Worcestershire County Council

# Agenda

## Pension Board

**Friday, 3 March 2023, 2.00 pm**
**County Hall, Worcester**

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# DISCLOSING INTERESTS

**There are now 2 types of interests:**
**<u>'Disclosable pecuniary interests'</u> and <u>'other disclosable interests'</u>**

**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 <u>spouse/partner</u> as well as you**

**WHAT MUST I DO WITH A DPI?**

- **Register** it within 28 days <u>and</u>
- **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
# Friday, 3 March 2023, 2.00 pm, County Hall, Worcester

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

**Member Representatrives**
Bridget Clark, Adam Pruszynski and Kim Wright and Vacancy

## Agenda

| Item No | Subject | Page No |
|---|---|---|
| 1 | **Apologies** | |
| 2 | **Declaration of Interests** | |
| 3 | **Confirmation of Minutes**<br>To confirm the Minutes of the meeting held on 22 November 2022 (previously circulated) | |
| 4 | **Pensions Committee - 13 December 2022 and 8 February 2023**<br>To review the Agenda and Minutes of the Pensions Committee meeting held on13 December 2022 and 8 February 2023 :<br><br>• LGPS Central Update<br>• Pension Investment Update<br>• Business Plan<br>• Pension Fund Annual Report for the year ended 31 March 2022<br>• Risk Register<br>• Actuarial Valuation and Funding Strategy Statement Update<br>• Governance Update<br>• Training Update<br>• Strategic Asset Allocation Review Update December 2022<br>• Local Government Pension Scheme Central (LGPSC) Budget and Strategic Business Plan 2023/24<br><br>The Agenda papers and Minutes have previously been sent to members. | |
| 5 | **Update on Scheme Advisory Board (SAB)**<br>To receive a verbal update. | |
| 6 | **Business Plan** | 1 - 10 |
| 7 | **Governance Update** | 11 - 70 |

Agenda produced and published by Sheena Jones, Democratic Governance and Scrutiny Manager, 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: Wednesday, 22 February 2023

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# PENSION BOARD
# 3 MARCH 2023

# BUSINESS PLAN

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**Recommendation**

1. **The Chief Financial Officer recommends that the Board reviews the Worcestershire Pension Fund Business Plan as at February 2023.**

**Background and update**

2. We have revamped our Business Plan, making the following changes since the last quarterly rolling Business Plan:

a. Removing **Introduction**.
a) Removing **Background**.
b) Removing **Purpose and Goals**.
c) Replacing **Key Result Areas / Aspirations** with **The Latest on Investment / Funding / Finance** (that now includes **Investment Targets** and **Budget**), and **The Latest on Administration** (that now includes **Administration KPIs**).
d) Removing the list of acronyms.
e) Including the Appendix listing our projects in the main body of the Business Plan in a new section called **Looking Ahead**, having removed columns 2-4 from the spreadsheet.

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

**Supporting information**

- Appendix - Business Plan Feb 2023

**Contact Points**

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**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.

# Business Plan

As at Feb 2023

**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 of whether all is currently well at the Fund:

I. Our latest pensions administration KPIs are reassuring and in line with targets set.

II. We have received 2 new IDRPs (about our diligence on a transfer out and an ill health retirement), not experienced any new data breaches, or had to report anything to The Pensions Regulator since the last quarterly, rolling Business Plan. The Pensions Ombudsman has asked us for information to help them to adjudicate on a case that has gone through the IDRP process concerning ill health retirement.

III. In 2022 / 2023 we have had 1 data breach (starter information sent to wrong member due to manual error), 8 IDRPs, an FOI (about our AVC provider), and 0 complaints.

IV. Our Fund performance for the year to 31 12 2022 of -4.3% was 1.4% below the benchmark that was -2.9%. Over the 3 years to 31 12 2022 our 4.5% was 0.3% above benchmark of 4.2%.

V. Our projects / budgets are on schedule and members' attention is drawn to our list of projects in section 3 (Looking Ahead).

**1. THE LATEST ON INVESTMENT / FUNDING / FINANCE**

1.1 Separate reports are tabled at Board / Committee meetings covering in detail our investment / funding / finance activities, our budget position, and the risks facing us in these areas.

1.2 The 2019 actuarial valuation set the following real annual discount rates for the Growth pot that will be updated on 1 April 2023 by the figures shown in brackets by the 2022 actuarial valuation: Past service: Consumer Prices Index + 1.65% (1.50%) and Future service: Consumer Prices Index + 2.25% (2.00%).

1.3 The assumed annual Consumer Prices Inflation is +2.4% (3.10%).

1.4 Therefore our annual return on investment targets for the Growth pot are 4.05% (4.60%) for deficit recovery payments and 4.65% (5.10%) for future service contributions.

1.5 Our Fund performance for the year to 31 12 2022 of -4.3% was 1.4% below the benchmark that was -2.9%. Over the 3 years to 31 12 2022 our 4.5% was 0.3% above benchmark of 4.2%.

1.6 The Fund's investment portfolio excluding cash of £75m as at 31 Dec 2022 totalled £3,434m, and its solvency funding level was 95%.

1.7 Relative to the benchmarks for our sectors we have achieved the 3-year returns shown in the right column of the table below:

| Sector (market value) | Benchmark | Average annual Performance over the 3 years to 31 Dec 2022 v benchmark |
|---|---|---|
| **Active equities (£832m)** | Bespoke | 0.10% (2.7 below benchmark) |
| **Passive equities (£968m)** | Bespoke | 6.7% (0.9% above benchmark |
| **Alternatives (£531m)** | 20% RAFI/40% MSCI WL Min/40% MSCI WL Qual | 4.3% (0.7% below benchmark) |
| **Fixed Interest (£273m)** | 60% LGPSC Corp Index & 40% Absolute Return +6% | Not available as only invested Apr 2021 |
| **Property (£294m)** | 60% MSCI UK & 40% Abs Ret +7.5% | 3.5% (2.3% below benchmark) |
| **Infrastructure (£533m)** | 70% UK CPI +5.5% & 30% Abs Return +10% | 12.3% (1.5% above benchmark) |

1.8 As PEL, our existing supplier of risk and return analyses, are looking to cease trading by the end of June, we are looking for a new supplier.

1.9 We are re-procuring our independent investment adviser.

1.10 DLUHC's consultation on climate reporting has closed.

1.11 A parliamentary written statement that included the following about asset pooling and alternatives was made by the Chancellor on 9 December 2022: 'the government announces today that it will, in early 2023, consult on new guidance to the Local Government Pension Scheme (LGPS) in England and Wales on asset pooling. The government will also consult on requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy.'

1.12 On 16 December 2022 The Pensions Regulator (TPR) published its draft funding code of practice for defined benefit (DB) pensions schemes for trust-based occupational pension schemes providing defined benefits and a consultation document. The 14-week consultation sets out that schemes will be expected to set a long-term objective and a journey plan to get there. It is expected that schemes will reduce reliance on their sponsoring employer as they reach maturity. It will require trustees to improve risk management and raise the bar for evidencing supportable risk taking.

1.13 We held an ESG training session / workshop for members of the Board and Committee on 8 February.

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

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

**2 THE LATEST ON ADMINISTRATION**

<u>Dashboards:</u>
The staging deadline for public sector schemes has been put back to 30 Sep 2024. Value data will be required from 1 April 2025. Deferred refunds will not be in scope at outset. There has been a consultation re which we await the results on dashboard standards and guidance, and a call for input on the design standards. We attended a Hymans webinar on 7 December and

have reviewed The Pensions Regulator's checklist.

Data quality:
We have received the results of our 2022 NFI data matching and have completed the exercise only having 2 matches overall. We continue to work with a company called Target Professional Services (UK) to find members we have lost touch with.

Employer changes:
We are aware of the following employer changes in 2022 / 2023:

- Hill and Moor Parish Council wanting to offer the LGPS to their staff.
- Worcester Community Trust expected to be terminating in 2022.
- Cater Link Ltd (TG Perdiswell) joining.
- School Catering Support Limited (Relish and WFS) joining as a new employer.
- Woodfield Academy joining Bordesley MAT on 01 04 2022.
- Civica transferring some members to Malvern Hills DC in Oct 22.
- Platform Housing Group exploring a DDA.
- Waseley Hills joining Central Region School Trust.
- Pitcheroak School joining Central Learning Partnership Trust.
- Maid Marions (St Johns Primary) and Tenon terminating.
- Kindred (TGA Worcester), Kindred (previously Ridge Crest Cleaning Services) (Bishop Perowne), and Kindred (previously Ridge Crest Cleaning Services) (Tudor Grange) joining.
- Two Herefordshire schools, Bredenbury Primary and St Peters Primary, joining Queen Elizabeth Academy on 1 September 2022 that will thereafter be called Three Counties Academy Trust.
- Ridgeway joined The Shires MAT on 01 09 2022.
- Far Forest Lea Memorial Primary joined Severn Academies Educational Trust on 1 September 2022.
- Rushwick joining Diocese of Worcester MAT on 1 January 2023.
- The Forge joining Central Learning Partnership Trust.
- Leigh and Bransford Primary School joining Mercian Education Trust.
- Employer 00309 Civica UK employees transferring back as a shared service called South Worcestershire Revenue and Benefits, within Malvern Hills DC.
- Lickhill Academy joined Central Regions School Trust on 1 January 2023

Engagement:
We had 42 responses from our 18,445 pensioners to our online stewardship survey.

We have had no responses from employers following our Funding Strategy Statement consultation.

We have had no responses from employers following our Pension Administration Strategy consultation.

We have started work on a redesign of our website, working in conjunction with the WCC website redesign.

Our website's page views were 8,776 in January 2023 (6,039 in January 2022).

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

FRS:
We have supplied employers with a 31 December year end the required information for their accounts and now have our first employer with a 30 June year end.

Governance:
A separate report is tabled at Board / Committee meetings covering our activities and the risks facing us in this area. The key deliverable in that report is that, leading up to this Board / Committee cycle, we have conducted our annual review of our governance documents.

KPIs:
We measure our performance against CIPFA industry standard targets for our key pension administration processes.

As detailed below in January 2023 and for the LGPS year to date 2022 / 2023, we met our average target turnaround for all 12 of our key measured processes.

In January 2023 deaths were 29 compared to the average monthly no of deaths in 19/20 of 15; in 20/21 of 25; in 21/22 of 36; and in 22/23 of 31. Note: On deaths we will regularly have a percentage not within KPI, as we wait to see if the money is returned on the BACS return before calculating under/overpayment.

| **Activity / Process** | **Number processed in Jan 2023** | **% Processed within KPI in Jan 2023** | **Av turnaround (working days) in Jan 2023** | **Target turnaround (working days)** | **2022/2023 average number processed per month** |
|---|---|---|---|---|---|
| Joiners notification of date of joining | 283 | 99 | 8 | 40 | 281 |
| Process and pay refund | 47 | 100 | 3 | 10 | 59 |
| Calculate and notify deferred benefits | 119 | 99 | 5 | 30 | 133 |
| Letter notifying actual retirement benefits | 44 | 100 | 2 | 15 | 44 |
| Letter notifying amount of dependant's benefits | 5 | 80 | 5 | 10 | 15 |
| Letter acknowledging death of member | 29 | 86 | 3 | 05 | 31 |
| Letter detailing CETV for divorce | 10 | 100 | 2 | 45 | 9 |
| Letter notifying estimate of retirement benefits | 46 | 100 | 2 | 15 | 100 |
| Letter detailing transfer in quote | 40 | 98 | 4 | 10 | 49 |
| Process and pay lump sum retirement grant | 74 | 100 | 16 | 23 | 93 |
| Letter detailing transfer out quote | 29 | 97 | 4 | 10 | 39 |
| Letter detailing PSO implementation | 0 | n/a | n/a | 15 | 0 |

| Activity / Process | Number processed for year 2022 / 2023 to 31 Jan | % Processed within KPI for year 2022 / 2023 to 31 Jan | Av turnaround (working days) for year 2022 / 2023 to 31 Jan | Target turnaround (working days) |
|---|---|---|---|---|
| Joiners notification of date of joining | 2814 | 93 | 16 | 40 |
| Process and pay refund | 598 | 93 | 5 | 10 |
| Calculate and notify deferred benefits | 1338 | 99 | 7 | 30 |
| Letter notifying actual retirement benefits | 447 | 99 | 2 | 15 |
| Letter notifying amount of dependant's benefits | 151 | 97 | 3 | 10 |
| Letter acknowledging death of member | 319 | 73 | 4 | 05 |
| Letter detailing CETV for divorce | 92 | 100 | 2 | 45 |
| Letter notifying estimate of retirement benefits | 1005 | 98 | 3 | 15 |
| Letter detailing transfer in quote | 495 | 99 | 2 | 10 |
| Process and pay lump sum retirement grant | 936 | 100 | 13 | 23 |
| Letter detailing transfer out quote | 390 | 96 | 3 | 10 |
| Letter detailing PSO implementation | 2 | 100 | 4 | 15 |

Our preliminary calendar year numbers of opt outs are: 2022: 104 (not all the way to 30/11); 2021: 138; 2020: 183; and 2019: 192.

In 2022 /2023 we have written off 6 cases (for £171.67; £198.03; £162.82, £144.35; £106.87; and £502.86).

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

Legal support:
We are currently working with the internal legal team to procure legal services, externally, through the LGPS National Frameworks, covering both Pensions Administration and Pensions Investment support.

McCloud:
We are aware that around 18,000 teachers may be offered membership of the LGPS as well as the Teachers' Pension Scheme (TPS) to implement the McCloud remedy, because the post-2015 part-time employment for teachers who also hold full-time contracts - the so-called 'excess teacher service' - can't be reinstated into the final salary TPS.

On 14 December 2022, HM Treasury (H M T) made the Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022. They came into force on 19 December 2022.

We await DLUHC publishing the Government's response to the **2020 consultation** and an updated version of the draft LGPS regulations and statutory guidance.

We have emailed our employers to advise them that we will be assuming that they are happy with the service (hours changes and service breaks) data that they have supplied us with and accordingly use it to implement the remedy for the LGPS members who will be affected.

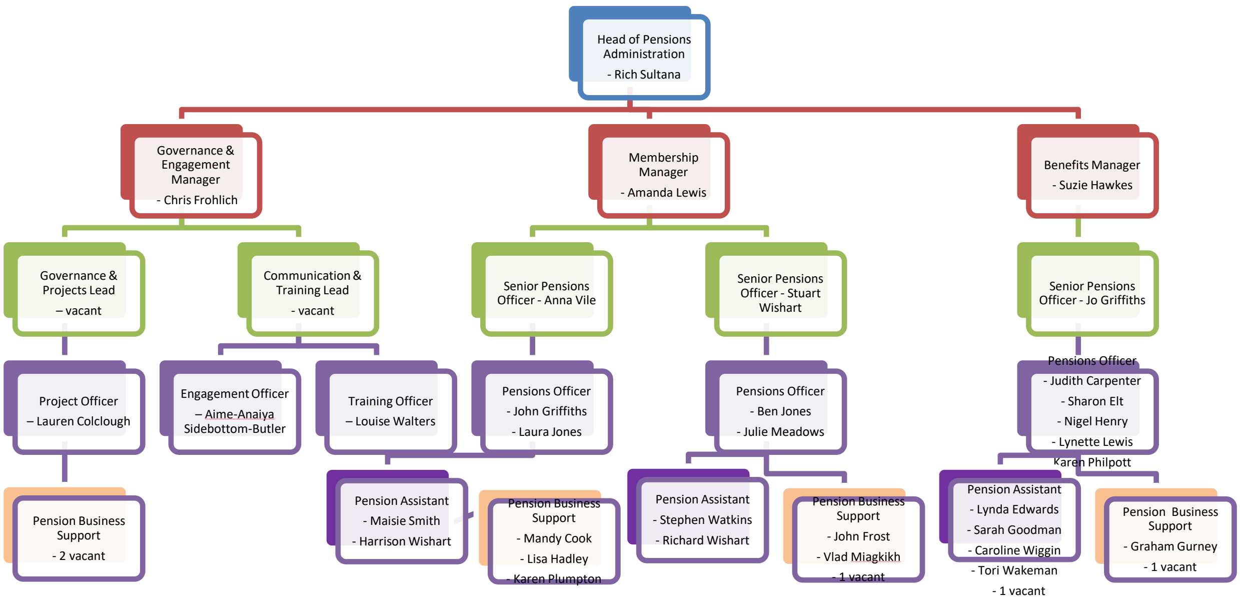
Pensions administration system procurement:
We are progressing with the procurement of the pensions administration system, working with the WCC procurement team to prepare the relevant documentation.

Public sector exit payments:
We added text to our redundancy retirement paperwork and introduced higher strain costs for all redundancy / efficiency retirement dates after 20 July 2021.

Remedying survivor benefits for opposite-sex widowers and surviving male civil partners:
The Chief Secretary to the Treasury made a written **statement** on remedying survivor benefits for opposite-sex widowers (the Godwin case) 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. We are awaiting regulatory guidance on our opposite-sex widowers re which we expect DLUHC to legislate. We also expect DLUHC to legislate to remove the current death grant upper age limit of 75.

Staffing:
We have implemented the WCC Finance workforce plan that includes monthly 121s for all staff.

We implemented the new pensions administration structure on 1 November. As can be seen from the structure chart below, we currently have a number of potential vacancies across the service to recruit to.




Training:
A separate report is tabled at Board / Committee meetings covering our activities and the risks that we face in this area. Leading up to this Board / Committee cycle, we have produced a

Training Plan summarising the training work that we plan to progress.

## 3 LOOKING AHEAD

The table below 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 and these are shown as unshaded. Shaded projects are one-off projects.

| Projects Feb 2023 | Started | Feb 23 | Mar 23 | Apr 23 | May 23 | Jun 23 | Jul 23 | Aug 23 | Sep 23 | Oct 23 | Nov 23 | Dec 23 | Jan 24 | Feb 24 | Mar 24 | Apr 24 | May 24 | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **11 LGPSC budget** | | | Cttee | | | Cttee | | | | Cttee | | Cttee | | | Cttee | | | √ to date and scheduled |
| **12 Annual Report & Accounts / associated docs (30 09 23)** | | | | | | Cttee | | signed off | Publish | Cttee | | | | | | | | √2022 and 2023 scheduled |
| **15 ONS Inc / Expend return** | | | | ¼ rtn | | | ¼ rtn | | | ¼ rtn | | | ¼ rtn | | | ¼ rtn | | √ to date and scheduled |
| **16/17 DLUHC SF3 LGPS Funds account (31 08 23)** | | | | | | | | | Annual | | | | | | | | | √2022 and scheduled |
| **18 TPR Annual return /survey** | | | Survey | | | | | | | | Annual | | | | Survey | | | √2022 survey and 2023 scheduled |
| **19 CEM investment benchmarking (31 07 23)** | | | | | | | Annual | | | | | | | | | | | √2022 and 2023 scheduled |
| **2 GMP equalisation** | TBD | | | | | | | | | | | | | | | | | awaiting guidance NB non-club TVouts 1990 to 1997 in scope |
| **4 Valuation / FSS / pots / admiss term etc policies** | | | Cttee | | | Cttee | | | | Cttee | | Cttee | | | Cttee | | | on schedule |
| **32 Reprocure pension admin system (30 04 2024)** | May-20 | | | | | | | | | | | | | | | | | working with procurement to see if need to re-procure |
| **10 Pension Administration Strategy review (01 04 23)** | | consult | Cttee | publish | | | | | | | | | | consult | Cttee | publish | | √2023 |
| **13 Review data quality** | | NFI | | | | | | | | Aq Hey results | | | | | | | | 2 NFI matches for the 2022 exercise |
| **25 Revalue CARE accounts (30 04 2023)** | | | | System config. | | | | | | | | | | | | System config. | | √2022 survey and 2023 scheduled |
| **26 Provide FRS info** | | | Sch | | | Millbroo k | Coll | Ac | | | | admit bods | | | Sch | | | √ to date and scheduled |
| **3 Branding and digital strategy (MSS)** | Oct-18 | | | | | | | | | | | | | | | | | website redesign commenced |
| **20 Monitor employer covenants / pots / conts** | | | 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 23)** | | | | | | Annual | Q manag | | | | | | | | | | | √2022 survey and 2023 scheduled |
| **22 Employee annual benefit statements (31 08 23)** | | | Y/End | | | | | Annual | Q manag | | | | | | Y/End | | | √2022 survey and 2023 scheduled |
| **23 Pensioner P60s (30 04 23)** | | | | | Annual | Q manag | | | | | | | | | | | Annual | √2022 survey and 2023 scheduled |
| **24 Payslips reflecting pension increase (30 04 23)** | | | | Annual | | | | | | | | | | | | Annual | | √2022 survey and 2023 scheduled |
| **27 Pension Savings Statements (06 10 23)** | | | | | | | | | | Annual | | | | | | | | √2022 survey and 2023 scheduled |
| **29 Pensioner newsletter / life cert (30 11 23)** | | | | | | | | | | | Annual | | | | | | | √2022 survey and 2023 scheduled |
| **28 /30 Good Governance incl TPR** | TBD | | Cttee | | | Cttee | | | | Cttee | | Cttee | | | Cttee | | | new pensions admin structure recruitment progressing |
| **33 McCloud** | Aug-20 | | Cttee | | | Cttee | | | | Cttee | | Cttee | | | Cttee | | | we have contacted all employers advising that we will implement the remedy with what they have supplied |
| **5/6 Review of Asset Allocation / ISS (31 05 23)** | | | Cttee | | | Cttee Sub | | | Sub | Cttee | Sub | Cttee | | | Cttee | | | √2022 survey and 2023 scheduled |
| **9 Increase assets managed by LGPS Central Limited** | Feb-19 | | Cttee | | | Cttee Sub | | | | Cttee | | Cttee | | | Cttee | | | looking into infrastructure / private debt / sustainable equity |
| **34 Progress the Fund's RI journey** | Jan 20 | | Cttee | | | Cttee | | | | Cttee | | Cttee | | | Cttee | | | ESG workshop held on 8 Feb |
| **35 Pensions Dashboards (2024)** | Feb 22 | | Cttee | | | Cttee | | | | Cttee | | Cttee | | | Cttee | | | Heywood asked for data quality report |
| **37 Reprocurements other than pensions admin system** | | | Legal | | | | CFH Docmail | | | Mercer | | | | | Legal | | | |

~ ENDS ~

worcestershire county council

# PENSION BOARD
# 3 MARCH 2023

# GOVERNANCE UPDATE

**Recommendation**

1. **The Chief Financial Officer recommends that the Board reviews the Worcestershire Pension Fund Governance Update.**

**Background**

2. The Fund has been updating its Business Plan and Risk Register, its key operational / planning / management documents, quarterly since March 2019. From the latest (Feb 2023) versions of these it is worth highlighting from a governance perspective that we have revamped them both.

3. Specifically, following a review of the Fund's Risk Register, progress in developing mitigating action for five risks will henceforth be reported in our Governance Updates, so that members can assess whether further mitigating actions are appropriate:

a) WPF 26 Fraud by staff;
b) WPF 15 Failure of the actuary to deliver the services contracted;
c) WPF 01 Failure of governance arrangements to match up to recommended best practice;
d) WPF 17 Failure of custodian to deliver the services contracted; and
e) WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy;

4. Progress in mitigating the five risks since the last quarterly Board / Committee cycle has included:

a) Updating the progress we have made in preparation for SAB's Good Governance proposals being taken forward by DLUHC on the attached appendix;
b) Reviewing our Governance Policy Statement, Policy on Representation, Policy on Conflicts of Interest and Pension Administration Strategy, all of which the Board is asked to review the highlighted changes to on the attached appendices;
c) Reviewing the objectives for and performance of the independent investment adviser;
d) Reviewing 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; and
e) Reviewing managers' SAS70 audit reports and regular meetings with / audits of our custodians BNY Mellon and Northern Trust.

5. In Hymans Robertson's National Knowledge Assessment (NKA) 2022, The Pensions Regulator's Policy Delivery Lead commented that "Turnover of those with governance responsibilities is a significant issue", suggesting that succession planning for elected members and training of potential Board / Committee members is worth considering.

6. The Board is asked to review the Worcestershire Pension Fund Governance Update. Members should note that the Draft Worcestershire Pension Fund Policy on Representation 2023 (Appendix 3) uses track changes to highlight the changes from the current policy. It is proposed to make no changes to the Worcestershire Pension Fund Policy on Conflicts of Interest (Appendix 4). The draft Worcestershire Pension Fund Pension Administration Strategy 2023 (Appendix 5) uses track changes to highlight the proposed changes from the current strategy that employers have been consulted on and have passed no comment on. The Pensions Committee will be asked to approve these policies as well as the draft Worcestershire Pension Fund Governance Policy Statement 2023 (Appendix 2).

**Supporting information**

- Appendix 1 - Good Governance Position Statement Feb 2023
- Appendix 2 - Draft Governance Policy Statement 2023
- Appendix 3 - Draft Policy on Representation 2023
- Appendix 4 - Policy on Conflicts of Interest 2022
- Appendix 5 - Draft Pension Administration Strategy 2023
- Appendix 6 - Update on reviewing the objectives for and performance of the independent investment adviser

**Contact Points**

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**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 Updated Position Statement: Good Governance** Feb 2023

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 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).

| Good Governance proposal | Current position | Identified actions (that are owned by # / with a target delivery date of #) |
|---|---|---|
| **A. General** | | |
| A.1 DLUHC will produce statutory guidance to establish new government requirements for funds to effectively implement the proposals below. ("the Guidance") | Awaiting the draft Guidance and monitoring news about it, such as to expect a new requirement to produce a workforce plan | |
| 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 | |
| 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 an annual Governance Compliance Statement as part of our annual reports<br><br>We have benchmarked our Governance Compliance Statement against Appendix 2 of the Phase 3 Report<br><br>The 23 March 2022 Pensions Committee approved our updated Governance Policy | Benchmark our Governance Compliance Statement against the Guidance once it has been issued and in the meantime against peer funds' statements annually<br><br>(CF / TBD) 2021 peer fund benchmarking completed but 2022 benchmarking is still to do. We are recruiting a Governance Officer to deliver extra resource to progress this action |

| Good Governance proposal | Current position | Identified actions (that are owned by # / with a target delivery date of #) |
|---|---|---|
| | Statement, and at its 22 March 2023 meeting the Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version | |
| **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 | We have published our Policy on Conflicts of Interest, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version<br><br>Elected members' (not officers') conflicts of interest are declared at the start of each Pensions Committee and Pension Board meeting.<br><br>All attendees of a Pensions Committee and Pension Board meeting are asked to sign the Record of Conflicts of Interest Declarations made | |
| 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 | |

| Good Governance proposal | Current position | Identified actions (that are owned by # / with a target delivery date of #) |
|---|---|---|
| **C. Representation** | | |
| 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 | We have published our Policy on Representation, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version<br><br>Our annual reports, our Investment Strategy Statement and para K of appendix 1 of the Worcestershire County Council constitution contain information about representation | |
| **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 have published our Training Policy and programme, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version<br><br>We have produced a Training Plan that summarises the training work that we plan to progress in 2023 /2024 | |
| 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 current s151 officer's previous role was the most senior officer at another LGPS fund, and our training sessions / | New s151 to complete skills framework and personal competencies assessments and address within CPD programme |

| Good Governance proposal | Current position | Identified actions (that are owned by # / with a target delivery date of #) |
|---|---|---|
| | Committee papers top this strong baseline position up | (CFO / TBD) awaiting new S151 |
| 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 | We have published our Training Policy and Programme, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version<br><br>We have produced a Training Plan that summarises the training work that we plan to progress in 2023 /2024 | |
| 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 | |
| **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<br><br>The s151 Officer also delegates to the Head of Finance (Corporate) matters requiring a purely County Council decision | Publish a matrix that meets the requirements<br><br>(CFO / TBD) This action will commence once we have a new S151 and a settled structure in place |

| Good Governance proposal | Current position | Identified actions (that are owned by # / with a target delivery date of #) |
| --- | --- | --- |
| | affecting the Fund to ensure no conflict of interest arises | |
| E.2 Each authority must publish an administration strategy | We comply with this requirement, and at its 22 March 2023 meeting Pensions Committee will be asked to approve an updated version, following an annual review of the 2022 version | |
| 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 Business Plans tabled at all Pensions Committee meetings and all Pension Board meetings | Continually work with the Pension Board to check and develop our KPIs and seek out benchmarking, identifying in the first instance what KPIs from Ps 17-18 / 33 of the Phase 3 Report the Fund can produce and what would be needed to produce the missing information<br><br>(CF/ TBD) The Fund has purchased Altair Insights, and we are recruiting a Governance Officer to deliver extra resource to progress this action |
| 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 all Pensions Committee meetings and all Pension Board meetings | |
| 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 | We are completing a restructure that has included regrading most posts | We are continually reviewing the pensions structure considering ongoing developments within the LGPS. We have applied a Market Forces Supplement to one role, where it is proving difficult to recruit to |

| Good Governance proposal | Current position | Identified actions (that are owned by # / with a target delivery date of #) |
|---|---|---|
| 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 | |
| **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<br><br>IGR reports to be assessed by a SAB panel of experts | We do not currently do this | Prepare for IGRs.<br><br>(CFO / TBD) awaiting more info and a new S151 |
| 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<br><br>(CFO / TBD) awaiting more info and a new S151 |

Note: in the last column CF = Chris Frohlich

# Governance Policy Statement

09~~1~~ February 2023~~2~~

## 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 other Scheme employers in the administrative area of Herefordshire and Worcestershire, with 22,000 contributing members, 21~~0~~,000 pensioners and beneficiaries and 23,000 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) 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.
- 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 staff.

## 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 principal 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~~Honesty, and Leadership) are widely acknowledged and practiced; both within the decision-making framework and within day-to-day activities.*

## 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 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 Assistant Director for Legal and Governance~~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, i~~I~~nvestment manager benchmarks and i~~I~~nvestment 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, 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 key 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 rules 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.
- Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.

## 6. Pension Board

A separate Pension Board Terms of Reference document is available at [https://worcestershire.moderngov.co.uk/documents/s24004/Pension%20Board%20Terms%20of%20Reference.pdf](https://worcestershire.moderngov.co.uk/documents/s24004/Pension%20Board%20Terms%20of%20Reference.pdf)

## 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 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 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).
- 1 (non-voting) employee representative from a relevant Union.

7.4 The 3 County Councillor members are formally appointed by the Assistant Director for Legal and Governance ~~Head of Legal and Democratic Services~~ in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders, reflecting the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets. T~~ and t~~he 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 to fulfil its role of providing advice to the Pensions Committee regarding the administration of the Fund'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 transition of investments to LGPS Central Limited or other pooling 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 employers and for employers to provide advice to, and raise concerns with, the employer representative.

8.2 The Pension Administration Advisory Forum comprises

- A~~a~~ll Fund employers who wish to attend following invitation by the administering authority.
- T~~t~~he Fund's actuary (ad hoc basis).
- Fund officers.
- ~~and t~~The employer representative and employee representative of the Pensions Committee.

**Terms of reference**:

8.3 The Forum will meet at least twice a year or otherwise as necessary to:

- Discuss administration issues.
- Discuss Government consultations 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 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 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, 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 investment 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 funds (Partner Funds) to form an asset pool, known as LGPSC.

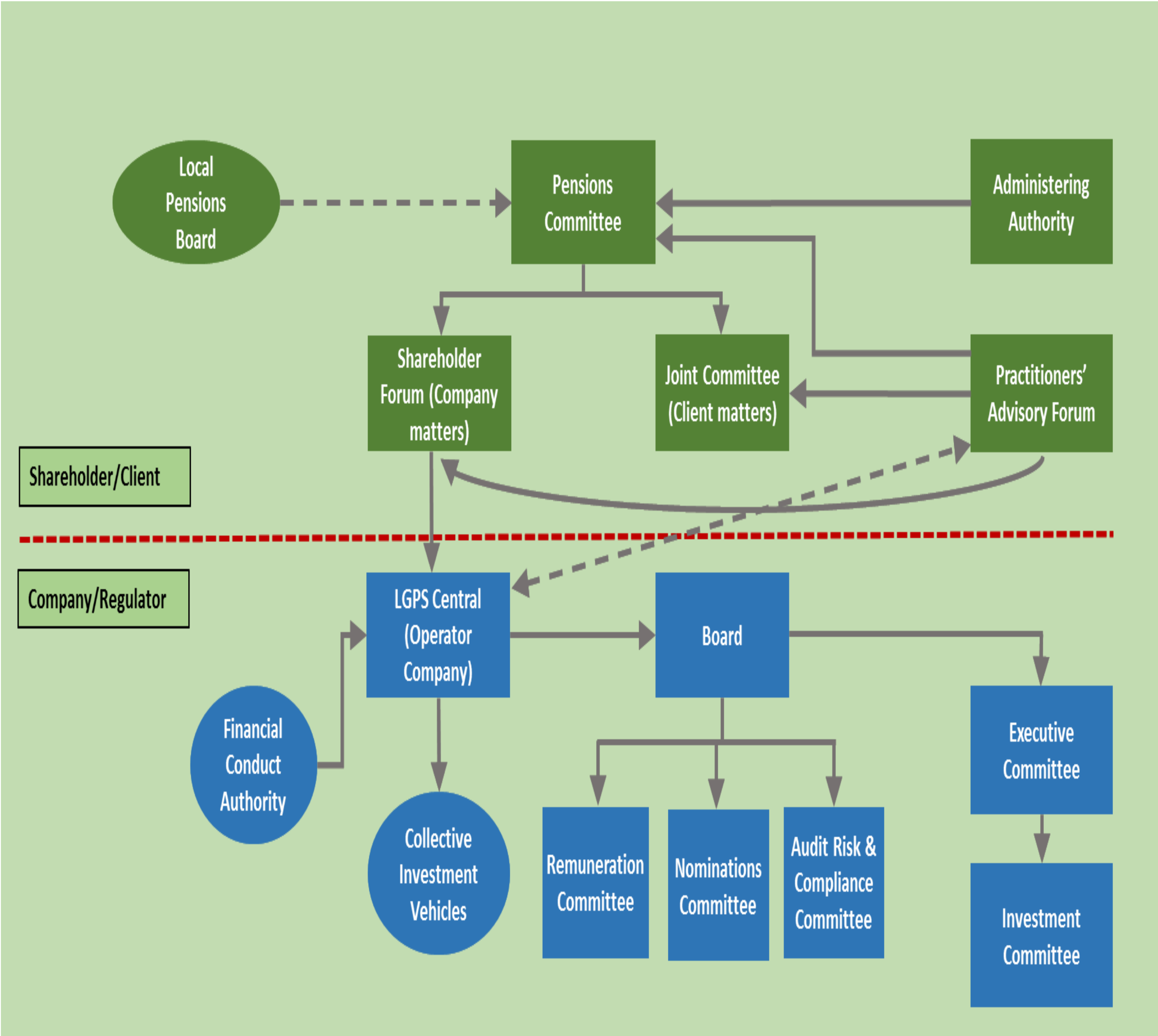
10.2 LGPSC is the company formed by the Partner Funds which is authorised as the operator of the Authorised Contractual Scheme (ACS), to provide investment services to the Partner Funds, by the Financial Conduct Authority (FCA). The company is therefore subject to the regulator's conduct of business 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 funds.

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 has an impact on the roles of the Pensions Committee and the Pensions Investment Sub Committee. However, the impact will be gradual, as the transfer of the management activity to the new company progresses. Consequently, the existing governance arrangements and terms of reference 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 pool, 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 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 shareholding Councils within the LGPSC pool. The Shareholders' Forum is independent of the company, and its meetings are distinct from company meetings. However, 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 Head of Pension Investment and Financial Planning~~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. |

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| 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:<br>i) employing authorities (including non-Scheme employers, e.g., admitted bodies)<br>ii) scheme members (including deferred and pensioner scheme members)<br>iii) where appropriate, independent professional observers, and<br>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.<br>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.<br>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. |

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| 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 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 the number of Committee meetings required each year. The Fund has an approved Training Policy and programme. |
| 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 Training Policy and Programme. |

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| 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. A log of all training undertaken is maintained. Regular updates on training are~~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. |

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| **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.<br><br>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'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.<br><br>Contact details are provided on the website, so other interested parties can find out more if they wish. |

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# Worcestershire Pension Fund Policy on Representation ~~V3~~ dated ~~6 July~~9 February 202~~2~~3

To ensure that management decisions for the Fund are made by the appropriate people and that stakeholders have the appropriate input to those decisions, the Fund's governance structure comprises a Pensions Committee, a Pension Investment Sub Committee (PISC) and a Pension Board.

Whilst this policy recognises that all scheme members and employers should be appropriately represented in the running of the Fund, as Worcestershire County Council is the body with ultimate responsibility for running the Fund, it maintains a majority position on the key governance bodies.

To support this policy, the Fund carries out a range of activities that are designed to engage members, employers, and other stakeholders. These are set out in the Fund's Policy Statement on Communications.

**Pensions Committee**

The Committee is the formal committee of Worcestershire County Council responsible for making management decisions for the Fund that have not been delegated elsewhere by it and comprises a total of 8 voting members:

- 5 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire County Council (being the second largest employer in the Fund)
- 1 co-opted voting employer representative
- 1 co-opted voting employee representative from a relevant trade union

The Chair of a Committee meeting has a second or casting vote in the case of equality of votes.

The 5 Worcestershire County Councillor members are formally appointed by the Assistant Director for Legal and Governance in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders.

