Worcestershire County Council

Agenda

Pensions Committee

Wednesday, 20 March 2024, 10.00 am
Lakeview Room, County Hall, Worcester

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DISCLOSING INTERESTS

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

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
  - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
  You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR**
  relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

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Pensions Committee
Wednesday, 20 March 2024, 10.00 am, Lakeview Room, County Hall, Worcester

Membership: Cllr Elizabeth Eyre (Chairman), Cllr Adrian Hardman, Cllr Karen Hanks, Cllr Luke Mallett and Cllr Scott Richardson Brown

Coopted Members

Shane Flynn	Employer side
Cllr Peter Stoddart	Herefordshire Council
Vacancy	Employee Representative

Agenda

Item No	Subject	Page No
1	**Apologies/Named Substitutes**	
2	**Declarations of Interest**	
3	**Public Participation** *Members of the public wishing to take part should notify the Assistant Director for Legal and Governance in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 19 March 2024). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address listed in this agenda and on the website.*	
4	**Confirmation of Minutes** To confirm the Minutes of the meeting held on 31 January 2024 (previously circulated).	
5	**Pension Board and Pension Sub-Committee Minutes**	1 - 2
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To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Monday, 11 March 2024

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PENSIONS COMMITTEE
20 MARCH 2024

PENSION BOARD AND PENSION INVESTMENT SUB-COMMITTEE MINUTES

Recommendation

1. **The Committee is asked to note the Minutes of the Pension Investment Sub-Committee and Pension Board.**

2. As set out in the Terms of Reference of the Pension Investment Sub Committee (PISC), all decisions 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 PISC. A link to its Minutes on the Council's web site is set out below.

3. The Pensions Board has requested that their deliberations be reported to the Committee and a link to its Minutes on the Council's web site is also set out below.

4. The relevant Minute for this meeting relates to the PISC meeting on 5 March 2024 and the Pension Board meeting on 14 March 2024.

Supporting Information

Links to the Pensions Investment Sub-Committee and Pension Board Minutes can be found below:
Agenda for Pension Investment Sub-Committee on Tuesday, 5th March, 2024, 10.00 am - Worcestershire County Council (moderngov.co.uk)
Agenda for Pension Board on Thursday, 14th March, 2024, 2.00 pm - Worcestershire County Council (moderngov.co.uk)

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Assistant Director for Legal and Governance) there are no background papers relating to the subject matter of this report.

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PENSIONS COMMITTEE
20 MARCH 2024

INVESTMENT STRATEGY STATEMENT (ISS) AND CLIMATE CHANGE RISK STRATEGY (CCRS) UPDATE

Recommendation

1. **The Chief Financial Officer recommends that:**

   a) **The Fund's 2024 draft Investment Strategy Statement (ISS) be approved as set out at Appendix 1;**

   b) **The draft Climate Change Risk Strategy (CCRS) be approved as set out at Appendix 2;**

   c) **The Fund's ESG Workshop Review on the 8 February 2023 and the recommended outcomes be noted;**

   d) **The Fund's 4th Annual Climate Risk Report (Appendix 3) be noted; and**

   e) **The draft 'Task Force on Climate related Financial Disclosures' (TCFD) Report (Appendix 4) be noted.**

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 2023 ISS was approved by the Committee on 22 March 2023 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 and Sustainable Development Goals (SDG) mapping conducted previously.

Fund ESG Review 31 January 2024

5. The Fund held its second annual ESG Review workshop with Committee and Board members on 31 January 2024. In addition to reviewing against recommendations from the previous workshop, members received insight into the concept of impact investing. The workshop was led by Karen Shackleton and David Brown from Pensions for

Purpose who have supported the Fund in this area since January 2020, collaborating with the Fund's independent Investment Advisor.

6. The objectives of the workshop were as follows: -

- Review - strategic actions agreed at the last review and progress made.
- Review – the Fund's fourth Climate Risk Report and TCFD reporting.
- Update on new MSCI metrics presented by LGPS Central.
- Consider – the framework for setting climate targets.
- Consider - net zero goals – mapping the journey to net zero.
- Explore – strategies for investing with impact.
- Review - key insights from the Fund's existing investments with impact featuring case studies from the Fund's investments in Gresham House BSIF I & II, forestry, and private equity funds.
- Discuss – priorities for the next 12-months.

7. Discussion was focussed on four key areas:

ESG successes
It was noted there have been many ESG successes since the February 2023 ESG workshop, such as further investment in forestry, investment in vertical farming and energy from waste. Additionally, the Fund has enhanced its TCFD reporting (now into fourth year on a voluntary basis), enhanced engagement with LGPSC RI&E Team and maintained signatory status with the Stewardship Code 2020. Over the year the Fund has been well supported by LGPS Central including via their reporting on Climate Risk Metrics.

Investment beliefs
The current Sustainable Development Goal's highlighted as priorities remain as Good Health and Well-Being (SDG 3), Affordable and Clean Energy (SDG 7), Industry, Innovation, and Infrastructure (SDG 9), Responsible Consumption and Production (SDG 12) and Climate Action (SDG 13). The Fund is supportive of further impact investments provided they are considered on a finance first approach.

Net zero target
The Fund has previously agreed not to set a net zero target despite having a five-year decarbonisation goal and Fund investments in climate opportunities. This decision was reviewed during the workshop. The following observations were made:

- An internal net zero target could be considered, although it was felt this would not remain internal for long and so was dismissed as an option.
- An explicit net zero objective would significantly restrict the current investment universe available with consequences for the Fund's fiduciary duty obligations.
- With a more limited investment set it was difficult to adequately plan for net zero. Planning issues were compounded by the lack of available emissions data.
- The market is still maturing, and the committee needed more confidence in data quality and approach. The Fund needed to be honest, transparent, and real. There was a preference for the Fund to be "alert and watching".
- The absence of setting a net zero target need not be detrimental to stewardship, collaboration, and member engagement activities.

Therefore the Fund agreed not to set a net zero target at this point but to reflect again on this in a few years' time, as the market matures. More generally, concern was expressed over the plethora of climate metrics. There is a risk of all 8 pension funds in LGPS Central monitoring different things (and the pools themselves measuring different things). Standardisation of the right metrics to measure de-carbonisation was therefore deemed to be important. There was a suggestion that there might be a benefit to engaging with other pool members.

Impact investing
The committee was happy with the way the Fund was developing its impact investment approach. It should focus on highlighting impact achievements more effectively for members, across all the investment managers. For example, Igneo was a good performer, and its investments included an energy waste plant. It was agreed that the committee could consider adding an explicit paragraph in the Investment Strategy Statement which indicated commitment to impact investment in the Fund's own way and time.

8. The workshop finished with the identification of issues to consider over the next 12 months. The issues for the Fund to consider, raised by Pensions for Purpose were:

- Agreement of a timeline and implementation plan for achieving climate targets with a net zero goal.
- Formalise a commitment to impact-driven investing.
- Implement further member training on impact investing.

Investment Strategy Statement Guidance Requirements

9. 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 requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- 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
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

2024 Draft Investment Strategy Statement

10. Given that the Fund completed its most recent strategic asset allocation review in March 2023, the 2024 draft ISS, included at **Appendix 1**, represents a minor update rather than substantive amendments. A key update has been to include a section regarding investing with impact within the Fund's investment beliefs.

Draft Climate Risk Strategy

11. The Fund has a separate Climate Risk Strategy, included at **Appendix 3**, for the Fund which sets out the Fund's 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.

12. This has been updated to take on board the outcome of the ESG workshop that was conducted informally with the Pensions Board & Committee members on 31 January 2024.

Climate Risk Report 2023

13. The Fund has received its 4th Climate Risk Report – January 2024 report from LGPSC (**Appendix 4**) covering the Fund's listed equity portfolio. Its purpose is to:

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

14. Key highlights are: -

- The Weighted Average Carbon Intensity (WACI) of the Fund's Total Equities has decreased by 31.5% since 2020 and 13.7% since 2022 driven by a reduction in exposure to the energy sector;
- The Fund's WACI remained consistently lower than the benchmark and is currently 40% lower;
- Six of the Top 10 contributors to the portfolio's Carbon Footprint are currently in the Climate Stewardship Plan meaning dedicated engagement activities;
- The Fund is represented in engagement efforts with companies responsible for 71% of its exposure to financed emissions.

15. The key recommendations by LGPSC for the Fund are: -

- **Governance** - continue to review, improve, and enhance climate-related disclosures with an awareness of potential future regulations.
- **Strategy** - continue to commission Climate Scenario Analyses as recommended by DLUHC.
- **Risk Management** - consider further disclosures relating to the frequency and scope of climate-related discussions at the Pensions Committees
- **Metrics & Targets** - consider adopting a Net Zero Climate Strategy, as well as short-, medium-, and long-term interim targets.

Task Force on Climate related Financial Disclosures' (TCFD)

16. 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. Disclosure that aligns with the TCFD recommendations has not yet become compulsory and therefore currently represents best practice.

17. LGPSC have provided the fund with its fourth draft TCFD report which is attached as **Appendix 4**.

Contact Points

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Supporting Information

- Draft Investment Strategy Statement - Appendix 1
- Draft Climate Change Risk Strategy Appendix 2
- Draft Climate Risk Report January 2024 – Appendix 3
- Draft Task Force on Climate related Financial Disclosures (TCFD) Appendix 4

Background Papers
In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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WORCESTERSHIRE PENSION FUND

INVESTMENT STRATEGY STATEMENT

March 2024

Find out more online: www.worcestershirepensionfund.org.uk

Contents

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.

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
- Investment Risk Management Statement
- Policy Statement on Communications

2. The Fund's Objectives

The primary objectives of the Fund are to:

- Ensure that sufficient assets are available to meet liabilities as they fall due.
- 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

The Funding Strategy Statement (FSS) and this 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.

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:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward.
- To support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- 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:

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

- *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.

- *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.

- *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.

- *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.

- *Future Investment Returns (Discount rate) risk*. The Fund's funding and investment strategies are inter-linked.

  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.

- *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.

3.2 Asset Risks (the portfolio versus the SIAB)

- 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.

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

- Currency risk i.e., that the currency of the Fund's assets underperforms relative to the SIAB.

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

- 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 its 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.

3.2 Operational Risk

- 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.

- 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.

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

  These risks are managed by use of a global custodian for the custody of assets and formal contractual arrangements for all investments. Where the Fund's investments are pooled through LGPSC, the asset servicer contract includes depositary protection over investment vehicles.

- 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.

- Credit default with the possibility of default of a counterparty in meeting its obligations.

