The sessions will be recorded to allow any non-attendees to access the knowledge imparted at their own pace.

The sessions will be delivered by Fund Officers supported by the Fund's investment managers, independent investment advisor, actuary, and other experts / specialists where appropriate.

Other training for members

Members will be made aware of any relevant seminars and conferences that are offered by industry wide bodies.

Members will be encouraged to be familiar with The Pensions Regulator's Trustee code of practice for public sector schemes and made aware of The Pensions Regulator's Trustee toolkit.

Fund Officers will remind members that they are available to assist with each member's individual training requirements.

New members will be invited to attend an induction session with Fund Officers and be supplied with a welcome information pack.

Background knowledge will also constantly be developed through presenting the Fund's rolling quarterly Business Plan at each Committee and Board meeting. Papers on key issues affecting the LGPS and on developments at the Fund will also be tabled at each Committee and Board meeting.

Training for Fund Officers

The Fund will undertake a knowledge assessment of Fund Officers once the new structure for pensions administration is in place and use this to develop training for its Officers.

The Fund will continue to provide financial and time off support for Fund Officers who wish to obtain a qualification from the Chartered Institute of Payroll Professionals.

The Fund will invite selected Fund Officers to member training sessions.

The Fund will introduce a requirement for its s151 Officer to undertake LGPS relevant training as part of the Officer's CPD requirements to ensure good levels of knowledge and understanding are maintained.

Monitoring training

A log will be maintained of all training offered and undertaken and a report on training will be included in the Fund's annual report.

An annual review of training, the proposed training plan for the year ahead (see below for the master list of possible topics) and the Fund's Training Policy will be undertaken by Fund Officers with the Chairs of the Fund's Pensions Committee, Pension Investment Sub-Committee and Pension Board.

Members will be asked to feedback on the content and delivery of all training using feedback forms.

At each training session attendees will be counselled on what to cover at the next session.

The Fund's training will be on the agenda of each quarterly Board and Committee meeting.

The Fund will use TNAs to identify areas to deliver training in and will update its existing TNAs to reflect any post June 2021 changes in CIPFA guidance.

Proposed master list of topics to include in the Fund's member training programme

1. Investing in equities
2. Fixed interest investment
3. Investing in alternative assets such as infrastructure and property
4. Investing in private equity
5. Investing in private debt
6. Investment strategy / risk
7. Responsible investment / stewardship / climate change
8. Funding strategy
9. LGPS Central Limited
10. What the LGPS provides members with
11. Pension administration processes and key performance indicators (KPIs) e.g. annual benefit statements / paying pensions / processing retirements / year end
12. The Fund's governance and associated documents i.e. Funding Strategy Statement, Risk Register, Business Plan, Governance Policy Statement, Policy Statement on Discretions, Pension Administration Strategy, SAB Good Governance Project Positioning Statement
13. LGPS employers
14. Annual accounts and annual report

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Worcestershire Pension Fund

Training Needs Analysis Questionnaire for members of the Pensions Committee

Name:

Please answer y (yes) or n (no) as to whether you think that you possess the level of knowledge being asked about in all the areas below.

No	Area of knowledge	y or n
1.0	**Pensions legislations and guidance**	
1.1	A general understanding of the pensions legislative framework in the UK.	
1.2	A general understanding of other legislation that is relevant in managing an LGPS fund, e.g. freedom of information, General Data Protection Regulation (GDPR) and local authority legislation.	
1.3	A general understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration, funding, governance, communications and investment, including: • a general understanding of the LGPS Regulations 2013 • a general understanding of the LGPS (Management and Investment of Funds) Regulations 2016.	
1.4	An awareness of LGPS discretions and how the formulation of the discretionary policies impacts on the fund, employers and scheme members.	
1.5	A regularly updated awareness of the latest changes to the scheme rules and current proposals or potential changes to the scheme.	
1.6	A general understanding of the requirements of statutory guidance from the responsible authority – DLUHC.	
1.7	A general understanding of the requirements of The Pensions Regulator code of practice.	
1.8	An awareness of the requirements of guidance from the Scheme Advisory Board.	
1.9	An awareness of the requirements of guidance from GAD.	
1.10	An awareness of other guidance relevant to the LGPS, such as from CIPFA.	
2.0	**Pensions governance**	
2.1	An awareness of the LGPS regulations' main features, including any material developments and requirements relating to pension scheme governance.	
2.2	An awareness of statutory and other guidance in relation to pension scheme governance, including DLUHC statutory governance guidance, The Pensions Regulator code of practice,	