The 3 co-optees are co-opted by the Chair of the Committee.

All elected members and voting co-optees of the 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 law and code and disclose potential conflicts of interest as required.

Members of the Committee are expected to hold the appropriate knowledge and skills to discharge their responsibility effectively.

Members of the Committee have equal access to agenda papers and associated appendices in accordance with the legislation and constitutional rules 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.

**PISC**

The PISC is a sub-committee of the Pensions Committee responsible for providing the Pensions Committee with strategic advice on the Fund's assets / investment managers ~~their performance~~ and comprises a total of 4 voting members and 1 non-voting co-opted employee representative from a relevant trade union:

- 3 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire County Council (being the second largest employer in the Fund)
- 1 non-voting co-opted employee representative

The Chair of a meeting has a second or casting vote in the case of equality of votes.

Worcestershire County Council appoints the Chair and Vice-Chair of the PISC.

The 3 Worcestershire County Councillor members are formally appointed by the Assistant Director for Legal and Governance in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders, reflecting the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets.

The co-optees are co-opted by the Chair of the PISC.

All elected members and voting co-optees of the PISC 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 law and code and disclose potential conflicts of interest as required.

Members of the PISC have equal access to agenda papers and associated appendices in accordance with the legislation and constitutional rules relating to access to information for committees.

Formal meetings of the PISC will take place in public unless it has resolved to move into exempt session in accordance with the applicable access to information provisions.

**Pension Board**

The Board is an Other Body of Worcestershire County Council responsible for scrutinising the Fund's plans / activities / performance / governance and consists of 8 voting members appointed by the Chief Financial Officer:

- 4 Member Representatives
- 4 Employer Representatives

Substitutes will not be appointed, and appointments will be for terms of 4 years.

No officer or elected member of Worcestershire County Council who is responsible for the discharge of any function of Worcestershire County Council may serve as a member of the Board.

Member Representatives shall be appointed from the following sources:

- 2 shall be appointed as nominated by the recognised trade unions representing employees who are scheme members of the Fund
- 1 shall be appointed as an active / employee representative. The recruitment of this member will be following a transparent recruitment process which should be open to all active Fund members
- 1 shall be appointed as a retired member representative

Employer Representatives shall be appointed having asked all employers to submit any interest in undertaking the role of Employer Representative on the Board and shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity.

One of the Board members is to be elected by the Board as the Chair and one as the Vice-Chair. The Chair will be from the Employer Representatives and the Vice-Chair from the Member Representatives.

All members should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

All members must not have a conflict of interest as defined in section 5 (5) of the Public Service Pensions Act 2013.

Board membership may be terminated by the Chief Financial Officer prior to the end of the term of office due to:

- A member representative no longer being a scheme member or a representative of the body on which their appointment relied
- An employer representative no longer holding the office or employment or being a member of the body on which their appointment relied
- A Board member no longer being able to demonstrate their capacity to attend and prepare for meetings or to participate in required training
- The representative being withdrawn by the nominating body and a replacement identified
- A Board member having a conflict of interest which cannot be managed in accordance with the Board's conflict policy
- A Board member who is an elected member becoming a member of the Pensions Committee
- A Board member who is an officer of the Administering Authority becoming responsible for the discharge of any function of the Administering Authority under the Regulations
- Resignation
- Otherwise as the Chief Financial Officer considers appropriate

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**Worcestershire Pension Fund Policy on conflicts of interest** V2 dated 26 April 2022

Conflicts of interest can arise in the LGPS, as those managing or advising an LGPS fund can have other roles, interests, or responsibilities. Specifically, Worcestershire County Council's 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.

For example (see the end of this Policy for some further examples), a member of a Pensions Committee may also be employed by an employer participating in that LGPS fund or be an adviser to more than one LGPS fund / pool or have an individual personal, business, or other interest which might conflict.

It is also generally accepted that LGPS funds have both fiduciary and public law duties to act in the best interests of both LGPS members and participating employers.

This Policy applies to all members of the Pensions Committee, Pension Investment Sub Committee (PISC) and Pension Board.

It also applies to:

1. All officers involved in managing the Fund who are also required to adhere to the Worcestershire County Council Code of Conduct for Employees which includes requirements in relation to the disclosure and management of personal and other interests and receipt of gifts and hospitality

2. All advisers and suppliers to the Fund who may also be required to meet their own professional standards relating to conflict of interest

A cornerstone of this Policy is that the Chief Financial Officer will monitor potential conflicts of interest, having highlighted the Policy to all those involved in the daily management of the Fund when they first become so involved.

The Chief Financial Officer will promote a culture of:

- Acknowledging any actual or potential conflicts of interest
- Encouraging any individual who considers that they or another individual has a potential or actual conflict of interest to speak up
- Being open with the Fund and any other body on which they represent the Fund on any actual or potential conflicts of interest they may have
- Adopting practical solutions to managing those conflicts
- Planning ahead and agreeing with the Fund how any conflicts of interest which arise in future will be managed
- Maintaining confidentiality as appropriate

Attendees of Pensions Committee or Pension Board meetings will be required to sign a Record of Conflicts of Interest Declarations Made form at the start of each meeting.

The Fund will regularly monitor and review a Declarations of Interest Register that is maintained from the verbal declarations of interest made during the meeting's appropriate (usually the second) agenda item and may be viewed by any interested party at any point in time. It records the date identified / name of person / role of person / details of conflict / whether actual or potential / how notified / action taken / follow up required / date resolved.

At least once every 12 months the Chief Financial Officer will provide to all individuals to whom this Policy applies a copy of their currently declared conflicts of interest and require them to confirming that their information contained in the register is correct / highlight any changes that need to be made to the declaration.

The Chair of the Pension Board is also required to include an item on conflicts of interest in its annual report.

All members of the Pensions Committee, PISC and Pension Board are required to:

- Register and declare disclosable pecuniary interests
- Abide by the Code of Conduct for Members and Co-opted Members of Worcestershire County Council. This sets out the rules governing the behaviour of all elected Councillors, co-opted and independent members of the Council with voting rights (collectively called "Members"). Anyone wishing to seek advice on the Code should contact the Assistant Director for Legal and Governance
- Abide by The Seven Principles of Standards in Public Life (the Nolan Principles)
- State clearly at meetings if they are providing a specific point of view on behalf of an employer (or group of employers) or member (or group of members)

The Fund will manage and mitigate conflicts of interest by:

- Having clear governance material to refer to, including a Funding Strategy Statement, Pension Administration Strategy, Investment Strategy Statement, Climate Change Risk Strategy, Governance Policy Statement and Training Policy & Programme
- Keeping the Fund's budget separate to Worcestershire County Council's
- Ensuring actual and potential conflicts of interest are considered during procurement processes
- Asking the individual concerned to abstain from discussion, decision-making or providing advice relating to the relevant issue
- Excluding the individual from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- Establishing a working group or sub-committee, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)
- Advising an individual to resign due to a conflict of interest or requesting the appointing body to reconsider their appointment

The key identified risks to the delivery of this Policy are outlined below, and the Chief Financial Officer will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles
- Insufficient training or failure to communicate the requirements of this Policy
- Failure by an individual to follow the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by the Chair to take appropriate action when a conflict is highlighted at a meeting

All costs related to the operation and implementation of this Policy will be met directly by Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Examples of potential conflicts of interest faced by those covered by this Policy could include:

- Being required to provide views on a funding strategy which could result in an increase in the employer contributions payable by the employer he or she represents
- Being a board member of an investment manager that the Fund is considering appointing
- Being on an LGPS Central Limited board / group when a matter is being considered that would benefit their originating Council or LGPS fund to a greater degree than other participating Councils or funds
- Accepting a dinner invitation from an investment manager who has submitted a bid as part of a tender process or might be in the process of preparing a bid for an open tender process
- Being asked to review a case or calculate a benefit relating to a close friend or relative
- Being asked to provide technical advice to a scheme employer about an outsourcing contract, including being asked questions about the impact on that employer and the employer requirements relating to the outsourcing contract
- Having a role in driving carbon reduction in one's local authority
- A Fund adviser being party to the development of a strategy which could result in additional work for their firm

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**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 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.



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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.

~~11.~~12. To retain the right to charge employers £100 per member for the additional administration costs associated with setting up shared cost additional voluntary contribution arrangements linked to salary sacrifice arrangements.

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**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 assist employers to understand the differences between the benefits paid on death in service and the benefits paid on death in retirement~~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 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, 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

Field Code Changed

Field Code Changed

Field Code Changed

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 monthly.

2. To on the same day as making a~~accompany each~~ payment provide us with the ~~P~~Contribution Remittance Payover Form PCF1 spreadsheet and a monthly CARE spreadsheet~~1~~.

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~~ Pension 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~~ Pension 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 within 5 working days 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 5 working days~~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 within 5 working days 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 as at 30~~1~~ September~~January~~ 2022 managed £3,391~~566~~ million of worldwide assets on behalf of about 190 employers and 66~~5~~,000 members.

As at 31 October~~January~~ 2022 we were 93~~101~~% funded.

We have a budget of £1.75m for pensions administration and have 27~~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
Gresham House
Hermes Investment Management
Igneo
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: V2~~Final~~ (~~following~~ of the third~~second~~ annual review)
Author: Chris Frohlich, Governance & Engagement Manager
Dated: 11 01 2023~~March 2022~~
To be s~~S~~igned o~~O~~ff at: Pensions Committee 23 03 2023~~2~~

Worcestershire Pension Fund

# 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 8 members of our Pension Board chaired by Cllr Roger Phillips there are 4~~2~~ employer representatives who scrutinise all Pensions Committee decisions and can take items for discussion to our Pensions Committee on behalf of employers.

The Pensions Committee of 8 chaired by Cllr Elizabeth Eyre has 1~~2~~ employer representative~~s~~.

**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 4~~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 (including information about our approach to responsible investment / ESG / climate changes issues), 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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Version: V2~~Final~~ (~~following~~of the third~~second~~ annual review)
Author: Chris Frohlich, Governance & Engagement Manager
Dated: 11 01 2023~~March 2022~~
To be s~~S~~igned o~~O~~ff at: Pensions Committee 23 03 2023~~2~~

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# Proposed objectives for WPF Investment advisor

| Task | Current Position as at end of Dec 2022 | KPI / Outcome |
|---|---|---|
| A. Provide qualitative general advice to the Fund on markets, RI, risk and strategies that have no direct monetary decisions but shape the Fund's thinking at relevant Pensions Committee, Pension Investment Sub Committee, local Pension Board (as required) and meetings with Officers. | • Detailed investment updates are provided for each Pension Investment Sub Committee with a shorter more summarised version to the Pensions Committee.<br>• The investment advisor has attended all the Pension Investment Sub Committee and Pensions Committee meetings. | • Attend all Pensions Committee and Pension Investment Sub-Committee meetings unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication.<br>• Provide quarterly written reports to Committees in line with Committee timescales and reporting requirements, which include questions for Officers and Councillors to use at meetings with investment managers and a yearly review for publication in the Fund's annual report. Highlighting areas upon which members' attention should be focused.<br>• Attend all quarterly review meetings with 'active' investment managers unless for unforeseen unavoidable circumstances and meeting attendance being agreed in |
| B. Monitoring the Fund's portfolios and considering and providing general advice on the desirability of retaining particular classes of assets or of changing them. | • Regular performance review meetings have been taken with all our investment managers at least half yearly and quarterly for our active investment managers.<br>• The investment advisor has been integral to these meetings and has provided appropriate challenge where needed as well as highlighting poor performance to the Committee and put managers on 'watch' where required. | |

| Task | Current Position as at end of Dec 2022 | KPI / Outcome |
|---|---|---|
| | • The investment advisor has helped to develop and shape the 2022 strategic asset allocation review which sets the Fund's asset allocation direction for the next 3 to 5 years and is to be agreed by Pensions Committee at the March 2023 meeting. The advisor supports the SAA quarterly update to Committee. | advance of Committee timetable publication.<br>• Any areas of poor performance highlighted, challenged and solutions identified.<br>• The Pensions and Pension Investment Sub Committees were satisfied with the value for money represented by the services. |
| C. Support the Fund with achieving timely and cost-effective implementation of the Fund's investment decisions, where appropriate considering the evolution of the LGPS Central pool. | • The investment advisor has attended meetings and provided guidance where the Fund is seeking to transition investments to the pool.<br>• He has also signposted to additional technical advice required for the actual transition process.<br>• Also, regular performance meetings have been held with LGPSC and appropriate challenge made where under-performance is happening. | • Ensure a focus on key risk / return priorities.<br>• Any areas of misalignment with the Fund's objectives and / or poor performance highlighted, challenged and solutions identified. |
| D. Provide other ad-hoc support and advice as required by either the Pensions and Pension Investment Sub Committee or the Fund's other service providers. | • Advice and support have been provided for an ESG audit and a climate risk review besides the regular support described above. The Advisor has | • Any ad hoc support and advice provided in line with agreed service specifications and on a timely basis. |

| Task | Current Position as at end of Dec 2022 | KPI / Outcome |
| --- | --- | --- |
| | supported the Funds ESG Annual Review that was provided to Committee members at an informal meeting on the 8th February 2023.<br>• The Advisor has been supporting the requirements of the impending Strategic Asset allocation review for 2022.<br>• Fees and service are discussed on regular advice and update calls.<br>• Advice was provided for the Equity Protection strategy as part of the fortnightly meetings with the Fund manager.<br>• The Conflicts register is updated at each quarterly Committee. | • Advisor's fee shared and updated at year end with open report of any additional fees earnt through advice.<br>• Conflicts register updated at least half yearly, and upon any changes to the investment advisor as soon as they are known to that person. |
| E. Oversight of the relationship between the Fund and the pool, ensuring what the pool offers complies with strong transition, sound governance and the requirements of the Fund. | • Regular performance meetings have been held with LGPSC and appropriate challenge made where under-performance is happening.<br>• Ad hoc discussions are also held with the chief executive of LGPSC and his lead officers where necessary. | • Attend all quarterly performance review meetings with LGPS Central where the Fund has invested unless for unforeseen unavoidable circumstances and meeting attendance being agreed in advance of Committee timetable publication. |

| Task | Current Position as at end of Dec 2022 | KPI / Outcome |
|---|---|---|
| | | • Any areas of poor performance highlighted, challenged and solutions identified. |
| F. Support the fund in training, through transparent general advice. | • The investment advisor has provided training and helped source a number of training events. | • Pensions, Pension Investment Sub Committee and Pension Board satisfied with the quality and content of any training requested. |
| G. Ensure the Fund complies with relevant investment pensions regulations, legislation and supporting guidance, and reflects the policies approved by the Pensions Committee. | • There have been no instances of non-compliance with relevant regulations or policies. | • No instances of non-compliance with relevant regulations or policies. |

worcestershire county council

# PENSIONS BOARD
# 3 MARCH 2023

# WORCESTERSHIRE COUNTY COUNCIL PENSION FUND ADMINISTRATION BUDGET 2023/24

**Recommendation**

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

**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 be noted; and**

**d) The granting of delegated authority to approve variations of up to £0.5m.**

**Purpose of the report**

2. This report seeks the Committee's approval for the 2023/24 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. The budget and Forecast Outturn for 2022/23 are also shown.

3. The Appendix also shows indicative budgets for the following two years 2024/25 and 2025/26. 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 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 2022/23**

6. The attached Appendix shows the forecast outturn estimated to be £21.638m compared to a budget of £21.015m, an overspend of £0.623m. The main reasons for the variance are:

a) Investment management fees (increase of £0.621m) due to the increase in investments that have occurred towards the end of last year and May 2022 of this financial year. This has also meant an increase in transaction costs through the transition of assets to LGPSC active equities being more than were budgeted; and
b) Administration costs are forecast near enough to break even. There is a slight forecast overspend on Investment admin costs of £2k.

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 Committee and in line with the Administration 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 2023/24 is £22.964m, an increase of £1.949m (9.3%) from the 2022/23 budget (see Appendix). The largest proportion of the budget (£19.817m) is investment managers' fees that depend on the value of assets being managed, and the investment return performance which depends on market conditions. 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 2023/24 of the investment in a number of new Funds (5) during 2022/23;
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 £3.147m, which is an increase of £0.161m (5.4%) net increase on the original budget. The key reasons for this decrease are:

a) An increase for investment administration and pension admin costs of £0.161m and the main reasons are:
    - £0.028m for increased ESG support.
    - £0.038m for increased admin costs such as the cost of the dispatch and postage relating to payslips and annual benefit statements.
    - £0.093m for increased governance and running costs of LGPS Central.
    - £0.027m for increased custodial services due to increasing valuation.
    - £0.030m reduced actuarial costs as not a triennial valuation year.

***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 Committee 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

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

## Supporting Information

- Appendix detailing the 2022/23 Budget monitoring and proposed 2023/24 Budget with indicative budget allocations for 2024/25 and 2025/26

## 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.

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**Appendix 1**

## Pension Fund Administration Forecast Outturn 2022/23 with indicative budgets 2023/24 to 2025/26

| 2022/23 Budget £ | 2022/23 Forecast Outturn £ | 2022/23 Variance | Description £ | 2023/24 Annual Change £ | 2024/25 Annual Change £ | 2025/26 Annual Change £ | Comments |
|---|---|---|---|---|---|---|---|
| | | | **Fund Investment** | | | | |
| **18,028,500** | **18,649,400** | **620,900** | INVESTMENT MANAGEMENT FEES | **19,817,000** | **21,079,600** | **22,877,400** | *Includes LGPS central investment management Fees, Equity Protection and increasing commitment to Property & Infrastructure.* |
| 160,200 | 160,200 | 0 | Investment Administration Recharge | 163,400 | 166,700 | 170,000 | *Increased Investment support* |
| 777,000 | 777,000 | 0 | LGPS Central Governance and Running Costs contribution | 870,000 | 840,400 | 874,000 | *Increase in running costs of the company* |
| 113,200 | 133,300 | 20,100 | Investment Custodial and related services | 140,000 | 147,000 | 154,400 | *Slight increase in Custodial services due to increase in value of assets assets* |
| 136,500 | 119,200 | -17,300 | Investment Professional fees | 164,700 | 96,950 | 140,400 | *ESG Audit planned for 2023.24 & Strategy advice 25/26* |
| 43,500 | 42,800 | -700 | Performance Measurement | 44,400 | 45,300 | 46,200 | *CEM Benchmarking and increase in Portfolio Evaluation due to increase in investments and complexity of the benchmark reporting* |
| **1,230,400** | **1,232,500** | **2,100** | INVESTMENT ADMINISTRATION COSTS | **1,382,500** | **1,296,350** | **1,385,000** | |
| | | | **Scheme Administration** | | | | |
| 1,292,140 | 1,296,700 | 4,560 | Pension scheme Administration recharge | 1,330,500 | 1,387,700 | 1,447,700 | *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* |
| 410,000 | 410,000 | 0 | Actuarial services | 380,000 | 380,000 | 430,000 | *Employer monitoring through Actuary system Pfaroe and Triennial valuation allowed for April 2025/26* |
| 34,100 | 34,300 | 200 | Audit | 34,300 | 35,300 | 36,400 | |
| 10,000 | 5,000 | -5,000 | Legal Fees | 10,000 | 10,000 | 10,000 | |
| 10,000 | 10,000 | 0 | Committee and Governance recharge | 10,000 | 10,000 | 10,000 | |
| **1,756,240** | **1,756,000** | **-240** | SCHEME ADMINISTRATION COSTS | **1,764,800** | **1,823,000** | **1,934,100** | |
| **2,986,640** | **2,988,500** | **1,860** | GRAND TOTAL (Excluding Investment Mgt Fees) | **3,147,300** | **3,119,350** | **3,319,100** | |
| **21,015,140** | **21,637,900** | **622,760** | GRAND TOTAL (Including Investment Mgt Fees) | **22,964,300** | **24,198,950** | **26,196,500** | |

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worcestershire
countycouncil

# PENSIONS BOARD
# 3 MARCH 2023

# INVESTMENT STRATEGY STATEMENT (ISS) AND CLIMATE RISK STRATEGY UPDATE

**Recommendation**

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

   a) **The Fund's 2023 draft Investment Strategy Statement (ISS) set out at Appendix 1;**

   b) **The updated LGPS Central Voting Principles Appendix 2**

   c) **The draft Climate Risk Strategy set out at Appendix 3;**

   d) **The Funds 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)**

**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 Levelling Up, Housing &Communities (DLUHC) outlines guidance on preparing and maintaining an Investment Strategy Statement.

4. The current 2022 ISS was approved by the Committee on 3 March 2022 and a key focus was to continue to 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, the Funds second 2021 Climate Risk report provided by LGPS Central and the first annual ESG review that the Fund conducted on 2 February 2022.

**Funds ESG Review 8 February 2023**

5. The Fund had an ESG Review workshop with Committee members on the 8 February 2023 which was to review progress against the Pension Committee ESG recommendations in March 2022 and ascertain what further changes may be required when looking ahead. The workshop was led by Karen Shackleton from Pensions for Purpose who has provided valuable support for the Fund in this area since January 2020, and supported by officers and the Funds independent Investment Advisor The objectives of the review were as follows:-

- Refresh – the Fund's investment beliefs, priorities and how you can align to these.
- Review - strategic actions agreed at the last review and progress made.
- Review - Stewardship Code 2020 and TCFD reporting.
- Update on key outcomes of the Funds 3rd Climate risk report and 2nd Climate scenario analysis presented by LGPS Central.
- Consider – ESG progress in private markets (presentations from two Fund managers, Bridgepoint (Corporate Private Debt) and Stonepeak (Infrastructure).
- Explore - case studies of LGPS funds exhibiting best practice.
- Review - key insights from the ESG pensioner members questionnaire.
- Consider - net zero goals – mapping the journey to net zero.
- Discuss – priorities for the next 12 months

6. **The workshop finished with a consideration of the next steps to consider for the next 12 months** with the issues below raised by Pensions for Purpose. General views expressed are shown by each item:

a) **Enhance engagement activity?** *The fund was already doing a lot on engagement activity and the Fund would target its engagement activity in line with the stewardship plan within LGPSC Climate Risk report*;

b) **Further member engagement?** *The current level of proposed engagement was satisfactory and the ESG questionnaire would be rolled out in 2023 to employees contributing to the Fund (around 23,000) and the following year to Deferred pension members (around 23,000);*

*c)* **More action from investment managers/pool?** *To continue to monitor the Fund managers progress in this area and work with LGPSC to enhance reporting and information on the effectiveness of engagement outcomes over time;*

*d)* **More climate solutions/more de-risking?** *Agree a decarbonisation goal for the next five years with 2020 as the baseline (an action for the committee to consider);*

e) **Commit to impact-driven investing?** *This may be a way to align to some of the other SDG priorities that the fund has agreed, subject to the opportunities delivering strong market-rate, risk-adjusted financial returns;*

*f)* **Training on impact investing?** *This was felt to be a good suggestion; and*

g) **Training on Science Based Targets vs Implied Temperature Rise?** *This was felt to be a good suggestion.*

**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.

**2023 Draft Investment Strategy Statement (Appendix 1) proposed amendments**

8. The key amendments are highlighted via tracked changes and shaded areas. These mainly relate to:

a) Updating the cashflow management risks;
b) Updating information around the Funds surplus as at the 2022 Triennial Valuation.
c) Updating the Voting Principles provided by LGPSC.(Appendix 2);
d) The Funds commitment to the enhanced UK Stewardship code;
e) Taking out the compliance with the Myners principles as this has been superseded by compliance to the UK Stewardship Code;
f) Update to the Funds Strategic Allocation Investment Benchmark(SAIB) increase the Funds US Passive equity investment and reducing its UK passive equity investment by 5%; and
g) Noting the allocation within the SAIB to Private Equity by using the flexibility within the strategic asset allocation ranges that are available to build up to the 5% over time and then make this more formal in the next Strategic Asset Allocation review in 2025.

**Draft Climate Risk Strategy**

9. The Fund has a separate Climate Risk Strategy (Appendix 3) for the Fund which sets out the Funds approach to addressing the risks and opportunities related to climate change. This also reflects the potential material effect of climate change, and the response to climate change, on the assets and liabilities of the Fund.

10. 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 8 February 2023.

**Funds 2022 Climate Risk Report**

11. The Fund has received its 3rd Climate Risk Report – January 2023 report from LGPSC (Appendix 4) covering the Funds listed equity portfolio. Its purpose is to:

a) assesses the Fund’s exposure to climate-related risks and opportunities;
b) allows the Fund to identify further means to manage its material climate risks;
c) To highlight the report’s key findings; and
d) To provide an overview of the Fund’s progress in managing climate risk.

12. the executive summary key highlights were:-

a) The carbon intensity of the Fund’s Total Equities decreased by 13% between 2020 and 2022;
b) This overall decrease was driven by a 24% decrease in the intensity of Passive Equities, but mitigated by a 22% increase in intensity of Active Equities;
c) The Fund’s carbon intensity has remained consistently lower than the benchmark and is currently 30.1% lower;
d) Four of the Top 5 contributors to the portfolio’s Carbon Footprint are currently in the Climate Stewardship Plan meaning dedicated engagement activities;
e) 7 out of 8 of climate stewardship plan companies have been awarded a management quality of 4 (top mark) by the Transition Pathway initiative; and
f) Seen a marginal increase in its weight in fossil fuels.

13. The key recommendations by LGPSC for the Fund were:-

a) Continue updating the Climate Stewardship Plan following changes to the portfolio;
b) Consider formalising a Net Zero Climate Strategy;
c) Continue to report against the TCFD recommendations
d) Work with fund managers to continue understanding how they identify, monitor, and mitigate climate risk; and
e) Repeat the Carbon Risk Metrics annually and the CSA every 2-3 years.

**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 draft TCFD report and is attached as Appendix 5.

**Contact Points**

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**Supporting Information**

- Draft Investment Strategy Statement - Appendix 1

- Updated Voting Principles – Appendix 2
- Draft Climate Risk Strategy Appendix 3
- Draft Climate Risk Report January 2023 – Appendix 4
- Draft Task Force on Climate related Financial Disclosures' (TCFD) Appendix 5

**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 2023

## Contents

# March 2023

## 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 12-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 remains positive after taking into account investment income, the table below shows that the ‘in year balance’ for 2023/24 to 2025/26 remains tight. Managing cashflow will become an increasingly important consideration in setting the investment strategy. Mitigating actions are already being taken to manage the cashflow by investing in assets that continue to produce cashflows such as Property, Infrastructure and fixed income that can be used to meet these payments.

The table below sets out the estimated cashflow position of the Fund for the next four fiscal years and is continually monitored.

| CASHFLOW FORECAST | FY22/23 £'m | FY23/24 £'m | FY24/25 £'m | FY25/26 £'m |
|---|---|---|---|---|
| **Opening Balance** | **36.6** | **38.1** | **50.1** | **68.4** |
| **Receipts** | | | | |
| Contributions | 99.3 | 124.5 | 129.7 | 135.1 |
| 65 Day Barclays | 10.0 | 0.0 | 0.0 | 0.0 |
| Distribution Income | 51.6 | 50.2 | 62.6 | 57.9 |
| Disinvestment | 140.0 | 0.0 | 0.0 | 0.0 |
| Overpaid pension | 0.9 | 1.2 | 1.2 | 1.2 |
| Other Receipts | 4.5 | 0.0 | 0.0 | 0.0 |
| **Total Receipts** | **306.3** | **176.0** | **193.5** | **194.1** |
| **Payments** | | | | |
| Benefits Paid | -113.2 | -129.5 | -138.6 | -142.7 |
| WCC Prepayment | -14.5 | 0.0 | 0.0 | 0.0 |
| Admin recharge | -1.6 | -1.6 | -1.6 | -1.6 |
| HMRC Payments | -12.0 | -13.2 | -14.1 | -14.6 |
| Capital Drawdowns | -144.6 | 0.0 | 0.0 | 0.0 |
| Total Fees | -18.7 | -19.7 | -20.9 | -22.2 |
| **Total Receipts** | **-304.7** | **-164.0** | **-175.2** | **-181.1** |
| **Closing Balance** | **38.2** | **50.1** | **68.4** | **81.4** |
| In Year Balance | 1.5 | 12.0 | 18.3 | 13.0 |

## 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.

Although the Fund has a surplus of assets against liabilities (100.1% funded at the 2022 Triennial Valuation), the Committee wishes to achieve the maximum assistance from investments in maintaining this surplus. This would suggest maintaining 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 Goals***
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 principles were updated in March 2023 and 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 fully committed to the new enhanced UK Stewardship Code which was introduced in 2020 and the Fund has been a successful Tier 1 signatory of the Financial Reporting Council's UK stewardship code since 2020.

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.

## 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% |

| | Growth | Medium | Cautious | |
|---|---|---|---|---|
| **Asset Allocation** | **%** | **%** | **%** | **Manager, Method & Performance Target** |
| 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 | 12.0 | 9.0 | 0.0 | Legal and General Asset Management - FTSE All Share Index |
| North America | 11.5 | 9.0 | 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:<br>60% STAJ - CSUF - STAJ MF36726/36727 (Quality Factor)<br>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%<br>- Bridgepoint Corporate Private Debt |
| **Actively Managed Alternative Assets** | | | | |
| Property, Infrastructure & Private Equity | 20.0 | 20.0 | 20.0 | Through a mix of Macquarie (was Green Investment Bank), Invesco, Hermes, Walton Street, Venn Partners, Stonepeak, Igneo (was First Sentier), AEW, Gresham House etc |
| **TOTAL** | **100.0** | **100.0** | **100.0** | |

NOTE:
The Fund as part of its 2022 Strategic asset allocation (SAA) review agreed to allocate 5% to Private Equity. The mechanism to allocate 5% of the Funds SAA, will be by using the flexibility within the strategic asset allocation ranges that are available to build up to the 5% over time and then make this more formal in the next SAA review in 2025

## 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 2023

**Philip Hebson (Independent Investment Advisor)**
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 Goals***
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.*

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<PLEASE INCLUDE PARTNER FUND LOGOS AS WELL AS LGPS CENTRAL LIMITED’S>

LGPS Central Limited

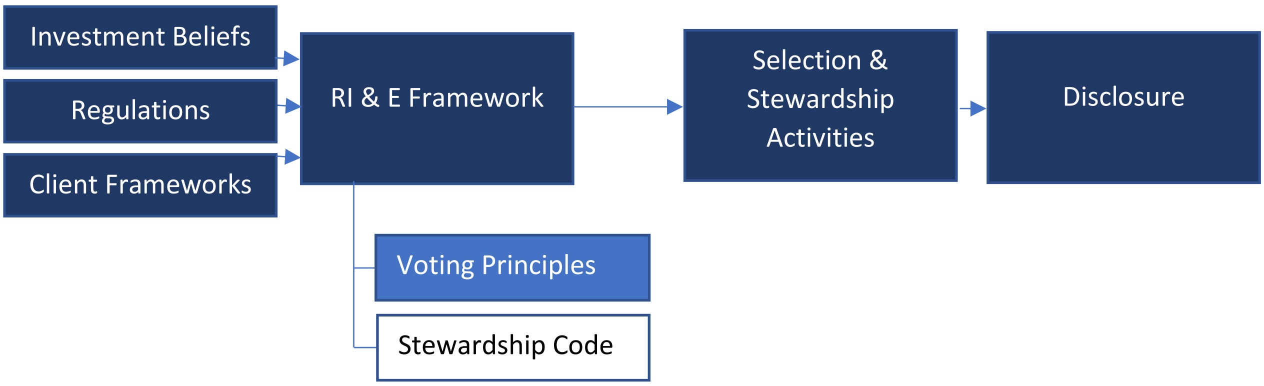
# ~~Voting Principles, March 2022~~Voting Principles, March 2023

# 1.0 Introduction to LGPS Central's Voting Principles

## 1.1 About this document

This document describes LGPS Central Limited's ("the Company") approach to exercising its delegated voting rights at the shareholder meetings of companies based in the UK. For non-UK securities the Company currently applies the international voting guidelines of its chosen proxy research provider. The principles in this document apply to voting rights attached to securities held in the Company's Authorised Contractual Scheme ("ACS"). As detailed in the Company's UK Stewardship Code, voting is a core component of the Company's approach to investment stewardship. This document is owned by the Company's Director of Responsible Investment & Engagement, and is implemented by the Investment Team, with ultimate responsibility resting with the Executive Committee. It is subject to annual review by the Board of the Company.

**Figure 1: The Voting Principles in context**




## 1.2 Responsible investment and voting at LGPS Central

Using our clients' investment beliefs, the Company has published a Responsible Investment and Engagement Framework which sets two aims: (1) primarily, to support investment objectives; (2) secondarily, to be an exemplar for responsible investment (RI) within the financial services industry, promote collaboration, and raise standards across the marketplace. A three-pillar framework supports these aims. The pillars are *Selection, Stewardship,* and *Transparency & Disclosure*. Voting is a core component of the Company's approach to *Stewardship*.

# 2.0 Corporate governance, stewardship and voting in the UK

Consistently with its approach to RI, the Company's principles regarding corporate governance, stewardship and voting in UK markets are informed by the Company's fiduciary responsibilities and, by extension, those of its clients and partner funds. The Company uses its voting rights to support the long-term economic interests of its stakeholders and to ensure boards of directors are accountable to shareholders.

## 2.1 UK Corporate Governance Code

The Company supports the UK Corporate Governance Code ("the Code") and believes that strong standards of corporate governance translate ultimately into healthy and stable financial markets. UK companies are expected to adhere to the Code and to provide high quality disclosure on the extent of compliance with the Code in the annual report. The Company does not view the Code as a corporate governance "straitjacket", and companies are encouraged to use the "explain" feature of the Code where particular circumstances make deviation from the Code appropriate. Such explanations should be sufficiently detailed and transparent. Beyond the Code's provisions, it is important that companies adhere to the spirit of the Code and that Boards feel empowered to make appropriate arrangements and disclosures that are suitable to the business in question. Rather than recapitulate the principles and provisions of the Code, this document focuses on areas of corporate governance and voting that require particular clarification.

## 2.2 Cyclical stewardship

Voting is inherently linked to engagement, and the votes cast by the Company at company meetings will typically reflect the outcomes of engagement activities during the year in review. Equally, a voting decision can set the tone for subsequent engagement. A vote is a process, not an event, and the Company's approach may be described as "cyclical stewardship". The Company's intention is that its voting decisions do not come as a surprise to our investee companies, and dialogue with companies facilitates this, and develops a two-way relationship of trust. Where the Company takes the decision to not support a resolution, this should be interpreted by the Boards of companies as an expression of strong and conscious dissatisfaction, not as a mechanical or thoughtless matter of routine. In order to send a strong signal, the Company makes a limited, tactical use of abstain.

## 2.3 Market transformation

The Company recognises its role as a large, diversified and long-term investor. It has an interest in improving the standards of corporate governance and sustainable business practices within financial markets and aspires to act, therefore, in a leadership role. Where certain standards or targets set the "minimum" (for example in matters relating to the diversity of company boards) the Company will consider voting beyond the minimum (for example by requiring a faster rate of progress on diversity within company boards). The Company's voting and stewardship activities are supported by its membership of various partnership organisations.

## 2.4 Voting procedures

The Company engages a proxy research provider to analyse and provide advice relating to the Company's voting opportunities, consistently with the Company's policies. The provider also executes the Company's votes through the relevant intermediaries.

The Company has an active securities lending programme. To ensure that the Company is able to 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. The Company 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.

The Company's voting decisions are arrived at through a collegiate approach, incorporating the views of members of the Responsible Investment & Engagement ("RI&E") Team and fund managers as appropriate for the company in question. The Company's votes are executed in compliance with its Conflicts of Interest policy.

## 2.5 Voting disclosure

The Company's disclosure of its Voting Principles, and its voting outcomes, supports the Company's ambition of full transparency. With regards to voting outcomes, disclosures are made in three formats. Firstly, a report summarising the Company's voting activities is provided on a quarterly basis in the Company's *Quarterly Stewardship Report*. Secondly, the Company reports an annual summary of its voting activities, as well as other aspects of RI. Thirdly, the Company discloses its voting decision for every resolution at every eligible company meeting via an online portal. Each of these disclosures is available to the public.

From time to time the Company might choose to "pre-declare" its voting intentions for particular resolutions. This might include declarations made through third party platforms, such as the platform administered by the Principles for Responsible Investment.

# 3.0 Voting principles

The principles below describe the broad parameters the Company will consider before casting its votes. They are supplementary to the principles and provisions of the Code, which is fully supported by the Company. It is not possible for one document to cover every eventuality and this document's ambition is to serve as a guide. The Company will override the guidelines below where this is deemed to be in the long-term economic interests of the Company's stakeholders. Where issues are insufficiently addressed by the Code or by this document, the Company will come to a decision using internal research and the advice of the Company's chosen proxy research provider.