  The Fund monitors this type of risk by maintaining a comprehensive risk register with regular reviews and performing in-depth due diligence prior to making any investment.

- Cashflow management risks.

  As the Fund matures the need for adequate liquidity can become increasingly important. Although its cashflow remains positive after taking into account investment income, managing cashflow is an important consideration in setting the investment strategy. Actions are being taken to manage the cashflow by investing in income-generating 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 current and following three fiscal years. The cashflow forecast is continually monitored.

Cashflow Forecast	FY23/24 £'m	FY24/25 £'m	FY25/26 £'m	FY26/27 £'m
Opening Balance	42.5	35.9	41.3	51.1
Receipts				
Contributions	152.7	159.0	159.5	166.1
Investment Income	55.6	57.0	57.9	48.2
Disinvestment	319.9	136.0	50.0	0.0
Overpaid pension refund	0.2	0.1	0.1	0.1
Other Receipts	0.9	0.2	0.2	0.2
Fee Rebate	0.6	0.0	0.0	0.0
Total Receipts	529.9	352.3	267.8	214.6
Payments				
Benefits Paid	-124.0	-132.6	-141.2	-150.5
HMRC Payments (include Fire)	-15.0	-16.7	-17.4	-18.1
Draw Down notifications	-370.0	-179.8	-80.4	0.0
Fund Manager Fees / other	-27.4	-17.8	-18.9	-20.0
Total Payments	-536.5	-346.9	-258.0	-188.6
Closing Balance	35.9	41.3	51.1	77.1

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.

The Fund's approach to 'Pooling' is detailed in section 9, but alongside this approach the Fund will also consider 're-upping' with existing Fund Managers should these investments meet the Funds key objectives.

The Fund will consider having a shaped equity strategy in place as part of its future investment strategy and use this as a strategic tool to be implemented as and when the need arises.

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 document.

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

6.1 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.

6.2 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.

6.3 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.

6.4 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.

6.5 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.

6.6 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.

6.7 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.

6.8 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:

ENVIRONMENTAL

- Climate risk
- Carbon emissions
- Energy usage
- Raw material sourcing
- Supply chain management
- Waste & recycling
- Water management

SOCIAL

- Community relations
- Employee relations
- Health & Safety
- Human rights
- Product responsibility
- Workforce diversity

GOVERNANCE

- Board structure
- Executive remuneration
- Bribery and corruption
- CEO/Chair duality
- Shareholder rights
- Vision & business strategy
- Voting procedures

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.

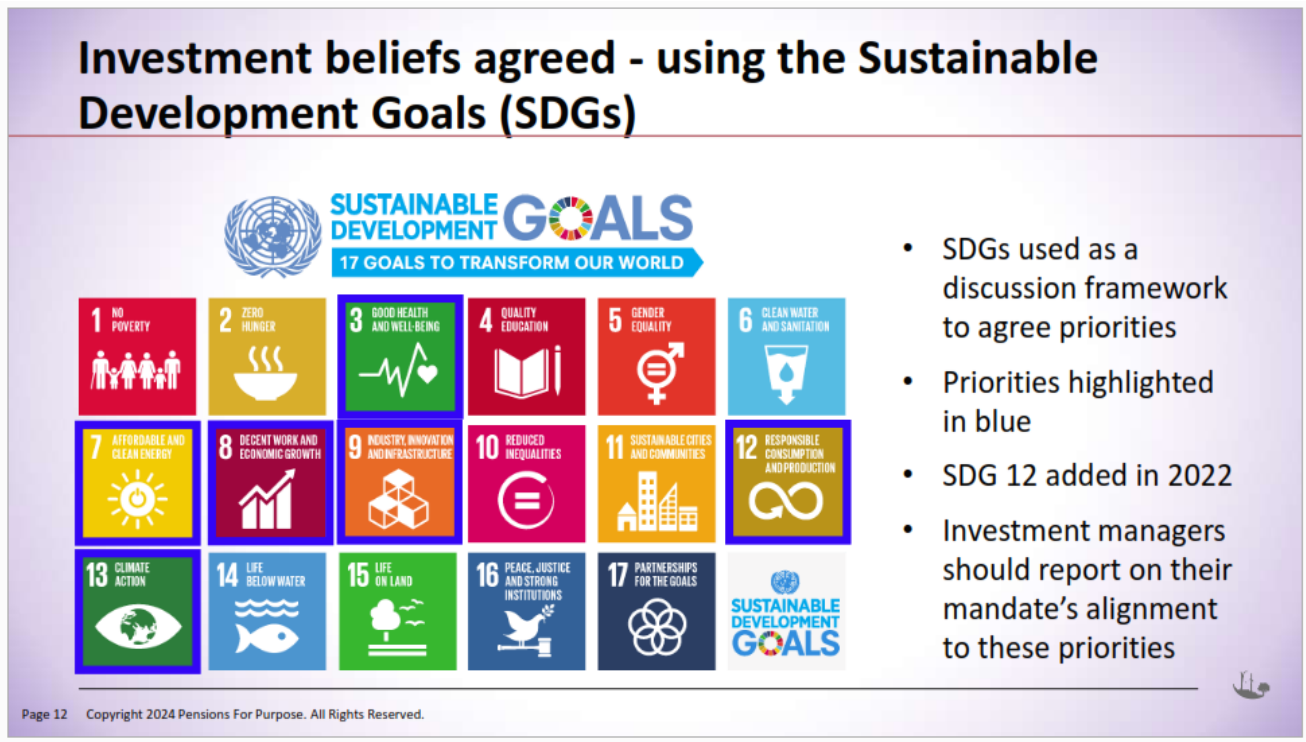
Reflecting the potential material effect of climate change, and the global response to climate change on the assets and liabilities of the Fund, a separate Climate Risk Strategy has been developed, a copy of which can be found on the Fund's website.

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:-



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.

The Fund 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 Code1 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.

Appendix A – Strategic Allocation Investment Benchmark and Ranges

	Growth	Medium	Cautious	
Asset Allocation	**%**	**%**	**%**	**Manager, Method & Performance Target**
Actively Managed Equities				
Far East Developed	10.0	5.0	0.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	5.0	0.0	LGPSC active global emerging markets equity mandates with BMO, UBS and Vontobel - FTSE - Emerging Market Index +2.0%
LGPSC Global Sustainable	6%	3%	0.0	LGPSC active Global Sustainable equity mandates with Liontrust and Baillie Gifford - FTSE – All World +2.0% to 3%
Passively Managed Equities - Market Capitalisation Indices				
United Kingdom	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: 60% STAJ - CSUF - STAJ MF36726/36727 (Quality Factor) 40% LGPSC All World Equity Multi Factor Climate Fund
Fixed Income				
Fixed Income	10.0	40.0	80.0	- LGPSC Global Active Investment Grade Corporate Bond (Fidelity & Neuberger Berman) - Fund 50% GBP IG Corporate (Ex EM Issues) / 50 % Global IG Corporate ((ex IG Corporate & EM Issues) hedged to GBP +0.80% - Bridgepoint Corporate Private Debt

Actively Managed Alternative Assets				
Property, Infrastructure & 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, LGPS Central etc
TOTAL	**100.0**	**100.0**	**100.0**	

NOTE:

As part of its 2022 Strategic asset allocation (SAA) review, the Fund agreed to allocate up to 5% to Private Equity. The mechanism to achieve that allocation will involve using the flexibility within the strategic asset allocation tolerance ranges, illustrated below. This will be formalised 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 2024

External Investment Advisors

Philip Hebson, Independent Investment Advisor

Investment policy, general investment matters.

Actuary

Hymans Robertson LLP

Actuarial matters

Custodian

Bank of New York Mellon

Custodial services, Stock lending.

Other External Advisors

Local Authority Pension Fund Forum (LAPFF)

Company governance issues

Pensions For Purpose

Governance and ESG matters

Hymans Robertson LLP

Fund investment performance

Appendix C - Statement of Investment Beliefs

The Fund's investment beliefs outline key aspects of how it sets and manages exposure 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:
    - 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.
    - 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.

- 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.
- 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.
- 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.

Sustainability

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.

Investing with impact

The Fund will consider opportunities to make investments with a positive social or environmental impact subject to the risk and return characteristics being acceptable. Investments expected to have a "positive impact" can be considered if they are consistent with the overall objectives of the Fund's investment strategy.

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.*

WORCESTERSHIRE PENSION FUND

CLIMATE CHANGE RISK STRATEGY

March 2024

Find out more online: www.worcestershirepensionfund.org.uk

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 is supported by 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 Head of Pensions Investment, Treasury Management & Banking.

The Fund works closely with LGPS Central who provide the Fund an annual Climate Risk report, a draft TCFD report and a Climate Risk scenario report every 3 years. LGPSC are currently working on an Environmental, Social Governance tool to enhance reporting. In conjunction with that tool, the aim is to expand Responsible Investment & Engagement reporting to reflect evolving industry best practice.

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 a key 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 are not 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 conducted 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 further by the end of 2024; and formulate an internal 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 2024.
- Use the Climate Scenario Analysis to track and better understand the portfolio's capacity to transition into a low carbon economy.

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.

The Fund will also 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.

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.
- Continue to work to formulate an internal carbon reduction target up to 2025 and then review thereafter.

FOR PROFESSIONAL CLIENTS ONLY

WORCESTERSHIRE PENSION FUND

2023 Climate Risk Management Report

FOURTH EDITION • JANUARY 2024 • PUBLIC

PREPARED BY LGPS CENTRAL LIMITED

LGPS Central Limited

About this Report

This report represents the fourth edition of the Worcestershire Pension Fund's ("The Fund" or "WPF") analysis of its approach towards climate-related risks and opportunities. Previously titled the "Climate Risk Report," the name has been altered in this edition to avoid any confusion with the Department of Levelling Up, Housing, and Communities' (DLUHC) climate-related disclosure requirement also named the "Climate Risk Report." This iteration follows the same structure as the previous editions released by WPF since 2020.

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Section 1 of the report assesses the Fund's climate risk management framework and disclosure practices. It aims to evaluate the Fund's alignment with Department of Levelling Up, Housing, and Communities (DLUHC) recommendations on climate-related risk management. Additionally, it examines the Fund's maturity in handling these risks within its investment portfolio.

This analysis references WPF's 2022 Climate-Related Disclosure report and public policy documents including recent Annual Reports,[1] the Fund's 2022 Valuation Report,[2] and its 2023 Investment Strategy Statement.[3] Emphasising compliance, the Fund's Climate-Related Disclosure report meets Task Force on Climate-Related Financial Disclosures (TCFD) guidelines, satisfying DLUHC's annual Climate Risk Report requirement.

