

## **Minutes of the Pension Board**

### **County Hall, Worcester**

**Friday, 3 March 2023, 2.00 pm**

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#### **Present:**

Cllr Roger Phillips (Chairman), Bridget Clark, Cllr Paul Harrison, Andrew Lovegrove, Cllr Tony Miller, and Adam Pruszyński

#### **Also attended:**

Cllr Elizabeth Eyre as Chairman of the Pensions Committee.

#### **Available papers**

The Members had before them:

- A. The Agenda papers (previously circulated);
- B. The Agenda papers and Minutes of the Pensions Committee meetings held on 13 December 2022 and 8 February 2023 (previously circulated);
- C. The Minutes of the meeting held on 22 November 2022 (previously circulated); and
- D. An updated version of the Business Plan covering report (circulated at the meeting).

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

None.

#### **277 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.

Bridget Clark declared interests as a retired member of Worcestershire Pension Fund, employed in another regional local authority (Dudley MBC) with

responsibility for the pensions team, working as a consultant for LGPS appeals and her husband being a member of Worcestershire Pension Fund.

Cllr Tony Miller declared an interest as a beneficiary of the West Mercia Police Pension Fund.

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

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

**RESOLVED** that the Minutes of the meeting held on 5 October 2022 be confirmed as a correct record and signed by the Chairman.

## **279 Pensions Committee - 13 December 2022 and 8 February 2023 (Agenda item 4)**

Noted.

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

The Chairman provided the Board with a verbal update on Scheme Advisory Board (SAB) and the following points were made:

- There was a capacity issue within the Department for Levelling Up, Housing, and Communities. There were a number of staffing vacancies in the Department which had impacted on its ability to deliver. On a positive note, the new Minister had been engaging with SAB
- It was anticipated that the SAB levy would be increased as a result of the additional work undertaken to introduce climate change reporting and good governance
- It was anticipated that the outcome of the McCloud Judicial Review would be reported in April 2023
- SAB had established a Compliance and Regulatory Sub-Committee. It was comprised of pension fund practitioners and had already undertaken a lot of positive work
- SAB had been working with GAD to establish a gender pay group.

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

## **281 Business Plan (Agenda item 6)**

The Board considered the Business Plan.

In the ensuing debate, the following points were made:

- The Government requirement to participate in a pensions dashboard has been put back that will give the Fund more time to cleanse data
- In order to operate at full capacity, the administration team needed to be fully staffed. Whilst acknowledging the amount of work undertaken to increase staffing levels, vacancy levels remained a concern

- In response to a query in relation to the process for recording a member death, Richard Sultana explained that an extra step had been introduced to include a holding letter to a relative in the event of a death.

**The Board noted the Business Plan.**

## **282 Governance Update (Agenda item 7)**

The Board reviewed the Governance Update.

In the ensuing debate the following points were made:

- The streamlining of the Risk Register made sense and was welcomed
- The regulation of the LGPS was constantly changing and it was important to ensure that Pension Board and Committee members received up-to-date and regular training sessions
- In response to a query about the statutory guidance on good governance, the Chairman of the Board commented that the Government's priority had been the finalising the consultation on pooling arrangements, the outcome of which was due out at Easter. SAB staff had been working closely with the Government on good governance including sharing best practice. However, it would be some time yet before the statutory guidance would be released.

**The Board noted the Worcestershire Pension Fund Governance Update.**

## **283 Worcestershire County Council Pension Fund Administration Budget 2023/24 (Agenda item 8)**

The Board reviewed the Worcestershire County Council Pension Fund Administration Budget 2023/24.