No	Area of knowledge	y or n
	CIPFA/Solace, Scheme Advisory Board guidance and the Myners principles.	
2.3	A general understanding of how the roles and powers of DLUHC, TPR, MoneyHelper and the Pensions Ombudsman relate to the workings of the scheme.	
2.4	A general understanding of the role of the Scheme Advisory Board and how it interacts with other bodies.	
2.5	A general understanding of the role of the administering authority in relation to the LGPS.	
2.6	A general understanding of the role of pension committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.	
2.7	An awareness of the role and statutory responsibilities of the CFO and monitoring officer.	
2.8	A strong understanding of the roles, terms of reference and delegated responsibilities of the pension committee (including any sub-committees), the pension board and any other delegated responsibilities to senior officers.	
2.9	A general understanding of how the asset pool was established, including the responsibilities of the joint governance committee (or equivalent).	
2.10	A general understanding of the stakeholders of the fund and the nature of their interests.	
2.11	A general understanding of who the key officers responsible for the management of the fund are, how the pension team is structured and how services are delivered.	
2.12	A general understanding of the fund's strategies, policies and other key documents.	
2.13	A general understanding of best practice risk management, including how that supports a structured and focused approach to managing risks. This should include how risk is monitored and managed and the fund's current key risks.	
2.14	A general understanding of how conflicts of interest are identified and managed.	
2.15	A strong understanding of how breaches in law are recorded and managed and, if necessary, reported to TPR, including each individual's personal responsibility in relation to breaches.	
2.16	A general understanding of the fund's knowledge and skills policy and associated training requirements.	
2.17	An awareness of the fund's process for dealing with complaints, including its internal dispute resolution procedure.	
2.18	A general understanding of how the effectiveness of the fund's governance is reviewed.	
2.19	A general understanding of the required budget and resources needed to manage and administer the fund.	
2.20	A general understanding of the annual business planning cycle and budget setting.	
2.21	A general understanding of the fund's key performance indicators and other performance measures.	

No	Area of knowledge	y or n
2.22	A general understanding of the fund's business continuity policy and cyber security policy across all areas of fund activity, including administration.	
3.0	**Funding strategy and actuarial methods**	
3.1	An awareness of the LGPS regulations' main features, including any key developments and requirements relating to funding strategy and the setting of employer contributions, including associated guidance.	
3.2	A general understanding of the role of the fund actuary.	
3.3	A general understanding of the funding strategy statement (including employer funding flexibilities) and the expected delivery of the funding objectives.	
3.4	A general understanding of the key risks to the fund relating to the funding strategy.	
3.5	A general understanding of the valuation process, including developing the funding strategy in conjunction with the fund actuary and inter-valuation monitoring.	
3.6	An awareness of the costs to the employer, including employer contributions and early retirement strain costs.	
3.7	An awareness of the different types of employers that participate in the fund.	
3.8	A general understanding of the importance of employer covenant, the relative strengths of the covenant across the fund's employers and how this impacts the funding strategy adopted.	
3.9	A general understanding of any legislative and/or benefit uncertainty and the impact of this on the funding strategy.	
3.10	A general understanding of the scheme valuation and other work carried out by GAD and the impact this has on the valuation process (i.e. the cost management process/ Section 13 report).	
3.11	A general understanding of the implications of including new employers in the fund and of the exit of existing employers.	
3.12	A general understanding of the relevant considerations in relation to the different types of new employer, e.g. outsourcings, academies (if appropriate), alternative delivery models, and also the considerations in relation to bulk transfers.	
4.0	**Pensions administration and communications**	
4.1	An awareness of the LGPS regulations' main features and requirements relating to: • administration and communications strategies • entitlement to and calculation of pension benefits • transfers in and out of the scheme • employee contributions • the delivery of administration and communications (including associated guidance).	