## 3.1 A great board with a long-term view

PRINCIPLES

**Composition & committees**

Good governance starts with a great board. Led by the Chair and/or the chair of the Nominations Committee, we expect our investee companies to appoint an effective board of directors whose combined expertise is a key strategic asset to the company. We believe the most effective boards include a diversity of skills, experiences and perspectives. Through our voting decisions (and otherwise) we support the Davies Review, the Hampton-Alexander Review and the Parker Review. We expect FTSE 100 and 250 companies to have at least 33% women on their Boards and will consider voting against the Chair of companies with materially less female representation unless there are clear and justifiable reasons why 33% is not achievable in an interim period. Equally, we will consider opposing the Chair of companies of any FTSE 100 company with materially less than 20% female representation in the combined population of the executive committee and its direct reports. Furthermore, we expect any FTSE 100 company to disclose information on ethnic minority representation at board level in line with the Parker Review report with the aim of having at least one director from an ethnic minority background. We will consider voting against the Chair of companies where insufficient progress is made against this target and where no credible plan exists to rapidly achieve this. Board members should be able to devote sufficient time to their directorship, should refrain from becoming "overboarded" and should attend all relevant meetings including committee meetings (audit, nomination, remuneration or other). Non-attendance should be explained in the Annual Report. Overboarded directors will not be supported, even if they are from demographics that are currently underrepresented in UK boardrooms. The board should demonstrate collective awareness of material short, medium and long-run risks including, where material, climate change. The Chair should ensure the board is of an appropriate size and, while the Company is not prescriptive on board size, would consider boards of 5 or fewer members, or boards of sixteen or more members, as red flags warranting further analysis. In line with the Code we expect the majority of board members, excluding the Chair, to be independent according the criteria defined in the Code. Independence is not, however, a sufficient condition for the support of a director's election or re-election: each director must offer a valuable contribution to the functioning of the board. With regards to the so-called "nine year rule" of independence: whilst we include "a tenure of fewer than nine years" among our criteria for independence, we fully support directors that make valuable contributions to the boardroom, even if their tenure exceeds this guideline. We will typically vote against special interest representation.

Consistently with the Code, boards should include nomination, remuneration, and audit committees. The latter two board committees should be composed solely of independent non-executive directors who have served on the board for at least a year, and participation by executives in these committee meetings should be by exceptional invitation only and explained in the annual report. Both the audit and the remuneration committee should have at least three members. The annual report should include a clear report from each committee Chair explaining the issues the committee has prioritised during the year in review, outlining progress made without recourse to boiler-plate language. Particular attention is paid to the overboarding of audit committee members owing to the requirement to read financial papers in sufficient detail. External advisors on remuneration and audit should be accountable to the committees, and details should be disclosed in the annual report including the nature of services provided and whether the advisor provides additional services. Conflicts of interest relating to external advisers should be disclosed and managed effectively. The Company supports the creation of additional committees that are appropriate to the business model in question, but we do not support unwarranted layers of governance, or the outsourcing of important issues to less experienced directors. We typically support board oversight of sustainability issues, either through committee structures or through individual responsibility. We support the election of employee representatives where this improves the quality of the board and accountability to stakeholders.

**Leadership**

The role of the Chair is of special significance, as is the relationship between the Chair and CEO. Accordingly, we pay particular attention to our vote on the re-election of the Chair. We support the Code's principles and provisions in relation to the role of the Chair and the eligibility of candidates. In exceptional circumstances we will support an interim Executive Chair, but expect a cut-off date to be provided, along with the appointment of a Deputy Chair and/or a strong Senior Independent Director ("SID"). Such exceptions should be discussed with shareholders and a clear and convincing rationale must be disclosed. The SID is another role of significance and we would not usually support the re-election of a non-independent SID, where independence is defined as per the Code.

**Effectiveness, evaluation & election process**

The effectiveness of boards should be reviewed internally (by an independent director, usually by the SID) on an annual basis, and should be reviewed by an external party every three years. Companies should seek shareholder input into the process for determining board effectiveness, and the identity of the triennial external reviewer should be disclosed in the annual report. Boards and their committees should establish a suitable number of meetings per year and the location of the meetings should be appropriate to the business and to the residency of the board members. In order to preserve the board's accountability to shareholders, directors should be re-elected on an annual basis by majority vote (excepting controlled companies, where director re-election ought to follow the Code). Director biographies should be sufficiently detailed in order for voting shareholders to make an informed judgement, and the Nominations Committee reports should describe the contribution the director will make, or has made, to the board during the year

LGPS Central

## 3.2 A transparent audit function, supporting true and fair reporting

PRINCIPLES

The audit committee of the Board plays a critical role and votes pertaining to its composition and conduct carry particular importance for shareholders. The committee should be composed of at least three independent non-executive directors with recent financial experience, and each member should have been on the board for at least a year in order to become familiar with the business. Members of the audit committee should achieve 100% committee meeting attendance and the thresholds for overboarding are stricter for audit committee members than for other directors. Attendance by executives at audit committee meetings should be by invitation only and should be explained in the annual report. We expect the audit committee to take responsibility for reviewing internal audit controls.

A company should disclose its auditor tendering policy and details of the tendering process (when it occurs). The Company supports the EU's audit reforms, primarily that the external auditor should be independent and conflict-free (from the company and from audit committee members), and there should be regular tendering and rotation (at a minimum: tendering at least every ~~10~~ seven years, rotating every ~~20~~ 15, with no re-appointment until at least four years following the rotation). The lead audit partner should be rotated and named in the annual report. Auditor fees must be clearly disclosed, and non-audit fees should not exceed 50% of total fees over a three-year average. Where this limit is breached, the audit committee should plan for fee reduction. Companies should not provide auditors with limited liability or indemnification. The resignation of an auditor during the financial year should be clearly explained, as should any qualifications to the annual report. There should be no material omissions. The audit committee should ensure that adequate whistleblowing procedures are in place.

As with all elements of corporate disclosure, boilerplate should be avoided at all costs. Disclosures should be clear, relevant, as concise as possible and AGM materials should be available in English in sufficient time before the meeting. We will consider voting against the annual report where disclosure falls short of the mark. We support the FRC's guidance on risk management, internal control and related financial and business reporting.

The statements of viability and working capital should be clearly disclosed. Companies should provide sufficient disclosure on material and emerging risks across a suitably long-term horizon. "Long-term" should relate to the company's business cycle and should never be limited to the next twelve months. Aside from a description of risks, the strategic report should detail the contribution and composition of the company workforce.

## 3.3 Stewarding our capital, protecting shareholder rights

PRINCIPLES

We aim to be responsible stewards of the capital bestowed on us by our clients. In turn, we expect companies to steward the capital we provide to them with care and concern for long-term outcomes. We would like our companies to be granted the flexibility to manage their capital structure effectively and raise additional capital where necessary in a timely and cost-efficient manner. We are against giving companies unlimited authorisation to raise capital unless there is a sufficiently compelling case. We encourage companies to use the 14-day General Meeting ("GM") facility to raise extraordinary, unanticipated volumes of capital and expect prior dialogue with shareholders.

Securities that are accompanied by shareholder rights are more valuable than securities lacking these rights. Clearly, we wish to preserve or enhance this value, not fritter it away. We avoid, therefore, the unnecessary dilution of our shares and seek to preserve our rights of pre-emption. We expect resolutions pertaining to capital decisions to be split out on the proxy statement, rather than "bundled" into one resolution. We will not typically approve the creation of non-voting shares and usually vote against attempts by controlling shareholders to increase the differential between his or her level of equity ownership and voting control. Stock splits are approved on a case-by-case basis with reference to the justification disclosed by the company.

Companies ought to disclose clear dividend policies. Dividends should be sufficiently covered and put to shareholder vote. Uncovered dividends should be accompanied by an explanation covering the sustainability of the dividend or distribution policy. Companies proposing scrip issues should offer a cash dividend option. Companies ought to explain why a share buyback programme is the most appropriate method of returning cash to shareholders, including the circumstances in which a buyback will be executed. The Company pays particular attention to share buyback programmes that could affect remuneration structures through the influence on earnings per share ("EPS") measurements: such structures must be buyback-neutral and buyback authorities must be within acceptable limits, expiring no later than the following AGM. The Company will typically vote against waivers of Rule 9 of the Takeover Code.

We are unlikely to support article changes that materially reduce shareholder rights. The Company is strongly opposed to virtual-only AGMs and views as fundamental the right to attend shareholder meetings in-person. We typically oppose resolutions seeking authority to limit the jurisdiction that applies to dispute resolution.

Merger and acquisition decisions are made on a case-by-case basis, with reference to the long-term economic interest of scheme members and compliance with the Company's Conflicts of Interest Policy. Decisions are arrived at through a collegiate approach including the RI&E Team and portfolio managers as relevant for the company in question. The Company will consider supporting transactions with the following characteristics: long-term benefits to shareholders, good quality disclosure, high quality management, supportive independent advice, approval of the independent directors. We seek to determine whether the deal yields a good strategic fit, and we value prior engagement with shareholders. We think poison pills should be generally discouraged and we do not support poison pills that entrench management or damage shareholder value. Introductions of poison pills should be clearly explained and put to shareholder vote. By contrast, poison pill redemption resolutions are generally supported. We will usually vote at courts and classes in a consistent manner with our GM vote.

The Company does not support resolutions seeking authority to make political donations, where the recipients are likely to be political parties or lobbying organisations of concern.

When it comes to capital, smaller companies might be afforded greater flexibility, depending on circumstance.

## 3.4 Fair remuneration for strong performance through the cycle aligned with long-term success

PRINCIPLES

**General**

For the majority of the Company's UK listed investee companies, shareholders are entitled to vote annually on an advisory basis on the remuneration report and (typically) every three years on the remuneration policy (where the voting outcome is binding). Our voting decisions recognise that remuneration is contextual, rather than one-size-fits-all. Companies need flexibility to design and apply remuneration structures appropriate to the business in question. There is no requirement for remuneration structures to follow traditional models if more appropriate models can be found. Whilst the structure of remuneration policies is of prime importance, we are also concerned about the quantum of pay. Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company. Levels of executive remuneration that are, or are perceived to be, excessive and unfair can be demotivating to staff and reputationally damaging to the company. Executive pay should be considered in the context of overall workforce pay and in the context of the long-term financial needs of the company, its ability to meet its dividend policy and its ongoing requirement for capital investment and R&D. Remuneration structures should be simple and easy to understand for both shareholders and executives, who need clear lines of sight as to their objectives.

**Governance**

A remuneration committee, composed solely of independent non-executive directors, should design and apply appropriate remuneration structures and should enter into dialogue with shareholders and employee representatives. The outcome of consultations should be made known in advance of the AGM, such that policy changes do not come as a surprise to engaged shareholders or employee representatives. Any advisors to the remuneration committee should be disclosed with an explanation of the advice provided. Multiple relationships with the company should be transparent and the external auditor should not normally perform the role of remuneration advisor. The committee should feel empowered to apply discretion appropriately (including increases and decreases) and should be aware that it is possible to gain shareholder trust through the use of restraint. Where the remuneration report or policy receive large votes against (which we currently consider to be more that 20% oppose votes among minority interests), the company should consider changes to the remuneration committee, engaging shareholders and changing remuneration advisors. The output of the remuneration committee – including remuneration policies and reports – should exhibit intelligent design and proactivity. This can be achieved through appropriate departures from traditional remuneration models including Long Term Incentive Plans ("LTIP"). We advocate for simpler remuneration structures, with an emphasis on long-term share ownership, to align the interests of executives with the long-term success of the company. The remuneration committee and the nomination committee should work together on succession planning and at an early stage of the recruitment process should start to design appropriate remuneration for incoming executives. We view exceptional payments as indicative of poor planning by the remuneration committee.

**Disclosure**

The Chair of the remuneration committee should author a detailed but intelligible report outlining the work undertaken during the year and, where relevant, how the committee has responded to significant levels of opposition votes. Disclosures should clearly relate remuneration structures to business strategy and should relate the levels of award to company performance, strategy, financial liabilities and overall workforce conditions. Any use of discretion should be fully explained. The median and maximum awards under the bonus scheme and incentive plans should be clear, as should the effect on EPS-based targets of share buyback schemes. The targets for variable pay, for this year and next, should be disclosed (there should be retrospective disclosure if the targets are commercially sensitive). We encourage companies to disclose executive to employee pay ratios, gender pay gap, and other workforce diversity and inclusivity data which can provide insight into pay practices.

**Structure and fairness**

Remuneration should amount to no more than is necessary and sufficient to attract, retain and motivate the individuals and groups of individuals most suited to managing the company.

An executive's base salary should reflect his or her role and level of responsibility. Base salary should not increase significantly without a clear, compelling and exceptional justification. The rate of salary should not be solely or mainly based on quartile comparison, and we would expect salary benchmarking to occur once every three years at a maximum. Salary increases should be set in the context of wage increases to the median worker. The remuneration committee should understand how base pay increases affect the total level of pay now and in the future. Contracts should be agreed on a 12 months basis.

Annual bonuses should have stretching, declared targets that link to company strategy. There should be consistency with the targets given prominence in the strategic report. Performance against targets should be disclosed in the remuneration report. In determining targets for variable pay, the remuneration committee should consider strategic, financial and non-financial measurements, and companies with high levels of ESG (environmental, social or governance) risk should consider using ESG metrics with appropriate weightings. We encourage c~~C~~ompanies ~~which~~to ~~utilise~~ embed ESG metrics in their pay structure and to ~~should~~ explain to shareholders the relevance of each metric to its strategy. In general, bonuses should be reduced from their current levels, and maximum and median rewards under annual bonuses should usually be lower than rewards within LTIP schemes, reflecting the dominance of the long-term over the short-term. The payment of a significant proportion of the annual bonus in deferred shares is welcomed where this improves alignment with shareholders, does not risk excessive dilution, and includes a suitable holding period. If a company experiences a significant negative event, bonus sanction should be considered even if the annual targets were met.

Incentive schemes should be transparent, understandable, long-term and appropriate to the circumstances and strategy of the company. For reasons of simplicity, companies should avoid having more than one active incentive plan. Performance conditions should ensure there is no reward for failure, nor for luck, and sufficient clawback and malus provisions should be designed and applied. The performance measurement period should have a minimum of three years, with a vesting period a minimum of three years from grant. Companies operating in sectors with long-term investment horizons should consider a performance period of more than three years. We are concerned that, despite the wide range of business models and investment horizons across UK listed companies, there are too many standard LTIP schemes with common vesting periods and performance targets, and we think this reflects a lack of intelligent design by remuneration committees. Committees should give thought to not having an LTIP and rewarding executives through a single bonus scheme which pays out in deferred shares with a holding period, based on stretching performance targets. Whether contained in an LTIP or otherwise, performance targets should not reward below-median performance and threshold vesting amounts should not be significant relevant to base salary. Any performance award should be clearly linked to disclosed targets. Where comparator groups are used, the remuneration committee should disclose why the comparators are believed to be genuinely representative (e.g. with reference to their size, sector and performance). If awards depend on Total Shareholder Return ("TSR") relative to overseas peers, companies should disclose fair currency conversion policies in advance of the grant. There should be several performance targets, which should relate to shareholder return, to the business strategy and include financial and non-financial elements, according to the company's current and expected operating environment. We would not expect performance conditions to be re-tested between remuneration policy reviews. Following a change of control, awards under an LTIP plan should be made pro-rata for time and performance to date; they should not automatically vest. Share-based awards should not lead to excessive dilution and exceptions to this principle should be put to shareholder vote, which ought to receive support from the majority of minority shareholders. In the event of a decline in the share price, remuneration committees should prevent accidental ("windfall") gains through top level grants through the use of downward discretion. Remuneration policies should explain the treatment of M&A and share buybacks where these are likely to impact performance targets either directly or indirectly.

In order to achieve alignment with shareholders, executives should make a material, long-term investment in company shares and these shares should be subject to a suitable holding period following an executive's departure. Companies should disclose the time by which new executives should reach the target level share ownership. Whilst these shares may be hedged or used as collateral, the company should make it clear that this is not true for share awards earned through LTIPs. Executive share ownership for alignment purposes should be distinct from shares granted under LTIPs, though exceptions may be made where shares are vested and not subject to ongoing performance conditions. Significant share sales should be rationalised in the annual report. As with all aspects of remuneration, the remuneration committee should be wary of unintended consequences e.g. effects on risk taking or risk aversion, dividend policy design and M&A.

Remuneration committees should be cognisant of the significant costs and liabilities of executives' pensions contributions, the overall remuneration structure, and the tax and regulatory environment. Whilst we use a 30% contribution rate as a guideline for the upper limit, we think executive pensions contributions must set in the context of contributions for the overall workforce. Changes in actuarial assumptions that affect transfer values should be clearly disclosed. No element of variable pay should be pensionable.

Certain payments to incoming and outgoing executives cannot be avoided, but remuneration committees should be mindful of opportunities to minimise such costs in alignment with long-term shareholders. Outgoing executives should not be rewarded for failure. Severance pay consequences should be considered before appointment, such that early termination does not lead to unanticipated liabilities. We will not usually support retention payments ("golden handcuffs"), but could support deferred payments to key staff during critical periods. A clear rationale should be presented during shareholder dialogue. Similarly, compensatory payments for new appointments (including where the appointee has had to forgo expected variable pay at a previous employer) could only be considered with a clear rationale and we would expect compensation to be awarded in shares and subject to perf conditions. New appointments should normally begin on a lower salary to avoid creeping costs.

We will typically oppose tax equalisation payments where this introduces a new (net) cost to the company. We expect a cap on such payments to be disclosed.

Non-executive directors' fees should reflect the role and the level of responsibility and should not increase excessively from one year to the next. We do not expect non-executives to participate in LTIP schemes but understand that, exceptionally, directors may be granted shares at listing or pre-listing stage on a one-off basis. Share awards need a clear rationale and the policy should be applied consistently over time with conditions and parameters that ensure independence of the director's contribution. At a minimum this should include a requirement that share-based awards do not have performance conditions and are made at the market price. Additional benefits for non-executives should reflect necessary business duties only.

## 3.5 Sustainable Business Practices

PRINCIPLES

We expect companies to assess and address the impact of their operations on society and the environment, including in supply chains and business relationships, and through their products. We expect companies to consider relevant, material social and environmental risk factors in their long-term strategic business planning. These can have a significant effect on the value of a company's assets over time, and on its ability to generate long-term returns for shareholders.

We consider disclosure of codes of conduct, policies, strategies, management plans and performance data with respect to environmental and social issues, as well as impact assessments of specific projects or operations, to be the first step towards better management of associated risks. Reporting should follow from the board's view of material or salient risks and opportunities and be aligned with business strategy and risk assessments. Companies should seek to align their disclosures with established reporting standards and frameworks.

We will consider voting against the C~~c~~hair, and other relevant directors or resolutions (including remuneration), at companies where we consider a company's response to the risks and opportunities presented by climate change to be materially misaligned with the goals of the Paris Accord. We expect disclosure of climate-related risks and actions to mitigate these in line with latest best practice guidelines, such as those of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) and the ClimateAction 100+ Benchmark Framework. Furthermore, we expect companies to present a climate transition plan with an explicit net-zero by 2050 target to shareholders for advisory voting at three-year intervals, as a minimum. Net-zero strategies should be expressed in absolute emissions, not emissions intensity only, and cover the full lifecycle of emissions, as well as establish short and medium-term targets, critically 2030 targets, that demonstrate how net-zero by 2050 can be achieved. Progress against the plan should be reported to the annual general meeting. ~~In particular, if~~If a company is assessed by the Transition Pathway Initiative's Management Quality framework ~~to be at a~~below a Level ~~3 or lower~~4, we will consider voting against the company Chair, and other relevant directors or resolutions. We encourage companies to commit to protect and restore biodiversity as part of their broader climate transition effort. We expect companies to disclose information on their climate and energy policy lobbying and expenditure, allowing shareholders the opportunity to assess whether these lobbying activities are in line with the goals of the Paris Accord.

## 3.6 Miscellaneous

PRINCIPLES

We are regularly called on to vote on shareholder proposals. These proposals address a range of topics including proxy access, articles of association, climate change, human rights and more. The Company takes a case-by-case approach to shareholder resolutions. We will support resolutions that are appropriately worded and, on balance, encourage sustainable business practices and support the long-term economic interests of our stakeholders and help to make boards of directors accountable to shareholders. We consider pre-declaring our voting intentions on shareholder proposals on a case-by-case basis.

We follow the Pension and Lifetime Savings Association's ("PLSA") guidance on related party transactions.

We usually support all employee share schemes, except where we have concerns over dilution.

Smaller companies and investment trusts are at different stages with respect to corporate governance arrangements, and our expectations of these companies reflect these differences in some circumstances. We are mindful of the QCA corporate governance code for smaller and medium listed companies and the Association of Investment Companies Code of Corporate Governance.

Where the Company has voting rights at private (unlisted) companies, votes will be cast drawing on principles articulated above as far as practicable.

**About LGPS Central Limited**

LGPS Central Limited is authorised and regulated by the Financial Conduct Authority.  Registered in England. Registered No: 10425159. Registered Office: First Floor, i9, Wolverhampton Interchange, Wolverhampton, WV1 1LD.

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Worcestershire Pension Fund

# CLIMATE CHANGE RISK STRATEGY

**MARCH 2023**

## 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 2022 by the end of 2023; and set a decarbonisation reduction target up to 2025 at which point it will be further reviewed.
- Continue to invest a proportion of the Fund's portfolio in low carbon & sustainable investments by the end of 2023.

### 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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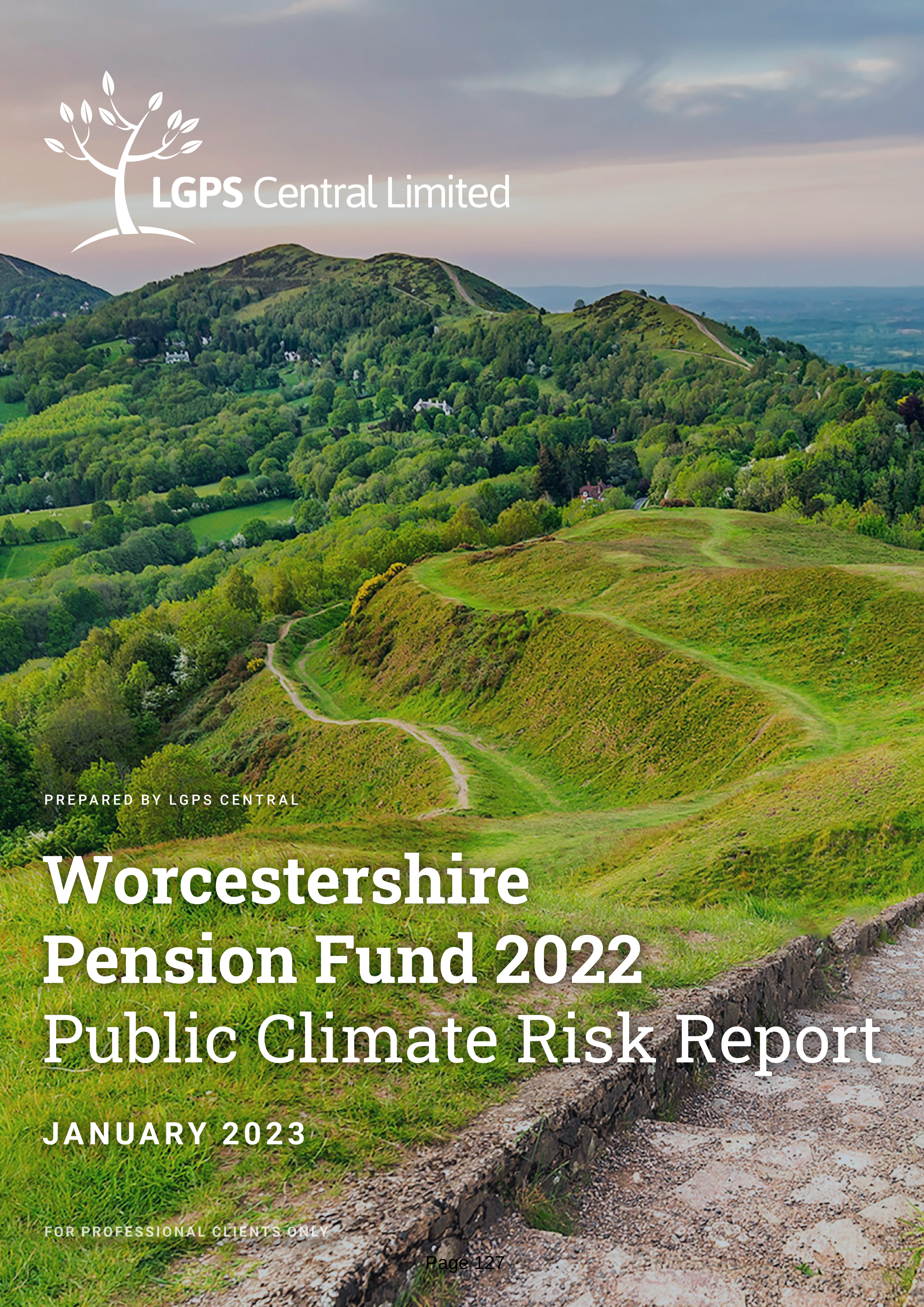

LGPS Central Limited

PREPARED BY LGPS CENTRAL

# Worcestershire Pension Fund 2022 Public Climate Risk Report

JANUARY 2023

FOR PROFESSIONAL CLIENTS ONLY

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JANUARY 2023

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LGPS Central Limited

# Contents

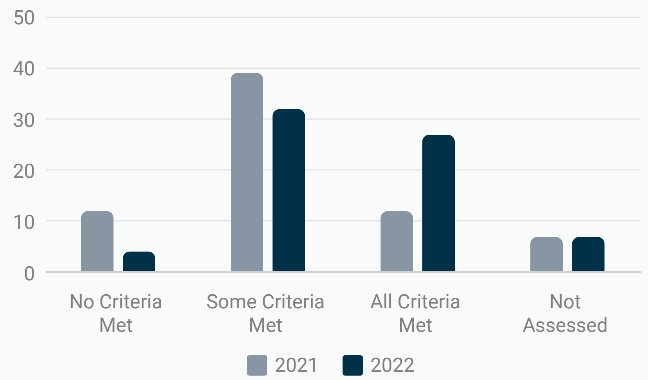
# 1.0 Executive Summary

## Key Highlights from 2022:

AS OF MARCH 2022
**the carbon footprint**
of total equities has decreased by
▾ 13.63%
FROM MAY 2020
The carbon footprint of the benchmark decreased by 5.79% over the same period.

**The carbon footprint**
of the Total Equities portfolio was
▾ 30.10%
LOWER THAN THAT OF THE BENCHMARK
and 13.63% lower than in 2020.

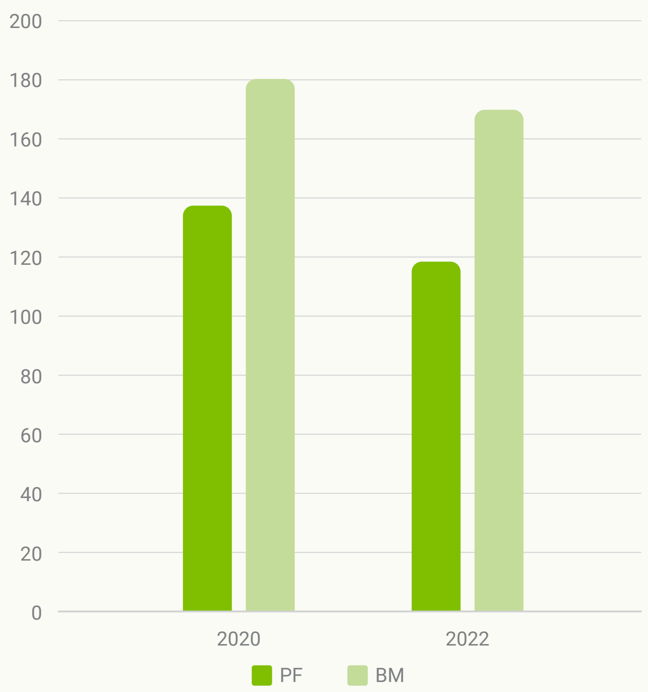
### Total CA100+ NZB Indicators Met by CSP Companies




**In turn, the decrease in the carbon footprint**
OF THE TOTAL PASSIVE EQUITIES
can be associated with
**the portfolio changes made between 2020 and 2022**

THE OBSERVED DECREASE IN THE
**carbon footprint of total equities**
is driven by a ▾ 24.44% decrease in the
**carbon footprint[1] of the Total Passive Equities**

### Total Equities Carbon Footprint




**7 out of 8**
of Climate Stewardship Plan companies
HAVE BEEN AWARDED A
**Management Quality of 4 or 4* by the Transition Pathway Initiative[3]**
This implies 7 of the 8 companies in the Climate Stewardship Plan exhibit strong governance of greenhouse gasses.

**The financed emissions[2] of the Total Equities**
INCREASED BY
▴ 5.51%
driven by an increase in the
**financed emissions of Total Active Equities**

THE ONE COMPANY WHICH DID NOT RECEIVE A
**4 or 4* TPI Management Quality score**
FALLS OUTSIDE OF THE SECTORS WHICH TPI EXAMINES
and was therefore not scored.

[1] Carbon footprint is calculated as the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company attributed by portfolio weight.
[2] Financed emissions is calculated by the total emissions of the company apportioned by WPF's financing of the company (both debt and equities exposure) divided by the EVIC.
[3] The Transition Pathway Initiative (TPI) framework evaluates companies based on their climate risk management quality and their carbon performance. A Management Quality rating of 4 means the company has performed a strategic assessment of climate change, while 4* means the company has been awarded the highest possible TPI management quality score and satisfies all relevant management quality criteria.

**This Report is Worcestershire Pension Fund's (WPF) Third Climate Risk Report. During September 2020 and January 2022 WPF received its first and second Climate Risk Reports respectively. Through a combination of bottom-up and top-down analysis, the report was designed to allow WPF to view the climate risk held throughout the equities and fixed income portfolios, accompanied by recommendations WPF may choose to adopt to manage and reduce climate risks.**

The purpose of this third report is to analyse progress against the baseline of data from the initial 2020 report. This will allow a reassessment of the Fund's exposure to climate-related risks and opportunities and identification of further means for the Fund to manage its material climate risks. The report is structured to align with the four pillars of the Taskforce on Climate-Related Financial Disclosures (TCFD) and facilitates public disclosure against this framework. We provide below a summary of the salient findings from each section in the report.

### *GOVERNANCE*

The Fund has made progress in enhancing its responsible investment and climate change practice. Examples of these enhancements include: attaining signatory status to the 2020 UK Stewardship Code, integrating responsible investment, including climate change as a regular item within Pensions Committee meetings, holding climate-related workshops, and publishing key reports and documents such as the Climate-Related Disclosures Report. Finally, the consideration of explicit climate targets has also been put to the Committee.

### *STRATEGY*

Section 4.2 provides a Climate Scenario Analysis (CSA), which estimates the effects on key financial parameters (such as risk and return) that could result from plausible climate scenarios. The findings from Mercer's climate scenario analysis highlights the possible impact from transition and physical risks of climate change. The Fund will likely perform better in an Orderly or Rapid transition scenario. In a Failed transition scenario, physical impact from climate change will likely affect longer-term investment return.

### *RISK MANAGEMENT*

We have reviewed ongoing engagements with the eight companies in the Fund's Climate Stewardship Plan (CSP). Currently, none of these companies have attained all the indicators within the CA100+ benchmark assessment. However, most of the companies are making clear progress in their climate strategies, which is evidenced through several measures of success. In the meantime, the Fund has agreed to adding Reliance Industries to the CSP.

### *METRICS AND TARGETS*

Carbon footprint of Total Equities has decreased by 13.63% from the May 2020 baseline level and is now 30.10% lower than the benchmark level. However, financed emissions have increased by 5.51% from the baseline.

# 2.0 Recommendations and Considerations

## 2.1 Governance

| CATEGORY | PORTFOLIO | RECOMMENDED ACTION | REPORT REFERENCE |
|---|---|---|---|
| **Governance** | Total Fund | • **R:** Continue to schedule time at Pension Fund Committee meetings for the discussion of climate-related risks and climate strategy. Schedule one training session on general RI matters, and one climate-specific training per year.<br>• **R:** Continue to include Quarterly Stewardship updates in Pension Committee meetings.<br>• **C:** WPF could consider a Net Zero Climate Strategy for the fund, as well as short term and long-term net zero targets. | 4.1 |

## 2.2 Strategy

| CATEGORY | PORTFOLIO | RECOMMENDED ACTION | REPORT REFERENCE |
|---|---|---|---|
| **Strategy** | Total Fund | • **R:** Continue to collaborate with its various partners including LGPS Central and other external managers to address key physical and transition risks in the portfolio.<br>• **R:** Keep exposure to growth assets which have greater long term physical risks from climate change and sustainable equities which help mitigate transition risks under review.<br>• **C:** Explore other low carbon asset classes such as sustainable private equity and sustainable private infrastructure.<br>• **R:** Continue working with appointed fund managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within sectors which carry the highest risks.<br>• **R:** Use the Climate Scenario Analysis to track and better understand the portfolio's capacity to transition into a low carbon economy. | 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.<br>• **R:** Report progress in the next Climate Risk Report. | 4.3 |

## 2.4 Metrics & Targets

| CATEGORY | PORTFOLIO | RECOMMENDED ACTION | REPORT REFERENCE |
|---|---|---|---|
| **Metrics** | Total Equities | • **R:** Continue to monitor the carbon footprint and financed emissions of this portfolio.<br>• **R:** Continue to monitor engagement with BP, CRH, Shell, Rio Tinto, and Cemex. | 4.4.2 |

# 3.0 Introduction

## 3.1 Scope of the Report

The purpose of this report is to:

1. Analyse progress against the baseline of data from previous reports.
2. Reassess the Fund's exposure to climate-related risks and opportunities.
3. Identify further means for the Fund to manage its material climate risks.

## 3.2 Climate Action to Date

To demonstrate the urgency surrounding climate change, and why it is necessary for Pension Funds to act now to mitigate climate risks, we provide below a summary of the key climate updates which have occurred since the start of 2021.

The evidence is clear that climate change could be the largest systemic risk, and largest example of market failure, faced by any human society. Whilst concern is being voiced, the action to date shows we are not yet doing enough, with the current trajectory of 3°C likely to place us beyond the realm of human experience sometime in the next 30 years. This is sub-optimal for pension funds, even accounting for their ability to diversify idiosyncratic risk. The climate scenario with the lowest estimated economic damages and the one most favourable to long-term investors is a scenario that aligns with the Paris Agreement. Since climate risks could to one extent or another affect all asset classes, all sectors, all regions, it is unlikely that climate-risks can be mitigated completely through diversification alone.

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, paired with targeted engagement, represents the best possible information set currently available.

MAY 2021

### IEA 1.5°C SCENARIO

The International Energy Agency (IEA) publishes its 1.5°C 'Net Zero' Scenario. It argues the new scenario is the most technically feasible, cost-effective and socially acceptable way to stay below the 1.5°C limit. Stipulations of the scenario include: no new investments in fossil fuel supply as of 2021; a 75% decline in methane emissions; a radical shift towards renewable energy; an increase in Carbon Capture and Storage (CCS) capacity of 4000%; no sales of new combustion engines in cars by 2035; and net zero emissions from the power sector by 2040.

OCTOBER 2021

### WMO STATE OF GLOBAL CLIMATE REPORT

The World Meteorological Organisation (WMO) releases its 2021 State of Global Climate Report which combines inputs from multiple UN agencies, national meteorological and hydrological services, and scientific experts. The report reveals that:

- 2021 was among the seven hottest years on record. Global average temperatures were 1.1°C–1.2°C above the preindustrial average.
- Levels of atmospheric $CO_2$ reached 414ppm, their highest average in the modern record. This represents an increase of 50% compared to pre-industrial levels.
- Sea level rise reached 1.4mm/yr between 2013 and 2021. Global mean sea level reached a record high in 2021.
- Ocean heat content reached a new record high in 2020.

OCTOBER 2021

### UN EMISSIONS GAP REPORT 2021

The UN released its Emissions Gap Report 2021. The report shows that countries' 2030 climate targets would lead to a global temperature rise of 2.7°C by the end of the century. This is above the goals of the Paris Agreement and would lead to catastrophic changes in the Earth's climate.

NOVEMBER 2021

### COP26

COP 26 was the 26th edition of the United Nations Climate Change Conference, held in Glasgow in November 2021. The outcomes of COP26 included the following:

1) 197 countries agreed to adopt the Glasgow Climate Pact. This commits countries to review and strengthen their NDCs at COP27, and to accelerate efforts towards the phase-down of unabated coal power.
2) 100 countries signed a pledge to cut methane emissions by 30% by 2030. The pledge includes six of the world's ten largest emitters.
3) Joint US-China climate declaration centred around principles for climate cooperation, ranging from methane reduction to protecting forests.
4) UK-led initiative of 190 countries and organisations agreeing to phase out the use of coal-fired power for major economies in the 2030s.
5) Article Six was finalised, ensuring rules for a global carbon offset market.
6) Agreement between 141 countries to end deforestation by 2030.

DECEMBER 2021

### IEA ANNUAL REPORTS

The 2021 IEA Renewables Forecast revealed that a record amount of renewable energy was added to energy systems globally in 2021, but it remains half of what is needed annually to be on track to reach net zero emissions by 2050. Additionally, within their Coal Forecast, the IEA called for strong and immediate action from governments to tackle emissions from coal as it predicted the amount of electricity generated from burning the fuel would jump by 9%.

FEBRUARY 2022

### IPCC SIXTH ASSESSMENT PART TWO

The IPCC releases Part Two "Impacts, Adaptation and Vulnerability" of its Sixth Assessment Report. The report warns that climate change risks are greater than previously thought. The world has a brief and rapidly closing window to adapt to climate change. Some losses are already irreversible, and ecosystems are reaching the limits of their ability to adapt to the changing climate. Hazards such as the rise in sea level were unavoidable and "any further delay" to mitigate and adapt to warning would miss the "window of opportunity to secure a liveable and sustainable future for all".