Section 2 of the report explores the Fund's climate metrics more extensively, notably highlighted within its Climate-Related Disclosure report. This section is specifically devoted to conducting a thorough analysis of the Fund's carbon footprint indicators. Serving as a comprehensive information hub, it illuminates the Fund's various initiatives geared towards improving its carbon footprinting activities.

River Avon, Worcestershire

[1] Annual reports | Worcestershire Pension Fund
[2] Report (Vertical) (lgpsboard.org)
[3] PC 2023 03 22 Investment SS and Climate Strat - App 1 - Draft Statement.pdf (moderngov.co.uk)

Executive Summary

Climate Analysis

Summary of Recommendations and Considerations:

Governance

- Continue to review, improve, and enhance climate-related disclosures with an awareness of potential future regulations.
- Consider disclosure of climate discussions at working groups within, or outside of, its pool.
- Consider enhancing disclosure relating to the content and purpose of climate related training undertaken by the Committee.

Strategy

- The Fund should continue to commission Climate Scenario Analyses as recommended by DLUHC, with an awareness that the content of these analyses will develop in line with industry best practice.
- Consider providing more details relating to how specific risks and opportunities may materialise, and how the Fund is responding to these potential impacts.

Risk Management

- Consider preparing further disclosure of details relating to the identification and assessment of specific risks associated with climate change.
- Consider incorporating existing climate risk management processes for investments into a similar risk management framework for the Fund's funding strategy.
- Consider further disclosures relating to the frequency and scope of climate-related discussions at the Pensions Committees.

Metrics & Targets

- Consider adopting a Net Zero Climate Strategy, as well as short-, medium-, and long-term interim targets.
- Additional metrics to meet DLUHC requirements should be included in the next iteration of the Fund's TCFD report.
- Consider adopting forward-looking targets based on pathway alignment in addition to emissions-based targets.
- Consider detailing the metrics and targets which correspond to the Fund's engagement activities.
- Consider monitoring and disclosing progress in data availability across the Fund's investments, setting targets where appropriate.

Executive Summary *(continued)*

Climate Metrics for Total Equity Portfolio

Normalised Financed Emissions:

72.7 tCO_2e/£m invested

↓ 11% vs 2022

↓ 22% vs reference index

Weighted Average Carbon Intensity (WACI):

98.7 tCO_2e/$M Revenue

↓ 32% vs 2020

↓ 14% vs 2022

↓ 40% vs reference index

Ongoing engagement efforts with companies responsible for

71% of financed emissions

20%

of financed emissions from companies which are ‘Aligned’ or ‘Aligning’ to Paris

↑ 14% vs FTSE All World

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Contents

Front Cover: Malvern Hills, Worcestershire
Images (Clockwise): Cotswolds Countryside
Worcester Cathedral, Worcestershire
Worcester, Worcestershire

Section 1

Climate Analysis

Worcestershire Countryside

Introduction

The Fund has taken proactive steps in its climate-related reporting, voluntarily publishing annual reports aligned with the TCFD since October 2020. This demonstrates a strong commitment to addressing climate risks, even ahead of the anticipated mandate from the DLUHC. The mandate is expected to require Local Government Pension Scheme administering authorities to identify, assess, and manage climate-related risks, aligning with TCFD recommendations.

The section's primary emphasis is on pinpointing pathways for advancing the Fund's action and disclosure regarding climate-related risks and opportunities. Our approach involves a thorough analysis of potential regulatory requirements and industry best practices to benchmark the Fund's existing approach. This process yields various observations and recommendations, providing actionable insights for the Fund's consideration and potential implementation.

This report adheres to the structure of the TCFD, with each section analysed according to the framework outlined above. Throughout this analysis, we identify best practices that often go beyond the scope of the Department of Levelling Up, Housing, and Communities (DLUHC) requirements. It's essential to note that some other pension schemes and financial institutions are already ahead in implementing climate-related practices due to varying regulatory frameworks. While we recognise that the Fund may be considered ahead of the curve compared to other LGPS schemes, the primary purpose of this report is to drive further progress and improvement.

Malvern Hills, Worcestershire

Introduction *(continued)*

In our evaluation, we have undertaken several key steps to assess the Fund's preparedness for potential regulatory requirements:

Step 1

We scrutinised the consultation document released by DLUHC on 1 September 2022,[4] using it as a valuable reference for our analysis. While awaiting the final decision from DLUHC, we leveraged the information within the consultation to inform our assessment.

Step 2

Using the TCFD Maturity Map[5] as a foundational framework, we assessed the Fund's current climate reporting. This evaluation aims to pinpoint opportunities for enhancing the Fund's reporting, progressing towards best practice. The TCFD maturity map is a framework for gauging an organisation's maturity in understanding, managing, and addressing climate change matters. Although not industry-specific, this map helps assess how well an organisation has implemented the four pillars of TCFD recommendations—Governance, Strategy, Risk Management, Metrics, and Targets—along with identifying improvement opportunities over time. The matrix categorises maturity into three levels: Limited, Moderate, and Full.

Step 3

To gain broader insights, we reviewed TCFD reports published by diverse organizations within the Financial Services industry. This review encompasses both asset owners and asset managers, allowing us to gauge industry best practices and actions taken to achieve 'full disclosure' status within the TCFD Maturity Map. We use these actions as benchmarks to measure the Fund's progress.

Step 4

We conducted an in-depth analysis of the Fund's public disclosures, scrutinising its approach to identifying, assessing, and managing climate-related risks and opportunities. This analysis was based on the Fund's publicly accessible information, including but not limited to its Investment and Funding Strategy Statements, the 2022 Annual Report, and its most recent climate-related disclosure.

Step 5

Based on this assessment, we offer recommendations and considerations to guide the Fund in advancing its climate-related management and reporting. This ensures it remains well-prepared to meet potential regulatory requirements and aligns with industry best practices.

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[4] https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

[5] TCFD Maturity Map, The Prince's Accounting for Sustainability Project. Found here: https://www.tcfdhub.org/resource/tcfd-maturity-map/

Governance

Proposed DLUHC Requirements

Administering Authorities ("AA") will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. They must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.

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Disclosure Maturity Map

GOVERNANCE DISCLOSURE

LIMITED DISCLOSURE	MODERATE DISCLOSURE	FULL DISCLOSURE
• The board's oversight of climate-related risks and opportunities. • Management's role in assessing and managing climate-related risks and opportunities. • A published policy or commitment statement on climate change.	• A statement on how the board is actively considering climate-related risks and opportunities on a regular basis. • Measures to increase board knowledge on climate-related risks and opportunities such as compulsory training or use of an expert advisory board. • A named individual or committee responsible for climate change at board level. • Clear consideration of physical, transition and liability risks. • Commitment to reducing or avoiding impact on, and of, climate change, with short-, medium- and long-term targets.	• Capacity and competence of the board to respond to climate-related risks and opportunities effectively. • Climate-related risks and opportunities are integrated into standard board agendas. • Full and clear consideration of physical, transition and liability risks over short-, medium- and long-term time horizons. • Financial incentives for executives on progress towards achieving short-, medium- and long-term climate targets.

Governance *(continued)*

Industry Best Practices

Signposting

Several asset managers such as abrdn, Royal London and Schroders included website links to specific sections of their annual report in the TCFD. The annual report contains the profiles of these asset managers' board of directors, including their competency in environmental, social and governance (ESG) issues such as climate. This signposting practice enhances accessibility and facilitates the reader's navigation of relevant information.

Governance Structures

Most financial institutions either have a specific board-level sustainability committee or discuss climate-related risks at the board's audit and risk committee. Liontrust also named a specific Non-Executive Director responsible for all ESG matters. Whilst not compulsory, establishing a dedicated board committee for climate-related matters provides expertise, accountability, strategic alignment, transparency, risk mitigation, opportunity identification, regulatory compliance, stakeholder engagement, and a long-term perspective. This proactive approach ensures organizations effectively address climate challenges and opportunities while fulfilling their responsibilities to stakeholders and society.

Transparency

To demonstrate how climate-related risks are integrated into board agendas on a regular basis, Scottish Widows summarised topics discussed, and key decisions made on climate matters throughout the year. Including examples and case studies in a report enhances reader engagement by providing real-world, practical illustrations that make complex concepts more accessible and relatable. It adds credibility, inspires, and fosters problem-solving, making the content more informative and actionable.

Remuneration

Financial institutions which are listed on the stock exchange are required to disclose its Key Management Personnel's (KMP) remuneration. There are various examples of the climate-related metrics that these institutions use to measure KMP's performance for remuneration purposes. Most include climate-related metrics in their long-term incentive plans, but Royal London include ESG metrics in both short- and long-term incentive plans.

Governance *(continued)*

WPF Current Disclosures and Practices

Governance Structures and Transparency

The Fund's governance structures are detailed in the Governance Compliance Statement, which states that overall responsibility for the Fund's management rests with the Pensions Committee, established by the appointing Council. Accordingly, the Investment Strategy Statement (ISS) is prepared by Worcestershire County Council but delegated to the Pensions Committee, and includes the Fund's Responsible Investment Beliefs. The Fund also publishes a Climate Change Risk Strategy, which sets out the Fund's support for the ambitions of the Paris Agreement on Climate Change. The Strategy is premised on five evidence-based beliefs about climate risk. The Committee is responsible for reviewing and approving this strategy, which is reviewed at least every two years.

Current Practice

The Committee meets quarterly, with the members of the Committee receiving quarterly voting and engagement updates in every meeting. Following the meeting, these reports are published on the Fund's website. The Committee, the Pension Investment Sub-Committee, and the Pension Board all receive focussed training and workshops on a variety of RI topics, including climate change.

Individual Responsibilities

The Chief Financial Officer and the Head of Pension Investments, Treasury Management & Banking have primary responsibility for the management of climate-related investment risks. As many of the Fund's assets are managed externally, the implementation of climate risk management is often delegated to portfolio managers, which is then overseen by the Pension Investment Sub-Committee.

Based on our analysis, the Fund is currently aligned with moderate levels of disclosure, as per the maturity map above.

Considerations and Recommendations

The Fund's existing governance structures related to the management of climate risk mean it is well positioned ahead of any potential regulatory changes which may arise in the near future. However, there are some considerations and recommendations which may help the Fund continue aligning with industry best practice.

Although a climate-specific sub-committee might not be appropriate for an AA, we acknowledge the Fund's active participation in multiple working groups within and outside its pool. At times, these groups engage in discussions related to climate matters, allowing the Fund to broaden its understanding of these issues. Enhanced disclosure of these discussions would help demonstrate the Fund's collaborative approach to managing climate risk.