No	Area of knowledge	y or n
4.2	A general understanding of the fund's pensions administration strategy, including how it is delivered (including, where applicable, the use of third-party suppliers and systems), performance measures and assurance processes.	
4.3	A general understanding of the fund's communications policy, including how it is delivered (including, where applicable, the use of third-party suppliers and systems), performance measures and assurance processes.	
4.4	A general understanding of best practice in pensions administration, e.g. performance and cost measures.	
4.5	A general understanding of the fund's processes and procedures relating to: • member data maintenance and record keeping, including data improvement plans and relationships with employers for data transmission • contributions collection.	
4.6	An awareness of how the fund interacts with the taxation system in relation to benefits administration, including the annual and lifetime allowances.	
4.7	A general understanding of additional voluntary contribution (AVC) arrangements, including: • the AVC arrangements that exist • the choice of investments to be offered to members • the provider's investment and fund performance, • the payment of contributions to the provider • the benefits that can be received by scheme members • how and when the AVC arrangements, including the investment choices, are reviewed.	
5.0	**Pensions financial strategy, management, accounting, report and audit standards**	
5.1	A general understanding of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the fund's accounts and annual report.	
5.2	A general understanding of the various elements of income into and expenditure of the fund, including the operational budget.	
5.3	A general understanding of the cash flows of the fund and how risks are managed to ensure appropriate cash is available to pay benefits and other outgoings.	
5.4	A general understanding of the role of both internal and external audit in the governance and assurance process.	
6.0	**Investment strategy, asset allocation, pooling, performance and risk management**	
6.1	An awareness of the LGPS regulations' main features and requirements relating to investment strategy, asset allocation, the pooling of investments and responsible investments, including associated guidance.	
6.2	A general understanding of the key risks that the fund is exposed to and how a fund's investment strategy should be considered in conjunction with these risks.	

No	Area of knowledge	y or n
6.3	A general understanding of the risk and return characteristics of the main asset classes (equities, bonds, property) and the need to balance risk versus reward when determining the investment strategy.	
6.4	A general understanding of the role of these asset classes in long-term pension fund investing.	
6.5	A general understanding of the fund's cash flow requirements and how these impact on the types of investments considered.	
6.6	A general understanding of the structure, operation and purpose of the investment pooling arrangements, including the structure of the relationship with the other participants in the pool.	
6.7	An awareness of the regulations, best practice and guidance relating to investment pooling and the delivery of the investment objectives of the administering authority/ pension committee by their chosen investment pool.	
6.8	An awareness of the boundaries of investment activities (e.g. strategy requiring advice from a suitably qualified person, in-house investment transactions) and which investment activities require FCA authorisation.	
6.9	A general understanding of the interaction between the administering authority, the pension committee, the investment pool operator, investment pool oversight committee and other parties relating to the investment pooling arrangement – in particular, reporting requirements, influence and accountability.	
6.10	A general understanding of the fund's investment strategy statement and the investment pool's interpretation and expected delivery of those investment objectives, including any objectives relating to environmental, social and governance factors.	
6.11	A general understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.	
6.12	An awareness of the Myners principles and the need to set targets for the committee and to report against them.	
6.13	An awareness of the range of support services provided to the committee, who supplies them and the nature of the performance monitoring regime.	
6.14	An awareness of the investment regulations and the requirements for monitoring investments.	
6.15	A general understanding of the requirements of the investment pool in relation to the administering authority and pension committee investment strategy and how to effectively monitor the implementation of the investment strategy within the pool.	
6.16	An awareness of the latest developments and requirements in the area of responsible investment.	
6.17	An awareness of the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) and whether the fund is a signatory of these.	

