

## **Minutes of the Pension Board**

**County Hall, Worcester**

**Tuesday, 7 June 2022, 10.00 am**

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### **Present:**

Mr R J Phillips (Chairman), Odette Fielding, Cllr Paul Harrison, and  
Lucy Whitehead

### **Also attended:**

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

### **Available papers**

The Members had before them:

- A. The Agenda papers (previously circulated);
- B. The Agenda papers and Minutes of the Pensions Committee held on 23  
March 2022 (previously circulated); and
- C. The Minutes of the meeting held on 7 March 2022 (previously  
circulated).

### **236 Apologies (Agenda item 1)**

Apologies were received from Andrew Lovegrove and Kim Wright.

### **237 Declaration of Interests (Agenda item 2)**

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

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

### **238 Confirmation of Minutes (Agenda item 3)**

**RESOLVED** that the Minutes of meeting held on 7 March be confirmed as a correct record and signed by the Chairman.

**239 Pensions Committee - 23 March 2022 (Agenda item 4)**

Noted.

**240 Update on Scheme Advisory Board (SAB) (Agenda item 5)**

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

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

- The SAB work plan had been signed off at the SAB meeting on 6 March
- The outcome of the Government LGPS consultation was awaited. The consultation related to the 'Task Force on Climate related Financial Disclosures' (TCFD) regulations and the creation of a template to measure the performance of funds on climate change and responsible investment. It was unfortunate that the Department for Levelling Up, Housing and Communities was late in producing their findings
- The Government was proposing that 5% of pension fund assets should be invested in the levelling up agenda. In general, all funds would be supportive of investment into UK wide infrastructure projects as long as it provided a return on investment. More clarity was required from the Government as to how this would be manifested. In addition, there should also be recognition that this fund had already invested in infrastructure projects in the UK
- The SAB Annual Report would be published next week. In addition, the SAB would be writing to the Government regarding the separation of the audit and accounts functions
- Was the proposed template for climate change concerned with providing better performance indicators for the LGPS? The Chairman responded that it was not satisfactory for a fund just to indicate that it was thinking about climate change. Funds needed to be able to prove their direction of travel. The question was how to measure performance in relation to climate change. It was therefore important to establish a consistent approach to measuring performances across schemes. It was very difficult to establish a base line from which to measure hence the Government was attempting to establish a template. Pools had a useful role in providing advice in this respect.

**The Board noted the Scheme Advisory Board update.**

**241 Pension Fund Unaudited Accounts 2021/22 (Agenda item 6)**

The Board considered the unaudited Pension Fund Annual Accounts 2021/22.

In the ensuing debate, the following points were raised:

- The impact of inflation was a major factor for the Fund going forward. At present, it was predicted that inflation would rise until September/October 2022 before dropping. There would be cashflow implications for the Fund if it was index-linked to a potentially high inflation rate in September. In hindsight, given the level of inflation, the approach adopted by the Fund of allowing employers to pay contributions up front for 3 years might not have been beneficial for those employers who did so
- Pension administration staff had (and would require to) put in a considerable amount of work to implement the McCloud remedy. Sherief Loutfy, Finance Planning Manager undertook to find out the total cost to the Fund of the work associated with implementing McCloud
- It was particularly noticeable that the employer contributions received had dropped from £201.2m in 2020/21 to £90.7 in 2021/22. Sherief Loutfy explained that the reduction in contributions in 2021/22 was due to a number of major employers paying three years contributions upfront. Chris Frohlich, Engagement Manager added that consideration was being given to suspending the pre-paid contributions approach, as it did not confer the investment risk mitigation associated with pound cost averaging, was inconsistent with stabilising employer contributions, and required significant administration resource
- The accounts showed that the previous year had been financially stable for the Fund but going forward, the impact of inflation and world events could have a negative impact on future real investment returns

**RESOLVED** that the unaudited Pension Fund Annual Accounts 2021/22 be noted.

## **242 Local Government Pension Scheme (LGPS) Central Update (Agenda item 13)**

The Board considered the LGPS Central Update.

In the ensuing debate, the following points were raised:

- There were clear benefits for all partner funds by working together and getting the best value out of the support provided by LGPS Central. Chris Frohlich acknowledged the point and pointed out that, as there remained different funding levels amongst partner funds, partner funds had different appetites for LGPS Central products. However, LGPS Central was constantly expanding their range of products to give partner funds the opportunity to take advantage of the products that suited their particular requirements. In addition, by joining together with partner funds through LGPSC, this Fund would be able to invest in bigger infrastructure projects and secure better deals. In terms of the direct financial benefit for this Fund, the impact had been neutral to date
- In response to a query about concerns expressed by partner funds about remuneration packages for staff working for LGPS Central, Sherief Loutfy commented that the level of remuneration on offer by LGPS Central did not sit comfortably in the local government

environment but it should be recognised that LGPS Central were operated in a private sector environment where salaries tended to be higher. It was an issue in the current employment market with particular pressure on pay awards.

**The Board noted the LGPS Central Update.**

## **243 UK Stewardship Code (Agenda item 7)**

The Board reviewed the UK Stewardship Code application.