Further evidence of the Fund's efforts to manage climate risk could also be provided through additional disclosures relating to the scope and frequency of climate training received by the Committee. This could be included as a summary update within the Fund's report on activities.

Related to the above point, the Fund could consider providing additional details regarding the climate-related experience of the specific members of the Fund's Committee. This could include attendance of each member of the Committee at the climate training sessions, but could also be expanded to include climate-relevant experience from alternative sources.

Continue to review, improve, and enhance climate-related disclosures with an awareness of potential future regulations. WPF's readiness to meet the DLUHC's potential recommendations has increased as a result of this report, and similar exercises in the future will help ensure the Fund is able to respond early to any further climate-related regulations.

Strategy

Proposed DLUHC Requirements

AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.

AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.

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Disclosure Maturity Map

STRATEGY DISCLOSURE	LIMITED DISCLOSURE	MODERATE DISCLOSURE	FULL DISCLOSURE
	• Operational greenhouse gas ("GHG") emission reductions.	• Climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term. • The impact of climate related risks and opportunities on the organisation's businesses, strategy and financial planning. • Involvement in domestic and international efforts to mitigate climate change.	• The potential impact of different climate scenarios, including a 4°C, a 2°C and a 1.5°C scenario, on the organisation's businesses, strategy and financial planning. • The organisation's internal carbon pricing strategy. • Vocal advocacy for action on climate change and collaboration with peers and other stakeholders to achieve change.

Strategy *(continued)*

Industry Best Practices

Climate Scenario Analysis

USS's climate scenario analysis discussed the impact of climate change to both its investment and funding strategies. The rationale behind the chosen scenarios and time horizons were clearly described. Further, USS also illustrated how climate change impacts their defined contribution members' investments returns. While we understand that scenario analysis remains an evolving tool, it still provides a valuable insight into how climate change could impact investment returns under different scenarios, highlighting the importance of conducting and disclosing the findings of climate scenario analysis. As this tool is still evolving it is important to demonstrate an understanding and provide a justification of the parameters surrounding the analysis, including the scenarios chosen and time horizons, which should be clearly defined.

Industry Collaboration

Partnerships, initiatives and collaborations were discussed in plenty of detail in Scottish Widows' TCFD report. They also produced a case study of a collaborative engagement on the topic of deforestation. Collaborative engagement allows funds to pool their influence as to drive change in the industry, it is considered industry best practice to not only collaborate in these initiatives, but to also demonstrate the impact derived from these collaborative engagements through case studies.


Worcestershire in the snow

Strategy *(continued)*

WPF Current Disclosures and Practices

Identification of Risk

In line with good industry practice, the Fund has identified the short-, medium-, and long-term risks associated with climate change, and these risks are associated to specific asset classes.

The Fund's Climate Strategy

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The Fund's 2023 Climate Change Risk Strategy will be reviewed at least every two years by the Committee. This strategy is premised on five foundational-evidence based beliefs, including a belief that the risks and opportunities of climate change should be considered as part of asset allocation decisions, manager selection decisions, and individual investment decisions. The strategy also outlines the Fund's aim to reduce the carbon footprint (scope 1 & 2) of the Fund's listed equity portfolio by 2023, and set an internal decarbonisation target up to 2025 and review thereafter.

Climate Scenario Analysis

The Fund also commissioned a Climate Scenario Analyses in 2020 and 2022, which provided models of the impact on returns over the short-, medium-, and long-term under a range of different climate change scenarios. In line with DLUHC recommendations for full disclosure, the three scenarios included a "rapid transition", "orderly transition", and "failed transition" scenario. Advantages and disadvantages of these analyses were included in both reports alongside the Scenario Analysis. In the Fund's 2022 Valuation Report, a further climate scenario analysis analysed the impact of climate change on the Fund's funding. The analysis considered three different scenarios: a Rapid Transition; an Orderly Transition; and a Failed Transition.

Based on our analysis, the Fund is currently aligned with moderate, with elements of full levels of disclosure, as per the materiality map above.

Considerations and Recommendations

The Fund should be commended for its use of scenario analyses, both looking at the impacts of climate on its investments but also on its funding. From a more long-term perspective, the Fund should consider updating its climate policies to reflect impacts on its funding as well as investments. This is in line with a direct recommendation provided by DLUHC.

The Fund should continue to commission climate scenario analyses as recommended by DLUHC, with an awareness that the content of these analyses will develop in line with industry best practice. Integrating scenario analysis for both investment and funding whenever feasible provides a holistic perspective which aids decision making.

The Fund may also benefit from elaborating on how specific risks and opportunities related to climate change may materialise, as well as expanding on the corresponding material impacts. An explicit focus on how these risks and opportunities can best be mitigated or exploited would also help move the Fund towards industry best practice. Regular horizon scanning may be an effective way to identify emerging climate risks. This analysis could be linked to the Fund's risk register and further incorporated into its Climate Stewardship Plan.

Finally, full disclosure according to DLUHC includes a summary of the Fund's advocacy for action and collaboration on climate change. Although the Fund does mention an aim to collaborate with like-minded organisations on climate matters, this could be reinforced with concrete examples of climate advocacy. Such disclosures are often found in stewardship reports, which, although third party sources are frequently referenced by the Fund, could be made more explicit as part of its wider climate disclosures.

Risk Management

Proposed DLUHC Requirements

AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.

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Disclosure Maturity Map

RISK MANAGEMENT DISCLOSURE	LIMITED DISCLOSURE	MODERATE DISCLOSURE	FULL DISCLOSURE
	• Acknowledgement of the need to assess and respond to climate-related risks.	• The organisation's processes for identifying and assessing climate-related risks. • The organisation's processes for managing climate-related risks.	• How processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

Risk Management *(continued)*

Industry Best Practices

Risk Management Policy and Transparency

Schroders' risk management section clearly outlines how climate risk fits in its three lines of defence, the risk owners at each line, and how its oversight structure works – from business unit to its board audit and risk committee. Schroders also details its actions to identify, assess and manage climate-related risks. Inclusion of these details provides accountability and transparency with regard to risk management and demonstrates the funds' ability to identify and mitigate climate risks through appropriate practices.

Asset-specific Risk Management

Abrdn included a table that maps its existing climate tools against asset classes to give a view of the applicability of tools for various investments strategies. This also assists in demonstrating the Fund's industry best practices to identify and mitigate climate risks.

WPF Current Disclosures and Practices

Risk Management Policy and Transparency

The Fund's approach to risk management is detailed in the Climate Change Strategy, where each of the key Strategy Actions relates to furthering the identification and management of climate risk. In the 'Measurement & Observation' section, the Fund commits to regular economic assessments of the fund's asset allocation against plausible climate scenarios and a carbon risk metric assessment of the Fund's listed equities. The Strategy also states that the Fund will assess the approach taken by its managers to climate risk during selection and due diligence, and regularly monitor progress on climate risk management post appointment.

The Fund's annual Climate Risk Report presents both top-down and bottom-up risk analyses which aim to assess the Fund's exposure to, and management of, climate risk. Where possible, climate risks are assessed in units of investment return in order to compare with other investment risk factors.

Climate risk is deemed sufficiently significant to be included in the fund's Risk Register, and is discussed alongside 'mainstream' investment risks by the Pensions Committee.

Stock-specific Risk Management

As well as several policies for the 'Selection, Due Diligence and Monitoring' of new funds (which are informed by the IIGCC recommendations), the Fund has also developed a Climate Stewardship Plan, whereby clear engagement goals are set with companies, fund managers, policymakers, and other areas of influence. The Fund's robust approach to stewardship was recognised in September 2021 when the Fund became a signatory to the 2020 UK Stewardship Code. The Fund has retained its signatory status since then.

Based on our analysis, the Fund is currently aligned with moderate, with elements of full levels of disclosure, as per the materiality map above.

Considerations and Recommendations

Consider preparing further disclosure of details relating to the identification and assessment of specific risks associated with climate change (i.e., the time horizon of specific risks and how these may materialise in a portfolio) could support the Fund's approach to the management of climate risk.

The Fund may also wish to consider incorporating its existing climate risk management processes for its investments into a similar risk management framework for its funding strategy.

Finally, further disclosures relating to the frequency and scope of climate-related discussions at the Pensions Committees may help to demonstrate the Fund's ongoing work on managing climate risk.

Metrics and Targets

Proposed DLUHC Requirements

AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.

- Metric 1 will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.
- Metric 2 will be an emissions intensity metric. We propose that all AAs should report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.
- Metric 3 will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified, Reported, Estimated or Unavailable.
- Metric 4 will be the Paris Alignment Metric. Under the Paris Alignment Metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.

Metrics must be measured and disclosed annually.

AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.

Metrics and Targets *(continued)*

Disclosure Maturity Map

METRICS AND TARGETS DISCLOSURE

LIMITED DISCLOSURE	MODERATE DISCLOSURE	FULL DISCLOSURE
• Scope 1 and Scope 2 GHG emissions.	• Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks. • Measurement methodologies for these are clearly defined and in line with recognised guidance. • The organisation's quantified targets to reduce GHG emissions in relative or absolute terms (Scopes 1, 2 and/or 3) and performance against these.	• The metrics used to assess climate-related risks and opportunities in line with strategy and risk management process. • The targets used to manage climate-related risks and opportunities, including use of science-based targets, and performance against these targets. • Assurance of reported GHG emissions under International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on GHG Statements.

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Metrics and Targets *(continued)*

Industry Best Practices

Discussion of Metrics, Methodology and Limitations

USS discussed its data sourcing and methodology in great detail, and included an explanation of data limitations. In its report, USS also reviewed the organisations climate performance against its net zero target pathway. Disclosing information regarding the methodologies, data limitations, and how metrics should be interpreted demonstrates an understanding of the data challenges and provides credibility to the findings derived from the data. This information also means the data can be more easily interpreted by the reader.

Transparency around Restated Data

Schroders explained its annual emissions recalculation process and highlighted data that is restated. As data coverage and reliability continues to evolve it is important to ensure the most accurate data is reported. However, this can lead to data being restated. As this can lead to a lack of consistency as reported data is retrospectively amended, it is important for the Fund to disclose how data has been restated and the purpose of the restatement, minimising inconsistency from one report to the another.

Data Assurance

Abrdn included an independent assurance statement that provides limited assurance of its selected sustainability performance indicators. This statement is included in the company's sustainability disclosures, providing reported metrics with additional credibility and reliability.