No	Area of knowledge	y or n
6.18	A general understanding of the fund’s approach to responsible investment, including how views on environmental, social and governance issues are incorporated into the fund’s investment strategy.	
6.19	A general understanding about how to manage and reduce risk and lessen the impact of risk on assets when it arises, including climate risk.	
7.0	**Financial markets and products**	
7.1	A general understanding of the primary importance of the investment strategy decision.	
7.2	A general understanding of the workings of the financial markets, the investment vehicles available to the pension fund and the nature of the associated risks.	
7.3	An awareness of the restrictions placed by legislation on the investment activities of LGPS funds.	
7.4	A general understanding of MiFID II requirements relating to the knowledge of decision makers.	
7.5	A general understanding of the investment pool operator’s approach to pooling and delivering access to the different asset classes and/or investment funds.	
7.6	A general understanding of which assets and investments may sit outside of the investment pool and why their nature and characteristics permit this.	
7.7	An awareness of how the fund interacts with the taxation system in the UK and overseas in relation to investments.	
8.0	**Pension services procurement, contract management and relationship management**	
8.1	An awareness of the main public procurement requirements of UK and EU legislation and the use of national frameworks within the context of the LGPS.	
8.2	Awareness of the key decision makers in relation to the fund’s procurements.	
8.3	A general understanding of the fund’s suppliers and providers and their roles in the management of the fund.	
8.4	An awareness of how the fund’s suppliers are monitored, including: • the Myners principles • the need for strategic objectives for investment consultants.	
8.5	A general understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting external suppliers and providers.	
8.6	A general understanding of how the pension fund monitors and manages the performance of their external suppliers and providers, including business continuity and cyber risk.	
8.7	An awareness of the nature of the relationship with the investment pool parties and a general understanding of: • the extent of influence over the investment pool operator and oversight committee • the terms for terminating a pooling agreement	

No	Area of knowledge	y or n
	• guidance on the requirement to pool investments.	

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Worcestershire Pension Fund

Training Needs Analysis Questionnaire for members of the Pension Board

Name:

Please score all the areas below on a scale from 1 to 5 where:

1 = No knowledge

5 = Highly skilled

No	Area of knowledge	1 to 5
1.0	**Pensions legislation**	
1.1	A general understanding of the pension's legislative framework in the UK.	
1.2	An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.	
1.3	An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	
1.4	A regularly updated appreciation of the latest changes to the scheme rules.	
2.0	**Pensions governance**	
2.1	Knowledge of the role of the administering authority in relation to the LGPS.	
2.2	An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.	
2.3	Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.	
2.4	A broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.	
2.5	An awareness of the role and statutory responsibilities of the treasurer and monitoring officer.	
2.6	Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.	
2.7	A detailed knowledge of the duties and responsibilities of pension board members.	
2.8	Knowledge of the stakeholders of the pension fund and the nature of their interests.	
2.9	Knowledge of consultation, communication and involvement options relevant to the stakeholders.	

No	Area of knowledge	1 to 5
2.10	Knowledge of how pension fund management risk is monitored and managed.	
2.11	An understanding of how conflicts of interest are identified and managed.	
2.12	An understanding of how breaches in law are reported.	
3.0	**Pensions administration**	
3.1	An understanding of best practice in pension's administration, e.g. performance and cost measures.	
3.2	Understanding of the required and adopted scheme policies and procedures relating to: • Member data maintenance and record-keeping processes • Internal dispute resolution • Contributions collection • Scheme communications and materials	
3.3	Knowledge of how discretionary powers operate.	
3.4	Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third-party suppliers, their selection, performance management and assurance processes).	
3.5	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.	
3.6	An understanding of what additional voluntary contribution (AVC) arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.	
4.0	**Pensions accounting & auditing standards**	
4.1	An understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.	
4.2	An understanding of the role of both internal and external audit in the governance and assurance process	
4.3	An understanding of the role played by third party assurance providers.	
5.0	**Pensions services procurement and relationship management**	
5.1	An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.	
5.2	A general understanding of the main public procurement requirements of UK and EU legislation.	
5.3	An understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when	

No	Area of knowledge	1 to 5
	selecting third parties.	
5.4	An understanding of how the pension fund monitors and manages the performance of their outsourced providers.	
6.0	**Investment performance and risk management**	
6.1	An understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.	
6.2	An awareness of the Myners principles of performance management and the approach adopted by the administering authority.	
6.3	An awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	
7.0	**Financial markets and products knowledge**	
7.1	An understanding of the risk and return characteristics of the main asset classes (equities, bonds, property).	
7.2	An understanding of the role of these asset classes in long-term pension fund investing.	
7.3	An understanding of the primary importance of the fund's statement of investment principles and the investment strategy decision.	
7.4	A broad understanding of the workings of the financial markets and of the investment vehicles available to the pensions fund and the nature of the associated risks.	
7.5	An understanding of the limits placed by regulation on the investment activities of local government pension funds.	
7.6	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.	
7.7	A general understanding of the fund's investment strategy statement and the investment pool's interpretation and expected delivery of those investment objectives, including any objectives relating to environmental, social and governance factors.	
7.8	An awareness of the latest developments and requirements in the area of responsible investment.	
7.9	An awareness of the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) and whether the fund is a signatory of these.	
7.10	A general understanding about how to manage and reduce risk and lessen the impact of risk on assets when it arises, including climate risk.	
8.0	**Actuarial methods, standards and practices**	
8.1	A general understanding of the role of the fund actuary.	
8.2	Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.	
8.3	An awareness of the importance of monitoring early and ill health retirement strain costs.	