In the ensuing debate, the following points were made:

- Rob Wilson indicated that the Committee report referenced an indicative annual cost of £27.26 per member which had been based on the previous year's figure. However, the updated cost was £26.50 per member. The investment costs were roughly the same as the indicative cost
- The Chairman emphasised the importance of ensuring that no investment transaction took place without complete cost transparency. The drive towards cost transparency had resulted in a reduction in investment fees
- The annual cost of the pension scheme per member represented good value for money
- The annual pension scheme cost per member had always been low for the Fund. Had a national league table of LGPS Funds been established that compared costs per member? Rob Wilson advised that the Fund provided the Office of National Statistics (ONS) annual expenditure data

and was last completed for in 2021/22. The Fund was in a mid-table position compared to other LGPS Funds nationally. He confirmed that the Fund should still compare favourably

- In response to a query about the progress being made towards member self-service, Richard Sultana explained that the system procurement process would be concluded either by the end of this year or beginning of next year. The business-as-usual processes were working well with no backlog of work and it was important to ensure that these processes were not negatively impacted by the introduction of a member self-service system. Rob Wilson added that some future systems development costs had been included in the existing Pensions Administration system budget.

**The Board noted:**

- a) The Pension Fund Administration Budget, including manager fees, for 2023/24 shown in the Appendix totalling £22.964m;**
- b) The indicative budget allocations for 2024/25 and 2025/26;**
- c) Variations against budget will be monitored; and**
- d) The granting of delegated authority to approve variations of up to £0.5m.**

## **284 Actuarial Valuation and Final Pension Fund Strategy Statement (Agenda item 10)**

The Board reviewed the actuarial valuation update and the final Funding Strategy Statement (FSS).

In the ensuing debate, the following points were made:

- In response to a query, Rob Wilson advised that all parish councils had been provided with the opportunity to meet the Fund's actuary. Parish councils were grouped for actuarial valuation purposes
- There were many benefits of the LGPS arrangements but a downside was its inability to manage the pension arrangements for small employers such as parish councils
- It was not clear who was responsible for addressing climate change in the FSS, was it Worcestershire County Council or the Fund's actuary? Rob Wilson responded that the Fund had undertaken climate scenario analysis which was provided by LGPS Central and would be undertaken every 2 to 3 years. The actuary was more interested in the steps that the Fund had taken in relation to mitigating the investment impact on climate change and what its future climate risk strategy was when taking this on board in producing the FSS.

**The Board noted:**

- a) **The outcome of the Funding Strategy Statement consultation and the proposed final FSS (Appendix 1);**
- b) **The update to the climate change funding level scenario analysis within the FSS;**
- c) **The draft 2022 actuarial valuation rates and adjustments certificate will be presented to the Pensions Committee; and**
- d) **The current negotiations taking place with housing associations relating to deferred debt agreements and / or debt spreading arrangements, noting that the Fund is seeking to delegate this to the appropriate officers of the fund in consultation with the Chairman of the Pensions Committee.**

## **285 Local Government Pension Scheme Central Update (Agenda item 11)**

The Board reviewed the Local Government Pension Scheme Central Limited (LGPSC) Update.

In the ensuing debate, the following points were made:

- The formal signing off of the LGPSC Business Plan by partner funds was welcomed
- The performance of the LGPSC Emerging Markets Fund was particularly disappointing. Rob Wilson added that it had been especially disappointing considering that the Fund was paying LGPSC for an active mandate. Sherief Loutify commented that in an attempt to improve performance, the Fund had increased the number of touch points with LGPSC managers and had told LGPSC that the Fund would want to be involved in the 3-year investment review and the interview process for the replacement investment manager
- The Board's role was to review and monitor performance and an important aspect of that was determining whether pooling represented good value for money. The Chairman responded that the Board chairmen met every 6 months in the LGPSC offices in Wolverhampton albeit the last meeting was cancelled. Pension boards had an important role in holding pools to accounts and he considered that these Board chairmen meetings should be held on a more regular basis.

**The Board noted the LGPSC update.**

## **286 Training Update (Agenda item 12)**

The Board reviewed the Training Update.

In the ensuing debate, the following points were made:

- Richard Sultana indicated that the new Training Officer would be taking up post in May/June 2023

- The plan to repeat the Training Needs Analysis was welcomed as it was long overdue
- It was crucial that Board and Committee members had sufficient knowledge to undertake their role, and in particular an understanding of the administration processes and functions
- It was recognised that staffing was a particular issue for the Fund in the context of the current national employment situation where there were more jobs than people. It was important that staff were made to feel valued and could see opportunities for career progression with the hope that this would engender a degree of loyalty to the organisation
- In response to a query, Richard Sultana confirmed that staff had been receiving training using the Fundamentals course as part of an overall package of training. The message to staff was that if they wanted to develop their career, they would be supported
- Chris Frohlich indicated that as part of the staff training programme, staff would be invited to attend and observe Board meetings.