Lavender plants blossoming in Worcestershire

Metrics and Targets *(continued)*

WPF Current Disclosures and Practices

Discussion of Metrics, Methodology and Limitations

The Fund's annual Climate Risk Report and its TCFD report both present a wide range of climate metrics to measure the fund's overall performance in managing climate risk. The report is transparent about some of the challenges faced when reporting on climate data, but clear justification is provided for the metrics chosen, and the metric choice has been updated for the Fund's 2023 metrics, in line with DLUHC recommendations.

Targets

The Fund does not currently have a formal decarbonisation target in place, although it does have an aim to reduce the carbon footprint (scope 1 & 2) of the Fund's listed equity portfolio by the end of 2023. It also has an aim to set an internal decarbonisation reduction target up to 2025. Finally, the fund aims to continue investing in low carbon and sustainable instruments by the end of 2023.

Detailed metrics which present a more complete picture of the fund's exposure to climate risk are presented in Section 2 (Climate Metrics) of this report.

Based on our analysis, the Fund is currently aligned with moderate levels of disclosure, as per the materiality map above.

Considerations and Recommendations

The Fund states in its TCFD report that "the ability for diversified investors (such as pension funds) to set meaningful targets is inhibited by the paucity of credible methodologies and data currently available". While carbon methodologies and data availability are still developing, the Fund should consider a Net Zero Climate Strategy, as well as short-, medium-, and long-term interim targets. In order to ensure that these are achievable, the Fund may wish to consider setting net zero aligned asset class specific targets. This recommendation has been carried forward from the Fund's 2022 Climate Report. Such targets would help the Fund align with the DLUHC recommendations.

Future iterations of the TCFD report will include the four metrics required by the DLUHC. These should be reported in addition to the metrics which have been reported over previous years, adding further context and nuance to the Fund's climate analysis.

The Fund may also wish to consider detailing the metrics and targets which correspond to their engagement activities. Such information is often published in the stewardship reports of industry leaders and assists in quantifying alternate areas of progress within the management of climate risk.

The Fund may also wish to consider the adoption of forward-looking targets, based on pathway alignment in addition to emissions-based targets.

The Fund may wish to monitor and disclose progress in data availability across its investments. In line with DLUHC recommendations, auditable emissions data represents the highest quality of data and lends credibility and reliability to the Fund's progress towards decarbonisation. Targets could be set to measure progress towards this enhancement.

Other Requirements / Recommendations

Proposed DLUHC Requirements

	DLUHC Requirement	LGPS Central Proposals
Disclosure	AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA's annual report. The deadline for publishing the Climate Risk Report will be 1 December, as for the AA's Annual Report, with the first Climate Risk Report due in December 2024.	The Fund has been complying with this recommendation since the publication of its first climate report in 2020. We propose that scheme members are informed that the Climate Risk Report is available in an appropriate way.
Scheme Climate Report	DLUHC proposes that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA's Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics.	This exists in the consultation, and could have implications for the Fund's carbon risk analyses going forwards. While this is more relevant for the SAB than the Fund in particular, we feel it is important for the Fund to remain aware of any developments in this area as it may have implications for the Fund's future carbon reporting.
Proper Advice	DLUHC proposes to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.	Although this section requires no concrete action at this time, we recommend that the Fund remains aware of potential future developments. The Fund may wish to conduct a review of its provision of advice to ensure that its metrics and scenario analyses remain 'proper', as per the DLUHC requirements.

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Conclusion

The Fund's Overall Readiness / Maturity

Based on its current processes and disclosures, we consider that the Fund is well positioned to meet DLUHC's potential requirements on climate change governance and disclosures. The items in the table would push the Fund towards full compliance.

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On average the Fund is disclosing at Moderate level, although it should be noted that, based on our analysis, no single peer is able to achieve leader status across all elements. The Fund does have the potential to move towards leader status in several elements, and is most advanced in relation to the 'Strategy' and 'Risk Management' pillars of the TCFD.

Please note, some considerations and recommendations have been carried forward from the previous climate risk report. Finally, it should be restated that some of the observations discussed in the section above may not require action from WPF as best practice of investment managers is not always appropriate for local government pension funds. These observations were included to flag best practice and to ensure the Fund remains cognisant of emerging best practices.

Summary of Considerations and Recommendations

Section	Considerations and Recommendations
Governance	– Continue to review, improve, and enhance climate-related disclosures with an awareness of potential future regulations. – Consider disclosure of climate discussions at working groups within, or outside of, its pool. – Consider enhanced disclosure relating to the content and purpose of climate related training undertaken by the Committee.
Strategy	– The Fund should continue to commission Climate Scenario Analyses as recommended by DLUHC, with an awareness that the content of these analyses will develop in line with industry best practice. – Consider providing more details relating to how specific risks and opportunities may materialise, and how the Fund is responding to these potential impacts.
Risk Management	– Consider preparing further disclosure of details relating to the identification and assessment of specific risks associated with climate change. – Consider incorporating existing climate risk management processes for investments into a similar risk management framework for the Fund's funding strategy. – Consider further disclosures relating to the frequency and scope of climate-related discussions at the Pensions Committees.
Metrics and Targets	– Consider adopting a Net Zero Climate Strategy, as well as short-, medium-, and long-term interim targets. – Additional metrics to meet DLUHC requirements should be included in the next iteration of the Fund's TCFD report. – Consider adopting forward-looking targets based on pathway alignment in addition to emissions-based targets. – Consider detailing the metrics and targets which correspond to the Fund's engagement activities. – Consider monitoring and disclosing progress in data availability across the Fund's investments, setting targets where appropriate.

Section 2

Climate Metrics

YE 31 March 2023

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Vale of Evesham, Worcestershire

Climate Metrics

Scope of Analysis

The following Climate Metrics offer a detailed, bottom-up analysis with the following objectives:

Observing climate transition risks and opportunities within the portfolio.

Identifying opportunities for engagement with companies.

Facilitating the monitoring of climate risk management by managers.

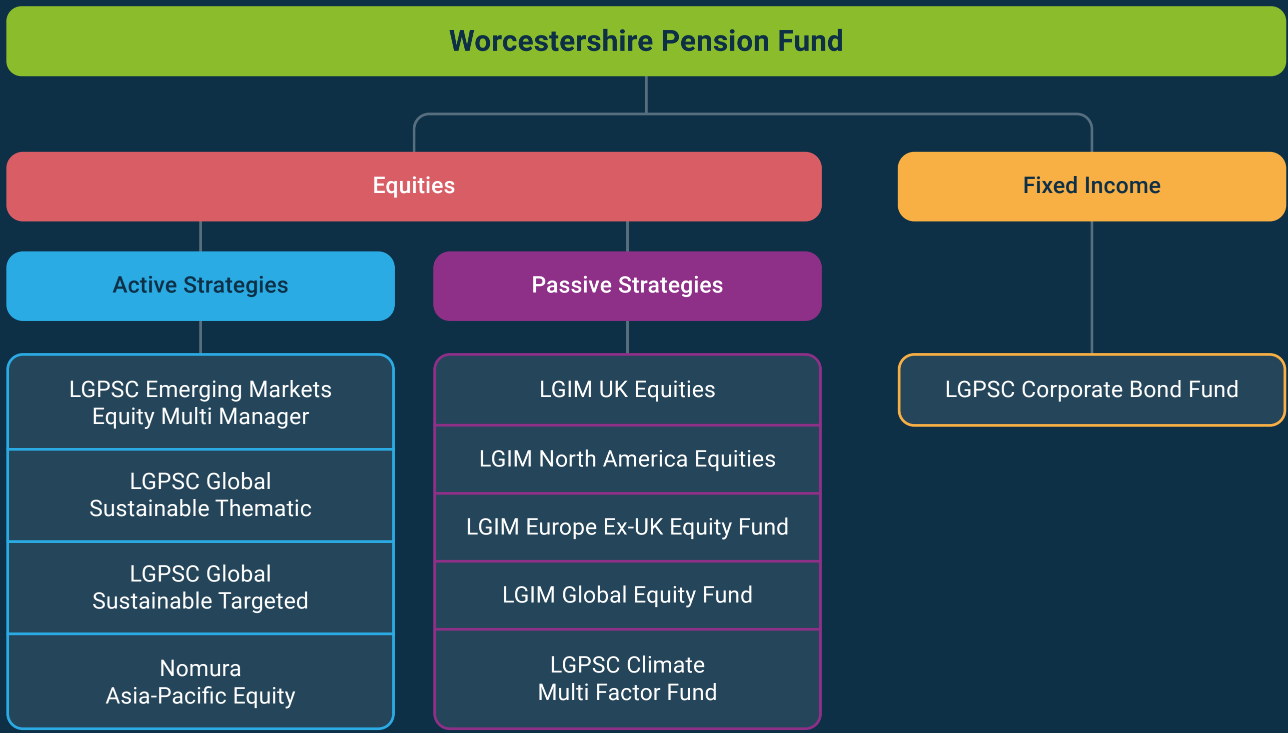
This analysis encompasses public market investments reported by the Fund as of 31 March 2023. It includes holdings in listed equity and fixed income funds. The exclusion of unlisted asset classes is due to limited data availability. The assets under management (AUM) within the report's scope totalled approximately £2.6 billion as of that date, with the specific funds outlined in the chart below.

LGPS Central has been calculating carbon footprint metrics for Worcestershire Pension Fund since 2020. The analysis scope has expanded over time as the Fund effected asset allocation decisions during this period. This report summarises the evolution of the Fund's carbon footprint up to 30 March 2023.

River Avon, Pershore, Worcestershire

Climate Metrics *(continued)*

FIGURE 1: BREAKDOWN OF FUNDS INCLUDED IN THE ANALYSIS



Climate Metrics *(continued)*

The analysis is based on a dataset provided by MSCI ESG Research LLC (MSCI).[6] We utilised data that was downloaded from MSCI on 1st September 2023. The table on pages 46-51 provides an overview of the types of carbon metrics utilised.

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Carbon footprint metrics were selected to comply with the results of Department for Levelling Up, Housing & Communities' consultation,[7] which were published in September 2022. That document sets out an expectation that AAs report on four proposed metrics:

- **Absolute emissions metric –** financed emissions
- **Emissions intensity metric –** normalised financed emissions and weighted average carbon intensity (WACI)
- **Data quality metric**
- **Paris alignment metric**


Poppies at dawn near Bewdley, Worcestershire

[6] Certain information @ 2023 MSCI ESG Research LLC. Reproduced by permission. Attention is drawn to Section 8.0 Important Information.