No	Area of knowledge	1 to 5
8.4	A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.	
8.5	A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.	
8.6	A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.	

Worcestershire Pension Fund

Training Needs Analysis Questionnaire for senior officers

Name:

Please answer y (yes) or n (no) as to whether you think that you possess the level of knowledge being asked about in all the areas below.

No	Area of knowledge	y or n
1.0	**Pensions legislation and guidance**	
1.1	A strong understanding of the pensions legislative framework in the UK, particularly: • Pensions Act 1995 • Pensions Act 2004 • Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 • Public Service Pensions Schemes Act 2013.	
1.2	A strong understanding of other legislation that is relevant in managing an LGPS fund, e.g. freedom of information, GDPR and local authority legislation.	
1.3	A detailed knowledge of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration, funding, governance, communications and investment, including: • Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 • Local Government Pension Scheme (Administration) Regulations 2008 • Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 • Local Government Pension Scheme Regulations 2013 • Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.	
1.4	A detailed knowledge of LGPS discretions and how the formulation of the discretionary policies impacts on the fund, employers and scheme members.	
1.5	A detailed knowledge of the latest changes to the scheme rules and current proposals or potential changes to the scheme.	
1.6	A strong understanding of how the scheme interfaces with other private and state pension provision.	
1.7	A detailed knowledge of the requirements of statutory guidance from the responsible authority – DLUHC.	
1.8	A detailed knowledge of the requirements of The Pensions Regulator code of practice.	
1.9	A detailed knowledge of the requirements of guidance from the Scheme Advisory Board.	

No	Area of knowledge	y or n
1.10	A strong understanding of the requirements of guidance from GAD.	
1.11	A strong understanding of other guidance relevant to the LGPS, such as from CIPFA.	
1.12	A strong understanding of pension scheme tax legislation and the UK pension scheme reporting framework, in particular: • Finance Act 2004 • related statutory instruments.	
2.0	**Pensions governance**	
2.1	A detailed knowledge of the LGPS regulations' main features, including any material developments and requirements relating to the pension scheme governance.	
2.2	A strong understanding of statutory and other guidance relating to pension scheme governance, including DLUHC statutory governance guidance, The Pensions Regulator code of practice, CIPFA/Solace, Scheme Advisory Board guidance and the Myners principles.	
2.3	A detailed knowledge of how the roles and powers of DLUHC, The Pensions Regulator, MoneyHelper and the Pensions Ombudsman relate to the workings of the scheme.	
2.4	A detailed knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies.	
2.5	A detailed knowledge of the role of pension committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.	
2.6	A detailed knowledge of the role and statutory responsibilities of the CFO and monitoring officer.	
2.7	An expert knowledge of the roles, terms of reference and delegated responsibilities of the pension committee (including any sub-committees), the pension board and any other delegated responsibilities to senior officers.	
2.8	A detailed knowledge of how the asset pool was established, including the responsibilities of the joint governance committee (or equivalent).	
2.9	A detailed knowledge of the stakeholders of the fund and the nature of their interests.	
2.10	An expert knowledge of the role of key officers responsible for the management of the fund, how the pension team is structured and how services are delivered.	
2.11	A detailed knowledge of the fund's strategies, policies and other key documents.	
2.12	An expert knowledge of best practice risk management, including how that supports a structured and focused approach to managing risk. This should include how risk is monitored and managed and the fund's current key risks.	
2.13	An expert knowledge of how conflicts of interest are identified and managed.	