APRIL 2022

### IPCC SIXTH ASSESSMENT PART THREE

The IPCC releases Part Three "Mitigation of Climate Change" of its Sixth Assessment Report. The Report covers efforts to mitigate the effects of climate change and finds that the world can still achieve 1.5°C if radical action is taken. Net carbon emissions must peak within the next three years and be eliminated by the early 2050s. On our current trajectory, we are heading for a temperature rise of 3°C. The main finding for investors is that financial flows are currently 3-6 times lower than the level needed by 2030 to limit global warming. While there is sufficient capital to close investment gaps, increasing flows relies on clearer signalling from governments.

# 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. In the subsequent 2021 Climate Risk Report we provided a progress update and refresh to this review. Both reports identified areas in which the Fund's governance and policies could further embed and normalise the management of climate risk. We provide a progress update against the recommendations and considerations issued in the previous 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 WPF'S CLIMATE MANAGEMENT TIMELINE

**SEPTEMBER 2020**

**FIRST CLIMATE RISK REPORT**

During September 2020, WPF received its first Climate Risk Report.

**FEBRUARY 2021**

**ESG AUDIT & SDG MAPPING EXERCISE**

WPF completed and published an environmental social governance (ESG) audit and a sustainable development goals (SDGs) mapping exercise during February 2021.

**JUNE 2021**

**INVESTMENT STRATEGY STATEMENT WITH INCLUSION OF RESPONSIBLE INVESTMENT AND STEWARDSHIP SECTION**

In June 2021 WPF published its Investment Strategy statement with the inclusion of a section examining Responsible Investment and Stewardship.

**SEPTEMBER 2021**

**FIRST PENSION FUND TO ACHIEVE SIGNATORY STATUS ON THE UK STEWARDSHIP CODE 2020**

On the 1st of September 2021, the FRC notified WPF that they have achieved signatory status to the 2020 UK Stewardship Code.

**JANUARY 2022**

**SECOND CLIMATE RISK REPORT**

During January 2022, WPF received its second Climate Risk Report.

**FEBRUARY 2022**

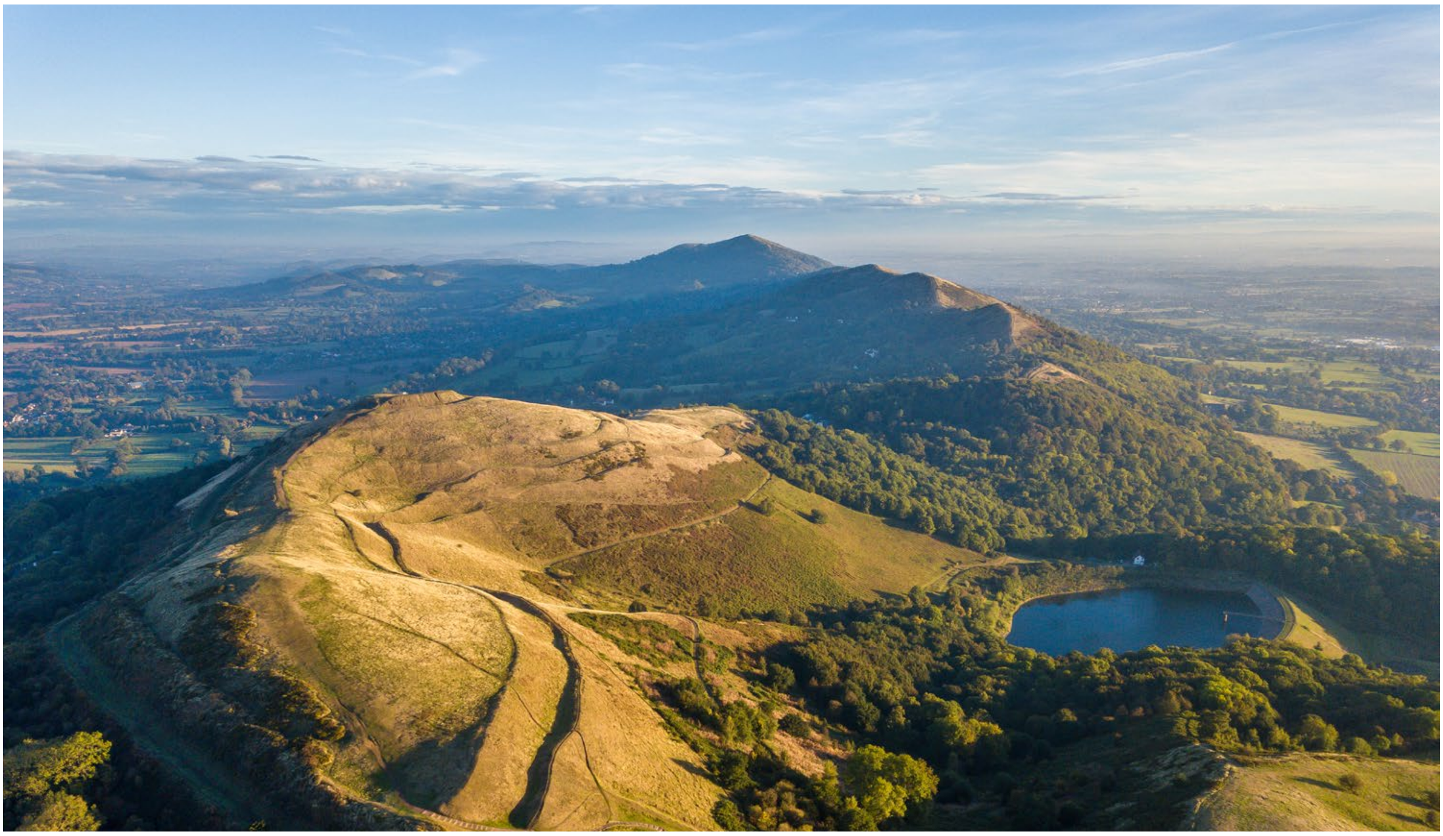
**CLIMATE-RELATED DISCLOSURES REPORT (TCFD)**

WPF published their Climate-Related Disclosures Report during February 2022.

**MARCH 2022**

**CLIMATE CHANGE RISK STRATEGY**

In March 2022 WPF published its Climate change Strategy, which addresses WPF approach to addressing the risks and opportunities related to climate change.



### *4.1.3 KEY FINDINGS*

WPF has made significant progress in terms of its responsible investment and climate change practice. Since 2020 WPF has published several key documents/reports as well as integrating responsible investment into the Investment Strategy.

### *4.1.4 FURTHER ACTIONS*

**RECOMMENDATIONS:**

The following recommendations were successfully achieved in 2022 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. Schedule one training session on general RI matters, and one climate-specific training per year.
- Continue to include Quarterly Stewardship updates in Pension Committee meetings.

**CONSIDERATIONS:**

We recommend that the following recommendations/ considerations are carried over from the 2021 Climate Risk Report.

- WPF could consider a Net Zero Climate Strategy for the fund, as well as short term and long-term net zero targets.

# 4.2 Strategy

## *4.2.1 CLIMATE SCENARIO ANALYSIS*

### CLIMATE SCENARIO ANALYSIS INTRODUCTION

In the Fund's 2020 Climate Risk Report, we utilised the services of Mercer LLC (Mercer) to conduct Climate Scenario Analysis of the Fund. Climate Scenario Analysis estimates the effects on key financial parameters (such as risk and return) that could result from plausible climate scenarios. In this report the scenarios were defined according to the change in mean global surface temperatures since pre-industrial times. We considered three scenarios (2°C, 3°C and 4°C) across three timescales (2030, 2050 and 2100).

For 2022, Mercer has partnered with Ortec Finance and Cambridge Econometrics to develop climate scenarios that are grounded in the latest climate and economic research and give practical insights. This partnership brings together Mercer's investment and climate expertise alongside Ortec's research and scenario generator technology.

This report will summarise the key changes in the model and discuss the results of the analysis, focusing on annualised and cumulative impacts against a baseline assumption, and comparison between the two asset allocations.

### WHY SHOULD A PENSION FUND CONDUCT CLIMATE SCENARIO ANALYSIS?

Investors often use scenario analysis to support Strategic Asset Allocation (SAA) and portfolio construction decisions, as it helps to model potential risks and returns.

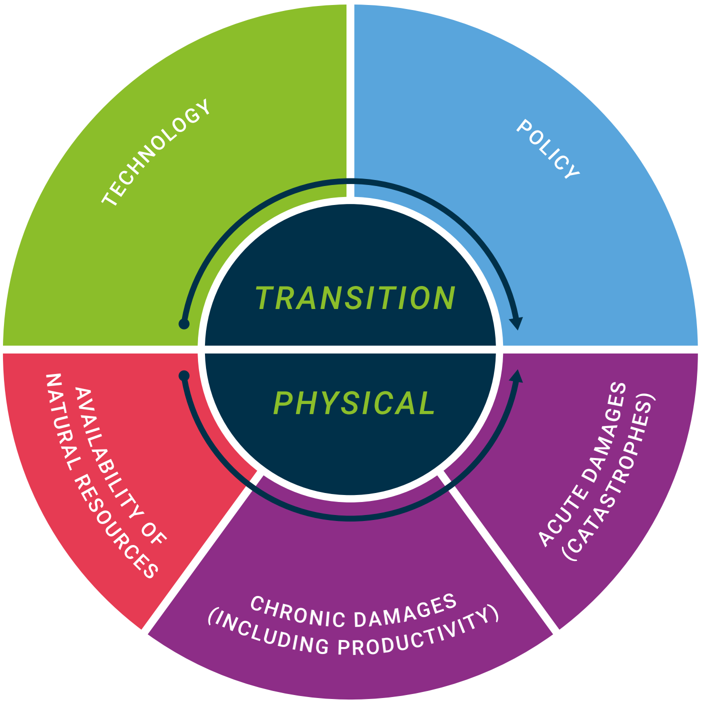
With a growing (but still early) understanding of the potential impacts of climate change on investment performance and following the recommendations of the TCFD, more pension funds are electing to conduct Climate Scenario Analysis. Climate Scenario Analysis helps investors to better understand the short-, medium- and long-term climate change risks and opportunities associated with plausible climate change scenarios, to understand the portfolio's sensitivities to such scenarios, and to build more resilient portfolios.

As we argue above, although the predictions made by climate scientists have gained overwhelming consensus, there remains a great deal of uncertainty for investors around the market reaction to climate risks and changing climate policies. This creates a strong argument for Climate Scenario Analysis to understand the different possible eventualities across a range of scenarios. It is important that investors assess their portfolio's resilience to different climate scenarios and consider the impact of their portfolios on future climate trajectories.

We remain conscious that scenario analysis (of any kind) requires by necessity the use of assumptions about inherently unpredictable phenomena. Climate Scenario Analysis is no different in this regard. We believe, however, that investors looking to manage climate risk proactively ought to attempt an 'inference to the best explanation' and we think the Mercer's model and approach to Climate Scenario Analysis is the best available.

Mercer's climate scenarios are constructed to explore three climate scenarios (Rapid Transition, Orderly Transition and Failed Transition) and explore a range of plausible futures over 5 to 40 years, rather than exploring tail risks. Mercer's analysis considers two risk factors: transition risk and physical risk.

## *RISK FACTORS*




### CLIMATE SCENARIO ANALYSIS: PROS AND CONS

Future developments are inherently uncertain and impossible to predict. To manage uncertainty, scenario analysis is used to assist asset allocation decisions.

**SCENARIO ANALYSIS CHALLENGES:**

- Scenario uncertainty: Any climate scenario only reflects one possible way to achieve a certain temperature goal, while in reality many different scenarios are possible for the same temperature outcome.
- Model uncertainty: Different models lead to different results, due to different model structure and assumptions.
- Uncertainty around assumptions: For example, ambitious scenarios depend on future (negative emissions) technologies such as carbon capture and storage.

- Gaps: On the other hand, certain necessary changes to achieve zero emissions are currently not included in most models, such as changes in lifestyle (e.g. plant-based diets) or economic systems (e.g. circular economy). Furthermore, certain high-risk impacts cannot be covered in most models, such as impacts of sea level rise, migration, health and tipping points in the climate system.

**SCENARIO ANALYSIS BENEFITS:**

- Proactively assesses impact of changing future climate events.
- Ability to understand a wide range of climate outcomes.
- Forecast the potential impacts into actionable insights.

## MERCER'S CLIMATE SCENARIOS

Mercer's three climate scenarios are developed by building the investment modelling on top of the economic impacts of different climate change scenarios within the Cambridge Econometric's E3ME climate model. Each climate scenario covers a specific level of warming driven by levels of carbon dioxide ($CO_2$) and other greenhouse gases. These levels are determined by the policies enacted and technological developments. The impacts of the warming are shown in the physical damages. The three scenarios used in the modelling are outlined below.

**1.5°C RAPID TRANSITION**

**AVERAGE TEMPERATURE INCREASE OF 1.5°C BY 2100 IN LINE WITH THE PARIS AGREEMENT**

This scenario assumes sudden large-scale downward re-pricing across multiple securities in 2025. This could be driven by a change in policy or realisation that policy change is inevitable, consideration of stranded assets or expected cost. To a degree the shock is sentiment driven and therefore followed by a partial recovery across markets. The physical damages are most limited under this scenario.

**1.6°C ORDERLY TRANSITION**

**AVERAGE TEMPERATURE INCREASE OF 1.6°C BY 2100**

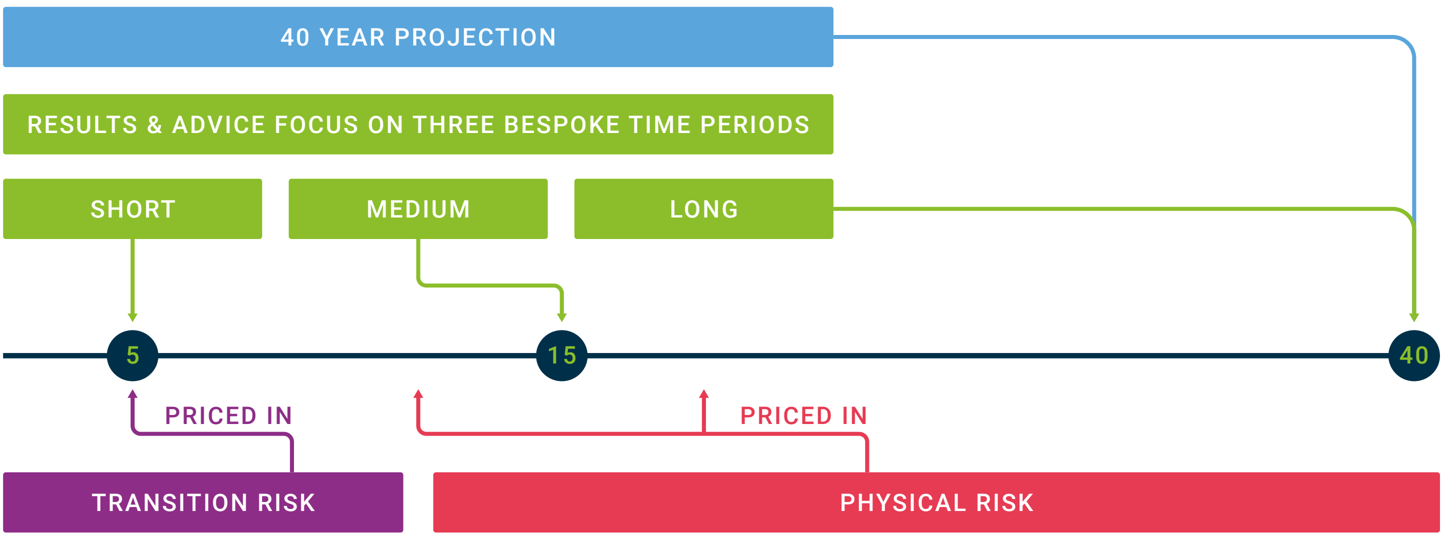
This scenario assumes political and social organisations act in a co-ordinated way to implement the recommendations of the Paris Agreement to limit global warming to well below 2°C. Transition impacts do occur but are relatively muted across the broad market.

**4°C FAILED TRANSITION**

**AVERAGE TEMPERATURE INCREASE ABOVE 4°C BY 2100**

This scenario assumes the world fails to co-ordinate a transition to a low carbon economy and global warming exceeds 4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasingly negative impacts from extreme weather events. These are reflected in re-pricing events in the late 2020s and late 2030s.

In the analysis, Mercer focused on short-, medium- and long-term time frames of 5, 15 and 40 years. In shorter time frames, transition risk tends to dominate while over longer time frames physical risk is expected to be the key driver of climate impacts. Transition risks are priced in around 2026 and future physical damages are priced in around the end of 2020s and 2030s. These pricing in shocks reflect likely market dynamics and mean climate impacts are more likely to fit within investment timeframes.



## INTERPRETATION OF THE MAIN RESULTS

The main results produced by Mercer's model is an estimated impact on investment returns, given some particular pair of (a) climate scenario and (b) time horizon, expressed either as annualised (%) or cumulative (£) returns. This should be interpreted as the climate-related impact on the estimated returns for a portfolio or asset class, i.e., it is additional to the expected mean return for that portfolio or asset class. The expected mean return of the portfolio is expressed by a climate aware baseline. It incorporates climate impacts that has been 'priced-in' by the economy and markets associated with the global warming that has occurred to date (approximately 1.2°C relative to pre-industrial levels). It does not include future additional climate impacts associated with further warming or the paradigm shifts in economies that could plausibly result from the transition or physical impacts. There is compelling academic evidence to suggest that climate impacts are currently priced-in to some extent. This means the impacts of the Orderly and Rapid Transition scenarios tend to be smaller as some of the impact is already priced in. The transition impact of a Failed Transition can be positive for sectors that the market is expecting to be negatively impacted by a transition in the short- to medium-term.

This analysis focuses on the potential impacts on the funds' performance of different global warming scenarios given the funds asset allocation. Under this analysis, the asset allocation of WPF does not determine which scenario is realised or most probably. WPF has developed a climate strategy, which includes supporting the ambitions of the Paris Agreement and aims to achieve a portfolio of assets with net zero carbon emissions by 2050. The transition process and outcome achieved will be determined by a multitude of factors including the policy response and global coordination (or failure to coordinate) of political and social organisations.

## CLIMATE SCENARIO ANALYSIS SCOPE

The analysis includes the whole of WPF's investment portfolio. The analysis is top-down, mapping each of WPF's underlying portfolios to an asset class that is featured within Mercer's model. The projections utilise asset allocations as of 30th June 2022, assume £3,312m initial asset value and contributions income matches benefit outgo. Two variations of WPF's investment portfolio are analysed by Mercer:

1. The Current Asset Allocation (invested as of 30th June 2022)
2. The Reduced Carbon Asset Allocation

TABLE 4.2.1.1 ASSET ALLOCATION VARIANTS ANALYSED

### *CURRENT ASSET ALLOCATION (CURRENT AA)*

- Passive Global Equity **9.7%**
- Passive US Equity **6.7%**
- Passive UK Equity **17.6%**
- Passive European Equity **6.0%**
- Developed Asia ex-Japan Equity **10.3%**
- Emerging Market Equity **9.6%**
- Active Sustainable Equity **5.3%**
- Passive Sustainable Equity **5.9%**
- Global Investment Grade **5.7%**
- Global Private Debt **1.7%**
- Cash **1.0%**
- Global Real Estate **6.4%**
- Infrastructure **14.1%**

### *REDUCED CARBON ASSET ALLOCATION (RCAA)*

- Passive Global Equity **10.0%**
- Passive US Equity **7.0%**
- Passive UK Equity **10.0%**
- Passive European Equity **5.0%**
- Developed Asia ex-Japan Equity **8.0%**
- Emerging Market Equity **9.0%**
- Active Sustainable Equity **10.0%**
- Passive Sustainable Equity **10.0%**
- Global Investment Grade **6.0%**
- Global Private Debt **4.0%**
- Cash **1.0%**
- Global Real Estate **6.0%**
- Infrastructure **14.0%**

| CURRENT AA | % | MODELLING ASSET CLASS | CURRENT AA (%) | REDUCED CARBON ASSET ALLOCATION (%) |
|---|---|---|---|---|
| ***DEVELOPED EQUITY*** | 50.3% | Passive Global Equity | 9.7% | 10.0% |
| | | Passive US Equity | 6.7% | 7.0% |
| | | Passive UK Equity | 17.6% | 10.0% |
| | | Passive European Equity | 6.0% | 5.0% |
| | | Developed Asia ex-Japan | 10.3% | 8.0% |
| ***EMERGING MARKET EQUITY*** | 9.6% | Emerging Market Equity | 9.6% | 9.0% |
| ***SUSTAINABLE EQUITY*** | 11.2% | Sustainable Equity* | 11.2% | 20.0% |
| ***GLOBAL INVESTMENT GRADE*** | 5.7% | Global Investment Grade | 5.7% | 6.0% |
| ***GLOBAL SENIOR PRIVATE DEBT*** | 1.7% | Global Senior Private Debt | 1.7% | 4.0% |
| ***REAL ESTATE*** | 6.4% | Global Real Estate | 6.4% | 6.0% |
| ***INFRASTRUCTURE*** | 14.1% | Infrastructure | 14.1% | 14.0% |
| ***CASH*** | 1.0% | Cash | 1.0% | 1.0% |
| ***TOTAL*** | 100.0% | | 100.0% | 100.0% |

## *CLIMATE SCENARIO ANALYSIS FINDINGS*

### KEY CONCLUSION ONE: A SUCCESSFUL TRANSITION IS AN IMPERATIVE

Over the long term a successful transition is imperative for WPF as both asset allocations are forecasted to fare better under Rapid and Orderly transition scenarios versus the Failed transition. This is similar for nearly all investors, as over the long term a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

Under a Failed transition scenario, climate impact on returns is felt in the long-term from the manifestation of physical risks. Both asset allocations suffer under this scenario relative to the expected return under the baseline scenario. Under the Orderly and Rapid transition scenarios, long-term physical impact from climate change is less prevalent due to the mitigation responses in the short-term such as policy changes and technological breakthroughs. In a Rapid transition, the hastiness and uncoordinated responses lead to short-term transition impact as asset prices decline as a consequence of these moves.

According to Mercer's model, an Orderly transition leads to superior economic outcomes relative to other climate change scenarios. The model suggests that an Orderly scenario would in the long-term see both the Current Asset Allocation and the Strategic Asset Allocation experience returns that are most aligned with the baseline. The Rapid transition scenario produces marginally lower returns compared to the Orderly scenario stemming from the short-term transition impact. The asset allocations perform the worst under the Failed scenario. Cumulative losses under the Failed transition scenario over 40 years could amount to c.37% of portfolio's value relative to the baseline.

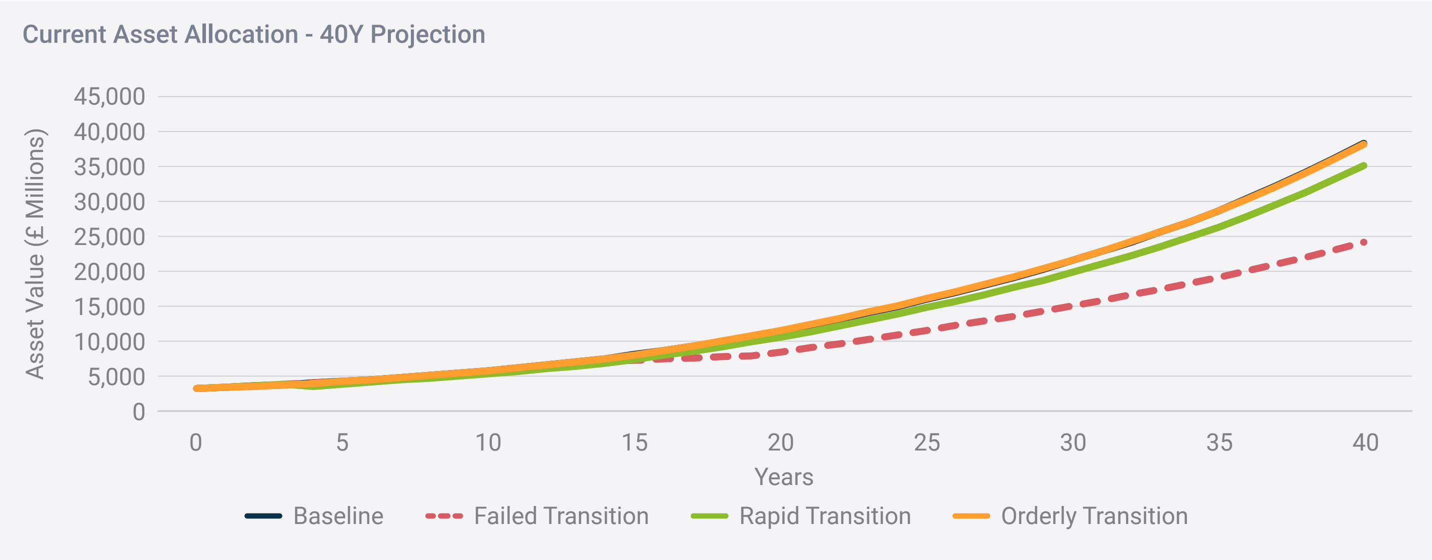
The reduced carbon asset allocation's performance is marginally less impacted in all three climate scenarios compared to the current asset allocation. Although there are similar allocations to developed equities between the current asset allocation and reduced carbon asset allocation the allocation to sustainable equities almost doubles (from 5.9% to 10.0%), which translates into a slight improvement in both the orderly and rapid transitions. The performance of the reduced carbon asset allocation is also assisted by a greater allocation to private debt.

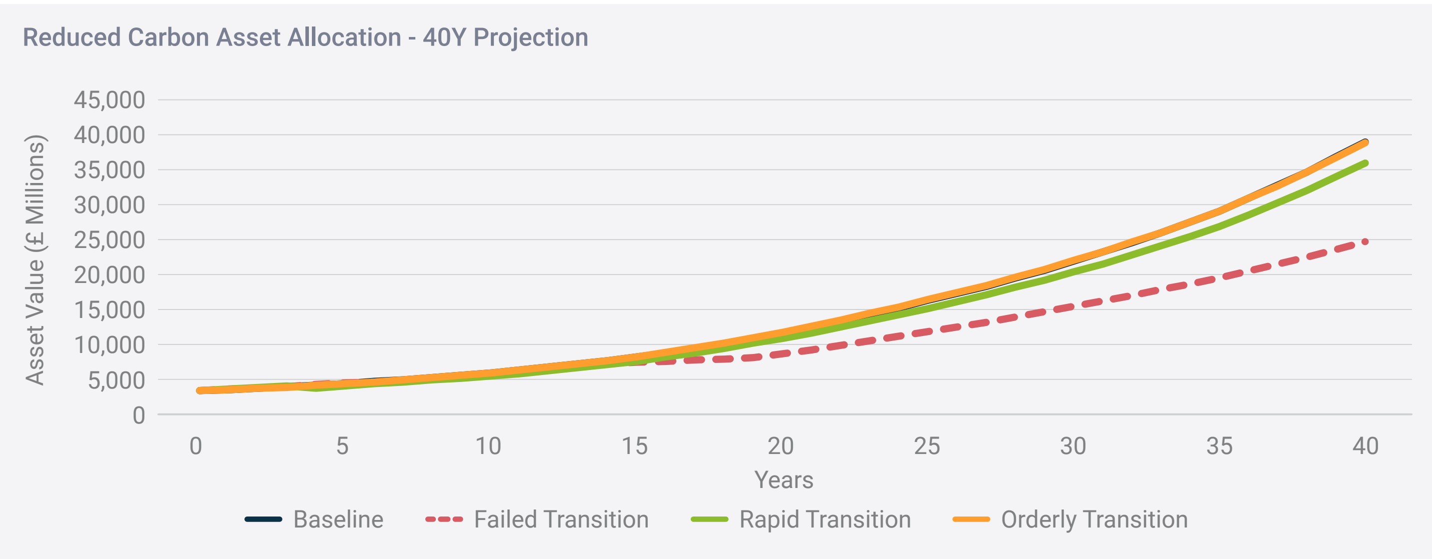
## TABLE 4.2.1.2 ANNUALISED CLIMATE CHANGE IMPACT ON PORTFOLIO RETURNS – TO 5, 15 AND 40 YEARS

| | | CURRENT ASSET ALLOCATION | REDUCED CARBON ASSET ALLOCATION |
|---|---|---|---|
| ***RAPID*** | 5 years | -2.03% | -1.92% |
| | 15 years | -0.60% | -0.56% |
| | 40 years | -0.23% | -0.21% |
| ***ORDERLY*** | 5 years | -0.15% | -0.15% |
| | 15 years | -0.02% | -0.01% |
| | 40 years | -0.01% | -0.01% |
| ***FAILED*** | 5 years | 0.18% | 0.16% |
| | 15 years | -0.71% | -0.72% |
| | 40 years | -1.21% | -1.21% |

≤ - 10 bps | > -10 bps, < 10bps | ≥ 10 bps

## FIGURE 4.2.1.1 CUMULATIVE RETURN PROJECTIONS BY CLIMATE CHANGE SCENARIO




### RECOMMENDATIONS:

We recommend the Fund to continue to collaborate with its various partners including LGPS Central and other external managers to address key physical and transition risks in the portfolio. Key findings from this section can help inform priority areas from an asset class perspective.

### KEY CONCLUSION TWO: 2. SUSTAINABLE ALLOCATIONS PROTECT AGAINST TRANSITION RISK, GROWTH ASSETS ARE HIGHLY VULNERABLE TO PHYSICAL RISK

Asset class returns vary significantly by scenario depending on their respective exposure to transition and physical risks. Allocations to sustainable asset classes provide some transition risk protection in the event of a Rapid Transition. On the other end of the scale, growth assets are generally more vulnerable to physical risk.

**TABLE 4.2.1.3 CUMULATIVE RETURN IMPACTS FOR CURRENT ASSET ALLOCATION, BY ASSET CLASS ACROSS THREE CLIMATE CHANGE SCENARIO**

| CURRENT SAA | MODELLING ASSET CLASS | ALLOCATION | 5 YEARS | | | 40 YEARS | | |
|---|---|---|---|---|---|---|---|---|
| | | | FAILED TRANSITION | RAPID TRANSITION | ORDERLY TRANSITION | FAILED TRANSITION | RAPID TRANSITION | ORDERLY TRANSITION |
| Developed Equity | MSCI World Equity | 9.70% | 2% | -13% | -1% | -42% | -12% | -1% |
| | US Equity | 6.70% | 2% | -13% | -2% | -43% | -13% | -3% |
| | UK Equity | 17.60% | 1% | -10% | -1% | -36% | -8% | 0% |
| | Europe Equity | 6.00% | 1% | -13% | 0% | -39% | -12% | 1% |
| | Developed Asia Ex. Japan Equity | 10.30% | 1% | -14% | -1% | -47% | -13% | -1% |
| Emerging Market Equity | Emerging Markets Equity | 9.60% | 1% | -12% | 0% | -49% | -11% | 0% |
| Sustainable Equity | Passive Sustainable Equity | 5.90% | 1% | -9% | -2% | -44% | -7% | 0% |
| | Active Sustainable Equity | 5.30% | -2% | -2% | 0% | -45% | -3% | 2% |
| Global Investment Grade | Credit - Global Investment Grade | 5.70% | 0% | -1% | 0% | -5% | -1% | 1% |
| Real Estate | Global Real Estate | 6.40% | 0% | -5% | 0% | -36% | -3% | 1% |
| Infrastructure | Infrastructure | 14.10% | 1% | -9% | 0% | -37% | -9% | -1% |
| Global Senior Private Debt | Global Senior Private Debt | 1.70% | 0% | -1% | 0% | -8% | -2% | 0% |
| Cash | Cash | 1.00% | 0% | 0% | 0% | -7% | 1% | 1% |

### RECOMMENDATIONS:

WPF allocates a significant portion of its investments into growth assets which carry higher long-term physical risks from climate change, and the impacts are depicted in Table 4.2.1.3. The Funds exposure to sustainable equities provides protection against transtion risks in the event of a rapid transtion. We recommend WPF to keep the commitment to these allocations under review and continue to consider exploring allocations to low carbon strategies and other asset classes, such as sustainable private equity and sustainable infrastructure which will provide further protection against transtion risks.

## KEY CONCLUSION THREE: MONITOR SECTOR AND REGIONAL EXPOSURES

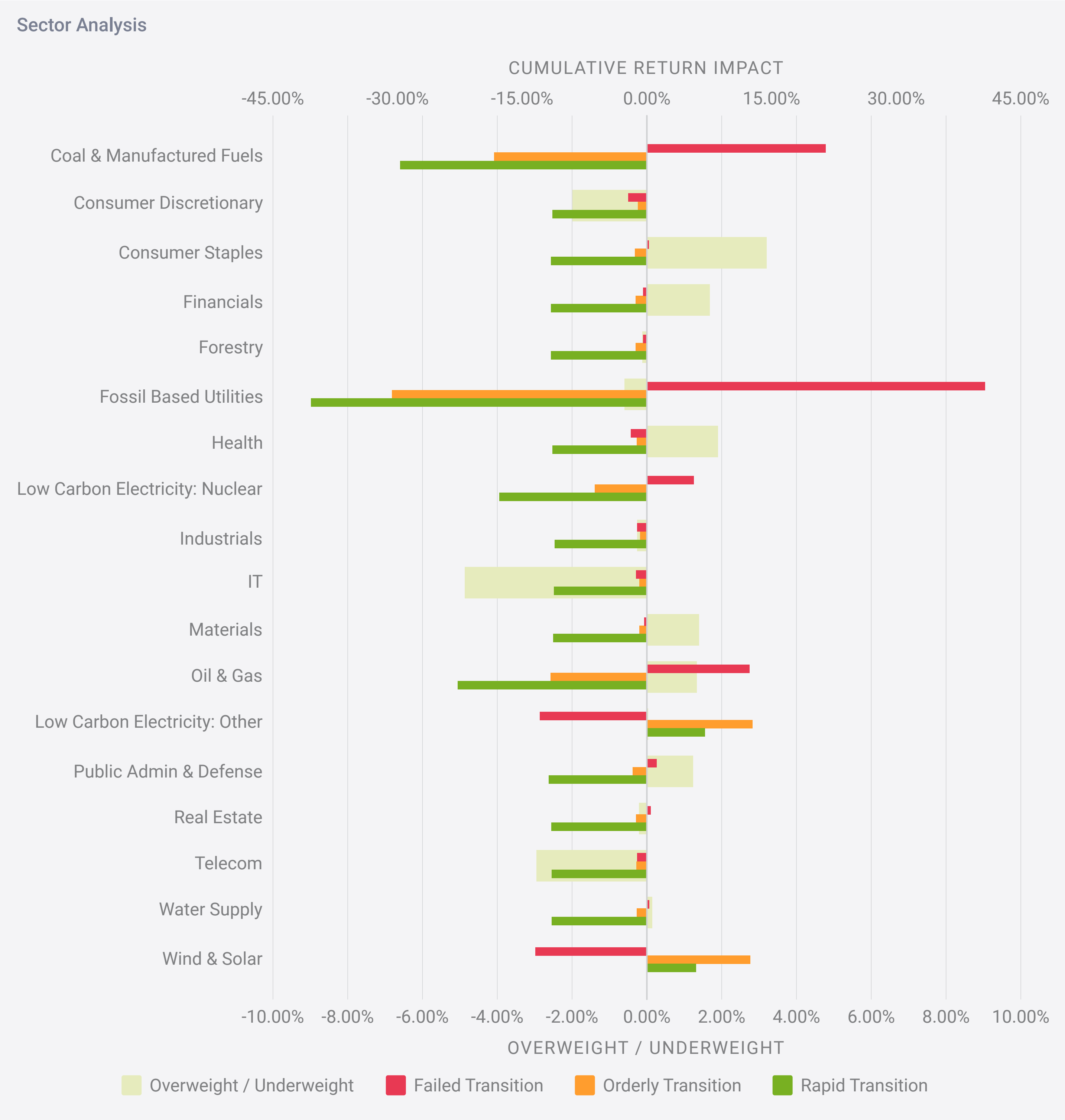
Differences in return impact are most visible at an industry sector level, with significant divergence between scenarios. Oil and Gas, Fossil Fuel Based Utilities and Renewables are most impacted by the transition.

Figure 4.2.1.2 shows the relative under/overweight positions of WPF's overall equity portfolio versus MSCI ACWI (light grey bar), as well as cumulative return impact experienced by different sectors within an equity portfolio over a 5 year-period, when transition risks dominate.

WPF's equity portfolios are overweight to oil and gas while being slightly underweight to fossil based utilities, which are both sectors that are significantly exposed to transition risk. These sectors are therefore negatively impacted during the rapid and orderly transition scenarios. Conversely, these sectors perform well in a failed transition.

In the Rapid and Orderly transition scenarios, Renewable Energy (Wind & Solar) and Low Carbon Electricity (ex. Nuclear) are the only two sectors to generate positive returns.