[7] https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

Climate Metrics *(continued)*

On top of the headline DLUHC-proposed metrics, we also calculate multiple other metrics as listed in the definition table. We believe carbon footprint metrics apply only one lens, whereas additional metrics – including fossil fuel exposure, clean tech exposure, and carbon risk management – provide a deeper and broader assessment of climate risk and opportunity. Further detail of these metrics can be found on pages 46-51.

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The analysis looks at the headline metrics first, before delving into asset class assessment.

The Headline Metrics

Carbon Footprint Metrics

Metrics	Financed Emissions	Normalised Financed Emissions	Weighted Average Carbon Intensity (WACI)
Absolute / Intensity	Absolute	Intensity	Intensity
Definition	Financed emissions calculates the absolute tonnes of CO2 equivalent for which an investor is responsible.	This metric measures the Financed Emissions for every £1 million invested.	WACI measures a portfolio's exposure to carbon-intensive companies.
Question answered	What is my portfolio's total carbon footprint?	What is my portfolio's normalised carbon footprint per million GBP invested?	What is my portfolio's exposure to carbon-intensive companies?
Unit	tCO2e	tCO2e / £m invested	tCO2e / $m revenue
Comparability	No; does not take size into account	Yes; adjusts for portfolio size	Yes
Data needs	Medium • Notional amount invested • Carbon emissions of issuer • EVIC or Total Equity + Total Debt *(Sovereign: PPP-Adjusted GDP)*	Medium • Notional amount invested • Total portfolio AUM • Carbon emissions of issuer • EVIC or Total Equity + Total Debt *(Sovereign: PPP-Adjusted GDP)*	Low • Portfolio weights • Carbon emissions of issuer • Sales of issuer *(Sovereign: Nominal GDP)*

Climate Metrics *(continued)*

Data Quality Metric

Score between 1 and 5; with 1 being the most preferred which relates to actual audited data. Score 5 is the least preferred, which relates to estimated data with limited support.

This system enables reporting on financed emissions even if data is not available, whilst providing transparency over the accuracy of the information provided. The source of the score is MSCI.

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Certain 5%-10% error margin in estimations	Score 1	Audited GHG emissions data or actual primary energy data
	Score 2	Non-audited GHG emissions data or other primary data
	Score 3	Averaged data that is peer/sub-sector specific
	Score 4	Proxy data on the basis of region or country
Uncertain 40%-50% error margin in estimations	Score 5	Estimated data with very limited support

Source: The Global Carbon Accounting Standard for the Financial Industry: Draft version for public consultation (August 2020), Partnership for Carbon Accounting Financials (2020).

St Mary's Church and the Staffordshire Worcestershire Canal, Kidderminster

Climate Metrics *(continued)*

Paris Alignment Metric

A company will be considered at least Aligning to Paris Agreement by LGPS Central if:

The Company score above **Median** in Low Carbon Transition score

\+ and it meets **one** of the following criteria: +

The Company has a science-based target

or

The Company has an implied temperature rise rating of 2.0°C or lower

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Low Carbon Transition Score

Score from 0 (worst) to 10 (best) measuring companies' exposure to and management of risks and opportunities related to the low carbon transition. Source of rating: MSCI. Score of more than 5 (median) required to be considered at least Aligning.

and

Science-Based Target

Issuer commits to a medium- and long-term net zero target that are considered science-based; i.e. in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

or

Implied Temperature Rise

Implied temperature rise (in the year 2100 or later) if the whole economy had the same over-/undershoot level of greenhouse gas emissions to the issuer. Below 2°C is required to be considered at least Aligning.

Climate Metrics *(continued)*

MSCI Low Carbon Transition Risk Assessment[8]

MSCI ESG Research's Low Carbon Transition Risk[9] assessment is designed to identify potential leaders and laggards by holistically measuring companies' exposure to and management of risks and opportunities related to the low carbon transition.

The final output of this assessment is two company-level factors as described below:

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1) Low Carbon Transition Category:

This factor groups companies in five categories that highlight the predominant risks and opportunities they are most likely to face in the transition (Exhibit 1).

2) Low Carbon Transition Score:

This score is based on a multi-dimensional risks and opportunities assessment and considers both predominant and secondary risks a company faces. It is industry agnostic and represents an absolute assessment of a company's position vis-à-vis the transition.

Calculation methodology

The LCT Categories and Scores are determined by a combination of each company's current risk exposure and its efforts to manage the risks and opportunities presented by the low carbon transition. The 3-step process followed by MSCI ESG Research is explained below.

Step 1

The first step towards measuring the Low Carbon Transition Risk Exposure for a company is the computation of its Carbon Intensity profile – which is informed by its Product Carbon Intensity, Operational Carbon Intensity and Total Carbon Intensity.

Step 2

MSCI assess a company's management of risks and opportunities presented by the low carbon transition. This assessment is based on policies and commitments to mitigate transition risk, governance structures, risk management programs and initiatives, targets and performance, and involvement in any controversies.

Step 3

Low Carbon Transition Risk Exposure Category and Score that was calculated in Step 1 are adjusted for the strength of management efforts calculated in Step 2. Following this adjustment, Low Carbon Transition Risk Exposure Score of companies with top or second quartile risk management improves and some top and second quartile companies may move up one category.

[8] Source: MSCI Climate Change Indexes Methodology, pp17-18
[9] For more details on MSCI Climate Change Metrics, please refer to https://www.msci.com/climate-change-solutions

Climate Metrics *(continued)*

Scope 3 Emissions

Scope 3 emissions refers to the emissions released indirectly through business activities. More specifically, scope 3 represents the emissions released through the value chain of the company, both upstream and downstream, emissions which are not otherwise captured in scope 1 and 2. This would include the emissions produced by a company's supplier when producing a product brought by the company, or the emissions released by a customer through a product supplied by the company.

Due to the nature of this measurement, for many industries and assets the associated scope 3 emissions of the company will often be significantly greater than those of the scope 1 and 2. When aggregated at portfolio level, scope 3 emissions will also be subject to double counting, a term which refers to aggregating an observation multiple times, despite being a single observation. Double counting will often occur due to overlapping value chains, a simple example of this can be explained through the use of a vehicle with an internal combustion engine. In such an instance such, scope 3 emissions will be associated with both the provider of fuel for the vehicle, as well as the vehicle manufacturer as well. Double counting will also occur across scope 1 and 2, to 3, as one companies scope 1 and 2 emissions, will often be another company's scope 3.

Despite the flaws within this metric, a company's scope 3 emissions are important to account for, as without this metric many companies' emissions would be significantly understated.


River Severn at Worcester, Worcestershire

Climate Metrics *(continued)*

Headline Metrics	WPF March 2023	
Absolute emissions metric: – Financed emissions	Equities:	– Scope 1 and 2: 167,214 tCO_2e – Scope 3: 1,754,764 tCO_2e
Emissions intensity metric: – Normalised financed emissions – Weighted Average Carbon Intensity (WACI)	Equities:	Normalised Financed Emissions – Scope 1 and 2: 72.7 tCO_2e/£M Invested – Scope 3: 767.0 tCO_2e/£M Invested WACI – Scope 1 and 2: 98.7 tCO_2e/$M Revenue
Data Quality metric: – Data availability – MSCI data quality metric	Equities:	– Data availability: 96.3% *of AUM with data coverage for financed emissions calculation* – Data quality: 2.1 *(Weighted Average of available data quality)*
Paris Alignment metric: Combination of – MSCI Low Carbon Transition Score – Science-Based Target – MSCI Implied Temperature Rating	Equities:	– LCT Score: 37.1% *of financed emissions has above median score* – SBT: 35.7% *of financed emissions are covered by a science-based target* – ITR: 26.1% *of financed emissions has an implied temperature of 2°C or below*

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Climate Metrics *(continued)*

Our Approach to Climate Data

Climate data is an evolving field, and methodologies are continuously updated by governments, data providers, and companies. The data accessible through our data provider (MSCI) undergoes frequent revisions as estimated data gets replaced by reported data, estimations are refined for greater precision, and data coverage expands.

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We recalculate our emissions annually and may revise previously reported greenhouse gas (GHG) data to incorporate the most current information. When possible, we align our holding period with the period in which emissions from the underlying issuer occurred. Consequently, there may be variations between data reported in previous documents and the figures presented in this report due to these restatements. Our metrics employ methodologies aligned with those used by the Partnership for Carbon Accounting Financials (PCAF) and MSCI.

A summary of restated values are as follows:

	Previously Reported			Restated Data		
	2020	2021	2022	2020	2021	2022
Equities Portfolios						
Weighted Average Carbon Intensity	137.4	113.0	118.7	144.0	97.7	114.4
Weight in Fossil Fuel Reserves	6.6%	6.51%	7.4%	5.3%	3.9%	6.8%
Weight in Thermal Coal Reserves	2.2%	2.15%	1.9%	2.8%	1.7%	3.0%
Weight in Coal Power*	1.2%	0.41%	0.7%	0.1%	0.0%	0.0%
Weight in Clean Technology	34.6%	35.9%	34.4%	37.1%	40.5%	38.2%
Reference Indices						
Weighted Average Carbon Intensity	180.2	157.1	169.8	186.8	165.8	165.8
Weight in Fossil Fuel Reserves	7.7%	7.3%	8.9%	6.0%	5.9%	8.0%
Weight in Thermal Coal Reserves	3.0%	2.9%	2.7%	2.4%	2.3%	3.4%
Weight in Coal Power	1.5%	0.8%	1.3%	0.2%	0.1%	0.1%
Weight in Clean Technology	34.7%	36.9%	36.2%	36.3%	38.1%	38.8%

* New methodology screens companies with >30% of share from coal power generation.

Equities

The table below shows the Fund's aggregated climate risk metrics for each portfolio in the equity asset class. Please see the Glossary on pages 46-51 for definitions of each of these metrics.