No	Area of knowledge	y or n
2.14	An expert knowledge of how breaches in law are recorded and managed and, if necessary, reported to The Pensions Regulator, including each individual's personal responsibility in relation to breaches.	
2.15	An expert awareness of the fund's knowledge and skills policy and associated training requirements.	
2.16	A detailed knowledge of the fund's process for dealing with complaints, including its internal dispute resolution procedure.	
2.17	A detailed knowledge of how the effectiveness of the fund's governance is reviewed.	
2.18	An expert knowledge of the required budget and resources needed to manage and administer the fund.	
2.19	An expert knowledge of the annual business planning cycle and budget setting.	
2.20	An expert knowledge of the fund's key performance indicators and other performance measures.	
2.21	An expert knowledge of the fund's business continuity policy and cyber security policy across all areas of fund activity, including administration.	
3.0	**Funding strategy and actuarial methods**	
3.1	A detailed knowledge of the LGPS regulations' main features, including any key developments and requirements relating to funding strategy and the setting of employer contributions, including associated guidance.	
3.2	A detailed knowledge of the role of the fund actuary.	
3.3	A detailed knowledge of the funding strategy statement (including employer funding flexibilities) and the expected delivery of the funding objectives.	
3.4	A detailed knowledge of the key risks to the fund relating to the funding strategy.	
3.5	A detailed knowledge of the valuation process, including: • the actual valuation processes • agreeing the financial and demographic assumptions • the development and publication of the funding strategy statement • signing off the rates and adjustment certificate • inter-valuation monitoring.	
3.6	A detailed knowledge of the costs to the employer, including employer contributions and early retirement strain costs.	
3.7	A strong understanding of the importance of employer covenant, the relative strengths of the covenant across the fund's employers, and how this impacts the funding strategy adopted.	
3.8	A strong understanding of any legislative and/or benefit uncertainty and the impact of this on the funding strategy.	
3.9	A strong understanding of the scheme valuation and other work	

No	Area of knowledge	y or n
	carried out by GAD and the impact this has on the valuation process (i.e. the cost management process/Section 13 report).	
3.10	A strong understanding of the implications of including new employers into the fund and of the exit of existing employers.	
3.11	A general understanding of the relevant considerations in relation to the different types of new employer, e.g. outsourcings, academies (if appropriate), alternative delivery models, and also the considerations in relation to bulk transfers.	
3.12	A strong understanding of the requirements of HM Treasury's 'fair deal' guidance and related guidance concerning outsourcing and bulk transfers.	
3.13	A strong understanding of other pension arrangements, particularly with regard to staff transfers.	
3.14	A strong understanding of the corporate and workforce ethos when working closely with HR colleagues to determine discretionary policies.	
4.0	**Pensions administration and communications**	
4.1	A detailed knowledge of the LGPS regulations' main features and requirements relating to: • administration and communications strategies • entitlement to and calculation of pension benefits • transfers in and out of the scheme • employee contributions • the delivery of administration and communications (including associated guidance).	
4.2	A detailed knowledge of the fund's pensions administration strategy, including how it is delivered (including, where applicable, the use of third-party suppliers and systems), performance measures and assurance processes.	
4.3	A detailed knowledge of the fund's communications policy, including how it is delivered (including, where applicable, the use of third-party suppliers and systems), performance measures and assurance processes.	
4.4	A strong understanding of best practice in pensions administration, e.g. performance and cost measures.	
4.5	A detailed knowledge of the fund's processes and procedures relating to: • member data maintenance and record keeping, including data improvement plans and relationships with employers for data transmission • contributions collection.	
4.6	A strong understanding of how discretionary powers operate.	
4.7	A strong understanding of how the fund interacts with the taxation system in relation to benefits administration, including the annual and lifetime allowances.	
4.8	A detailed knowledge of AVC arrangements, including: • the AVC arrangements that exist • the choice of investments to be offered to members • the provider's investment and fund performance	