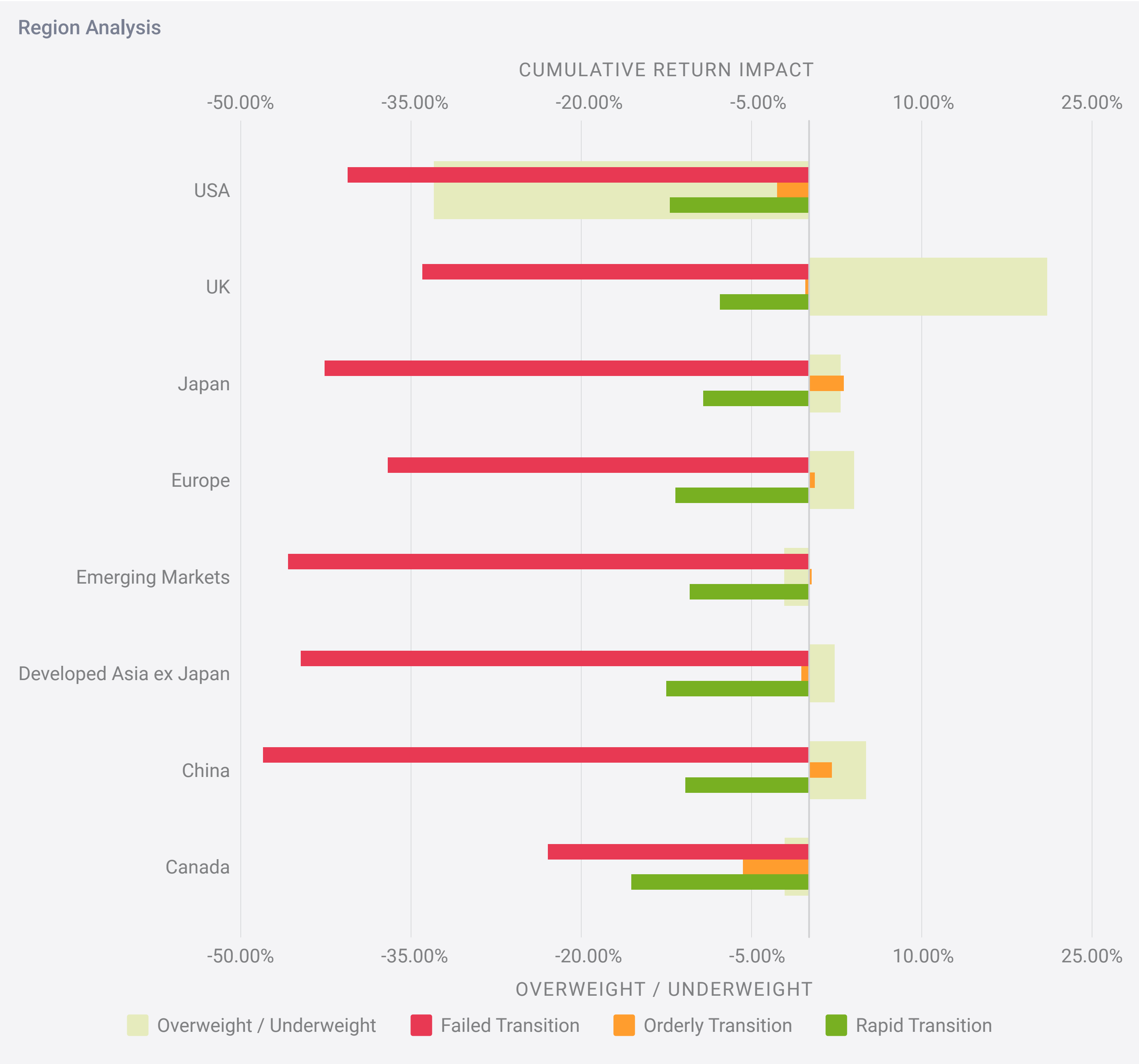
### FIGURE 4.2.1.2 SECTORAL CUMULATIVE RETURN IMPACT AND WPF CURRENT EQUITIES SECTOR ALLOCATION



In terms of regional impact, China, Emerging Markets and Developed Asia ex-Japan are most exposed to climate risks. Figure 4.2.1.3 shows the relative under/overweight positions of WPF's overall equity portfolio versus MSCI ACWI (light grey bar), as well as cumulative return impact experienced by different region within an equity portfolio over a 40 year-period, when physical risks dominate.

WPF is most notably overweight to UK equities, which are less impacted in a failed transition than most other regions. WPF is also significantly underweight to US equities, which are broadly impacted in line with most other developed regions under the different scenarios. There is also a slight underweight exposure to emerging markets (Excluding China) equities but overweight to developed Asia excluding Japan, these regions experience significant negative outcomes under a failed transition.

**FIGURE 4.2.1.3 REGIONAL CUMULATIVE RETURN IMPACT AND WPF CURRENT EQUITIES SECTOR ALLOCATION**




**RECOMMENDATIONS:**

We recommend WPF work with its appointed fund managers to understand how they are assessing, monitoring, and mitigating key transition and physical risks within the high-impact sectors, particularly in Oil & Gas where the Fund has an overweight position relative to the global index. The Fund should keep regional exposures under review, especially considering exposure to emerging market equities.

### KEY CONCLUSION FOUR: BE AWARE OF FUTURE PRICING SHOCKS

As markets react to new information because of changing physical and policy / transition risks, investors will be vulnerable to rapid repricing shocks. Exploring the potential impact that repricing events can have on investment strategy and positioning portfolios ahead of time is critical.

Investors look to predict future events and price these events before they occur. This means that longer-term impacts, including transition and physical risks could impact portfolios earlier than the time these events occur.

Mercer's Rapid Transition includes a shock around 2025 pricing in (and overreacting to a degree) to transition costs. The Failed Transition includes shocks towards the end of the 2020s and 2030s pricing in future damage. While the exact timing of such shocks is unknowable, considering such shocks is an important aspect of Mercer's risk analysis.

As discussed in key conclusion two, WPF's current allocations to sustainable asset classes provide some transition risk protection in the event of a rapid repricing event. WPF's allocations to Listed Equity, Property and Infrastructure are materially exposed to physical risks under a Failed Transition over the longer term.

**RECOMMENDATIONS:**

Using the analysis from this Climate Scenario Analysis and the overall Climate Risk Report, WPF is on track to get a better understanding of the portfolio's capacity to transition into a low carbon economy. We recommend using these analyses to evolve WPF's sustainable investment targets to include more ambitious climate objectives.

# 4.3 Risk Management

## *4.3.1 CLIMATE STEWARDSHIP PLAN SCOPE*

Based on the findings of its previous Climate Risk Reports, 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.

Currently the CSP identifies a focus list of eight companies for prioritised engagement. These companies are chosen based of several factors including contribution to the Fund's carbon intensity, financed emissions, weight of holdings and regional spread. To ensure relevance to the Fund's investments, the list is updated annually to reflect its current holdings. Reflecting the externally managed nature of WPF, the Fund's portfolio managers and suppliers are engaging with these companies on behalf of the Fund.

We have reviewed ongoing engagements with these companies and provide below a progress update on the outcomes of the engagement. The Climate Action 100+ Net Zero Benchmark and Transition Pathway Initiative are used as key tools to monitor progress within the Fund's CSP.

### 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

Companies expected future emissions intensity pathways – labelled carbon performance – is assessed against international targets and national pledges made as part of the 2015 Paris Agreement. Alignment is tested on different timeframes, including 2030 and 2050. There are eight carbon performance trajectories:

- No or unsuitable disclosure
- Not aligned
- International pledges
- National pledges
- Paris pledges
- 2 Degrees
- Below 2 Degrees
- 1.5 Degrees

### CLIMATE ACTION 100+ NET ZERO BENCHMARK

The CA100+ Net Zero benchmark is designed to assess the performance of the world's 166 largest corporate greenhouse gas emitters against ten key indicators. These indicators are all measures of success for business alignment with a net zero emissions future and with the goals of the Paris Agreement. The ten indicators 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 (Target Delivery)
6. Capital Alignment
7. Climate Policy Engagement
8. Climate Governance
9. Just Transition
10. TCFD Disclosure

The first assessments for each CA100+ company against the ten indicators were published on 22nd March 2021 and refreshed on 30th March 2022. These assessments offer comparative assessments of individual focus company performance against the goals of the initiative. The Benchmark will be reviewed in 2022 with an aim to provide sector-specific transition pathway parameters that companies respectively are compared to.

## *4.3.2 PROGRESS UPDATE*

### TABLE 4.3.2.1 COMPANIES INCLUDED IN THE CLIMATE STEWARDSHIP PLAN

| COMPANY | SECTOR | NET ZERO TARGET | % OF CA100+ INDICATORS MET | TPI MANAGEMENT QUALITY | TPI CARBON PERFORMANCE | | |
|---|---|---|---|---|---|---|---|
| | | | | | TO 2025 | TO 2035 | TO 2050 |
| BHP Group | Materials | Yes | 60% | 4 | 1.5 Degrees | 1.5 Degrees | 1.5 Degrees |
| BP | Energy | Yes | 30% | 4* | Not Aligned | National Pledges | 1.5 Degrees |
| Cemex | Cement | | 40% | 4 | Below 2 Degrees | Below 2 Degrees | 1.5 Degrees |
| CRH | Materials | Yes | 30% | 4 | Below 2 Degrees | 1.5 Degrees | 1.5 Degrees |
| Glencore | Materials | Yes | 40% | 4 | 1.5 Degrees | Below 2 Degrees | National Pledges |
| Rio Tinto | Mining | Yes | 20% | 4 | Paris Pledges | Paris Pledges | Below 2 Degrees |
| Royal Dutch Shell | Energy | Yes | 50% | 4 | Not Aligned | Below 2 Degrees | 1.5 Degrees |
| Taiwan Semiconductor Manufacturing Co | Info Tech | N/A | N/A | N/A | N/A | N/A | N/A |
| Reliance Industries | Energy | Yes | 0% | 1 | No or unsuitable disclosure | No or unsuitable disclosure | No or unsuitable disclosure |

Keep on the CSP    Add to the CSP

Page 148

# 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 and fixed income portfolios as of 30th June 2022. The results are compared to baseline data taken as of 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 equities and corporate bonds as unlisted asset classes do not have sufficiently complete and comparable data to facilitate carbon risk metrics analysis at this time. Data coverage for fixed income securities are also inconsistent which limits the accuracy and usefulness of the results.

**TABLE 4.4.1.1: SCOPE OF CARBON RISK METRICS ANALYSIS AS OF 30TH JUNE 2022**

| | EQUITIES |
|---|---|
| ***NUMBER OF STRATEGIES ANALYSED*** | 13 |
| ***INDIVIDUAL COMPANIES INCLUDED*** | 3,203 |

The analysis is based on a dataset provided by MSCI ESG Research LLC (MSCI)[4]. Table 4.4.1.2 provides an overview of the types of carbon risk metrics 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[5]. 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.

[4] Certain information @ 2022 MSCI ESG Research LLC. Reproduced by permission. Attention is drawn to Section 8.0 Important Information.
[5] 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 INTENSITY (WEIGHTED AVERAGE CARBON INTENSITY (WACI))*** | 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 that do generate a high proportion of revenue from fossil fuels. |
| ***EXPOSURE TO FOSSIL FUEL RESERVES BY REVENUE*** | This identifies the maximum percentage of revenue either reported or estimated derived from conventional oil and gas, unconventional oil and gas, as well as thermal coal. These values by companies are summed and weighted by the portfolio weights to produce a weighted exposure. | This has been included to overcome the limitations of the metric of Exposure to Fossil Fuel Reserves, which includes all companies which have any exposure regardless of how small. | This measurement uses maximised estimates where reported values are not available. Therefore, there is a potential to overestimate exposure. |
| ***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). The final figure comes from the percentage of each company's revenue derived from clean technology. | Provides an assessment of climate-related opportunities so that an organisation can review its preparedness for anticipated shifts in demand. | While MSCI has been used for this report due to its wide range of listed companies and data points, there is no universal standard or definitive list of green revenues. This is due to the inherent difficulty in compiling a complete and exhaustive list of technologies relevant for a lower-carbon economy. |
| ***EXPOSURE TO CLEAN TECHNOLOGY BY REVENUE*** | This identifies the maximum percentage of revenue, either reported or estimated, derived from companies involved in clean technology (see above). | Allows for a comparison of company's exposure to clean technology, adjusted according to a proportion of that company's size. | This measurement uses maximised estimates where reported values are not available. Therefore, there is potential to overestimate exposure. |

| CARBON RISK METRIC | DEFINITION | USE CASE | LIMITATIONS |
|---|---|---|---|
| ***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. |
| ***FINANCED EMISSIONS*** | Is calculated by multiplying an attribution factor by a company's emissions. The attribution factor is the ratio between an investor's outstanding amount in a company and the value of the financed company. | Measures the absolute tons of $CO_2$ for which an investor is responsible. | Limited usefulness for benchmarking and comparison to other portfolios due to the link to portfolio size. |
| ***NET ZERO TARGET COVERAGE*** | The weight of the portfolio invested in companies that have set a "net zero" emissions target, as defined by the company. | Provides an insight into the alignment of a portfolio with Net Zero based on the commitments of the underlying companies. | Does not provide any insight into how likely the companies are to meet their targets.<br>Does not provide any insight into the quality of the targets set. |
| ***ALIGNMENT TO CA100+*** | How a company performs against a set of 10 indicators published by CA100+. Indicators are divided into sub-indicators and metrics, each of which are scored on a Yes/No basis, upon which a final score is calculated. | Allows for a direct comparison of how different companies are approaching Net Zero, with a specific focus on strategy and governance rather than actual emissions. | Can be considered simplistic due to its reliance on Yes/No questions. Currently a relatively small number of companies are assessed. |

## *4.4.2 TOTAL EQUITIES*

Please note this section will examine total passive equity and active equity funds.

Recommendations will not be included for total equities, but instead will be included in the sections which provide a closer examination of the individual portfolios.

### TABLE 4.4.2.1 TOTAL EQUITIES DESCRIPTIVE STATISTICS

| STRATEGY | BENCHMARK | CLIENT AUM (£, DEC 2020) | STRATEGIES ANALYSED | NO. COMPANIES |
|---|---|---|---|---|
| Total Equities | Total Equities Blended BM | £2,341,566,797 | 2/2 | 3,203 |

## CARBON FOOTPRINT

### TABLE 4.4.2.2 TOTAL EQUITIES CARBON FOOTPRINT METRICS

| | 2020 | | | 2022 | | | % DIFFERENCE BETWEEN 2020 AND 2022 | |
|---|---|---|---|---|---|---|---|---|
| | PF | BM | % DIFF | PF | BM | % DIFF | PF | BM |
| Portfolio Carbon Footprint ($tCO_2e$/ $m) | 137.41 | 180.22 | -23.75% | 118.7 | 169.8 | -30.10% | -13.63% | -5.79% |
| Weight in fossil fuel reserves (%) | 6.58% | 7.71% | -1.13% | 7.44% | 8.89% | -1.45% | 0.86% | 1.18% |
| Weight in thermal coal reserves (%) | 2.17% | 2.95% | -0.78% | 1.92% | 2.71% | -0.78% | -0.25% | -0.24% |
| Weight in coal power (%) | 1.20% | 1.53% | -0.32% | 0.72% | 1.28% | -0.56% | -0.48% | -0.25% |
| Weight in clean tech (%) | 34.55% | 34.67% | -0.13% | 34.4% | 36.2% | -1.70% | -0.10% | 1.48% |

Figure 4.4.2.1 Total Equities Carbon Footprint

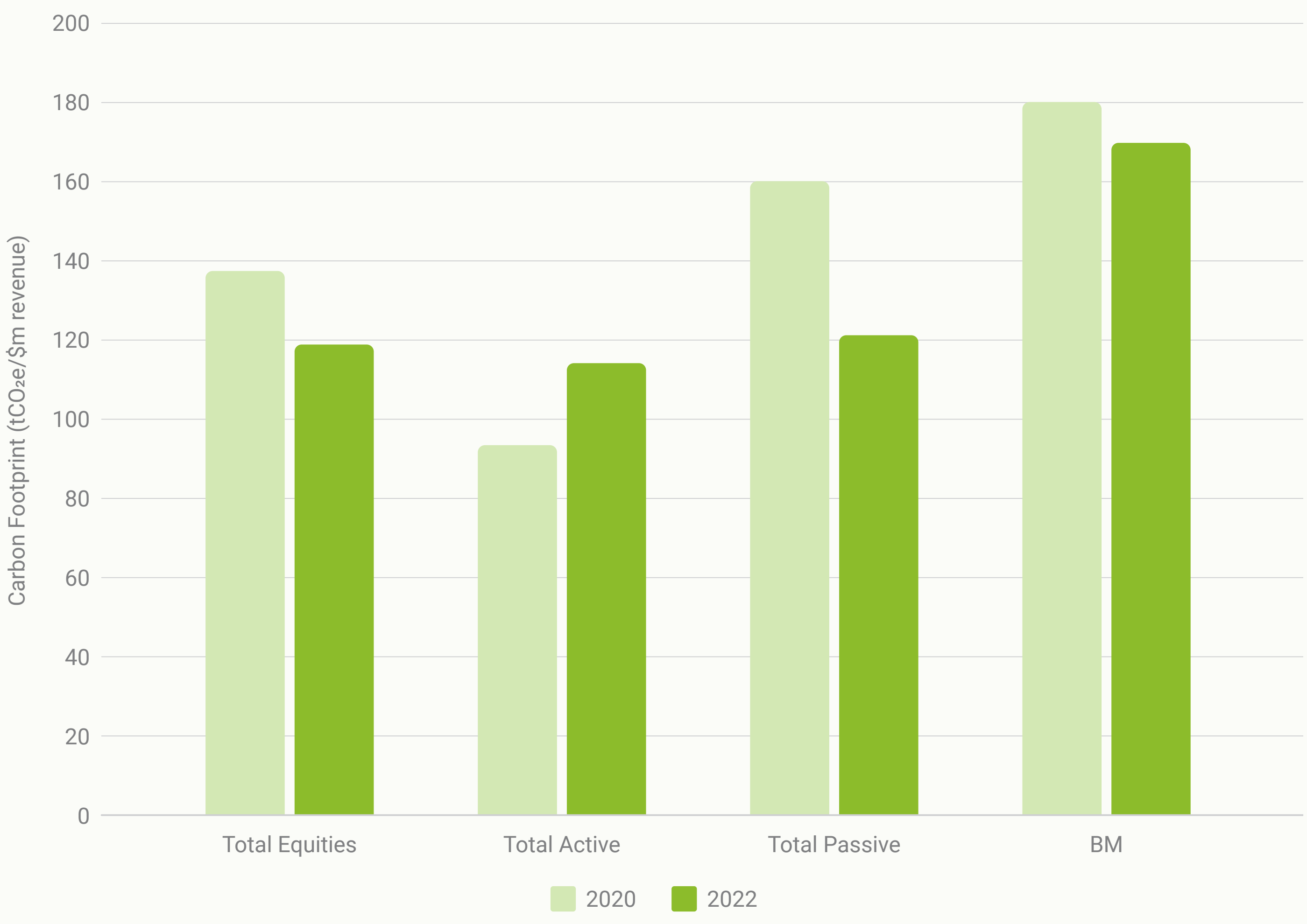
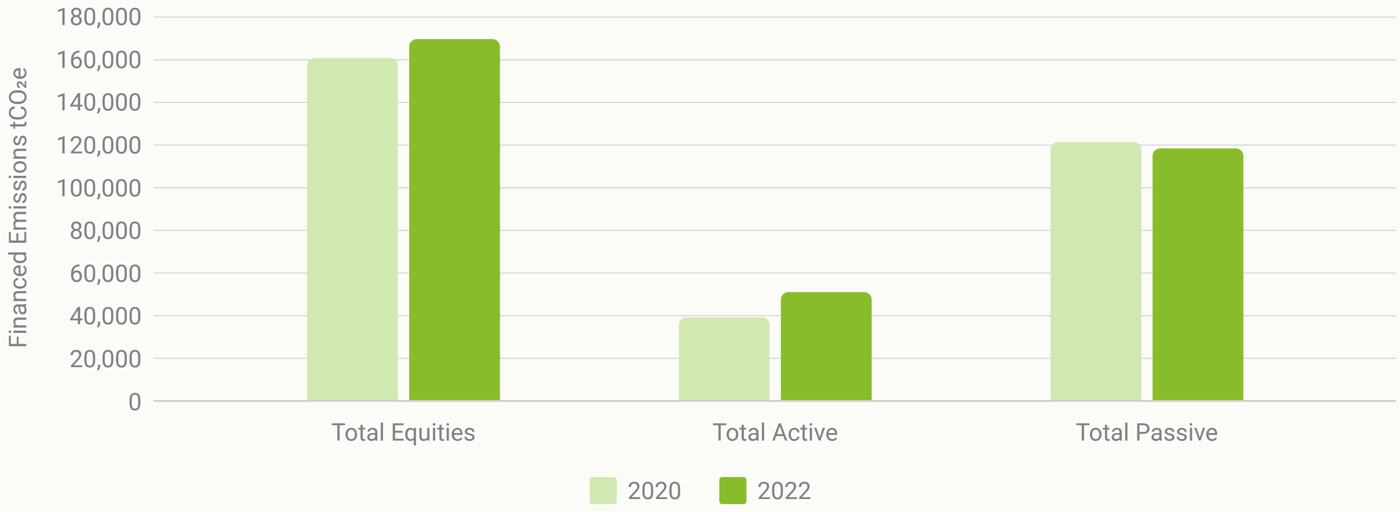


Figure 4.4.2.2 Total Equities Financed Emissions




### TABLE 4.4.2.3 TOTAL EQUITIES LARGEST CONTRIBUTORS TO PORTFOLIO CARBON FOOTPRINT

| COMPANY | PORTFOLIO WEIGHT | CARBON INTENSITY | CONTRIBUTION TO PORTFOLIO CARBON FOOTPRINT |
|---|---|---|---|
| SHELL PLC | 1.82% | 382.4 | 6.17% |
| HUAXIN CEMENT CO LTD | 0.05% | 9735.1 | 4.04% |
| TAIWAN SEMICONDUCTOR MANUFACTURING CO., L | 1.97% | 197.8 | 3.45% |
| RIO TINTO PLC | 0.63% | 489.8 | 2.74% |
| CRH PUBLIC LIMITED COMPANY | 0.25% | 1162.0 | 2.61% |

### TABLE 4.4.2.4 TOTAL EQUITIES LARGEST CONTRIBUTORS TO PORTFOLIO FINANCED EMISSIONS

| COMPANY | PORTFOLIO WEIGHT | SCOPE 1&2 EMISSIONS | CONTRIBUTION TO PORTFOLIO FINANCED EMISSIONS |
|---|---|---|---|
| SHELL PLC NEW | 1.82% | 100000000 | 14.00% |
| HUAXIN CEMENT CO LTD | 0.05% | 49165505 | 5.38% |
| GLENCORE PLC | 0.66% | 25724000 | 4.32% |
| BP PLC | 0.83% | 39100000 | 3.79% |
| NIPPON YUSEN | 0.20% | 13730592 | 3.55% |

From 2020 the carbon intensity of the Total Equities portfolio decreased by 13.63%, which is driven by the 24.46% decrease in the carbon intensity of the passive portfolio, which in turn is driven by the portfolios changes which occurred between 2020 and 2022. The decrease in carbon intensity of Total Equities is mitigated by the 17.12% increase in carbon intensity of the active portfolio. The effect of the decrease in carbon intensity is compounded by the greater increase in the AUM of the Passive Equities in comparison to the AUM increase of the Active Equites. The carbon intensity of the total portfolio is 30.10% lower than that of the benchmark.

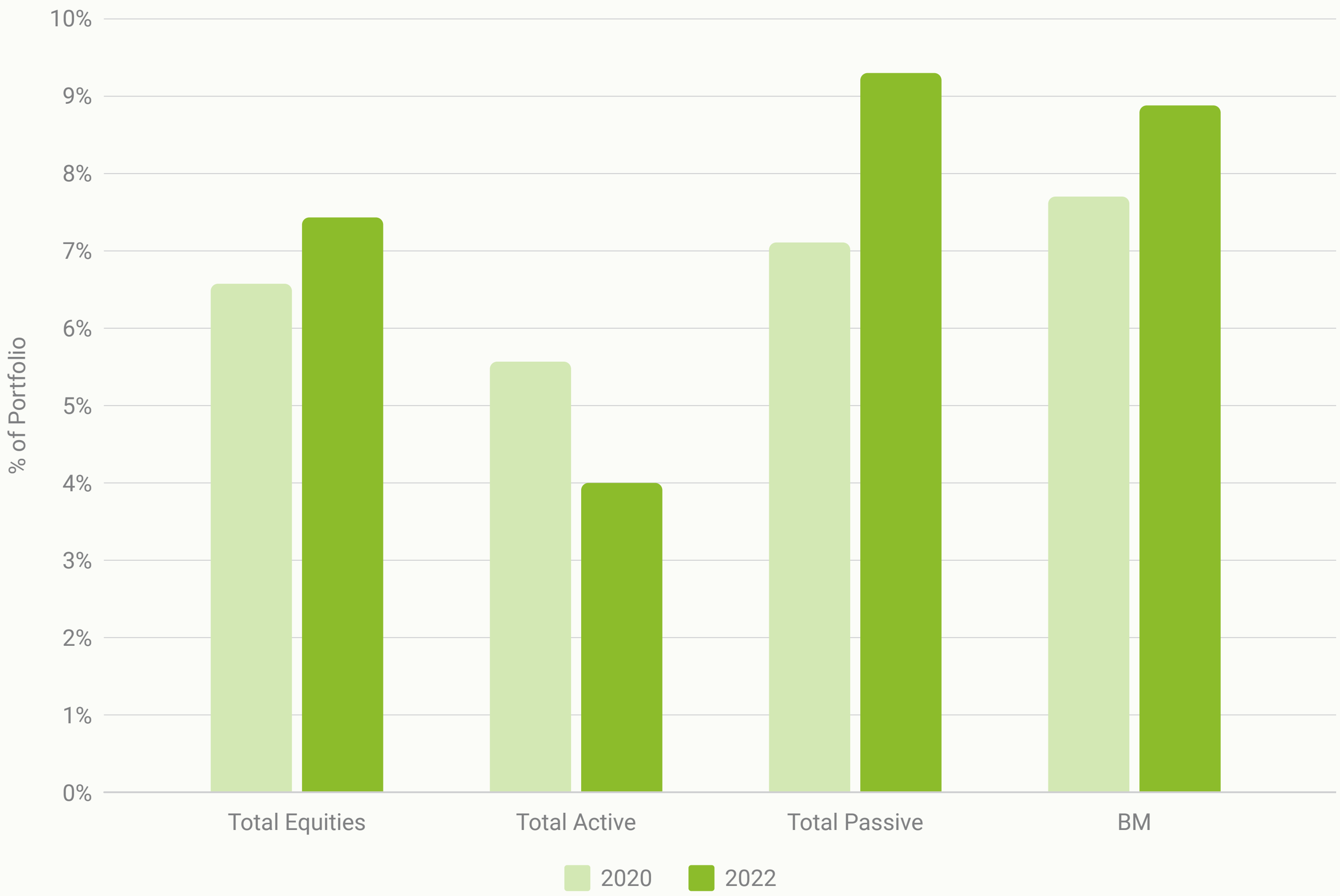
There are similar findings observed in the financed emissions where the financed emissions of the Total Active Portfolio have increased, and the financed emissions of the Total Passive Equities have decreased. However, the Total Equites portfolio experienced an overall increase in finance emissions from 2020 to 2022. This will be driven by the same factors as the portfolio carbon intensity, however changes in financed emissions are felt as absolute rather than being weighted by portfolio weights.

## FOSSIL FUELS

### TABLE 4.4.2.5 TOTAL EQUITIES FUND FOSSIL FUEL METRICS

| | 2020 | 2022 | % DIFFERENCE BETWEEN 2020 AND 2022 |
|---|---|---|---|
| **Weight in fossil fuel reserves** | 6.58% | 7.44% | 0.86% |
| *By Revenue* | | 0.89% | |
| **Weight in thermal coal reserves** | 2.17% | 1.92% | -0.25% |
| *By Revenue* | | 0.05% | |
| **Weight in coal power (%)** | 1.20% | 0.72% | -0.48% |

Figure 4.4.2.3 Total Equities Fund Fossil Fuel Exposure



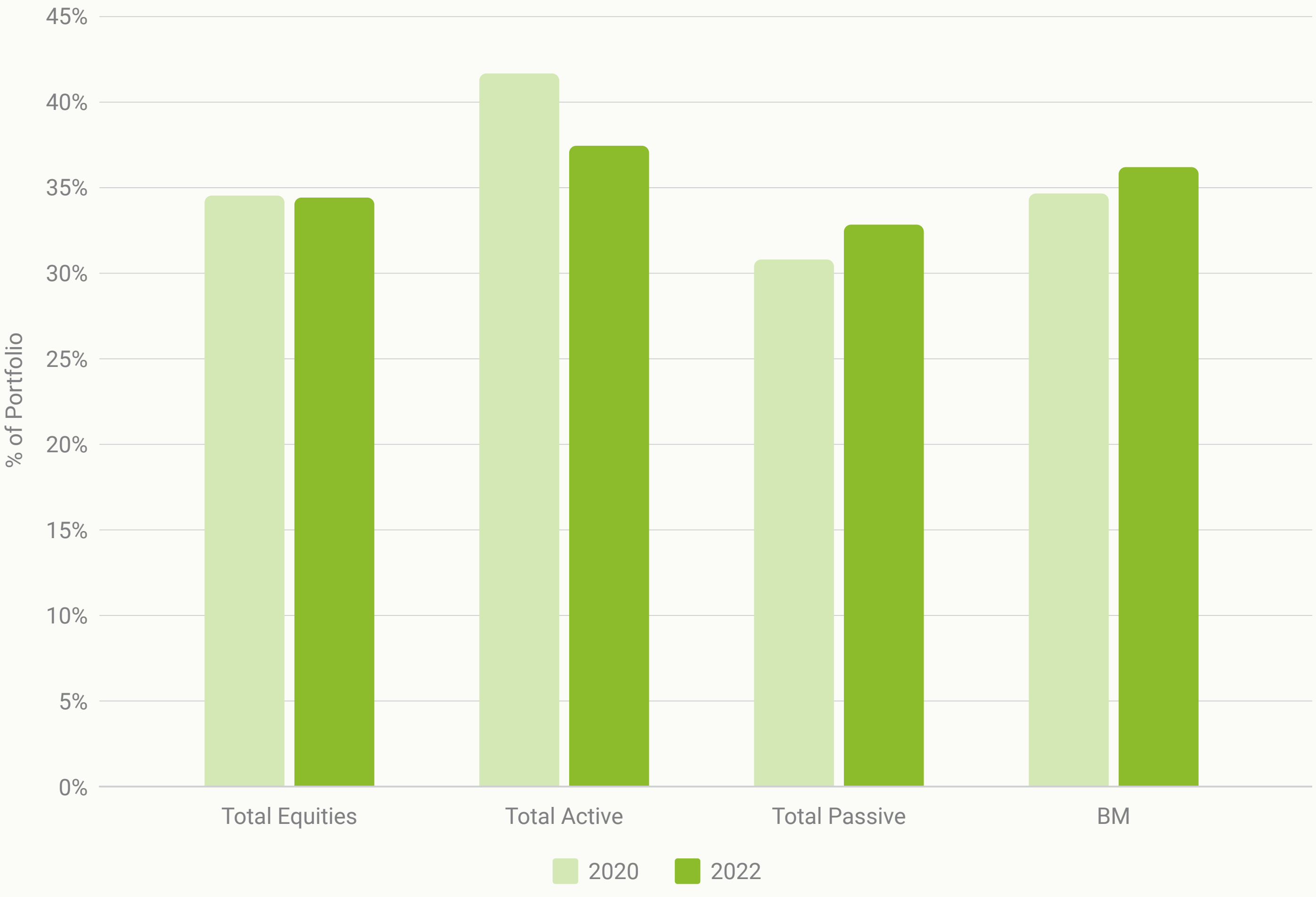

The portfolio's allocation to companies with fossil fuel reserves has increased by 0.86%, while exposure to thermal coal reserves and coal power has decreased by 0.25% and 0.48% respectively between 2020 and 2022. These values are all below their respective benchmarks.

## CLEAN TECH

### TABLE 4.4.2.6 TOTAL EQUITIES CLEAN TECHNOLOGY EXPOSURE

| | 2020 | 2022 | % DIFFERENCE BETWEEN 2020 AND 2022 |
|---|---|---|---|
| **Weight in Clean Technology** | 34.55% | 34.45% | -0.10% |
| *By Revenue* | | 3.93% | |

Figure 4.4.2.4 Total Equities Fund Clean Tech Exposure




The exposure of Total Equities to clean technology has marginally decreased by 0.1% between 2020 and 2022. Apportioned by revenue, the portfolio has 3.93% exposure to clean technology solutions, suggesting the majority of companies are not pure-play clean technology companies (i.e, they do not derive a significant proportion of their revenue from clean tech).

## CLIMATE GOVERNANCE

### TABLE 4.4.2.7: TOTAL EQUITIES % OF COMPANIES WITH A NET ZERO TARGET

| | |
|---|---|
| **% of Total Portfolio** | 62.50% |
| **% of Companies in Material Sectors** | 67.58% |
| **% Financed Emissions** | 80.40% |

### TABLE 4.4.2.8: TOTAL EQUITIES FUND TPI ASSESSMENT

| | RANKING | 2022 |
|---|---|---|
| **Management Quality** | **4*, 4** | 57.78% |
| | **3, 2** | 31.33% |
| | **1, 0** | 10.89% |
| **Paris Alignment** | **1.5 Degrees** | 27.71% |
| | **2 Degrees or below** | 30.21% |
| | **International/ National/ Paris Pledges** | 15.66% |
| | **Not Aligned** | 26.43% |

As of 31st June 2022, 381 companies in the Total Equities, accounting for 16.70% of holdings are ranked by the Transition Pathway Initiative. Over half (57.78%) of the companies assessed achieved a management quality rating of 4-4*.

The results for Paris Alignment exhibit, only 7.89% of companies were assessed suggesting the majority of companies are yet to release targets aligned to the goals of the Paris Agreement. From these companies over half (57.91%) are aligned to 2 degrees or less (including 1.5 degrees), while over a quarter (26.43%) of companies are not aligned or there is no or unsuitable disclosure.

Looking at the net-zero target coverage, 57.78% of Total Equities are committed to achieving Net Zero emissions by 2050. 80.40% of financed emissions are attributed by companies which have net zero targets.

# 5.0 Conclusion

**In WPF's third 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. Understanding how these impact WPF's portfolio helps the Fund with its strategic asset allocation and forms the basis of its net zero metrics.**

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 third report we focus on providing the Fund with a progress update.

**KEY TAKEAWAYS:**

The key takeaways from the report are:

1. WPF has made significant progress in its responsible investment and climate change practice. Since 2020 WPF has published several key documents/reports such as the Climate-Related Disclosures Report and the Climate Change Risk Strategy, as well as integrating responsible investment into the Investment Strategy.
2. The Fund has significantly decreased the carbon intensity and financed emissions of total equities. This has largely been driven by the portfolio changes made in the Total Passive Equities.
3. The Climate Stewardship Plan is a useful tool for tracking the progress of engagement with the most material contributors to the Fund's carbon performance. Notable progress in these companies includes 7 out of 8 of these companies have been awarded the highest Management Quality rankings of 4 or 4* by the Transition Pathway Initiative, and the number of CA100+ Categories with "all criteria met" has increased from 12 to 27 from 2021 to 2022. However, this means that across the 8 companies there are still 45 categories which are "partially met" or "not met". This would be a topic for future engagement.

# 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.

**COP:** Conference of Parties (United Nations Climate Change Conference).

**COP 26:** The 26th edition of the annual United Nations Climate Change Conference. Held in Glasgow in November 2021.

**Divestment/exclusion/negative screening:** the exclusion, usually on moral grounds, of particular types of investments, possibly affecting in a negative way the risk-return 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 Intensity/ Carbon Intensity:** 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 long-term 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 Pension Fund Climate-related Disclosures

*Report prepared in alignment with the recommendations of the TCFD*

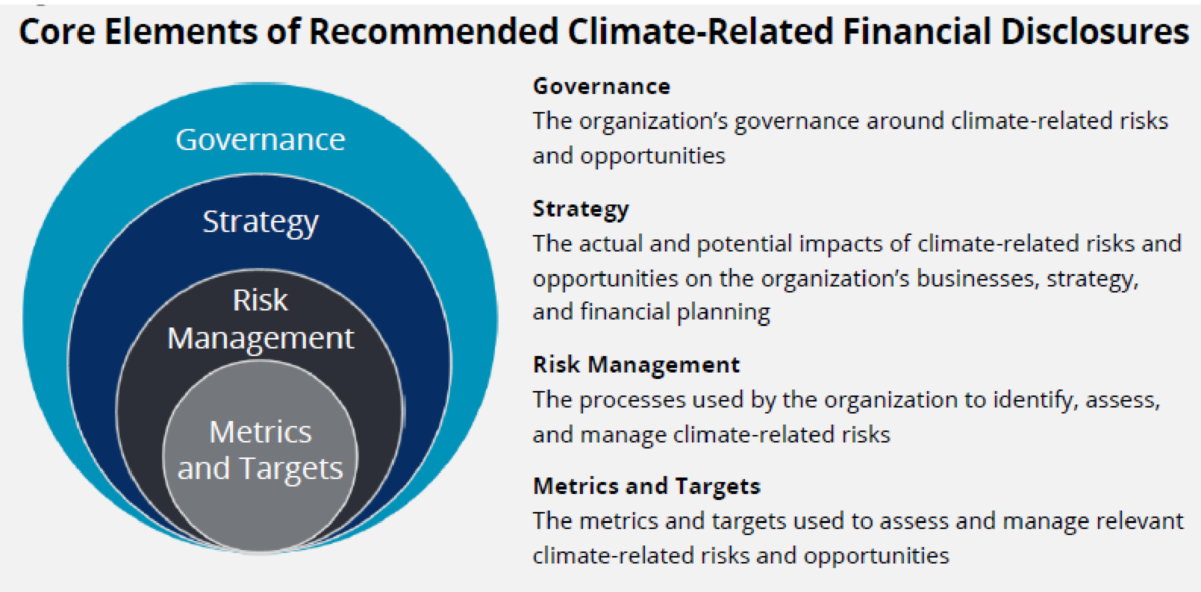
**January 2023**

## Introduction to the TCFD

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.

The recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see Figure 1 below) are designed so as to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances. Examples of pension funds that have been early adopters of the TCFD recommendations include AP2, NEST, PGGM, RPMI Railpen, The Pensions Trust, and Environment Agency Pension Fund.

**Figure 1: TCFD Disclosure Pillars**




The Fund supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a pension fund, we are long-term investors and are diversified across asset classes, regions and sectors, making us "universal owners". It is in our interest that the market is able to effectively price climate-related risks and that policymakers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our beneficiaries.

## About this report

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

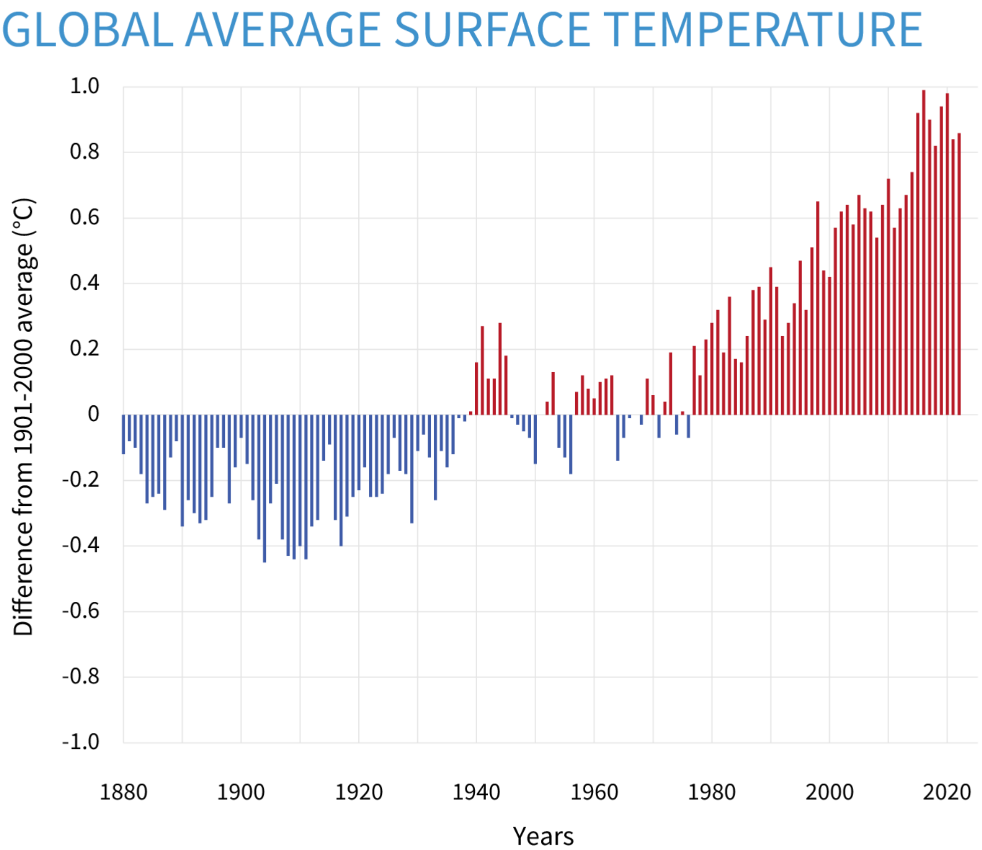
Since September 2020, WPF has received three Climate Risk Reports from the Fund's pooling company, LGPS Central Ltd. These reports have provided an in-depth review of the Fund's climate risks under different climate change scenarios across all asset classes. The Fund is currently using the findings of these reports to develop a more detailed Climate Strategy.

In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, this report discloses the most recent Carbon Risk Metrics Analysis and Climate Scenario Analysis undertaken on the Fund's assets. We expect to update our Carbon Risk Metrics on an annual basis.

## 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 ten warmest years on record taking place since 2010. 2022 was the sixth warmest year on record according to NOAA's temperature data, the year also observed a global mean surface temperature which was 0.86°C higher than the 20th century average. The overwhelming scientific consensus is that the observed climatic changes are the result primarily of human activities including electricity and heat production, agriculture and land-use change, industry, and transport.

**Figure 2: Graph showing Global Temperature Difference from the 1880-2022 average[1].**




[1] NOAA Climate.gov, Climate Change: Global Temperature. Published 18th January 2023, retrieved on 23rd January 2023 from https://www.climate.gov/news-features/understanding-climate/climate-change-global-temperature

In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. The UN Emissions Gap Report[2] states implementation of current policy pledges will lead to temperatures rises of 2.4-2.6°C by the end of the century above preindustrial temperatures, falling significantly short of the 1.5°C Paris goal. This report finds that an urgent system wide transformation is required to limit greenhouse gasses to return to a 1.5°C pathway.

**Figure 3: Selected extracts from the Paris Agreement on climate change. Source: UNFCCC.**

*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 greenhouse gas (GHG) emissions, the energy sector is expected to play a significant role in the long-term decarbonisation of the economy. Figure 4 demonstrates electricity generation by technology under the climate scenario which is used as a baseline assessment by BloombergNEF. There is expected to be a significant decrease in coal oil and gas 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.

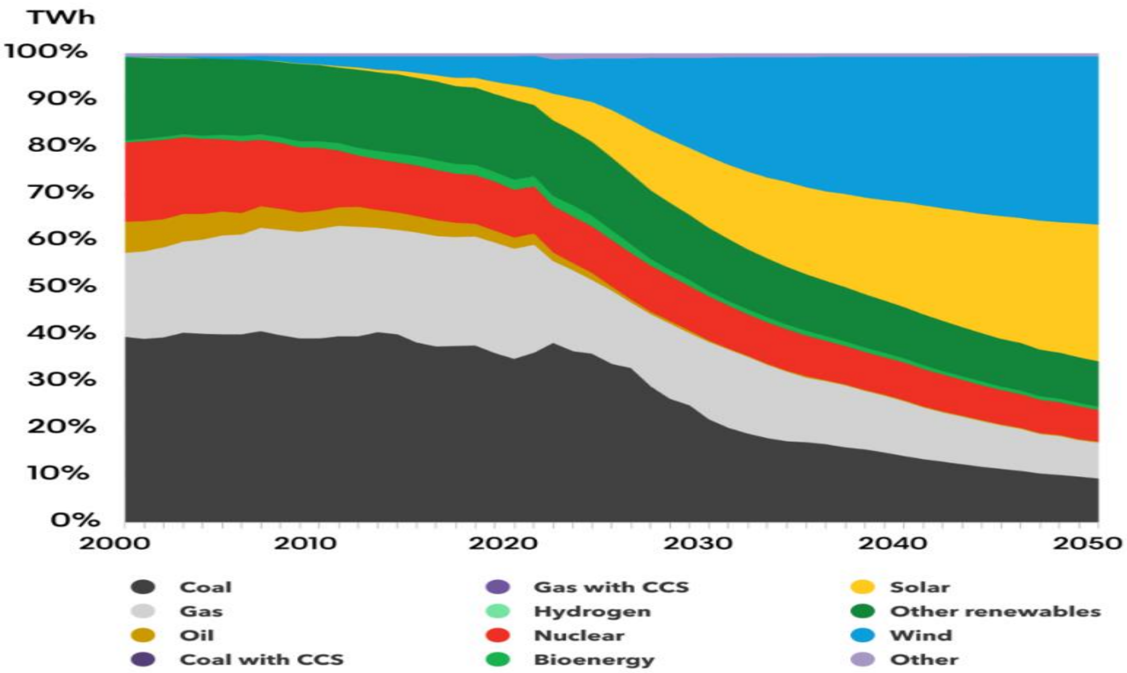
The issue faced by diversified investors (such as pension funds) is not limited to the oil & gas and power generation sectors, but also to downstream sectors. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors.

[2] UN Environment Programme, Emissions Gap Report 2022. Published 27th October 2022, retrieved 24th January 2023 from https://www.unep.org/resources/emissions-gap-report-2022

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.

**Figure 4: The Bloomberg New Energy Outlook Electricity Generation by Technology. Source: BloombergNEF[3].**




## 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.

[3] BloombergNEF, New Energy Outlook 2022. Published January 2023, retrieved 24TH January 2023 from https://about.bnef.com/new-energy-outlook/

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, 2022 and 2023, Fund Officers received Climate Risk Reports. These enable the consideration of climate change within strategy setting, including asset allocation and asset selection. These reports also assist in the production of the Climate Change Risk Strategy produced by the Fund. 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<br>Technological change<br>Policy tightening<br>Consumer preferences | Resource scarcity<br>Extreme weather events<br>Sea level rise |
| **Asset class** | Listed equities<br>Growth assets<br>Energy-intensive industry<br>Oil-dependent sovereign issuers<br>Carbon-intensive corporate issuers | Infrastructure<br>Property<br>Agriculture<br>Commodities<br>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 rapid transition and orderly transition scenarios.

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.

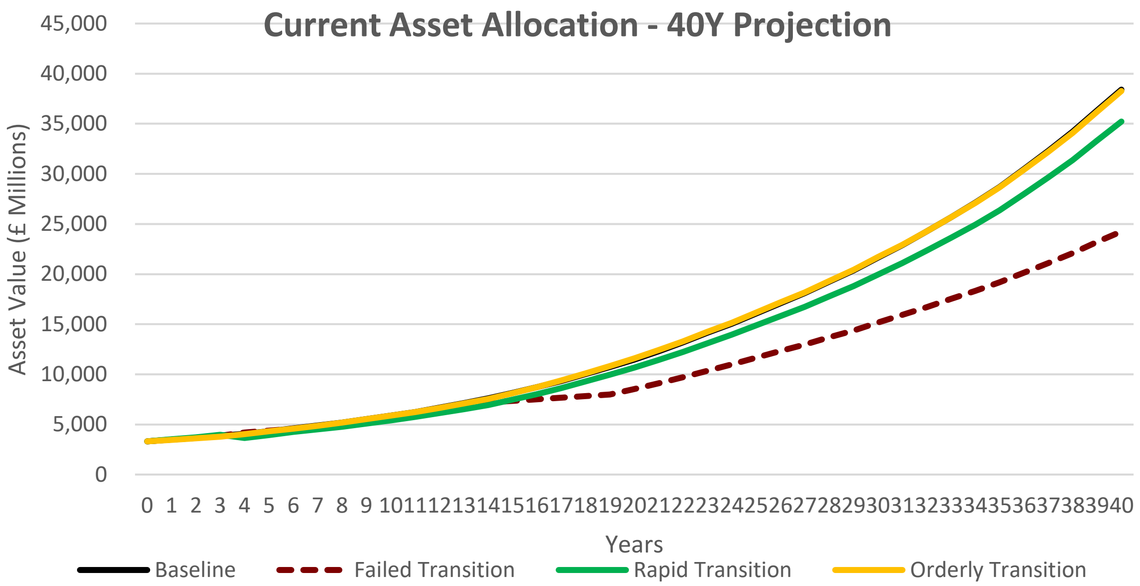
| TCFD Recommended Disclosure |
|---|
| **c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.** |

In 2022 the Fund engaged the expertise of an external contractor, Mercer LLC[4], to understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. This includes an estimation of the annual climate-related impact on returns (at the fund and asset-class level). All asset classes are included in this analysis. The climate scenarios considered are Rapid Transition, Orderly Transition and Failed Transition. This analysis is carried out every 2 to 3 years and the results of the 2022 analysis are provided below.

[4] Via LGPS Central Limited

The scenarios are defined according to the change since pre-industrial times in mean global surface temperatures. A rapid transition scenario leads to a 1.5°C temperature increase by 2100 and is characterised by sudden divestments on a global scale in 2025 in order to align society to the Paris Agreement goals. An early and smooth transition is represented by a 1.6°C temperature increase by 2100, with the markets pricing-in dynamics occur gradually over four years. A failed transition is represented by a temperature increase of 4.3°C by 2100, with severe physical and extreme weather events and the markets pricing in these risks.

**Graph 1: Cumulative Return Projections by Climate Change Scenario.**[5]




The analysis shows that over medium- to long-term, a successful transition is imperative for the Fund as its asset allocation fare better under Rapid and Orderly transition scenarios versus the Failed transition. Over the long term for nearly all investors a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

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 an orderly scenario tend to be the worst performers in a failed scenario 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.

[5] Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated December 2022 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Shropshire 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 analysis of its listed holdings 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 2: The Fund's Stewardship Partners**

| Organisation | Remit |
|---|---|
| LGPS Central Limited | The Fund is a 1/8th owner of LGPS Central.<br><br>Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website.<br><br>The Responsible Investment Team at LGPS Central engages companies on SCPF'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 | SCPF is a long-standing 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.

Following the Fund's 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 3: Companies included in the Climate Stewardship Plan**

| Company | Sector |
|---|---|
| BHP Group | Materials |
| BP | Energy |
| Cemex | Cement |
| CRH | Materials |
| Glencore | Materials |
| Rio Tinto | Mining |
| Royal Dutch Shell | Energy |
| Taiwan Semiconductor Manufacturing Co | Info Tech |

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 Pension Committee. While specific macro-economic risks are not usually included in isolation, the Fund has deemed climate risk to be sufficiently significant and therefore included it 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 receives annual reports from LGPS Central Ltd which set out the carbon risk metrics for its listed equities and fixed income portfolios. The poor availability of data in unlisted asset classes prevents a more complete analysis at this time.

The carbon risk metrics analysis includes:

- portfolio carbon footprints[6]
- financed emissions of the portfolio[7]
- 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
- weight of the portfolio invested in companies that have set net zero targets
- 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 considering its carbon risk metrics, the Fund remains aware of the limitations of the available metrics and the underlying datasets. There are certain data gaps caused by companies failing to report GHG data, or by companies reporting unreliable GHG data. In such cases the GHG data must be estimated, and different suppliers of GHG datasets might have different methodologies for making such estimations, leading to potentially different values for the same company or portfolio of companies. The results should, therefore, be treated with some degree of caution. Despite the potential pitfalls, the Fund has resolved to integrate the consideration of carbon risk metrics within the Fund's overall framework of risk management, whilst remaining conscious that the results are primarily useful in enabling the Fund to reach broad conclusions, to enable risk management measures to be prioritised and to enable broad direction of travel and progress to be assessed.

| 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.* |

[6] Following TCFD guidance we use weighted average portfolio carbon footprints.
[7] Calculated by multiplying the attribution factor by a company's emissions, giving a figure of the absolute tons of CO2 for which an investor is responsible.

In line with the TCFD guidance and following receipt of a report from LGPS Central Limited we provide below the carbon footprints of the applicable portfolios[8]:

**Table 4: Carbon risk metrics for the equity portfolio as of 30th June 2022 [9]**

| Financed Emissions (tCo2e) | Carbon Footprint (tCO2e/$M revenue) | | | Weight in Fossil Fuel Reserves % | | | Weight in Thermal Coal Reserves % | | | Weight in Clean Technology % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PF | PF | BM | % Diff | PF | BM | % Diff | PF | BM | % Diff | PF | BM | % Diff |
| 169,673 | 118.7 | 169.8 | -30.1% | 7.4% | 8.9% | -1.5% | 1.9% | 2.7% | -0.8% | 34.4% | 36.2% | -1.7% |

The Fund's total Equities portfolio is 30.10% more carbon efficient than the blended benchmark. This means that, on average, for every $m of economic output companies produce, the Fund's investee companies emit 30.10% fewer GHG emissions than the companies in the blended benchmark. The Total Equities portfolio has a lower exposure to fossil fuel reserves and thermal coal reserves, but also a lower weight in clean tech, than its blended benchmark.

Whilst the Fund's carbon risk metrics results show the Fund generally '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.

TCFD Recommended Disclosure

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

The ability for diversified investors (such as pension funds) to set meaningful climate targets is inhibited by the paucity of credible methodologies and data currently available. Like most investors, the Fund is supportive of the development of target-setting methodologies, and the increasing completeness of carbon datasets. The Fund wishes to set meaningful and challenging climate targets

[8] Analysis undertaken on the listed equities portfolios with holdings data as of 30th June 2022. The information in Table 4 was provided to the Fund in a report authored by LGPS Central Limited. In LGPS Central Limited's report, the Total Equities portfolio comprises the Total Active Equities and the Total Passive Equities portfolios weighted according to their size in GBP. The Total Active Equities portfolio contains two underlying portfolios managed for the Fund by LGPS Central and one underlying portfolios managed by Nomura. The Total Passive Equities portfolio contains four underlying portfolios managed for the Fund by LGIM, and one managed by LGPS Central.

[9] Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission.

for its investment portfolio and work is underway to assess options within the limitations of currently available data.

## Appendix 1

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 2: Glossary

**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.

## Appendix 3: Important Information

Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated December 2022 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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worcestershire
countycouncil

# PENSIONS BOARD
# 3 MARCH 2023

# ACTUARIAL VALUATION AND FINAL PENSION FUND STRATEGY STATEMENT (FSS)

## Recommendation

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

**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 Initial draft of the 2022 Valuation rates and adjustment certificate which 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.**

## Background

2. As detailed in the November 2022 report, every three years, in line with legislation, the Fund Actuary, Mercer, carries out a full Actuarial Valuation of the Fund to calculate how much the employers in the Scheme need to contribute going forward to ensure that its liabilities, the pensions due to current and future pensioners, will be paid as they fall due.

3. The purpose of the 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.

4. The FSS was agreed at Pension Committee on the 13 December 2022 and any further updates were delegated to Fund officers on the proviso that the FSS was not expected to change fundamentally in between now and when the actuarial valuation is signed off by the actuary on the 31 March 2023.

5. The updated FSS is provided at Appendix 1 and includes the following changes which have been shown via tracked changes.

- Additional wording Section 6 to explain the Climate Change analysis being performed.
- Additional wording in Appendix D to facilitate review of the termination policy for employers without a guarantor during times of extreme events, such as a material shift in market conditions or shift in economic/fiscal policy.

- Made some other small changes.

**FSS Consultation Outcome**

6. The consultation on the draft FSS was sent to Employers in November 2022 and they were asked to respond by 27 January 2023. The Fund received no responses to the proposed FSS and therefore the FSS provided to the December Committee together with those highlighted within this report will provide the final published FSS. It is worth reiterating the Key updates made to the FSS agreed in December 2022.

**Key updates made to the FSS agreed at December 2022 Pension Committee**

7. The key updates that were highlighted in the FSS provided in December 2022 are as follows:-.

**CPI inflation assumption**

8. A key assumption which drives the projected benefit cashflows (the Pension Fund liabilities) is the inflation rate. This is derived based on year-on-year projections based on market outlook and expectations from the Bank of England and represents the average inflation rate over a long period (50+ years). This is set by the Fund, based on advice from the Actuary and at this valuation the inflation assumption has increased to 3.1% p.a. at the valuation date which compares to 2.4% p.a. at the 2019 valuation. This reflects the increased inflation outlook at this valuation. The actual April 2023 increase to benefits is expected to be based on the September 2021 to September 2022 CPI inflation which was 10.1%. This is subject to confirmation by the Government. As part of the proposed valuation assumption we have also adjusted the benefit cashflows for the actual observed inflation over the 6 months from September 2021 to 31 March 2022.

**Discount rate (average expected return) basis for past service liabilities (funding target)**

9. A key assumption which drives the value of the Pension Fund liabilities (the future benefit payments) and therefore deficit is the discount rate. This is set by the Fund, based on advice from the Actuary, to reflect the overall investment return which the Fund expects to achieve on its assets over the long term with a suitable and necessary allowance for prudence. In terms of setting contributions, the relationship of the expected investment return on assets compared to the rate of expected future increases in benefit payments (i.e. CPI inflation) is critical (in other words we need to reflect the "real" investment return expected on the Fund assets)

10. The discount rate reflects the "real" expected asset return above the CPI baseline assumption when assessing the long-term solvency target. This is a challenge for this valuation given the current significant increase in inflation which increases the liabilities as the benefits are inflation linked and potentially reduces the "real return" on assets. A judgement is needed as to how persistent this period of higher inflation could be, with the risk that understating its duration in this valuation will transpire into higher contributions at the next valuation in 2025 taking into account the material volatility we have seen since the valuation date. This is to ensure the right balance between affordability and sustainability of employer contributions is struck.

11. The Actuary has proposed to reduce the expected level of real return above CPI by 0.15% from the 2019 valuation to CPI+1.50% per annum for the Growth pot, to maintain an appropriate level of prudence (as in the probability of achieving the discount rate).

This results in a gross discount rate of 4.6% p.a. (3.1% + 1.5%) at the valuation date. The Medium Pot and Cautions Pot have also been reviewed with proposed assumptions of CPI+1.25% per annum and Gilts+0.75% per annum, respectively.

**Discount rate (average expected return) basis for future service liabilities**

12. The future service liabilities (which determine an employer's Primary Contribution Rate) are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used to provide stability in the primary/future service contribution rate (as per the Regulations) and reflect the different characteristics of these liabilities.

13. As future service contributions are paid in respect of benefits built up in the future, the future service contribution rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, 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.

14. The Actuary's view is that the real return applied in 2019 could be too optimistic given the impact of inflation on investment returns and the challenging outlook since the valuation, and advises a discount rate of CPI +2.00% per annum be considered (a 0.25% reduction) for the Growth pot. This results in a gross discount rate of 5.1% p.a. (3.1% + 2.0%) at the valuation date. The Medium Pot and Cautions Pot have also been reviewed with proposed assumptions of CPI+1.75% per annum and Gilts+0.75% per annum, respectively.

**Pay growth assumption (including increments)**

15. Along with an employer's payroll, liabilities in relation to final salary benefits earned pre 2014 and the McCloud remedy are related to a members' final pay at retirement or leaving. The Fund therefore needs to make an assumption about future pay progression in the short and longer term. The long term pay growth is CPI+1.5% p.a. which is the same assumption as the 2019 valuation. In terms of short term pay growth over the 3 years from 1 April 2023, the intention is to adopt an average pay growth assumption option of 4% p.a. depending on employer category. Employers will be given the option which best suits their circumstances. For the purpose of the provisional results in paragraph 7 of this report we have used a 4% p.a. assumption for all employers

**Demographic assumptions**

16. The baseline and long-term trend in mortality has been adjusted to reflect the Fund's experience since 2019 and wider trends of the progression of life expectancy improvements. The analysis indicates that there has been a reduction in expected life expectancy versus the assumptions made at the 2019 valuation which has reduced the liabilities and future service rate.

17. The proposed assumption would result in an overall life expectancy at age 65 as follows for sample members (disclosed 2019 valuation life expectancies in brackets):

- Male pensioner currently age 65: 22.1 years (22.8 years)
- Male active member currently age 45: 23.7 years (24.5 years)
- Female pensioner currently age 65: 24.3 years (25.2 years)
- Female active member currently age 45: 26.4 years (27.2 years)

18. Some of the other demographic assumptions have also been changed at this valuation including the likelihood of leaving active service before retirement, the likelihood of a dependant's pension being paid and the level of pension being commuted for cash by members upon retirement. All of these changes have marginally increased the liabilities and future service rate but not significantly compared to life expectancy and other factors

**Recovery periods (surplus and deficit)**
19. When determining an employer's Secondary Contribution Rate we require a period over which to recover any deficit or run down any surplus to target full solvency i.e. a 100% funding level.

20. Where an employer is in deficit, there is a proposed reduction in the average deficit recovery period of 3 years, which is generally equivalent to a continuation of the 2019 deficit recovery plan. This would apply to employers, subject to covenant and affordability considerations as per the draft FSS. Where employers are in surplus (which is the majority at this valuation), the period over which the surplus can offset future contribution requirements will generally remain the same as the 2019 valuation (whether an employer was in deficit or surplus at that point). This approach supports the sustainability of future contributions along with the employers who choose to pay contributions above the minimum required as noted in paragraph 10

**McCloud Judgment**
21. The McCloud discrimination case relates to the protections provided to members close to retirement when the Fund benefits were changed in 2014, and the case determined that those not close to retirement should be afforded the same protections (subject to meeting certain criteria). The costs of the remedy were not included in the 2019 valuation balance sheet (as they were unknown) although the estimated cost of a potential remedy was allowed for in employer contributions where employers opted for this. The Government has now set out how the remedy should be treated at the 2022 valuation to ensure consistency (as the remedy Regulations have yet to be passed into law). Therefore in line with this recommendation, the Fund's approach has been to include amendments for all employers in the 2022 valuation to reflect the McCloud remedy when valuing past service liabilities. The McCloud benefit window ended on 31 March 2022 and so the judgement does not affect employer future service (Primary) contribution rates at the 2022 valuation.

**Climate change funding level scenario analysis**
22. An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate transition risks and physical risks on the potential funding outcomes. The impact of different scenarios at the whole Fund level versus the baseline (which assumes the funding assumptions are played out) is being considered as part of the valuation to ensure the funding strategy is sufficiently robust to the risks posed by climate change. This section of the FSS has been updated by the actuary on pages 19 and 20 of the attached FSS.

23. The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient in the context of the scenarios considered. However, any climate related impacts will

potentially put significant stress on the funding plan, especially when taken into account with other risk factors so the analysis will be further developed and be monitored over time. A summary of the output of the analysis will be set out in the Fund Actuary's report on the valuation

**Other Fund policies**

24. The only new policy in the 2022 FSS covers 'Notifiable Events'. It is best practice to have a defined set of notifiable events that employers are obliged to inform the Fund about as it may have a material effect on the covenant or the liability or membership profile. Whilst in most cases regular covenant updates will identify some of the key employer changes, under this new policy in some circumstances employers will be required to proactively notify the Administering Authority of any material changes. This policy sets out when this may happen and the notifiable events process.

25. The existing policies have all been reviewed. However, the majority of the content remains unchanged (except to reflect the 2022 valuation updates such as assumption and date changes etc.). We have also incorporated additional wording to allow flexibility to review the termination policy with the Fund Actuary in light of changes in market conditions and any review of fiscal or monetary policy by the Government or Bank of England, given the current gilt market volatility.

26. The final actuarial outcome for the whole Fund results (based on the proposed assumptions in the FSS) are a funding level of 100%, a surplus of £14m and a future service contribution rate of 18.8% of pay. The equivalent 2019 valuation results were a funding level of 90%, a deficit of £324m and average future service rate of 17.5% of pay. Overall the theoretical total average employer contributions are expected to fall at this valuation due to the improved funding position despite an increase in the future service rate. The outcomes will vary materially between employers although the major councils will broadly follow the total Fund

**<u>Initial draft of the 2022 Valuation rates and adjustment certificate</u>**

27. The actuary will provide an initial draft of the 2022 valuation rates and adjustment certificate for Committee on the 22 March 2022. Please note this will be a working draft and therefore subject to adjustment up to the point of sign off (31 March 20223), for any amendment to the employer contributions that may be agreed as well as confirmation of auditor requirements for certifying prepayment contributions. For this version, the actuary will currently use the same approach that was used for the 2019 valuation to certify a 3-year deficit lump sum prepayment i.e. certifying this as a 3-separate lump sum amounts in respect of each contribution year. The actuary will also ask the Committee to note there may be some further formatting changes and adjustment to the notes as they finalise the draft report.

**<u>Current negotiations taking place with Housing associations relating to deferred debt agreements and / or debt servicing agreements</u>**

28. Within the Funds FSS, the termination policy provides flexibilities for the Fund at its discretion to consider spreading exit payments over an agreed period and Deferred Debt Agreements (DDA).

29. The Fund's policy for spreading exit payments (referred to as payment plans) is as follows:-

a) 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; and
.
b) 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 termination policy within the FSS.

30. 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.

31. 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).

32. 3 Housing associations are currently looking to exit from the Fund and are in discussions regarding exploring spreading exit payments over an agreed period and / or Deferred Debt Agreements (DDA) with officers and our actuary.

*33. The Fund is seeking delegated responsibility to the appropriate officers of the fund in consultation with the Chair of the Pensions Committee to look at negotiating and concluding these arrangements with the 3 Housing associations. If approved, officers will bring back quarterly progress updates to Committee.*

**Contact Points**

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**Supporting Information**

- Proposed final Funding Strategy Statement (Appendix 1)

**Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) the background papers relating to the subject matter of this report are

Funding Strategy Statement Committee report December 2022

# FUNDING STRATEGY STATEMENT

## Approved by Pensions Committee on [DATE]

**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 2022 valuation show the liabilities to be ~~[~~100~~]~~% covered by the current assets using the prudent assumptions set out in Appendix A. The Fund’s long-term objective is to secure and maintain sufficient assets to cover all pension liabilities in the longer term. Deficit recovery / surplus offset periods vary by employer category. For employers in deficit, a maximum deficit recovery period of 12 years applies. For employers in surplus a maximum surplus spreading period of 15 years applies.

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: | ~~[~~4.60~~]~~% p.a. | ~~[~~4.35~~]~~% p.a. | ~~[~~2.45~~]~~% p.a. |
| Future service discount rate: | ~~[~~5.10~~]~~% p.a. | ~~[~~4.85~~]~~% p.a. | ~~[~~2.45~~]~~% p.a. |
| CPI price inflation | ~~[~~3.10~~]~~% p.a. | ~~[~~3.10~~]~~% p.a. | ~~[~~3.10~~]~~% 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

58%.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. 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 and long term cost efficiency objectives.
- 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 12 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 a maximum period of 15 years 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. For the Growth and Medium Pot this is measured over and above assumed future Consumer Prices Index (CPI) inflation. For the Cautious Pot this is measured over and above gilt yields.
- 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 2022 actuarial valuation. 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:

- When determining the final level of contributions payable at each valuation within the FSS parameters, ensure they consider the appropriate balance between contribution affordability in the short term and the sustainability of contributions in the longer term. An employer should ensure they understand the potential risk that contributions may increase if experience turns out worse than the actuarial assumptions adopted. This may lead to employers choosing to pay higher contributions than the minimum requirement under the FSS.

- 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 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 2023 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 2022 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 and administration costs.
- the Secondary rate: a schedule of lump sum monetary amounts over 2023/26 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 2026 based on the results of the 2025 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 2023, following completion of the 2022 actuarial valuation, at the sole discretion of the Fund the increase (or decrease) from the rates of contribution payable in the year 2023/24 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 2023/2026. 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 2023/26 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 2022 valuation show the liabilities to be [100]% covered by the current assets.

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 1.4% 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 58%. 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 3.3% 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 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.

## CLIMATE CHANGE

An important part of the risk analysis underpinning the funding strategy will be for the Actuary to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation, an analysis of different climate change scenarios at the Whole Fund level is being undertaken relative to the baseline position assuming that the funding assumptions are played out on a best estimate basis. The projections are meant to illustrate the different elements of risk under three climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change. In future ~~T~~the actions taken (both historically and in future) by the Fund in relation to making its asset portfolio more sustainable will ultimately be~~is~~ set out in the separate Taskforce for Climate Change (TCFD) reports and analysis of the asset portfolio adopting ~~the same (or~~ similar (but not necessarily the same)~~)~~ scenarios although this can be over a different time period.

The analysis will consider a projection of the funding levels under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change.

The key metrics are the relative impact on the funding level over the different time periods as this illustrates the impact of climate related market shocks on the funding plan and the analysis will provide the Fund with additional information regarding the resilience of the funding strategy and adequacy of prudence margins. Whilst the scenarios being considered are only three out of a considerable range of potential outcomes, it shows that climate change can have far reaching effects on the Fund.

The Actuary applies a nuanced approach to understand what is/is not priced into the markets in terms of transition and physical risks. They include assumptions about what is currently priced into markets, and later price in shocks when the markets account for future impacts (both physical and transition impacts). The three climate shock scenarios being considered are:

1. Rapid Transition - there is a sudden divestment across multiple securities in 2025 to align portfolios to the Paris Agreement goals, this will have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase stabilises at 1.5°C around 2050.

2. Orderly Transition - political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C. This scenario includes additional economic damage consistent with 1.8°C of average temperature rise – peaking in 2070.

3. Failed Transition - The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events.

The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient in the context of the scenarios considered. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account with other risk factors so the analysis will be further developed and be monitored over time. A summary of the output of the analysis will be set out in the Fund Actuary's report on the valuation.

Other risks (e.g. longevity) will also be considered in future analysis but are expected to have a much lower impact than the financial market impacts. The expected impact on asset returns under different scenarios and timeframes will be shown in more detail in the separate ~~TCFD~~ reports.

# 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 Government have confirmed that this judgment will result in a remedy being implemented for the LGPS. Whilst proposals to address the specific discrimination have been set out in a written ministerial statement on 13 May 2021, the changes have not yet been made to the Regulations. However, the Department for Levelling Up, Housing & Communities (DLUCH) issued guidance which sets out how the McCloud case should be included within the 2022 valuation.

# 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) for the Growth and Medium pots and in excess of Gilt yields for the Cautious pot.

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 ~~[~~1.5]% per annum above CPI inflation i.e. a real return of ~~[~~1.5]% per annum and a total discount rate of ~~[~~4.60~~]~~% 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 ~~[~~1.25~~]~~% per annum above CPI inflation i.e. a real return of ~~[~~1.25~~]~~% per annum and a total discount rate of ~~[~~4.35~~]~~% 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 ~~[~~0.75~~]~~% per annum above Gilt yields and a total discount rate of 2.45% 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 (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform).

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 0.8% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation. The change will then be implemented for the policies set out in this statement. The inflation assumption can be different in relation to the termination policy to reflect the required prudence based on the Actuary's advice.

**Salary increases**
In relation to benefits earned prior to 1 April 2014 (and 2014 to 2022 McCloud underpin), 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 ~~[~~4~~]~~% per annum until 31 March 2026.

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 2021 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 2021 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 | 22.1 | 24.3 |
| Actives aged 45 now | 23.7 | 26.4 |
| Deferreds aged 45 now | 23.3 | 25.9 |

For example, a male pensioner, currently aged 65, would be expected to live to age 87.1. Whereas a male active member aged 45 would be expected to live until age 88.7. 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, 75% of retiring members will take the maximum tax-free cash available at retirement. 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, death before retirement, withdrawal rates and the proportions married/civil partnership has been reviewed. The outcome of this analysis is that the assumptions for death before retirement, withdrawal and the proportions married/civil partnership have been updated in line with the recommendations from the Actuary. The assumption for ill health retirements remains in line with the assumption 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.

**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 ~~[~~2.00~~]~~% per annum above the long-term average assumption for consumer price inflation of ~~[~~3.10~~]~~% per annum. This leads to a discount rate of ~~[~~5.10~~]~~% 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 ~~[~~1.75~~]~~% per annum above the long-term average assumption for consumer price inflation of ~~[~~3.10~~]~~% per annum. This leads to a discount rate of ~~[~~4.85~~]~~% 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 ~~[~~0.75~~]~~% per annum above Gilt yields and a total discount rate of ~~[~~2.45~~]~~% 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 OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2022 ACTUARIAL VALUATION

| | |
|---|---|
| **Long-term yields** | |
| Market implied RPI inflation | [3.90]% p.a. |
| **Solvency Funding Target financial assumptions** | |
| Investment return/Discount Rate (Growth pot) | [4.60]% p.a. |
| Investment return/Discount Rate (Medium pot) | [4.35]% p.a. |
| Investment return/Discount Rate (Cautious pot) | [2.45]% p.a. |
| CPI price inflation | [3.10]% p.a. |
| Long Term Salary increases* | [4.60]% p.a. |
| Pension increases/indexation of CARE benefits | [3.10]% p.a. |
| **Future service accrual financial assumptions** | |
| Investment return/Discount Rate (Growth pot) | [5.10]% p.a. |
| Investment return/Discount Rate (Medium pot) | [4.85]% p.a. |
| Investment return/Discount Rate (Cautious pot) | [2.45]% p.a. |
| CPI price inflation | [3.10]% p.a. |
| Long Term Salary increases | [4.60]% p.a. |
| Pension increases/indexation of CARE benefits | [3.10]% 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 [4]% p.a. until 31 March 2026.