FIGURE 3: EQUITIES CLIMATE DASHBOARD

Equity	Multiple	Multiple	£2,433,117,663	Blended	Q1 2023
Asset Class	Fund Classification	Fund Manager	NAV	Reference Index	Period

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Carbon Footprint Metrics		Portfolio	Reference	Previous Year	Data Availability Portfolio	Data Availability Reference
Total Financed Emissions	Scope 1+2	167,214	222,645	164,359	96.3%	98.3%
tCO2e	Scope 3	1,754,764	1,857,785	1,546,893	96.1%	98.1%
Normalised Financed Emissions	Scope 1+2	72.7	93.2	81.5		
tCO2e/£M Invested	Scope 3	767.0	777.7	770.3		
Weighted Average Carbon Intensity	Exclude Sovereign	98.7	164.1	114.4	96.3%	98.4%
tCO2e/$M Revenue	Include Sovereign	98.7	164.1	114.4	96.3%	98.4%

Top 10 Emissions Contributors

Issuer	PF Weight	Ref Weight	% Financed Emission		% WACI		Scope 1+2	Scope 3	Engagement	Focus	Data	LCT	ITR	SBT
Taiwan Semiconductor Manufacturing Co., Ltd.	1.8%	1.3%	0.9%	19	3.7%	4	11.3M	35.0M	Yes	Yes	2	5.8	2.9	No
SHELL PLC	1.7%	2.0%	15.2%	1	6.5%	1	137.7M	1,174.0M	Yes	Yes	2	2.9	2.5	No
BP P.L.C.	1.0%	1.1%	3.6%	5	1.5%	11	35.5M	640.7M	Yes	Yes	2	2.8	2.4	No
RIO TINTO PLC	0.7%	0.7%	3.1%	7	4.1%	3	30.3M	583.9M	Yes	Yes	2	5.5	5.9	No
ANGLO AMERICAN PLC	0.4%	0.4%	1.4%	13	1.7%	10	13.3M	335.2M	Yes	No	2	5.8	5.5	No
CRH PUBLIC LIMITED COMPANY	0.3%	0.4%	4.8%	3	3.4%	6	33.8M	22.4M	Yes	Yes	2	4.9	1.8	Yes
CEMEX, S.A.B. de C.V.	0.1%	0.0%	5.0%	2	3.4%	5	39.3M	14.8M	Yes	Yes	2	4.0	1.9	Yes
SOUTH32 LIMITED	0.1%	0.0%	3.0%	8	2.8%	8	21.0M	67.4M	Yes	No	2	4.0	5.2	No
SEMBCORP INDUSTRIES LTD	0.1%	0.0%	4.4%	4	4.3%	2	25.5M	8.9M	No	No	2	3.4	3.2	No
Huaxin Cement Co., Ltd.	0.0%	0.0%	2.6%	10	2.8%	7	36.0M	3.5M	No	No	2	1.4	8.3	No

Recommendations / Observations

- Financed emissions have increased slightly since the previous year. However, as the fund's AUM also increased by a greater proportion over the same period, normalised financed emissions have decreased by 11%.
- The fund's financed emissions are 25% lower than that of the benchmark, driven by underweight exposure to Materials, Energy, and Utilities.

Worst YoY Contributors	Stewardship Focus
BLUESCOPE STEEL LIMITED	No
SEMBCORP INDUSTRIES LTD	No
SOUTH32 LIMITED	No

High Impact Sectors / Climate Solutions Exposures (Portfolio vs Benchmark)

Fossil Fuel Exposure	Fossil Fuel Revenue	Thermal Coal Exposure	Coal Power Exposure	Cleantech Exposure	Cleantech Revenue
5.7% | 8.3%	2.0% | 3.9%	2.1% | 2.9%	0.0% | 0.1%	38.1% | 38.2%	4.9% | 5.2%

Portfolio Alignment & Engagement

Engagement	Data Quality	LCT	ITR	SBT	Alignment
71.2%	2.1	37.1%	26.1%	35.7%	19.7%

Equities *(continued)*

We have examined nine funds with a combined NAV of approximately £2.4 billion as of March 31, 2023.

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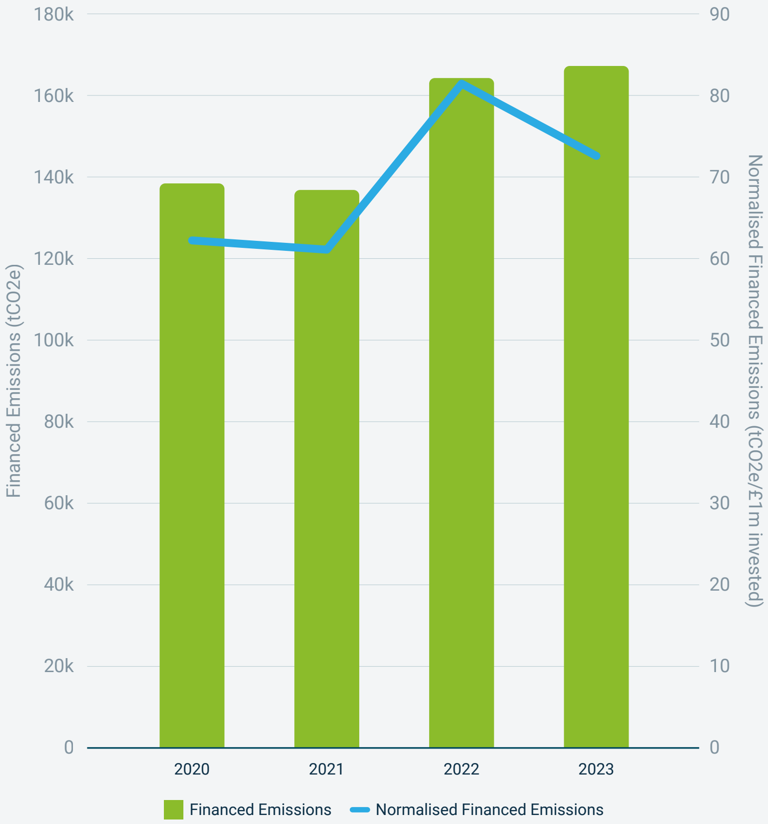
Notably, the composition of the funds within the analysis has changed significantly since our initial assessment in 2020. For example, over this time the Fund has shifted assets into LGPSC's Global Sustainable Equity funds, which has resulted in significant improvements in the Fund's carbon metrics.

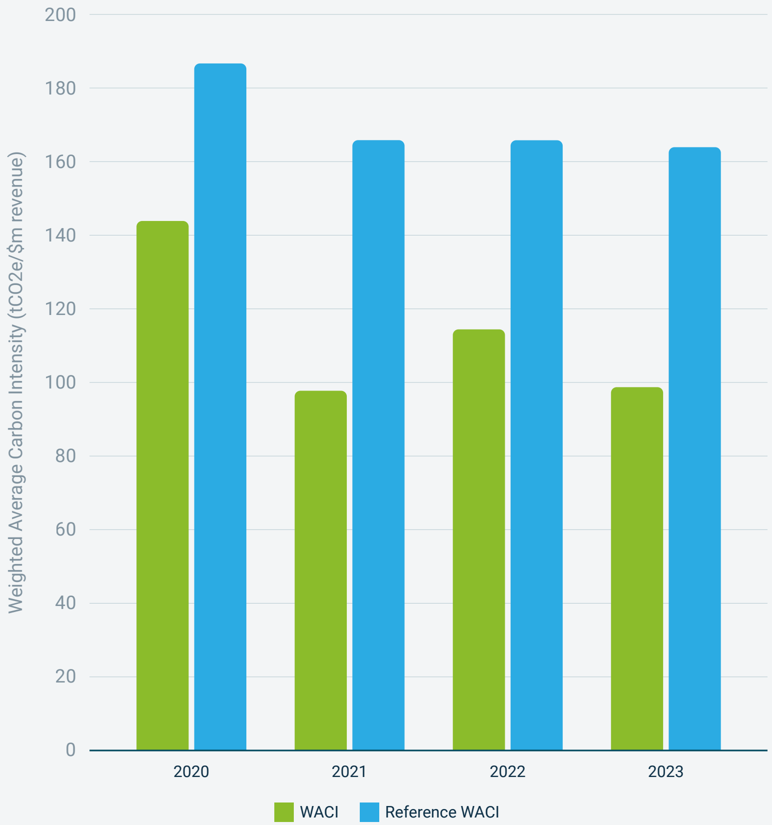
Each fund's carbon footprint is evaluated in comparison to the primary market index in which it predominantly invests. In this case, as all funds considered in this analysis have a global investment universe, we have selected the FTSE All-World Index as the reference benchmark for this evaluation.

Carbon Footprint Metrics

Total Equities: Historical Financed Emissions



Total Equities: Historical WACI



Equities *(continued)*

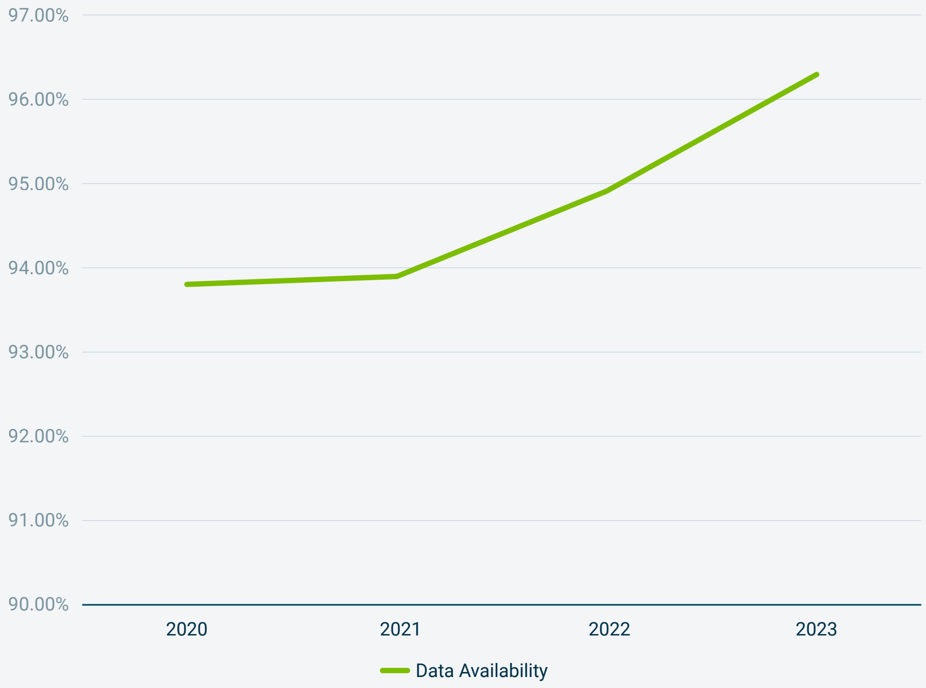
Financed emissions have seen a small increase (1.7%) since the previous year. However, as the Fund's NAV increased by 10.9% over the same period, financed emissions normalised per £m invested have decreased by 10.8%. The majority of the YoY increase in financed emissions can be attributed to the Nomura Asia-Pacific Equity fund, with a 73% increase in financed emissions alongside a 5.5% increase in NAV. The increase in the financed emissions of the Nomura fund was mitigated by a decrease of a similar extent in the LGIM Global Equity fund.

In contrast to the Fund's financed emissions, the Fund's WACI has decreased by 31.5% since 2020. This shows that the carbon intensities of the companies in which the fund is investing (ie. the amount of carbon produced in proportion to the firm's revenue) has decreased significantly. The WACI also decreased by 13.7% since 2022, driven in part by a reduction in exposure to the Energy sector.