**The Board noted the Worcestershire Pension Fund Training Update including the Training Policy and Programme (Appendix 1) and the Training Plan (Appendix 2).**

## **287 Risk Register (Agenda item 13)**

The Board reviewed the Risk Register.

In the ensuing debate, the following points were made:

- The national pressure to increase pay could have implications for Risk 23 in terms of employer contributions
- Had the increase in the number of people who had decided to no longer work had an impact on the level of pension contributions and had it been recognised as a risk? Was the Fund liaising with employers to proactively encourage staff to join LGPS to compensate for the numbers leaving? The Chairman commented that the Fund was carefully monitoring the number of members who had opted for 50/50 arrangements or opted out altogether. It should be noted that monitoring the arrangements of smaller employers was particularly difficult. Richard Sultana added that a report would be brought to the Board in due course which tracked the number of opt outs over a 10-year period. A key issue for the Fund to establish was the number of deferred pensions and early retirements. Chris Frohlich suggested establishing the number of flexible retirements as a key indicator.

**The Board noted the February 2023 Worcestershire Pension Fund Risk Register.**

## **288 Forward Plan (Agenda 14)**

**The Board noted the Forward Plan.**

## 289 Investment Strategy Statement (ISS) and Climate Risk Strategy Update (Agenda item 9)

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

In the ensuing debate, the following points were made:

- In relation to climate reporting, there would always be pressure on the Fund from external organisations concerning any investment that involved fossil fuels or China. It was important that the Fund focused on all the relevant issues before coming to a decision on such investments. The approach adopted by the Fund was to undertake engagement before disinvestment
- It was clear from the recent workshops that there was pressure to maximise return on investment irrespective of ESG and RI considerations. However, this Fund was a public sector fund, and it was important that due diligence was undertaken on all investment opportunities.

The Board noted:

- a) The Fund's 2023 draft Investment Strategy Statement (ISS) set out at Appendix 1;
- b) The updated LGPSC Voting Principles Appendix 2
- c) The draft Climate Risk Strategy set out at Appendix 3;
- d) The Fund's ESG Workshop Review on the 8 February 2023 and the recommended outcomes;
- e) The Fund's 3rd Annual Climate Risk Report (Appendix 4); and
- f) The draft 'Task Force on Climate related Financial Disclosures' (TCFD) Report (Appendix 5)

## 290 Exclusion of Public and Press (Agenda item 15)

**RESOLVED** that pursuant to Section 100A of the Local Government Act 1972, the press and public shall be excluded from the meeting during item 5 on the grounds that there would be disclosure to them of information relating to the financial or business affairs of any particular person (including the authority holding the information) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

**Summary of the proceedings of the meeting during which the press and public were excluded. (This is a fair summary of the proceedings and there are no exempt minutes.)**

**291 Strategic Asset Allocation Informal Review (Agenda item 16)**

The Board reviewed the Strategic Asset Allocation Informal Review.

In the ensuing debate, the following points were made:

- In response to a query, Sherief Loutfy confirmed that approximately £120m or 4% of the Fund was invested in China. The Fund received quarterly updates from investment managers, and the governance and performance issues associated with investment in China were always challenged. Any investment in China needed to take particular notice of governance and geo-political issues. There were particular concerns about state interference and the impact this was having on financial performance. The Fund was considering various options with regard to future investment in China
- The SAA review was welcomed. The Fund needed to invest somewhere and there was no such thing as a risk-free option
- China was one of the fastest growing economies in the world, so the Fund had a fiduciary duty to consider investment there albeit in the context of other factors such as governance and geo-politics.

**The Board noted the update on the informal review of the Fund’s Strategic Asset Allocation Review.**

The meeting ended at 4.20pm.

Chairman .....