**Life expectancy assumptions**
The post retirement mortality tables adopted for this valuation are set out below:

| Current Status | Retirement Type | Mortality Table |
|---|---|---|
| Annuitant | Normal health | 106% S3PMA_CMI_2021 [1.75%] |
| Annuitant | Normal health | 100% S3PFA_M_CMI_2021 [1.75%] |
| Annuitant | Dependant | 129% S3PMA_CMI_2021 [1.75%] |
| Annuitant | Dependant | 114% S3DFA_CMI_2021 [1.75%] |
| Annuitant | Ill health | 134% S3IMA_CMI_2021 [1.75%] |
| Annuitant | Ill health | 182% S3IFA_CMI_2021 [1.75%] |
| Annuitant | Future dependant | 129% S3PMA_CMI_2021 [1.75%] |
| Annuitant | Future dependant | 114% S3DFA_CMI_2021 [1.75%] |
| Active | Normal health | 110% S3PMA_CMI_2021 [1.75%] |
| Active | Normal health | 99% S3PFA_M_CMI_2021 [1.75%] |
| Active | Ill health | 242% S3IMA_CMI_2021 [1.75%] |
| Active | Ill health | 321% S3IFA_CMI_2021 [1.75%] |
| Deferred | All | 117% S3PMA_CMI_2021 [1.75%] |
| Deferred | All | 106% S3PFA_M_CMI_2021 [1.75%] |
| Active / Deferred | Future dependant | 126% S3PMA_CMI_2021 [1.75%] |
| Active / Deferred | Future dependant | 114% S3DFA_CMI_2021 [1.75%] |

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

# Appendix B

**EMPLOYER DEFICIT RECOVERY CONTRIBUTIONS AND SURPLUS OFFSET PLANS**

If the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), an adjustment plan needs to be implemented such that the secondary contributions for each employer can be calculated. This adjustment plan requires a period over which to recover the deficit or run off any surplus i.e. the recovery period.

It is one of the Fund's key objectives that an employer will target 100% funding (e.g. full solvency) over an agreed period to maintain sustainability of contributions in the longer term subject to the affordability of the participating employers given other competing cost pressures, dependent on the Administering Authority's view of the employer's covenant and risk to the Fund. Based on the advice of the Actuary the assumptions and parameters in the FSS have be determined to try to achieve this but there is no guarantee that contributions will remain sustainable at future valuations. Employers therefore need to consider the balance between affordability of contributions in the short term and sustainability of contributions in the longer term (at subsequent actuarial valuations) in the context of their budgets now and in the future when determining the level of contributions. This could lead to an employer deciding to pay more than the minimum contributions determined under the FSS which would support future sustainability/stability of contributions at future valuations.

Deficit recovery contributions or surplus offsets will normally be expressed as £s amounts (with the exception of the Town and Parish Council's group where total 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

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 recovery periods is summarised below:

If an employer is in deficit:

| Category | Default Recovery Period | Derivation |
|---|---|---|
| Fund Employers | 12 years | Determined by reducing the period from the preceding valuation by at least 3 years (where appropriate) |
| Open Admitted Bodies | 12 years | Determined by reducing the period from the preceding valuation by at least 3 years |
| Closed Employers | Lower of 12 years and the future working lifetime of the membership, subject to a minimum of 3 years | 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, subject to a minimum of 3 years | Length of expected period of participation in the Fund |

If an employer is in surplus:

| Category | Default Recovery Period | Derivation |
|---|---|---|
| Fund Employers | 15 years | Determined as the same period adopted for the last valuation |
| Open Admitted Bodies | 15 years | Determined as the same period adopted for the last valuation |
| Closed Employers | Higher of 15 years and the future working lifetime of the membership | Determined by the membership of the employer |
| Employers with a limited participation in the Fund | Determined on a case-by-case basis, subject to a minimum of 3 years | Length of expected period of participation in the Fund |

In determining the actual 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 surplus or 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.

## 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 affordability issues 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 2023/26. 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 Fund. 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 OUTSOURCINGS 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

Worcestershire Pension Fund

**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.

This methodology will be reviewed on a regular basis, in light of changes in market conditions and any review of fiscal or monetary policy by the Government or Bank of England.

## 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. When assessing a termination position a reasonable estimate for the potential cost of McCloud will be included within the termination assessment.

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.

## 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 2022) 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 2022 |
| --- | --- |
| Discount Rate | 1.70% p.a. |
| CPI inflation | ~~[~~3.10~~]~~% p.a. |
| Pension increases/indexation of CARE benefits | ~~[~~3.10~~]~~% 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 and any review in fiscal or monetary policy by the Government or the Bank of England~~from time to time (see below).

All demographic assumptions will typically be the same as those adopted for the ~~2022~~ 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~~ considered 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 2022 valuation for ongoing funding and contribution purposes.

## REVIEW OF THE TERMINATION POLICY

As set out above, for employers without a guarantor, the financial assumptions are currently related to the yields on Government debt (known as Gilts) adjusted based on actuarial advice. The principle of the termination policy and the assumptions used is to ensure (as far as possible) there is sufficient monies to pay all the benefits due in relation to the "orphan" members of the outgoing employer as otherwise the remaining employers would later have to fund this via their contributions at subsequent valuations. This is why the Fund take a more cautious view as set out in this policy. For other employers the policy is to use the appropriate ongoing funding assumptions if the orphaned liabilities are to be wholly subsumed by a guarantor in the Fund (once any exit payment is paid to/from the employer depending on the circumstances).

The policy and assumptions will be reviewed as a matter of course at each actuarial valuation but will also be reviewed regularly or in times of extreme events, such as a material shift in market conditions or shift in economic/fiscal policy, which will affect the assets or liabilities of the exiting employer. This is to ensure that the approach remains appropriate, given the risk associated with funding the orphaned liabilities left behind by an exiting employer is being passed to other Fund employers, and ultimately the tax payer. This means that the assumptions (both financial and demographic) can be changed if circumstances warrant it and this could mean that the discount rate may not be linked to the market yield on gilts in future or that the inflation assumption is further adjusted. An exiting employer would be informed of any change (and the rationale for the change) and the policy would be updated from time to time.

## 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 for the Growth and Medium pots and as an expected return of Gilt yields for the Cautious pot.

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

**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 (an example of the notifiable events framework is set out in Appendix H).

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

Worcestershire Pension Fund

**NOTIFIABLE EVENTS FRAMEWORK**

The Fund regularly monitors the covenant of its employers. Whilst in most cases the regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to notify the Administering Authority of any material changes. This is in keeping with the guide that The Scheme Advisory Board recently published ('A Guide for Administering Authorities') in which is recommended that Administering Authorities should include a notifiable events process within its policies.

It is considered to be in the best interests of the employer to inform the Fund of any notifiable events that occur. This will enable the Fund to work with the employer to find an effective solution, particularly in times of change or financial distress and keep the interests of the employer, the Fund, the members and a guarantor (if one exists) in mind. Early engagement is always more effective and efficient for all parties than retrospective steps.

By not informing the Fund of a notifiable event, it may be seen as a deliberate act to hide the information or delay the Fund from taking action. If the Fund becomes aware of an event that has not been openly communicated as part of this policy, they reserve the right to implement one or more of the actions set out below without the consent of the employer.

In the case of guaranteed employers this policy applies to both the employer and the guarantor.

A notifiable event is any event or circumstance that, in the judgement of the Fund, could materially affect one or more of the following:

- the employer's basis for continued participation in the Fund
- the employer's ability to pay its ongoing contributions to the Fund*
- the employer's ability to pay its termination debt to the Fund in the event of ceasing to participate in the Fund*

* These conditions would also apply where an employer and the Fund has entered into a Deferred Debt Agreement allowing continued participation as a Deferred Employer with no contributing members.

This policy sets out a list of typical events that, if they apply, must be notified to the Fund within a reasonable time period. The list is not exhaustive and may be modified from time to time. The Fund would deem 10 working days to be reasonable in the majority of cases. In some cases, notification prior to the event occurring may be required and this is detailed within the relevant sections below. The Fund will ensure that all information is treated as confidential.

## EVENTS THAT MUST BE NOTIFIED TO THE FUND

The Fund considers any change that would be detrimental to either the employer's ability to finance their pension obligations or the ongoing viability of the employer to be 'material' and 'significant'.

Typical events that must be notified to the Fund include the following:

### 1) Significant changes in the employer's membership / liabilities

This includes but is not limited to the following scenarios, where applicable:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   i. Restructuring of the employer involving significant changes in staffing
   ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)*
   iii. A bulk transfer of staff into the employer, or out of the employer to another pension scheme*
   iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or large a number of member withdrawals*
   v. A decision which will restrict the employer's active membership in the future*

b) Two or more employers merging including insourcing and transferring of services*
c) The separation of an employer into two or more individual employers*
d) Concerns of fraudulent activity that may include pensions aspects

*In these examples, the Fund requires prior notification of events at least 14 days before commencement of staff consultation regarding proposed changes to members' pensions. The Fund will ensure that all information is treated as confidential.

### 2) Significant changes to the employer covenant

i. Significant changes in the employer's financial strength / security

A material change in an employer's immediate financial strength or longer-term financial outlook. This includes but is not limited to the following scenarios (where applicable):

a. An employer's forecasts indicate reduced affordability of contributions.
b. A significant reduction in funding (e.g. reduction in grants, central government funding or other income stream)

c. Provision of security to any other party including lenders and alternative pension arrangements
d. Impairment of security, bond or guarantee provided by an employer to the Fund against their obligations
e. The sale or transfer of significant assets, where the net book value or sale value exceeds 10% of the employer's net assets
f. A material increase in gearing (i.e. taking on additional debt in order to finance its operations)
g. The employer has defaulted on payments
h. There has been a breach of banking (or other) covenant or the employer has agreed a waiver with the lender
i. The employer's officers are seeking legal advice in the context of continuing to trade and/or potential wrongful trading
j. An employer becomes insolvent

ii. A change in the employer's <u>circumstances</u>

This includes but is not limited to the following scenarios, where applicable:

a. A merger of the employer with another organisation
b. An acquisition by the employer of another organisation or relinquishing control
c. An employer commences the wind down of its operations or ceases to trade
d. A material change in the employer's business model
e. A change in the employer's legal status (to include matters which might change qualification as a scheme employer under the LGPS Regulations)
f. The employer becoming aware of material suspected / actual fraud or financial irregularity
g. The employer becoming aware of material legal or court action against them
h. There has been suspension or conviction of senior personnel
i. Regulatory investigation and/or sanction by other regulators
j. Loss of accreditation by a professional, statutory or regulatory body

In the examples set out above, the Fund requires prior notification of these events (e.g. at the time that there has been a decision in principle rather than once the event has happened). The Fund will ensure that all information is treated as confidential.

## WHAT INFORMATION SHOULD BE PROVIDED TO THE FUND?

The information required will vary depending on the situation that has arisen. The first step will be to email or call the Fund to notify them of the event that has occurred.

### WHAT ACTION WILL THE FUND TAKE ONCE NOTIFIED?

Where one of the listed events occurs, the Fund will enter into discussion with the employer to clarify details of the event. If necessary, advice will be taken from the Fund Actuary, legal or a covenant specialist advisors. Depending on the outcome of the Fund's review of the situation, potential actions that may be taken as a result are as follows:

a. No further action required
b. More detailed request for further information and ongoing monitoring
c. The Fund will review the documentation provided and respond on next steps
d. A review of employer contributions
e. A review of the recovery period used to calculate secondary contributions
f. A review of the employer's investment bucket
g. A review of the termination position and discussions with the employer as to how this may be addressed
h. A review of any deferred debt agreements if applicable

Employers will kept informed of all steps throughout the process.

# Appendix I

## 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 return above gilt yields, 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.
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**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, less an appropriate margin to reflect the risk being transferred from the employer to the Fund on termination. 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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worcestershire
countycouncil

# PENSIONS BOARD
# 3 MARCH 2023

# LOCAL GOVERNMENT PENSION SCHEME (LGPS) CENTRAL UPDATE

**Recommendation**

1. **The Chief Financial Officer recommends the Pension Board note the LGPS Central update.**

**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, a £200m investment into the LGPSC All World Climate Factor Passive Fund in November 2021 and more recently £200m to a Global sustainable active equity 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.

5. The Fund transferred its Active Emerging Market funds into the LGPS Central's Global Active Emerging Market managed mandate in July 2019. This is now subject to a 3 year review which is being conducted by LGPSC. This fund's performance has not been particularly good since inception being -1.0% which is 4.90% below its target as at the end of December 2022 and we await the review findings and recommendations.

**Next Company Annual General Meeting on meeting 28 February 2023**

6. The next company meeting is on the 28 February and this will mainly cover the Strategic Business Plan and Budget for 2023/24.

7. A number of dedicated meetings with representatives from the company, shareholders, Chief Officers and Fund officers have been undertaken using the same set of principles that were used to agree the LGPSC budget and Strategic Business Plan

for 2022/23 with the last meeting with PAF and Shareholders being on the 6 January 2023.

8. At the Pension Committee meeting on the 8 February, the draft LGPSC 2023/24 Budget & Business Plan attached as Appendix 1 details the proposed budget put forward totalling £15.154m (page 13) including a vacancy factor of £357k, being a 12.3% increase on the previous year. Excluding the vacancy factor the budget would be £15.511m an increase of 14.9%. Brief details of the reasons for the proposed increase are also provided.

**LGPSC Proposed Strategic Business Plan (SBP) 2023/24**
9. The proposed LGSPC 2023/24 strategic business plan is attached as an Appendix. The key focus areas are in line with the previous year and further narrative from LGPSC is provided below:-


**Effective management of assets**
10. Actions which aim to improve performance across all LGPSC funds; management information framework which demonstrates how LGPSC adds value from its oversight of external managers; working with Partner Funds on Private Markets asset allocation decisions , commitment timings and fund mandates; discussions with Partner Funds to explore whether and how LGPSC may be able to return capital, after cumulative breakeven is achieved during 2023/24.

**Transitioning new assets into the pool**
11. Ensure all new products included in 2022/23 business plan are launched during 2023/24 (subject to continuing Partner Fund needs); launch of additional Private Markets funds to meet Partner Fund Strategic Asset Allocation (SAA) needs; increase portfolio management efficiency and risk reduction through use of derivatives in discretionary Gilts mandate; review and evolve current funds (primarily through 3/5 year review processes).

**Responsible Investment & Engagement (RI&E)**
12. Continuing integration and reporting of RI&E as an element of delivering investment performance; continuous improvement of the RI&E service for Partner Funds (streamlining Climate Risk Monitoring methodology to improve speed and efficiency of Climate Risk Reporting & Taskforce for Climate related Financial Disclosures (TCFD) report production, Partner Fund training sessions and white papers on key RI&E topics & ad hoc support); continue to support Partner Funds on developing their journey to a Net Zero future; roll out offerings based on capabilities of the Environmental Social Governance (ESG) Tool; expansion of RI&E reporting to reflect evolving industry best practice.

**Strengthen (Grow) Partner Fund relationship**
13. Building out a clear client service model based around professional financial services Business-2-Business expectations; exploring with Partner Funds whether the capabilities built at LGPSC can provide additional support to key Partner Fund stakeholders; collaboration with Partner Funds to identify any additional collective services/solutions that LGPSC could provide; re-energise discussions around Central Pool Shared Objectives based on longer term partner Fund/Board aspirations for LGPSC.

**Operational resilience**
14. Procurement and implementation of Private Markets/Admin Systems; review cost sharing model; review of management information, internal data and client report; implement realigned Legal, Compliance & Risk structure and resourcing.

**Recruitment and retention**
15. Development of a clear ‘People Strategy’ to reinforce recruitment, retention, development, succession and D&I plans (to include both financial and non-financial initiatives); sharing the development of potential options for medium term retention strategies, building on the remuneration review process agreed with Partner Funds, peer group comparisons, longer term retention planning to drive performance and reinforce stability; improved dialogue between LGPSC & Shareholders to address staff retention issues.

## Worcestershire Pension Fund existing Shareholders view

16. Our Shareholder has been supportive of the LGPSC proposed budget detailed in paragraph 8 above as the primary focus of the Company should be to enhance and achieve the targeted investment returns. This means recruiting and retaining quality staff and having to compete with its ‘peers’ in terms of salary and employment conditions to do this.

### Updated Estimated Cost savings model

17. The Cost Savings Model was provided to the Committee in January 2022 and this has been updated as at the end of September 2022 and used for the Pooling submission to Department for Levelling Up, Housing & Communities (DHULC). Each Cost Savings Model is based on Assets Under Management (AUM) at different dates (**£33bn** to **£58bn**).

18. Table 1 below, indicates that total forecast savings have increased to **£339m** between 2018-19 and 2033-34, albeit a sizeable proportion of these savings (**£66m** or **19%)** are now generated directly by the Partner Funds themselves through the development of collaborative procurement frameworks and fee negotiations with legacy managers.

**Table 1: Forecast Cost Savings model updated September 2022**

| Partner Fund | CSM 2020 £ Million | CSM 2022 £ Million | *Change £ Million* | LGPSC Average Bps TER Gross Saving | LGPSC Average Bps TER Net Saving | *LGPSC Gross Savings Usage* |
|---|---|---|---|---|---|---|
| WPF | 16,522 | 9,484 | *(7,038)* | 16.3 | 2.9 | *82.2%* |
| Forecast Cumulative Savings | **268,505** | **339,618** | ***71,113*** | **15.1** | 6.6 | *56.3%* |

19. As shown in table 1 above, LPGSC forecast net savings equate to **6.6bps**; The forecast net savings are extremely sensitive to changes in relative performance, with a relatively modest ±25bps change in performance either reducing or increasing net savings by around **£760m.**

20. At a recent meeting Shareholders approved the appointment of 2 replacement non-executive directors.

***Staffing***

21. LGPSC have managed to recruit to their key posts although it remains a highly competitive recruitment market with principle candidate concerns around Remuneration and benefits packages and Location & flexible working.

***Practitioner Advisory Forum (PAF) Working Groups***

17. 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 and chaired by Worcestershire)
- 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)

18. The Partner Funds have also established an Internal Audit working group which provides a co-ordinated approach to enable the Joint, 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 (Led by Leicestershire) and the other on governance (led by Worcestershire).

***Investment Working Group***

19. 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.

1. Month 1 (Jan, Apr, Jul, Oct) – Product Development & Responsible Investment.

2. Month 2 (Feb, May, Aug, Nov) – Policy & Performance Monitoring
3. Month 3 (Mar, Jun, Sep, Dec) – Strategy and New Products

20. 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 February 2023)** |
|---|---|
| Private Equity (2021 Vintage) | *Launched* |
| Direct Property | *Launched* |
| Global Sustainable Active Equities | *Launched* |
| Private Debt | *Launched* |
| Targeted Return | *Launched* |
| Indirect Property | *Product Development focussing on residential property in first tranche* |

21. 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.

22. There was a further SAA Day planned on the 15 September 2022 and the initial requests to the company which will help form actions in the 2023/24 Strategic Business Plan were as follows:

Category A – Ongoing Priorities

1. Performance of existing products
2. Continuous RI&E Enhancements / Scope 3 and Private Markets Reporting etc
3. Products in development
   - Targeted Return
   - Direct Property
   - Indirect Property (overseas & residential)
   - Schroders Equity pathway (NPF)
   - Infrastructure - JPM investment transfers

Category B – 2023/24 Priorities

1. Private Credit – review availability of a fund vehicle for 2023/24
2. Private Equity - review availability of a fund vehicle for 2023/24
3. Carbon Targets / Metrics (TCFD etc) – scope and potential for alignment across Partner Funds.

**Contact Points**

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**Supporting Information**
LGPSC Budget and strategic business plan 2023/24 - Appendix

**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 8 February 2023
- LGPS Central business case submission to government 15 July 2016.

LGPS Central Limited



# 2023/24 Business Plan & Budget

JANUARY 2023

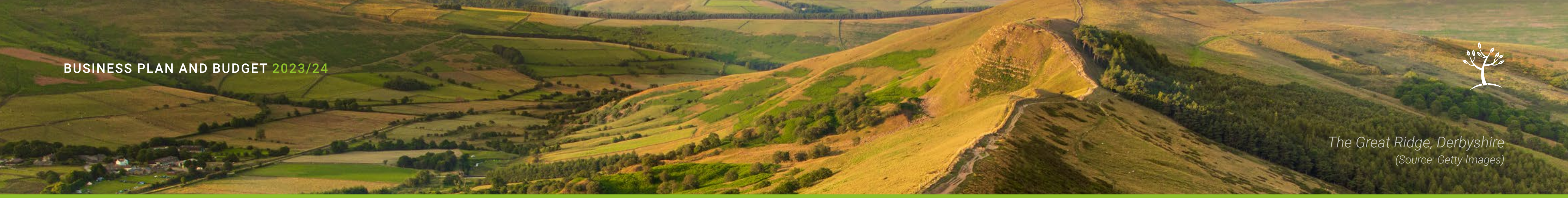
lgpscentral.co.uk

# Contents



Front Cover Image: *Morning mist in the Peak District* *(Source: Getty Images)*

Background Image: *Aerial view of rural road in Shropshire* *(Source: Getty Images)*



*The Great Ridge, Derbyshire*
*(Source: Getty Images)*

# CHAIR'S STATEMENT

Page 263

**Joanne Segars**
Chair

**As we head towards the fifth anniversary of LGPS pooling, it's a good time to reflect on just how far we've come together at LGPS Central. Today, we stand as a company responsible for just under £30bn of assets, operating across a broad range of asset classes in private and public markets supported by an expert team of 80 colleagues.**

That's no mean feat against a difficult backdrop - the COVID 19 pandemic, volatile market conditions, and unprecedented pressure on local government finances to name but three. We've been able to achieve all that by working together – the Company and Partner Funds as both Clients and Shareholders – with a strong focus on delivering good returns, good value and good governance.

During the current year we have kept a careful focus on performance; onboarded over £2bn of assets; launched 4 new funds; voted at 2,806 company annual general meetings; helped our Partner Funds meet their ESG reporting requirements; supported our colleagues in a return to work at our new headquarters at i9; and welcomed our third cohort of graduate trainees.

As chair of the Company, and indeed its first officer, I am very proud of what we've achieved together. But the job is far from done and we recognise that we've got further to go.

This year our focus will therefore be on:

1. The effective management of Partner Fund assets
2. Transitioning new assets into the Pool
3. Responsible investment and engagement
4. Growing Partner Fund relationships
5. Operational resilience
6. Recruitment, Motivation and Retention

That will mean us delivering further improved performance of the existing assets for which we are responsible; helping Partner Funds meet their strategic asset allocations with the addition of a targeted return fund and an indirect property fund and continuing our focus on developing our private markets offering. On responsible investment and engagement, we will continue to evolve what we do, including improving our reporting and Climate Risk Monitoring, which will be important in the face of the ever-growing scrutiny of pension fund activity in this area. We will continue to enhance our operational resilience so that Partner Funds as Clients can have confidence in our systems and processes and that as Shareholders you can be confident that risk is well managed. Finally, as we've said before, as a Company, our only asset is our people. So we must ensure that we can recruit, retain and motivate our colleagues to have long-term futures with us through the development of a medium-term retention policy.

As we enter our fifth year we also need to look to the medium term. Just as any business – and indeed local authority – would, we need to look beyond the imperatives for simply the next financial year. As Chair, I believe this is essential if we are to leverage the potential of pooling, and the benefits of scale, for all our Partner Funds. We have set out in this Business Plan early thoughts on some of the areas for consideration. But the Board is clear that we will need to develop and build these medium-term aspirations together, around a set of shared aspirations. I look forward to these discussions during the course of 2023.

The work programme for 2023/24 has been informed by the helpful discussions that have taken place with Partner Fund representatives since last summer and the Board's assessment of what's required to run the Company successfully, safely and compliantly in the interests of Shareholders. I would like to thank Partner Funds for their engagement.

The Board has considered carefully the budget required to support this work. For the 2023/24 financial year, our operating budget will be £15.2m, an increase of 12.3% on the previous year. This puts our operating budget at under 5 basis points (based on the projected assets under our stewardship for the year) and is a number that's been broadly consistent since our inception, and with the growth in assets under stewardship. The Board believes this represents good value for money and demonstrates our focus on delivering for Partner Funds.

We have a busy year ahead, but I know that by working together we can achieve much to support the delivery of pensions to the one million members covered by the Central Pool. I look forward to working with you.

**Joanne Segars**
Chair
*LGPS Central Limited*

*Spaghetti Junction, West Midlands*
*(Source: Getty Images)*

*Birmingham, West Midlands*
*(Source: Getty Images)*

# CEO'S OUTLOOK

**Mike Weston**
CEO

Page 265

## As we look forward to our sixth year of operations, our focus remains on supporting and delivering to the key needs of our Partner Funds.

These key needs were confirmed over 2022 as being to deliver:

- the investment performance our Clients need to support the payment of benefits to members
- improvements in service quality and efficiency
- the new funds and services that our Clients have asked for
- great value for money in everything we do for Partner Funds as Clients and tangible ownership benefits for Partner Funds as Shareholders

The business plan activity and budget have been developed with these priorities in mind against the backdrop of volatile markets and acute awareness of the financial constraints that local authorities are operating under. This business plan builds upon previous years' progress, anchoring activity to the six key themes that are familiar, along with outlining in detail key business initiatives that will support in the delivery to Partner Funds.

We have sought to be very open with Shareholders about the challenges the business faces and the Board's plans to solve these challenges; extensive information has been provided to the Practitioners Advisory Forum (PAF) and Shareholders setting out the rationale and the thought process that has been undertaken. At all times the Board has sought to balance the need for obtaining best value for our Shareholders with the need to invest in the business so that we can deliver against our Clients' key needs.

Our 23/24 operating budget is £15.2m which is an increase of 12.3% from the prior year. This maintains LGPSC's operating budget at around 5 basis points based on projected assets under stewardship over the year. In future, with additional scale, we have the potential to provide further additional value for money for Clients and Shareholders.

We look forward to continuing to work with our Partner Funds over the 2023/24 year and are committed to exploring further with Partner Funds the medium-term objectives for the Central Pool and the supporting business strategy for LGPS Central Limited.

**Mike Weston**
Chief Executive Officer
*LGPS Central Limited*

# SUMMARY OF KPIs

**KPI performance focusses management attention to two key areas; investment performance and staff turnover. Full details of 2022/23 performance to date is included in Appendix 1.**

FIGURE 1: SHAREHOLDER KPIS – 31 DECEMBER 2022

| KPI CATEGORY / BUSINESS PLAN OBJECTIVES | NO. OF KPIs | RAG STATUS FOR EACH KPI | | | | | |
|---|---|---|---|---|---|---|---|
| Legal Duty | 2 | G | G | | | | |
| Investment Management Business Essentials | 6 | G | R | G | G | A | G |
| Client Service | 2 | G | - | | | | |
| Internal Business Management | 4 | R | G | G | G | | |

# KEY AREAS OF FOCUS

**For transparency and consistency, LGPS Central will continue to anchor activity around the six key themes.**

FIGURE 2: LGPS CENTRAL FOCUS AREAS


In addition to specific business plan objectives for the year we highlight potential areas of further discussion around medium terms aims of the LGPS Central pool.

FOCUS AREA 1

# Effective management of assets

| 23/24 OBJECTIVE | VALUE DELIVERED TO PARTNER FUNDS |
|---|---|
| Focus on actions which aim to further improve performance across all LGPS Central funds – including reviews to test mandate design and product construction resilience | Getting funds on track to mandated target returns supports Partner Funds achieving original objectives |
| Clear management information framework which demonstrates how LGPSC adds value from its oversight of external managers including manager updates | Clear understanding of LGPSC role to enable communication with stakeholders and to further inform Partner Fund decision making |
| Working with Partner Funds on Private Markets asset allocation decisions, commitment timings and fund mandates | Reduction of start-up and ongoing operating costs |
| Discussions with Partner Funds to explore whether and how LGPSC may be able to return capital after cumulative breakeven is achieved during 2023/24 | Financial benefit to Partner Funds in challenging financial environment |

Page 268

**MEDIUM TERM AREAS FOR DISCUSSION**

- Increase LGPSC understanding of Partner Fund SAA trajectories, the development of individual scheme liability and cash flow profiles to ensure future LGPSC capabilities are focused on providing solutions for developing Partner Fund needs
- Continuing refinement of internal processes for portfolio construction, investment risk analysis and performance attribution to continuously improve manager oversight value add

FOCUS AREA 2

# Transitioning new assets into the pool

| 23/24 OBJECTIVE | VALUE DELIVERED TO PARTNER FUNDS |
|---|---|
| All new products included in the 2022/23 business plan will be launched during 2023/24 (subject to continuing Partner Fund needs)<br>• Targeted Return Fund<br>• Indirect Property (Overseas & Residential) | Directly meeting Strategic Asset Allocation (SAA) and product development needs |
| Launch of additional Private Markets Funds to meet Partner Fund SAA needs<br>• Private Equity (additional Direct and Co-Investment vintage funds), Private Credit (Lower returning direct lending) | Directly meeting SAA and product development needs |
| Increase portfolio management efficiency and risk reduction through the use of derivatives in discretionary Gilts mandates | Improved risk adjusted returns |
| Review and evolve current funds (primarily through 3/5 year review processes) | Ensure existing LGPSC funds remain suitable for additional, future Partner Fund asset transitions, particularly around investment performance and evolving RI&E expectations |

**MEDIUM TERM AREAS FOR DISCUSSION**

- Prepare for potential outcomes of DLUHC pooling consultation

FOCUS AREA 3

## Responsible investment & engagement

| 23/24 OBJECTIVE | VALUE DELIVERED TO PARTNER FUNDS |
|---|---|
| Continuing integration and reporting of RI&E as an element of delivering Investment Performance | Enable key Partner Fund stakeholders to better understand how we view RI&E as an income generator and risk mitigator to facilitate greater support |
| Continuous improvement of the RI&E service for Partner Funds<br>• Streamlining the Climate Risk Monitoring methodology to improve the speed and efficiency of CRR and TCFD report production<br>• Partner Fund training sessions and white papers on key RI&E topics and ad-hoc support | Improved information provision to Partner Funds and increased internal efficiency |
| Continue to support Partner Funds on developing their journey to a Net Zero future | Enable Partner Funds to measure the position, progress and make more informed decisions on how to achieve Net Zero aims |
| Roll out of offerings based on capabilities of the ESG Tool<br>• Impact scoring for GSE portfolios<br>• Improved consistency and granularity of external manager oversight to support investment performance<br>• Increased support for existing product evolution and future product development | Supporting the delivery of investment performance |
| Expansion of RI&E Reporting to reflect evolving industry best practice | Visible demonstration that Partner Funds and Central Pool maintain leading position on topic important to scheme members |

### MEDIUM TERM AREAS FOR DISCUSSION

- Increased collaboration with RI&E teams in other Pools to reduce costs/improve efficiencies/ develop LGPS centres of excellence

Page 269



FOCUS AREA 4

## Grow partner fund relationships

| 23/24 OBJECTIVE | VALUE DELIVERED TO PARTNER FUNDS |
|---|---|
| Further development of the clear client service and stakeholder engagement model based around professional financial services Business-2-Business expectations including:<br>• Requests responded to within an agreed time frame<br>• Service measured within regular quarterly and pulse surveys<br>• Process and communication agreed around how issues are reported to Clients/Shareholders<br>• Ongoing hybrid/face to face engagement<br>• Service catalogue available across all functions/ teams in LGPS Central | Provide clarity to Partner Funds how we interact as a service provider to better manage expectations around the timely delivery of information and services |
| Exploring with Partner Funds whether the capabilities built at LGPSC Ltd can provide additional support to key Partner Fund stakeholders | Providing additional consultancy / advisory support to Partner Funds, assisting discussions with Pension Committee and external consultants |
| Collaboration with Partner Funds to identify any additional collective services/solutions that LGPSC could provide | Collective services which can benefit partner funds working together e.g. cash management / treasury |
| Re-energise discussions around Central Pool Shared Objectives based on longer-term Partner Fund/ Board aspirations for LGPS Central Ltd | Clarity and consensus of Shared Objectives will facilitate and streamline delivery of Partner Fund/ Board aspirations |

### MEDIUM TERM AREAS FOR DISCUSSION

- Are there any opportunities for LGPSC resources to support the investment activities of Shareholder local authorities?

FOCUS AREA 5

# Operational resilience

| 23/24 OBJECTIVE | VALUE DELIVERED TO PARTNER FUNDS |
|---|---|
| Procurement and implementation of Private Markets Admin Systems | Improves the control, monitoring, and growth of Private Markets fund range to meet Partner Fund SAA needs and ensures that costs are controlled, and risks constrained |
| Review the Cost-Sharing Model | Value proposition of products and services clearly visible, so that Partner Funds have a clearer view of what they are paying for, so that they are able to make more informed decisions |
| Review of Management Information, Internal Data and Client Reporting to improve consistency, accuracy and efficiency of production | Partner Funds receive the quality of information and analysis they need when they need it, in a 'pass-it-on' format, and that it is right first time. Eliminate unnecessary information and free up resources |
| Implement realigned Legal, Compliance & Risk structure and resourcing | More efficient and effective control, oversight and reduction of risk of regulatory infringements<br><br>Growth of internal capability provides increasing scope for future cost savings |

**MEDIUM TERM AREAS FOR DISCUSSION**

- Exploring how LGPSC Ltd may be able to support the resilience of Partner Fund pension scheme operations given current resourcing constraints

Page 270

FOCUS AREA 6

# Recruitment, motivation and retention

| 23/24 OBJECTIVE | VALUE DELIVERED TO PARTNER FUNDS |
|---|---|
| Further development of the People Strategy to reinforce recruitment, retention, development, succession and D&I plans (to include both financial and non-financial initiatives) | A properly resourced LGPSC as service provider which can deliver on key objectives around investment performance and service delivery |
| Sharing the development of potential options for medium-term retention strategies, building on the remuneration review process agreed with Partner Funds, peer group comparisons, longer-term retention planning to drive performance and reinforce stability | Managing expectations in line with the sector to support retention and performance delivery; ultimately focussed on having the right people in the right roles to deliver key objectives around investment performance and service delivery |
| Improved dialogue between LGPSC Ltd & Shareholders to address staff retention issues | A better understanding of key reasons for turnover and actions being taken to address this |

**MEDIUM TERM AREAS FOR DISCUSSION**

- Collective aspirations around future scale and capability of the organisation

# 2023/24 BUDGETARY IMPACT

**As LGPS Central and the wider pooling environment continue to evolve, we remain focused on delivering to Partner Funds' needs through our key focus areas.**

Page 271

Most of the activity required to deliver the objectives within the 2023/24 business plan can be considered within our current areas of operation; our focus here is to continue to work effectively and efficiently to ensure that our operations deliver value for money for our Partner Funds.

Some areas of focus require additional business initiatives to help support the effective and efficient delivery of the necessary products and services to meet current demands and challenges. These line up against each of the key focus areas as set out below. Further details of these business initiatives are set out on this page.

| | FOCUS AREA 1 | FOCUS AREA 2 | FOCUS AREA 3 | FOCUS AREA 4 | FOCUS AREA 5 | FOCUS AREA 6 |
|---|---|---|---|---|---|---|
| Focus Area | Effective management of assets | Transitioning new assets into the pool | Responsible investment & engagement | Grow partner fund relationships | Operational resilience | Recruitment, motivation & retention |
| Business initiative | Accessing and delivering private market opportunities | | Keeping responsible investment & engagement at the core of how we invest | | Effectively managing legal, compliance & risk | |
| | Maintaining a talented and engaged workforce | | | | | |

**To allow the Board to deliver the 2023/24 business plan, the operating budget will be £15.2m. This is an increase of 12.3% from the prior year. This puts LGPSC's operating budget at under 5 basis points (based on projected assets under stewardship over the year).**

## Accessing and delivering Private Market opportunities

Partner Funds continue to place a high priority on increasing strategic allocations to Private Markets, as growth in this area has been significant and is expected to continue in the future. With a significant amount of assets committed by Partner Funds, it's crucial that these resources can be effectively deployed across multiple investment managers. Investing in the appropriate skills and tools is vital to ensure effective deployment of funds, with appropriate oversight to minimise risk and take into account the input of both the Funds and their Advisors.



## Keeping responsible investment & engagement at the core of how we invest

LGPS Central is dedicated to staying at the forefront of Responsible Investment within the sector by utilising the available skills of our team and tools to fully integrate responsible investment into our investment approach. We strive to make well-informed decisions that are in line with the evolving regulatory landscape. By maximizing the use of platforms such as the recently procured ESG Tool, we aim to enhance the information and insights provided to Partner Funds, leading to more effective decision making.

We will continue to develop our strategy for a practical pathway to Net Zero, using the specialist skills within our team to shape plans for the company and Partner Funds.

## Effectively managing legal, compliance and risk

Legal, Compliance and Risk play a crucial role in every aspect of our business at all levels. After a comprehensive review led by the new Chief Legal, Compliance and Risk Officer, all areas of activity have been thoroughly evaluated; this review concluded that the current structure has to evolve to eliminate gaps at senior levels, key person dependencies, and to support juniors on steep learning curves. As a single, critical combined function LGPS Central has developed a future structure plan to build in operational resilience and offer other high-end value-add for the long-term success of the business and the pool. Through the use of junior recruitment, organic development of existing staff, and selective outsourcing, we are introducing key person cover and incentivising existing staff to access the benefits of continuity. This new structure will help us to better manage risks for our Partner Funds, both as Shareholders and Clients.

## Maintaining a talented and engaged workforce

To enable us to deliver the investment returns our Partner Funds require, we must maintain a talented and engaged workforce. Our rolling employee turnover rate reached 30% over 2022/23. This high rate of turnover is not sustainable against our ultimate goal of achieving long-term investment returns, and fundamentally undermines our ability to deliver across all focus areas. Therefore, we need to invest in a way that allows us to recruit, retain, reward and motivate the best talent within LGPS Central.

A market benchmarking exercise was undertaken in 2022 to get a better understanding of any potential systematic issues with our reward structure: external pay advisors were engaged to undertake detailed role mapping and pay benchmarking against similar investment management firms which highlighted significant gaps between the market and LGPS Central reward structure. Management strongly believes that this gap needs to be addressed to support long-term employee engagement and resilience.