No	Area of knowledge	y or n
	• the payment contributions to the provider • the benefits that can be received by scheme members • how and when the AVC arrangements, including the investment choices, are reviewed.	
5.0	**Pensions financial strategy, management, accounting, report and auditing standards**	
5.1	A detailed understanding of the Accounts and Audit Regulations and legislative requirements relating to role of the committee and individual members in considering and signing off the fund's accounts and annual report.	
5.2	A detailed knowledge of relevant pensions accounting standards as they apply to the scheme and to the employer: • Pensions SORP • FRS 102 (IAS 19) • iFReM.	
5.3	A detailed understanding of the approach to pensions external audit as set down in APB Practice Note 15.	
5.4	A detailed understanding of the various elements of income into and expenditure of the fund, including the operational budget.	
5.5	A detailed understanding of the cash flows of the fund and how risks are managed to ensure appropriate cash is available to pay benefits and other outgoings.	
5.6	A detailed understanding of the role of internal and external audit in the governance and assurance process.	
5.7	A strong understanding of and compliance with the CIPFA Statement of Expertise as it applies to: • leadership and strategic management • governance, ethics and values • financial and performance reporting • audit and accountability • strategic and operational financial management • partnerships and stakeholder relations • change, risk and project management.	
6.0	**Investment strategy, asset allocation, pooling, performance and risk management**	
6.1	A detailed knowledge of the LGPS regulations' main features and requirements relating to investment strategy, asset allocation, the pooling of investments and responsible investments, including associated guidance.	
6.2	A detailed knowledge of the key risks that the fund is exposed to and how a fund's investment strategy should be considered in conjunction with these risks.	
6.3	A detailed knowledge of the risk and return characteristics of the main asset classes (equities, bonds, property) and the need to balance risk versus reward when determining the investment strategy.	

No	Area of knowledge	y or n
6.4	A detailed knowledge of the role of these asset classes in long-term pension fund investing.	
6.5	A detailed knowledge of the fund's cash flow requirements and how these impact on the types on investments considered.	
6.6	A strong understanding of prevailing market conditions within UK and overseas equity markets and UK bond and property markets.	
6.7	A strong understanding of the principles of portfolio construction within both bond and equity mandates.	
6.8	A strong understanding of portfolio risk monitoring techniques.	
6.9	A strong understanding of trading systems and practices within bond and equity markets.	
6.10	A strong understanding of the importance of setting appropriate benchmark indices.	
6.11	A detailed knowledge of the structure, operation and purpose of the investment pooling arrangements, including the structure of the relationship with the other participants in the pool.	
6.12	A detailed knowledge of the regulations, best practice and guidance related to investment pooling and the delivery of the investment objectives of the administering authority/pension committee by their chosen investment pool.	
6.13	A detailed knowledge of the boundaries of investment activities (e.g. strategy requiring advice from a suitably qualified person, in-house investment transactions), and which investment activities require FCA authorisation.	
6.14	A detailed knowledge of the interaction between the administering authority, the pension committee, the investment pool operator, investment pool oversight committee and other parties relating to the investment pooling arrangements – in particular, reporting requirements, influence and accountability.	
6.15	A detailed knowledge of the fund's investment strategy statement and the investment pool's interpretation and expected delivery of those investment objectives, including any objectives in relation to environmental, social and governance factors.	
6.16	A strong understanding of the importance of monitoring asset returns relative to the liabilities and a strong understanding of ways of assessing long-term risks.	
6.17	A strong understanding of the merits of manager diversification.	
6.18	A strong understanding of the Myners principles and the need to set targets for the committee and to report against them.	
6.19	A detailed knowledge of the range of support services provided to the committee, who supplies them, and the nature of the performance monitoring regime.	
6.20	A detailed knowledge of the investment regulations and the requirements for monitoring investments.	
6.21	A detailed knowledge of the requirements of the investment pool in relation to the administering authority and pension committee investment strategy and how to effectively monitor the implementation of the investment strategy within the pool.	