In the ensuing debate, the following points were raised:

- The Chairman indicated that the Board should be proud of and recognise the amount of work that went into the Fund becoming a signatory to the 2020 UK Stewardship Code but also note the extra work involved in retaining this status. Sherief Loutfy added that the Fund had received feedback from the Financial Reporting Council in relation to the 2021 submission with approximately 30% of the previous submission requiring improvement to retain signatory status. The Fund had worked with LGPS Central to enhance these areas. A key issue highlighted was the need to provide examples to show how the Fund had been operating and how the Fund would be engaging with partners. The 2022 application had been submitted to the Financial Reporting Council on 30 April and feedback was expected by the end of July. It was anticipated that the Fund's application would be successful
- The Fund and West Midlands Pension Fund were the only LGPS Central partner funds to achieve signatory status, so to retain this status would be a major achievement
- The signatory status provided a clear message to members and employers of the integrity in the way that the Fund was being managed. Chris Frohlich commented that the application for signatory status to the Stewardship Code had been placed on the Fund's website. As a result, the number of questions from members about stewardship aspects of the scheme had reduced.

**RESOLVED that:**

- a) the Stewardship Code application for signatory status submitted on the 30 April 2022 be noted; and**
- b) the Board recognised the added integrity that becoming a signatory to the UK Stewardship Code had achieved for the Fund.**

## **244 Business Plan (Agenda item 8)**

The Board reviewed the Business Plan.

Chris Frohlich introduced the report and commented that as the Fund was currently 100% funded, pressure was increasing to reduce employer contribution rates. However, because of the current and projected inflation rate,

it might be better to “sharpen up” discount rates and explain to employers that any decrease in contribution rates could lead to a subsequent hike at a later date. The Fund had also maintained a focus on cyber security and a list of top ten cyber security tips would be brought to a future meeting.

In the ensuing debate, the following points were made:

- Had the major employers within the Fund completed the McCloud checklist/declarations form? Chris Frohlich responded that Herefordshire had completed their form but this Council was still working through the detailed implications. This was not an issue at this stage
- In response to a concern about the cyber security measures in place at the Fund’s pension administration software providers, Chris Frohlich indicated that the provider’s cyber security annual review was of the required standard and not a concern
- In response to a query about the advice given by the Fund to members wishing to take their benefits out of the Fund, Chris Frohlich commented that there was a significant risk for a member to take their benefits out of the Fund. The Fund did have red and amber card system which acted as a check to prevent a member from making a wrong move and leaving themselves open to a scam. Most of these type of requests tended to be from financial advisers rather than fund members. There was a framework for the ethical behaviour for financial advisers in the UK but requests to withdraw benefits could come from abroad and there was very little that the Fund could do in those instances.

**RESOLVED that:**

- a) The Worcestershire Pension Fund (WPF) Business Plan as at 25 May 2022 be noted;**
- b) The Board welcomed the level of ongoing vigilance by the Fund to prevent members becoming the victim of fraudulent financial advice; and**
- c) The Board noted the ongoing work / risks associated with implementing the McCloud remedy.**

## **245 Risk Register (Agenda item 9)**

The Board reviewed the Risk Register.

In the ensuing debate, the following points were raised:

- Chris Frohlich indicated that the Fund continued to trace ‘lost’ members and had found 400/500 to date
- It was important for employers that consistent contribution rates were maintained. Had there been any dialogue with the Fund’s actuary to gain an understanding of their position on contribution rates? Chris Frohlich responded that the actuary had indicated that people were not

projected to live as long as previously which would have a positive impact on the Fund. However, the increase in the rate of inflation and outlook for investments would have a negative impact. There remained members joining which would offset this potential issue and enabled a long-term approach to investing to be maintained. The expectation was to amend the discount rate to create a bigger buffer against any stagflation impacts

- In response to a query about the impact of pay increases, Sherief Loutfy indicated that the finance team were currently undertaking scenario modelling with Mercer to determine the impact of different levels of pay increases on the Fund and discussions were also being held about contribution rates
- The next couple of years were likely to provide a far more unstable and volatile investment environment.

**RESOLVED that the 25 May 2022 Worcestershire Pension Fund Risk Register be noted.**

## **246 Governance Update (Agenda item 10)**

The Board reviewed the Governance Update, particularly the proposed Policy on Representation; and the proposed Policy on Conflicts of Interest.

In the ensuing debate, the following points were made:

- Chris Frohlich explained that the proposed Policy on Representation and the Policy on Conflicts of Interest would be subject to approval by the Pensions Committee and welcomed any comments from members of the Board
- The Chairman emphasised the importance of the Board recruiting to its full complement of members to avoid issues associated with the quorum of future meetings
- It was important that whoever was recruited to the Board was able to attend meetings and engage.

**RESOLVED that the Governance Update, particularly the proposed Policy on Representation (Appendix 1); and Policy on Conflicts of Interest (Appendix 2) be noted.**

## **247 Training update (Agenda item 11)**

The Board reviewed the Training update.

In the ensuing debate, the Chairman encouraged members of the Board to raise questions with officers at any time if they were unsure about any element of the Fund's operations.

**RESOLVED that the training update be noted.**

## **248 Forward Plan (Agenda item 12)**

**The Board noted its Forward Plan.**

The meeting ended at 11.40am

Chairman .....