This external peer group benchmarking of renumeration data has been used to inform management decisions around market alignment of salaries.

# BUDGET

| | 2022/23 BUDGET £ | 2023/24 DRAFT BUDGET £ | INCREASE/ (DECREASE) £ | INCREASE/ (DECREASE) | EXAMPLES OF LINE ITEMS | FURTHER NARRATIVE |
|---|---|---|---|---|---|---|
| EMPLOYEE PAY COSTS | 7,164,000 | 8,036,000 | 872,000 | 12.2% | Salary, Pension and National Insurance Contributions | Reflects internal restructures, promotions, pay award at 1 April 2023 and salary alignment |
| OTHER EMPLOYEE COSTS | 332,000 | 386,000 | 54,000 | 16.3% | Training, Recruitment, Life Assurance, Payroll Services, Screening | Reflects increased training costs and recruitment costs |
| PREMISES | 154,000 | 257,000 | 103,000 | 66.9% | Rent, Service Charges, Utilities, Cleaning | Reflects end of rent-free period in i9 |
| TRAVEL AND SUBSISTENCE | 130,000 | 133,000 | 3,000 | 2.3% | Travel Subsistence, Hotels and Conference Expenses | |
| OTHER SUPPLIES AND SERVICES | 175,000 | 177,000 | 2,000 | 1.1% | Bank Charges, Corporate Subscriptions, Stationery, Postage, Equipment | |
| PROFESSIONAL FEES | 1,479,000 | 1,782,000 | 303,000 | 20.5% | Tax and Legal Advice, Internal and External Audit, Insurance, Voting Services, Climate and ESG Reporting | Reflects increase in legal and tax advisor costs reflecting increase in Private Markets vehicles in 2023. Provision for increase in insurance premiums |
| INFORMATION TECHNOLOGY | 1,744,000 | 2,108,000 | 364,000 | 20.9% | IT infrastructure, Bloomberg, Website, Various IT Systems | Reflects changes in £:$ exchange rate and additional Bloomberg services |
| FCA FEES | 42,000 | 62,000 | 20,000 | 47.6% | Fees Payable to the FCS | |
| INVESTMENT RESEARCH | 322,000 | 247,000 | (75,000) | (23.3%) | Investment Research Agreements | Reduced given services provided via Bloomberg |
| LICENCES | 8,000 | 3,000 | (5,000) | (62.5%) | SEDOL Licence | |
| DEPRECIATION | 39,000 | 41,000 | 2,000 | 5.1% | Depreciation of Fixed Assets (i9) | |
| **SUB TOTAL** | **11,589,000** | **13,232,000** | **1,643,000** | **14.2%** | | |
| **AUM-DRIVEN COSTS** | | | | | | |
| INFORMATION TECHNOLOGY | 48,000 | 26,000 | (22,000) | (45.8%) | Private Markets Administration System | Reflects move to outsourcing of admin system which is charged directly to partnerships |
| MIDDLE OFFICE SERVICES | 876,000 | 886,000 | 10,000 | 1.1% | Middle Office Services Provided by Northern Trust | |
| LICENCES | 982,000 | 1,010,000 | 28,000 | 2.9% | Index Licence Fees | |
| **SUB TOTAL** | **1,906,000** | **1,922,000** | **16,000** | **0.8%** | | |
| **GRAND TOTAL** | **13,495,000** | **15,154,000** | **1,659,000** | **12.3%** | | |

APPENDIX 1

# KEY PERFORMANCE INDICATORS As at 31 December 2022

| CATEGORY | KPI | | RED | AMBER | GREEN | 31 DEC 2022 |
|---|---|---|---|---|---|---|
| Legal Duty | 1 | FCA reportable breaches | >0 | - | 0 | G |
| | 2 | Material Control Measure Breaches (including Cyber disruption) | >0 | - | 0 | G |
| Investment Management Business Essentials | 3 | On track to complete the development of new funds detailed in 2022/23 business plan (including those outstanding from 2021/22 business plan) subject to continued Client demand | <3 funds launched | 3 – 4 funds launched | 5 funds launched | G |
| | 4 | Percentage (by number) of Actively Managed Funds with performance equal or exceeding mandate target since inception (Public and Private markets) | Less than 75% active funds ahead of benchmark | 75% or more active funds ahead of benchmark | 75% or more active funds ahead of mandate target | R |
| | 5 | Tracking error for ACS Passive Funds within mandate targets | 25bps for UK, 50bps for global - out of range | | 25bps for UK, 50bps for global - within range | G |
| | 6 | Completion of 3 year reviews of in-scope LGPSC pooled investment funds | Not on track | | Green - On track | G |
| | 7 | Client progress with Net Zero (Alignment of Net Zero targets across the Pool) | Curve of progress (external) | | Curve of progress (external) | A |
| | 8 | Continuing LGPSC Ltd Stewardship Code Accreditation and support for any Partner Funds who wish to apply for their own Stewardship Code accreditation | Not compliant | | Compliant | G |

| CATEGORY | KPI | | RED | AMBER | GREEN | 31 DEC 2022 |
|---|---|---|---|---|---|---|
| **Client Service** | 9 | **Investment fund performance reports** | <80% | 99-80% Amber | 100% Green | G |
| | 10 | **Annual Client survey** | | | | Annual client surveys replaced by quarterly and pulse surveys. This has been removed from the KPIs f/y 2022/23 |
| **Internal Business Management** | 11 | **Staff Turnover Rate (rolling 12 months%)** | Higher annual turnover than benchmark of 15% (median) for financial services | | Lower annual turnover than benchmark of 15% (median) for financial services | R |
| | 12 | **A One Central team which reflects the demographic diversity of the Central region in which we are based** | Significant movement away from current breakdown (towards imbalance) | | Within range of current breakdown or moving towards more balanced workforce | G |
| | 13 | **LGPS Central management of budgeted operating costs, (measured by the projected annual spend as a proportion of total AUM) quarter on quarter** | Increasing costs directly as a result of additional expenses incurred (i.e. not as a result of increased AUM) | Increasing costs as a result of increasing AUM / Decreasing costs solely as a result of increase in AUM | Decreasing costs as a result of reducing overall operating costs incurred | G |
| | 14 | **Deliver the Business Plan within budget to contribute to the delivery of cost savings** | No | | Yes | G |

APPENDIX 2

# REGULATORY CAPITAL STATEMENT 2023/2024

## Summary

Having reviewed its current position and the expected implications of its plans for the forthcoming financial year on its regulatory capital requirement, LGPS Central Limited believes that the level of regulatory capital currently held continues to be sufficient, and that therefore no further contributions are required from Partner Funds at the present time.

## Purpose

Page 276

The purpose of this statement is to provide Partner Funds with information about LGPS Central Limited's regulatory capital requirement for the forthcoming financial year, in line with the requirements of the Shareholders' Agreement (section 4.6).

## Background

As an FCA-regulated entity, LGPS Central Limited is required under regulations to hold a minimum level of capital in order to protect against the financial impact of adverse risk events that could arise either within the Company or its operating environment, and thereby strengthen the financial resilience of the Company.

In 2022, the new Internal Capital Adequacy and Risk Assessment (ICARA) regime was introduced, replacing the former ICAAP. This sets out the framework that the company uses in setting its minimum level of capital, the Own Funds Threshold Requirement. Similarly to the ICAAP, this is based on a combination of assets under management (AUM) and the company's own evaluation of certain risk events.

In January 2018, the eight share-holding Partner Funds of LGPS Central Limited provided capital for the Company in a combination of equity and debt, as set out in Table 1. Each partner fund contributed the same amount in total: £2 million.

Part of the capital was advanced in the form of debt for tax planning reasons (because interest payments are tax-deductible whereas dividend payments are not), with the ratio of debt to total capital, approximately 30%, being that which the project's tax advisors felt the maximum likely to be acceptable to HMRC. However, due to their role as LGPS pension provider to the Company, West Midlands Pension Fund were legally unable to provide borrowing and so acquired preference shares instead, with a coupon equivalent to that of the debt.

TABLE 1 – CAPITAL PROVIDED BY PARTNER FUNDS IN JANUARY 2018

| PARTNER FUND | 'B' ORDINARY SHARES £000 | 'C' PREFERENCE SHARES £000 | DEBT £000 | TOTAL £000 |
|---|---|---|---|---|
| CHESHIRE | 1,315 | - | 685 | 2,000 |
| DERBYSHIRE | 1,315 | - | 685 | 2,000 |
| LEICESTERSHIRE | 1,315 | - | 685 | 2,000 |
| NOTTINGHAMSHIRE | 1,315 | - | 685 | 2,000 |
| SHROPSHIRE | 1,315 | - | 685 | 2,000 |
| STAFFORDSHIRE | 1,315 | - | 685 | 2,000 |
| WEST MIDLANDS | 1,315 | 685 | - | 2,000 |
| WORCESTERSHIRE | 1,315 | - | 685 | 2,000 |
| **TOTAL** | **10,520** | **685** | **4,795** | **16,000** |

## In-Year Monitoring

During the current financial year, the Company has kept its regulatory capital requirement under continuous review, including formal monthly reporting of the requirement with reference to available assets. This monitoring has included forecasts of the regulatory capital requirement and available assets over the next three financial years, taking into account planned activities, in particular anticipated future fund launches. Regular monitoring and scrutiny of the in-year position has been performed by the Board.

This monitoring has confirmed that at all times throughout the year to date, available assets have been sufficient to meet the regulatory capital requirement.

## Current and Forecast Regulatory Capital Position

The following table summarises the position with regard to regulatory capital as at the end of September 2022, as well as forecasts for the next three financial year-ends.

TABLE 2 – ACTUAL AND PROJECTED REGULATORY CAPITAL POSITION SEPTEMBER 2022 TO MARCH 2026

| | 30 SEPT 2022 ACTUAL £000 | 31 MAR 2023 FORECAST £000 | 31 MAR 2024 FORECAST £000 | 31 MAR 2025 FORECAST £000 | 31 MAR 2026 FORECAST £000 |
|---|---|---|---|---|---|
| K-FACTOR REQUIREMENT | 5,478 | 5,826 | 6,331 | 6,503 | 6,640 |
| FIXED OVERHEAD REQUIREMENT | 3,246 | 3,246 | 3,374 | 3,789 | 3,978 |
| PERMANENT MINIMUM CAPITAL | 75 | 75 | 75 | 75 | 75 |
| **OWN FUNDS REQUIREMENT (HIGHEST OF ABOVE THREE)** | **5,478** | **5,826** | **6,331** | **6,503** | **6,640** |
| ADDITIONAL OWN FUNDS (K-OTHER) | 240 | 240 | 240 | 240 | 240 |
| **TOTAL ASSESSMENT A** | **5,718** | **6,066** | **6,571** | **6,743** | **6,880** |
| WIND-DOWN: ASSESSMENT B | 4,569 | 4,569 | 4,938 | 5,123 | 5,301 |
| **OWN FUNDS THRESHOLD REQUIREMENT (HIGHER OF A AND B)** | **5,718** | **6,066** | **6,571** | **6,743** | **6,880** |
| AVAILABLE ASSETS | 12,321 | 12,321 | 12,870 | 13,549 | 14,262 |
| **REGULATORY CAPITAL HEADROOM** | **6,603** | **6,255** | **6,299** | **6,806** | **7,382** |

As the table above demonstrates, there were sufficient available assets to meet the regulatory capital requirement at September 2022, and the medium-term forecasts indicate that projected available assets will continue to be sufficient to meet projected regulatory capital requirements until at least March 2026.

The company will investigate and propose a long-term plan, including dividend policy and the recognition of the pensions guarantee asset alongside the transfer pricing work already completed, to increase the balance sheet efficiency of LGPS Central Limited.

## Conclusion

In light of the medium-term projections of LGPS Central Limited's regulatory capital requirement and available own funds, which fully reflect the Company's plans for the forthcoming financial year and the medium-term, including its financial projections, the Company has concluded that the current level of regulatory capital, as provided by Partner Funds in January 2018, continues to be sufficient and that therefore no further injection of capital is required at this stage.

## Recommendation

That the Shareholders approve that partner fund capital be maintained at the current level (£16 million in total) and in the current structure (as set out in Table 1).

APPENDIX 3

# SHAREHOLDER FINANCIAL REPORTS

## Projected Profit and Loss Accounts

| | 2022/23 FORECAST £000 | 2023/24 FORECAST £000 |
|---|---|---|
| INCOME FROM SERVICES | 13,951 | 16,150 |
| EXPENDITURE | | |
| - ANNUAL BUDGET | (13,103) | (15,154) |
| - IRRECOVERABLE VAT | (60) | (75) |
| TOTAL EXPENDITURE | (13,163) | (15,229) |
| **OPERATING PROFIT** | **788** | **921** |
| INTEREST RECEIVABLE | 114 | 360 |
| INTEREST PAYABLE (INC. PREF DIVS) | (264) | (360) |
| **PROFIT BEFORE TAX** | **638** | **921** |
| CORPORATION TAX | (89) | (242) |
| **NET PROFIT AFTER TAX AND INTEREST** | **549** | **679** |
| ACTUARIAL GAINS AND (LOSSES) | - | - |
| **TOTAL COMPREHENSIVE INCOME** | **549** | **679** |
| DIVIDENDS PAYABLE | - | - |
| **RETAINED PROFIT/(LOSS)** | **549** | **679** |
| RETAINED PROFIT/(LOSS) BROUGHT FORWARD | (3,679) | (3,130) |
| **RETAINED PROFIT/(LOSS) CARRIED FORWARD** | **(3,130)** | **(2,451)** |

Page 278

## Projected Balance Sheets

| | 31 MAR 22 ACTUAL £000 | 31 MAR 23 FORECAST £000 | 31 MAR 24 FORECAST £000 |
|---|---|---|---|
| RIGHT-OF-USE ASSETS | 1,237 | 1,088 | 952 |
| FIXED ASSETS | 253 | 213 | 173 |
| TRADE AND OTHER RECEIVABLES | 9,800 | 3,488 | 4,038 |
| CASH AND CASH EQUIVALENTS | 38,489 | 14,510 | 15,178 |
| **TOTAL ASSETS** | **49,779** | **19,299** | **20,341** |
| TRADE AND OTHER PAYABLES | (32,269) | (1,092) | (1,263) |
| TAX PAYABLE | - | (89) | (242) |
| BORROWING | (6,438) | (6,444) | (6,438) |
| OTHER FINANCIAL LIABILITIES | (827) | (880) | (925) |
| POST-EMPLOYMENT BENEFITS | (3,404) | (3,404) | (3,404) |
| **TOTAL LIABILITIES** | **(42,938)** | **(11,909)** | **(12,272)** |
| **NET ASSETS** | **6,841** | **7,390** | **8,069** |
| CALLED-UP SHARE CAPITAL | 10,520 | 10,520 | 10,520 |
| RETAINED LOSSES | (3,679) | (3,130) | (2,451) |
| **TOTAL EQUITY AND RESERVES** | **6,841** | **7,390** | **8,069** |

## Projected Cash Flow Statements

| | 2022/23 FORECAST £000 | 2023/24 FORECAST £000 |
|---|---|---|
| INCOME RECEIVED | 20,263 | 15,600 |
| EXPENDITURE PAID | (44,164) | (14,882) |
| INTEREST RECEIVED | 114 | 360 |
| INTEREST PAID (INC. PREF DIVS) | (192) | (321) |
| CORPORATION TAX | - | (89) |
| **NET CASH FLOW** | **(23,979)** | **668** |
| OPENING CASH | 38,489 | 14,510 |
| **CLOSING CASH** | **14,510** | **15,178** |

Page 279


*LGPS Central Headquarters, i9*

LGPS Central Limited

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# PENSION BOARD
# 3 MARCH 2023

# TRAINING UPDATE

**Recommendation**

1. **The Chief Financial Officer recommends that the Board reviews the Worcestershire Pension Fund Training Update including the Training Policy and Programme (Appendix 1) and the Training Plan (Appendix 2).**

**Background**

2. The Board reviewed the Fund's **Training Policy & Programme** at **its meeting on 7 March 2022**.

3. Since then the training delivered by Fund Officers to members (and selected, invited Fund Officers) has included:

- An ESG / responsible investment workshop on 8 February 2023.
- A training / information session from Gresham House on 3 October 2022 on private equity.
- A training / information session from Mercer on 22 June 2022 on the 2022 actuarial valuation.
- A 'Does what we are paying our investment managers represent value for money?' session delivered by CEM Benchmarking on 13 May 2022.

4. In addition, all new members (Tony Miller on 14 02 2023 and Adam Pruszynski on 14 02 2023) have been provided with an induction to the Board / Committee, and members have been made aware of:

a) **The LGA's training programme;**
b) The annual LGPS Governance Conference in Cardiff on 19/20 January 2023; and
c) **The PLSA's trustee training**.

5. Looking ahead, once we have backfilled her existing duties with the new recruits that we have appointed as part of the restructure of pensions administration, our newly appointed Training Officer will be 100% focussed on training, and this will be first time that we have had resource dedicated to training of our staff, elected members and employers.

6. The attached Training Plan summarises the training work that we plan to progress. Its cornerstone for pensions administration staff is using a buddy system and using an internal Skills Matrix to highlight the progress being made in delivering resilience in pensions administration by identifying knowledge and knowledge gaps for our staff.

7. Members will note the plans to conduct a further (the last one was conducted in October 2021) Training Needs Analysis.

8. Following a review of the Fund's Risk Register, progress in developing mitigating actions for four risks will henceforth be reported in our Training Updates, so that members can assess whether further mitigating actions are appropriate:

   a) WPF 02 Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members;
   b) WPF 03 Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix.
   c) WPF 21 Failure of business continuity planning; anm
   d) WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

9. Progress in mitigating the four risks since the last quarterly Board / Committee cycle has included:

   a) Rolling out the WCC Finance workforce plan in January;
   b) Officers participating in various scheme / industry groups / fora to keep up to date on pensions issues. These have included attending The Pensions; Regulator's webinars on Pensions Dashboards and on pension scams. Officers have also been continuing to review specialist publications;
   c) Collecting Life Certificates from our overseas pensioners and our pensioners with power of attorneys in place; and
   d) Reviewing our Training Policy and Programme.

**Supporting information**

- Appendix 1 - Training Policy and Programme
- Appendix 2 - Training Plan Feb 2023

**Contact Points**

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**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 Plan** February 2023

This Training Plan summarises the training work that we plan to progress in 2023 /2024.

It is very much a work in progress, as our newly appointed Training Officer is not able to spend much time on training until we have backfilled her existing duties with the new recruits that we have appointed as part of the restructure of pensions administration.

**Training of our elected members**

We plan to conduct a further (the last one was conducted in October 2021) Training Needs Analysis to inform our training programme for elected members.

Meantime all new elected members will be provided with an induction to the Board / Committee, be asked to suggest areas that they would welcome training on at the end of each training session and will be made aware of the LGA's training programme.

**Training of our employers**

We plan to survey employers on what they think about the material in the Employers area of our website and more widely about what matters to them / our training / processes / service.

On 15 March we are running a Pension Overview session for WCC and WCC Schools HR teams.

**Training of pensions administration staff**

We plan to use our Pensions Administration Skills Matrix to highlight the progress being made in delivering resilience in pensions administration by identifying knowledge and knowledge gaps for our staff.

We plan to support our existing staff who have been promoted into new roles within our new pensions administration structure by mentoring them and delegating activities more than we have historically. A buddy system along the lines of the following would form the basis of this:

- A new Pension Business Support learning from an experienced Pension Business Support

- An experienced Pension Business Support (at least 50% competency rating) learning an area from an experienced Pensions Assistant – learning the process but eventually taking an element of this work i.e. part of their alphabet split once they are feeling confident to start processes on their own with their buddy reviewing (25% and above on the skills matrix competency)

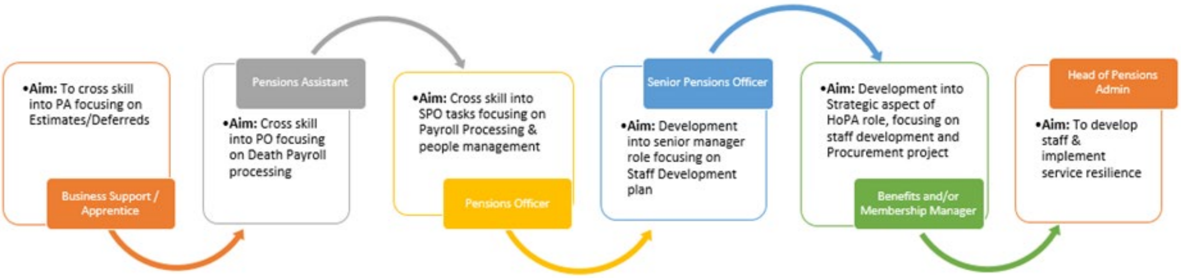
- A Pensions Assistant learning an area, reflective of what they are doing with the Pension Business Support, from an experienced Pensions Officer. Again once they are at 50% competency, the Pensions Officer could start to move to working with the Senior Pensions Officer

- A Senior Pensions Officer working with their manager to improve their knowledge and development using the time 'gained' from the support received from the

Pensions Officer. This could, for example, be around LTA / AA or on 121s or on staff development plans or on / monitoring annual objectives being progressed

- Managers working on specific aspects of the Head of Pensions Administration work to support development and resilience in this area. An example might be working on the pensions administration system or legal services procurements alongside the Head of Pensions Administration

- For example:




We plan to encourage personal development by supporting study for professional qualifications, by encouraging attendance at online seminars or user groups.

We plan to use using monthly 121s to encourage staff to take full ownership of their activities, to flesh out the areas that staff would be interested in gaining experience in, and to identify any areas that staff need further support on.

Specific initiatives that we plan to progress include:

- Building a bespoke apprentice programme for our new Business Support Officer recruits
- Building a bespoke induction programme for our new recruits
- Enhancing the existing training notes for our staff working on processing new members of the Fund
- Enhancing the existing training notes for our staff working on processing transfers
- Enhancing the existing training notes for our staff working on processing employee members who become deferred
- Enhancing the existing training notes for our staff working on processing aggregations of LGPS service
- Enhancing the existing training notes for our staff working on processing employers' CARE returns
- Enhancing the existing training notes for our staff working on processing the year end employer returns
- Producing bespoke training for new projects like Member Self Service or Pensions Dashboards or delivering the McCloud remedy
- Producing bespoke training for any future upgrades to our pensions administration system

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# PENSION BOARD
# 3 MARCH 2023

# RISK REGISTER

**Recommendation**

1. **The Chief Financial Officer recommends that the Pension Board reviews the February 2023 Worcestershire Pension Fund Risk Register.**

**Background and update**

2. The Risk Register is kept under regular review and, following the Feb 2023 review by Officers, an updated Register is attached as an Appendix.

3. The review resulted in the re-grouping of existing risks into two risk areas: Investment / Funding and Administration.

4. The review resulted in the number of risks being included in the Register being reduced from 32 to 16.

5. The 5 risks that have been removed are:

   a) WPF 10 Being reliant on LGPS Central Limited delivering its forecasted cost savings;
   b) WPF 31 Pandemic affecting our staff / our employers' Payroll or HR staff / staff at payroll providers who provide services to us or our employers;
   c) WPF 09 Being reliant on LGPS Central Limited's investment approach;
   d) 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; and
   e) WPF 25 Fraud by scheme members.

6. The 2 risks that have been combined with another risk are:

   a) WPF 16 Failure of investment adviser to deliver the services contracted. This risk has been included in a reworded WPF 08 Failure to appoint suitable investment managers / advisers and review their performance / markets / contracts; and
   b) WPF 18 Failure of existing pension admin system to deliver the services contracted. This risk has been included in a reworded WPF 19 Failure to have an appropriate pensions admin system.

7. 5 risks will henceforth be covered in the Governance Update:

   a) WPF 26 Fraud by staff;
   b) WPF 15 Failure of the actuary to deliver the services contracted;

c) WPF 01 Failure of governance arrangements to match up to recommended best practice;
d) WPF 17 Failure of custodian to deliver the services contracted; and
e) WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy.

8. 4 risks will henceforth be covered in the Training Update:

a) WPF 02 Insufficient knowledge amongst members of Pensions Committee / Pension Board / Pension Investment Sub Committee members;
b) WPF 03 Failure of officers to maintain a sufficient level of knowledge / competence or to act in accordance with our roles and responsibilities matrix;
c) WPF 21 Failure of business continuity planning; and
d) WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

9. The review added no new risks. The review resulted in no increases or increases to risk scores.

10. Mitigating actions have been updated for:

a) **new measures** e.g. the ESG / responsible investment workshop on 8 February and rolling out the WCC Finance workforce strategy.

b) **previous measures that have been completed / developed further / have changed timelines** e.g. the 2022 Actuarial Valuation Report and the updated Funding Strategy Statement / Investment Strategy Statement / Pension Administration Strategy.

**Supporting information**

- Appendix - WPF Risk Register Feb 2023

**Contact Points**

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**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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# Risk Register

As at Feb 2023

**About this Risk Register**

The following colour coding is used for the 16 residual risk scores:

- Red > = 45 (03 risks)
- Amber >= 25 but < 45 (8 risks)
- Green < 25 (5 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 27 10 2022 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 16 risks logged in this register are in highest Residual Risk Score order (shown in brackets):

1. WPF 12 Mismatch in asset returns and liability movements.(50)
2. WPF 20 Having insufficient resources in pensions administration. (50)
3. WPF 34 Inflation. (50)
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. (40)
5. WPF 07 Future change to LGPS regulations or other legislation, for example from government legislation on minimum normal pension age or exit payments. (40)
6. WPF 33 Climate change. (40)
7. WPF 24 Employers having insufficient skilled resources to supply our data requirements. (40)
8. WPF 11 Failure to pool assets using LGPS Central Limited. (30)
9. WPF 06 Fair Deal consultation proposals being implemented. (30)
10. 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. (25)
11. WPF 08 Failure to appoint suitable investment managers and review their performance / markets / contracts. (25)
12. WPF 19 Failure to have an appropriate pensions admin system. (25)
13. WPF 30 Failure to maintain the quality of our member data. (15)
14. WPF 13 Liquidity / cash flow is not managed correctly. (15)
15. WPF 14 Failure to exercise proper stewardship of our assets. (15)
16. WPF 29 Failure to deliver member communications in line with regulatory requirements, for example the 31 August annual benefit statement deadline. (5)

| WPF Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| INVESTMENT / FUNDING | | | | | | | In this risk area the Pension Investment Sub Committee supported by advice from our independent investment adviser monitors market conditions; emerging legislation that could affect us (such as our asset allocation, climate change, and asset pooling); and the performance of our investment managers. The Pensions Committee and Officers supported by advice from our investment adviser review our key governance documents that include our Climate Change Risk Strategy, Funding Strategy Statement, Investment Strategy Statement along with quarterly risk, return and ESG analyses of our investments. We are a working member and shareholder of LGPSC. Each pool member has an equal share in the pool. Shareholders meetings and the Practitioners Advisory Form (PAF) with the pool's investment managers are taking place regularly. The pool has a number of work streams: investments; client reporting; finance; responsible investment; and governance. The LGPSC Partner Fund Investment Working Group meets monthly with LGPSC to explore new investment opportunities and to discuss and monitor performance / the strategy agreed by LGPSC shareholders. | | | |
| INVESTMENT / FUNDING | 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 | The Fund maintains a well diversified portfolio. We have reviewed our Investment Strategy Statement and will present proposed changes for approval by the Pensions Committee on 22 March 2023. Whole Fund and individual employer funding positions / contribution rates, actuarial valuation assumptions and mortality / morbidity experience have been reviewed as part of the as at 31 03 2022 actuarial valuation and its report will be presented for approval by the Pensions Committee on 22 March 2023. ideas are always encouraged by Officers who also carry out peer group discussions. | 25 | 2 | 50 |

| WPF Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| INVESTMENT / FUNDING | 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 liquidity | 25 | 2 | 50 | We monitor our funding position quarterly and our cashflow monthly. We are primarily an investor in equities that via dividends have historically maintained real rates of return. We also invest in assets whose returns move with inflation e.g. infrastructure, real estate, and index-linked Government bonds. As part of the actuarial valuation as at 31 March 2022 we have amended our inflation assumptions. We intend to develop the investment pots further to provide greater inflation protection. | 25 | 2 | 50 |

| WPF Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| INVESTMENT / FUNDING | 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 | We have consulted employers on some changes to our Funding Strategy Statement that will go forward to the Pensions Committee on 22 March. 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). In setting the term of deficit recovery periods and employer at actuarial valuations, we aim to keep employer contributions as stable and affordable as possible. 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 analyse selected employers' financial metrics using Mercer's Pfaroe tool. We have employer grouped investment strategies. | 20 | 2 | 40 |
| INVESTMENT / FUNDING | WPF 33 (Chief Financial Officer) | Climate Change | Investment under-performance | 20 | 3 | 60 | We task LGPSC with producing an annual climate risk report which we used to target managers which have a high carbon footprint to see what measure they are taking to reduce their carbon output. We ran an ESG / responsible investment workshop on 8 February for Board, Committee, and Investment Sub-Committee members. We have invested in LGPSC's All World Climate Multi Factor Fund. We produce 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 Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| INVESTMENT / FUNDING | WPF 11 (Chief Financial Officer) | Failure to pool assets using LGPS Central Limited. | Lack of compliance with legislation / government guidance. | 25 | 3 | 75 | Formal transition of assets to LGPSC 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. We have also transitioned assets to LGPSC's All World Climate Multi Factor Fund and Sustainable Equities Active Fund. | 15 | 2 | 30 |
| INVESTMENT / FUNDING<br>Page 298 | WPF 08 (Chief Financial Officer) | Failure to appoint suitable investment managers / advisers and review their performance / markets / contracts. | Investment underperformance / regulatory non-compliance / paying too much in fees. | 25 | 3 | 75 | We place managers on watch as appropriate. We review our investment managers' internal control reports and report any significant exceptions to the Chief Financial Officer. Objectives for our independent investment adviser are reviewed and reported to Committee every 6 months. | 25 | 1 | 25 |
| INVESTMENT / FUNDING | 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 | Cash flow is monitored on a monthly basis. We 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 Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| INVESTMENT / FUNDING | WPF 14 (Chief Financial Officer) | Failure to exercise proper stewardship of our assets. | Potential erosion of investment returns or reputational damage. | 15 | 2 | 30 | Having achieved signatory status to the UK Stewardship Code 2020 in 2021, we have retained our status in 2022 and will work on the areas the FRC identified that we could improve on for our 2023 application. We have reviewed the responses from a Nov 2022 online pensioners questionnaire about our stewardship. We participate in LAPFF and other groups. We ran an ESG / responsible investment workshop on 8 February for Board, Committee, and Investment Sub-Committee members. | 15 | 1 | 15 |
| ADMINISTRATION | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | In this risk area we have restructured and increased our headcount to 32 to provide resilience in our ability to deliver business as usual / our KPIs; to be able to respond to the increasing number of issues facing LGPS funds; and to move forward the things that we have not been able to but would have liked to. For example, we now have a dedicated Training Officer and Projects Officer to focus on those areas exclusively. | [redacted] | [redacted] | [redacted] |

Page 299

| WPF Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| ADMINISTRATION | WPF 20 (Chief Financial Officer and Head of Pensions Administration) | Having insufficient resources in pensions administration. | Insufficient staff resource or remaining staff not having the skills to do their areas of work. | 25 | 2 | 50 | We have rolled out the WCC Finance workforce strategy and have developed a skills matrix to give us a high level understanding of where there are areas in which we need to focus on to ensure that we have the right resilience in place across the service. We are using it to take a look at where work currently sits and whether it can be redistributed to other areas. We are having to implement a phased transition for staff who have secured new roles in the service to ensure business continuity. We have found our recruitment activities are constrained by the LGPS market where demand for staff is high and 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. 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 Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| ADMINISTRATION | WPF 24 (Head of Pensions Administration) | 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. We have, in preparation for delivering the McCloud remedy to our members, advised our employers that, unless they provide any further employee data about hours / service breaks, we will implement the remedy using what they have supplied us with to date. Following our annual employer consultation and internal review, we will be presenting an updated Pension Administration Strategy for Committee approval on 22 March. We support employers with monthly newsletters / an area on our website / employer fora. We have a 'Pensions Development Pathway', an employers 'How to' and a 'What the Fund expects from its employers' calendar. We have a ‘Transfers of staff between our employers / academy conversions’ guidance note and accompanying Excel spreadsheet and information for employers on ill health retirements. Checking individual records at points of significant transaction is undertaken. | 20 | 2 | 40 |

| WPF Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| ADMINISTRATION | WPF 07 (Chief Financial Officer and Head of Pensions Administration) | 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 advised employee and deferred members about the plans to increase the minimum normal pension age through their 2022 newsletter. We have strengthened our DDA appeals process. We have added Pensions Dashboards to our list of projects. We have, in preparation for delivering the McCloud remedy to our members, advised our employers that, unless they provide any further employee data about hours / service breaks, we will implement the remedy using what they have supplied us with to date. Officers participate in various scheme and industry groups and fora. We are aware that as part of its Levelling Up agenda, the Government has issued a white paper on education in England which confirms plans to permit councils to establish their own Multi Academy Trusts (MATs) and to require all local authority schools to convert to academy status by 2030. We are aware that GMP equalisation will affect historic non-club transfers out. | 20 | 2 | 40 |
| ADMINISTRATION | WPF 06 (Chief Financial Officer and Head of Pensions Administration) | Fair Deal consultation proposals being implemented. | Increasing administrative complexity. | 15 | 3 | 45 | 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 Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| ADMINISTRATION | WPF 28 (Head of Pensions Administration) | 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 | Our pensions administration system is Cloud based. Our staff undertake WCC mandatory training. WCC has 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 review our pensions administration system supplier's annual Cyber Security reviews, probing about what they have been doing to keep the cloud / our data / our login arrangements / sending (bulk / individual) emails from Altair safe; what new threats they have popped mitigations in place for; what recent changes or patches have been made to their disaster recovery arrangements; evidencing (perhaps via internal or external audits) the things that they have done recently to keep up to date; and 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. | 25 | 1 | 25 |

| WPF Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| ADMINISTRATION | WPF 19 (Head of Pensions Administration) | Failure to have an appropriate pensions admin system. | Inability to pay pensions / reputational or financial loss / staff downtime / loss of service delivery / data loss. | 25 | 3 | 75 | Our existing pensions administration system supplier's contract runs to 30 April 2024. It does not include add-ons widely used by other LGPS funds like i-Connect (middleware for the transmission of data from employers to us electronically) or Member Self Service (online access for members to their pension record). We are assessing the best way to address this and are liaising with WCC's procurement team to ensure compliance. We have looked into the market for pension administration systems and contacted other funds who have recently been through the process. As the National LGPS Framework for pension admin systems confirms Heywood are an approved supplier, we have independent validation of our supplier. We attend our supplier's user groups. | 25 | 1 | 25 |
| ADMINISTRATION | WPF 30 (Head of Pensions Administration) | 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 have received the results of our 2022 NFI data matching and have completed the exercise only having 2 matches overall. We are working with a company called Target Professional Services (UK) to find members who we have lost touch with and using the LGPS framework for mortality screening. We undertake regular data quality reviews. | 15 | 1 | 15 |

| WPF Risk Register Feb 2023 Risk Area (risk owned by) | Risk number (risk owned by) | Description of Risk | Leading to | Gross Impact | Gross Prob-ability | Gross Risk Score | Mitigating Actions | Resi-dual Impact | Resi-dual Prob-ability | Resi-dual Risk Score |
|---|---|---|---|---|---|---|---|---|---|---|
| ADMINISTRATION | WPF 29 (Head of Pensions Administration) | 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 | We are consulting our employers on changes to our existing Policy Statement on Communications. The 2022 deferred annual benefit statements / newsletters and the 2022 employee annual benefit statements / newsletters were issued by 31 August. In Nov we despatched our fourth annual pensioner newsletter. | 5 | 1 | 5 |
| [redacted] | | | | | | | | | | |

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worcestershire
countycouncil

# PENSIONS BOARD
# 3 MARCH 2023

# 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

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## 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 | 03/03/2023 | 06/06/2023 | 15/09/2023 | 21/11/2023 |
|---|---|---|---|---|
| LGPS Central Update | **Y** | **Y** | **Y** | **Y** |
| Pensions Final External Audit Report on Annual Report | | | | **Y** |
| Actuarial Valuation and Funding Strategy Statement | Y | | | |
| Stewardship Code | Y | | Y | |
| Business Plan Progress update (to include Administration and Investment areas, SAB Good Governance monitoring & CMA Investment Advisor objectives monitoring) | Y | Y | Y | Y |
| Annual Business Plan | Y | | | |
| Annual Admin Strategy | Y | | | |
| Annual investment Strategy Statement (Include Climate Risk Strategy and TCFD Report) | Y | | | |
| Training Requirements & update on Training delivery | Y | Y | Y | Y |
| Training Policy | Y | | | |
| Pension fund admin Budget Approval | Y | | Y | |
| internal Audit Report | | Y | | |
| Risk Register | Y | Y | Y | Y |
| Funding Strategy Review | Y | | | |
| Governance Policy Review | Y | | | |
| Regulatory Updates including Scheme Advisory Updates (Include Pooling & Responsible Investment consultation) | Y | Y | Y | Y |

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

# AGENDA ITEM 16

Document is Restricted

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