No	Area of knowledge	y or n
6.22	A detailed knowledge of the non-financial risks within the operation and relationship with the investment pool (operator, oversight committee and other parties) and how these can be mitigated or best managed.	
6.23	A detailed knowledge of the latest developments and requirements in the area of responsible investment.	
6.24	A strong understanding of the UK Stewardship Code and the UNPRI and whether the fund is a signatory of these.	
6.25	A detailed knowledge of the fund's approach to responsible investment, including how views on environmental, social and governance issues are incorporated into the fund's investment strategy.	
6.26	A strong understanding about how to manage and reduce risk and lessen the impact of risk when it arises, including climate risk.	
7.0	**Financial markets and products**	
7.1	A detailed knowledge of the primary importance of the investment strategy decision.	
7.2	A strong understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.	
7.3	A strong understanding of the restrictions placed by legislation on the investment activities of LGPS funds.	
7.4	A strong understanding of MiFID II requirements relating to the knowledge of decision makers.	
7.5	A strong understanding of long-term risk and return parameters of equity, bond and property markets and issues arising from short-term volatility.	
7.6	A strong understanding of the effects on overall risk and return of combining these asset classes in the pension fund strategy.	
7.7	A strong understanding of the relationship between the investment and funding strategies and the liabilities of the fund.	
7.8	A strong understanding of 'alternative' asset classes available for pension fund investment (private equity, infrastructure, absolute return mandates, etc.), including the practicalities of investing, prospective risks and returns and correlation with other asset classes.	
7.9	A strong understanding of the costs and benefits of active and passive currency hedging strategies, including implementation issues.	
7.10	A strong understanding of the relative attractions of active and passive management across different asset classes.	
7.11	A strong understanding of the role of active manager risk within the investment arrangements.	
7.12	A strong understanding of the concepts of 'risk budgeting', sources of return (alpha and beta) and improving the 'efficiency' of the arrangements.	
7.13	A strong understanding of the practical implications of pooled and segregated mandates	

No	Area of knowledge	y or n
	in terms of setting investment guidelines, effecting transactions and client reporting.	
7.14	A strong understanding of the implications of combining managers with different investment styles.	
7.15	A strong understanding of the responsibilities of the custodian and procedures for reconciling information with investment providers.	
7.16	A strong understanding of the costs and benefits of stock lending and commission recapture programmes.	
7.17	A detailed knowledge of the investment pool operator's approach to pooling and delivering access to the different asset classes and/or investment funds.	
7.18	A strong understanding of which assets and investments may sit outside of the investment pool and their nature and characteristics.	
7.19	A strong understanding of how the fund interacts with the taxation system in the UK and overseas in relation to investments.	
8.0	**Pension services procurement, contract management and relationship management**	
8.1	A detailed knowledge of the background to current public procurement policy and procedures, the values and scope of public procurement and the roles of key decision makers and organisations.	
8.2	A detailed knowledge of the main public procurement requirements of UK and EU legislation and the use of national frameworks within the context of the LGPS.	
8.3	An expert knowledge of the key decision makers in relation to the fund's procurements.	
8.4	A detailed knowledge of the nature and scope of risks for the fund and of the importance of considering risk factors when selecting third parties.	
8.5	A detailed knowledge of how the fund monitors and manages the performance of its outsourced providers.	
8.6	A detailed knowledge of how the fund's suppliers are monitored, including: • the Myners principles • the need for strategic objectives for investment consultants.	
8.7	A detailed knowledge of the nature of the relationship with the investment pool parties and a detailed understanding of: • the extent of influence over the investment pool operator and oversight committee • the terms for terminating a pooling agreement • guidance on the requirement to pool investments.	

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PENSIONS BOARD
7 MARCH 2022

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

Specific Contact Points for this report
Rob Wilson
Pensions Investment &, Treasury Management manager
Tel: 01905 846908
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:

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Pensions Board Proposed Forward Plan

Appendix 1

Pension Board Items	07/06/2022	16/09/2022	22/11/2022
LGPS Central Update	Y	Y	Y
Pensions Final External Audit Report on Annual Report			Y
Pension Fund Final Accounts 2021.22		Y	
Government Actuary Dept review update			
Stewardship Code			Y
Business Plan Progress update (to include Administration and Investment areas, **SAB Good Governance monitoring & CMA Investment Advisor objectives monitoring**)	Y	Y	Y
Annual Business Plan			
Annual Admin Strategy			
Annual investment Strategy Statement (Include Climate Risk Strategy and TCFD Report)			
Training Requirements and Training delivery update **	Y	Y	Y
Training Policy			
Pension fund admin Budget Approval & Monitoring		Y	
internal Audit Report	Y		
Risk Register	Y	Y	Y
Funding Strategy Review			
Governance Policy Review			
Pension Administration Restructure			
Regulatory Updates including Scheme Advisory Updates (Include Pooling and Responsible Investment consultation)	Y	Y	Y

***** including in Business Plan update for Nov meeting***

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