In relative terms, carbon metrics for equities have consistently outperformed their reference indices, with 2023 financed emissions and WACI outperforming the benchmark by 25% and 40% respectively. All actively managed portfolios exhibit lower carbon metrics compared to their respective market indices. This indicates that the stock selection and asset allocation decisions of delegated managers are informed by climate risk considerations.

Data

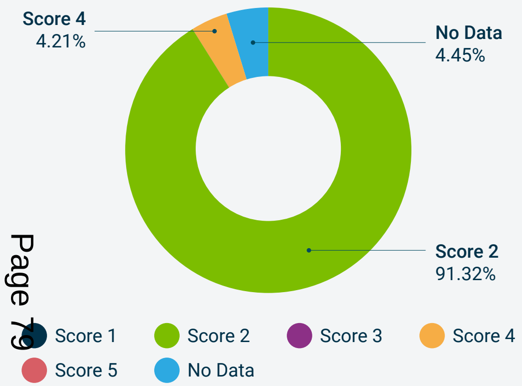
Equities: Data Availability Over Time



This chart shows how data availability has changed over time, since we first began collecting data in 2020. Data availability for the Total Equity portfolio has remained high throughout the period, with steady improvements as the availability trends upwards. As of Q1 2023, data availability is lowest for the Nomura portfolio (91.6%) and highest for the LGIM NA Equity fund (99.2%). These differences are reflective of the idiosyncrasies of data availability in different geographic markets.

Equities *(continued)*

Equities: Breakdown of Data Quality Score (March 2023)



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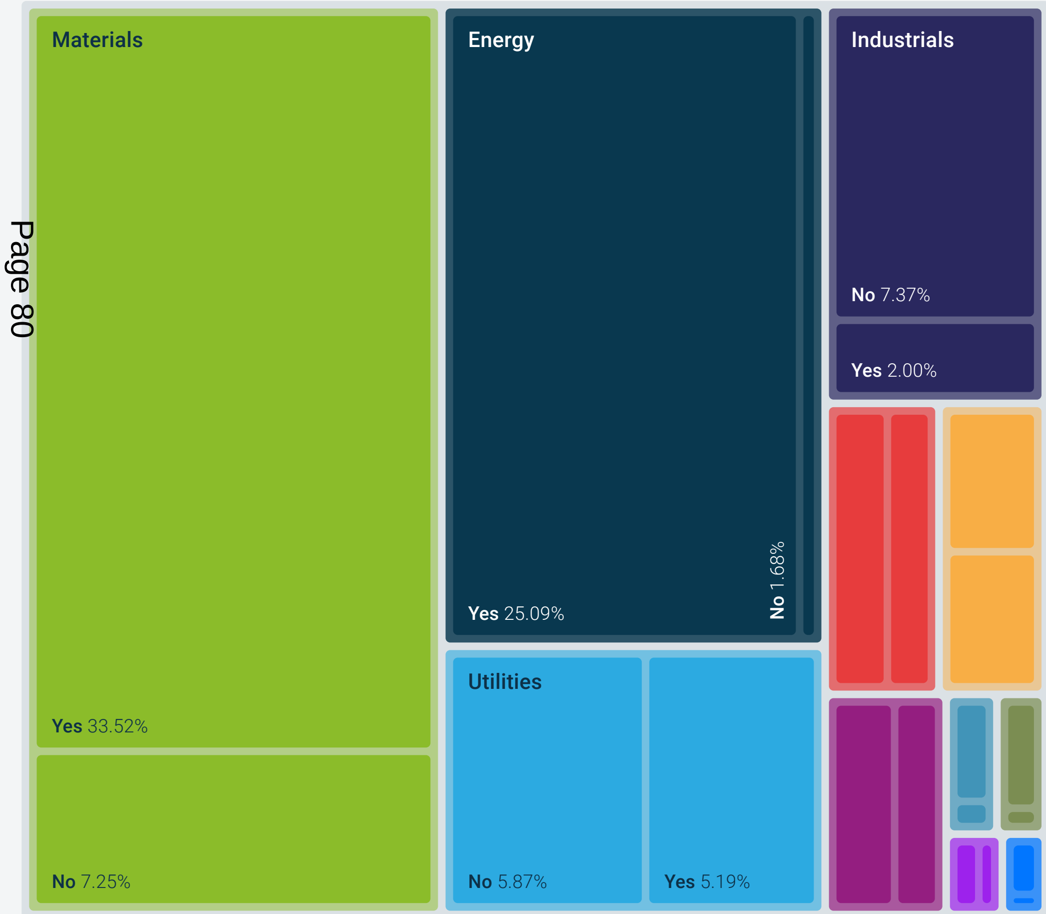
We have consistently had access to a substantial amount of equity data since we began calculating carbon footprint metrics. Our current primary focus is to enhance the quality of the data used in these calculations. At present, the majority (91.3%) of the data analysed, as meaured as a percentage of the total value of equity funds, is sourced from company-reported data with a rating of 2. To attain a higher rating, company-reported data should undergo independent verification. In practice, a significant portion of the data we employ has already undergone independent verification. However, we currently lack a method to confirm the audited status of this data. Our ongoing efforts are directed toward improving the data validation process to accurately reflect the true quality of the data we utilise. This workstream is conducted in collaboration with our data provider.

Equities *(continued)*

Sources of Emissions

The graph below illustrates the distribution of emissions within the portfolio by sector and indicates whether these emissions are addressed through engagement activities.

Financed Emission (Scope 1+2) by GICS Sector and Climate Engagement



Consumer Staples
Yes 2.00% **No** 1.65%

Information Technology
No 1.66% **Yes** 1.61%

Consumer Discretionary
No 1.64% **Yes** 1.23%

Health Care
No 0.62% **Yes** 0.16%

Communication Services
No 0.58% **Yes** 0.10%

Financials
Yes 0.28% **No** 0.17%

Real Estate
No 0.30% **Yes** 0.03%

Between 2020 and 2023, the Fund's share of emissions associated with investments in Utilities decreased significantly, counterbalanced by increases in the share of emissions associated with Materials and Energy. This is to be largely to be expected: companies in the Utilities sector have been able to shift towards low carbon alternatives with relative ease as the price of green electricity decreases. Materials, on the other hand, is more reliant on carbon-intensive operations and there are few low-carbon alternatives.

It is encouraging to see that engagement efforts within the Materials sector have increased over the same period. In 2020, 69% of emissions arising from that sector came from companies which were being engaged by LGPSC or its external stewardship provider. In 2023, that figure has increased to approximately 83%. Furthermore, only 6% of financed emissions from the Energy sector are arising from companies which are not being engaged. This suggests that engagement efforts are focussing on sectors which may represent the greatest exposure to climate risk for the Fund.

At the company level, six of the Top 10 emitters from across the portfolio are included in the climate stewardship focus list, and eight of the Top 10 emitters are currently being engaged by LGPSC or its external stewardship provider. As with previous years, we recommend that those companies in the Plan continue to be monitored, with any significant changes to the Top 10 emitters reflected with updates to the plan.

Relative to reference indices, the Fund's equities portfolios have lower exposure to fossil fuels, thermal coal, and coal power generation. This can be attributed in part to Fund's underweight position in the Energy sector.

Equities *(continued)*

Highest Emitting Issuers

The leading contributor to financed emissions in WPF's equity portfolios is **Shell**, accounting for 15.2% of all such emissions. Shell has committed to a climate target of reducing scope 1 and 2 emissions by 50% by 2030, compared to a 2016 baseline, and achieving net zero emissions by 2050. In relation to this target, Shell has already reduced its scope 1 and 2 emissions by 20.4% since the baseline year, and they have also reported successful attainment of their short-term targets for 2021 and 2022. These factors place Shell above the industry average in terms of its climate ambitions and its progress towards the achievement of those ambitions. Nonetheless, Shell continues to be a key focus of our stewardship efforts.

CRH, a supplier of construction materials has been one of the top contributors (year-on-year) to the portfolio's financed emissions as exposure to the company increased. However, the company has established 2030 target which has been validated by the SBTi. The target refers to a 30% reduction in absolute emissions by 2030 from a base year of 2021. The company has so far reduced scope 1 and 2 emissions by 6.1% (from 2021 to 2022). Prior to this the company's scope 1 and 2 emissions doubled over a 10-year period (2012 to 2022), driven by M&A activities.

Taiwan Semiconductor Manufacturing Co (TSMC) also features in the Top 10 emitters list, contributing 0.9% of the portfolio's financed emissions and 3.78% of the portfolio's WACI. The semiconductor industry is naturally carbon intensive, yet semiconductors themselves will play a crucial role in the transition to a low carbon economy. The company has set a goal to reach net zero by 2050, although this is not yet a science-based target. Elements such as this will be key to future engagements with the company.


Harvington Hall, Worcestershire

Fixed Income

The table below shows the Fund's aggregated climate risk metrics for each portfolio in the fixed income asset class. Please see the Glossary on pages 46-51 for definitions of each of these metrics.

FIGURE 4: FIXED INCOME CLIMATE DASHBOARD

Asset Class	Fund Classification	Fund Manager	NAV	Reference Index	Period
Fixed Income	Fixed Income Global	Multiple	£181,399,939	50% Sterling Non-Gilt & 50...	Q1 2023

		Carbon Footprint Metrics			Data Availability	
		Portfolio	Reference	Previous Year	Portfolio	Reference
Total Financed Emissions	Scope 1+2	9,299	9,421	13,550	71.8%	77.4%
tCO2e	Scope 3	45,310	74,892	58,085	71.6%	76.9%
Normalised Financed Emissions	Scope 1+2	71.3	51.9	91.4		
tCO2e/£M Invested	Scope 3	349.0	412.9	391.8		
Weighted Average Carbon Intensity	Exclude Sovereign	174.6	159.0	200.5	83.0%	96.1%
tCO2e/$M Revenue	Include Sovereign	175.5	159.0	198.8	87.3%	96.1%

Top 10 Emissions Contributors

Issuer	PF Weight	Ref Weight	% Financed Emission		% WACI		Scope 1+2	Scope 3	Engagement	Focus	Data	LCT	ITR	SBT
THE SOUTHERN COMPANY	0.9%	0.1%	12.2%	2	17.7%	1	82.6M	34.8M	Yes	No	2	3.1	3.7	No
INTERCONTINENTAL HOTELS GROUP PLC	0.5%	0.1%	2.1%	13	2.1%	7	2.5M	3.5M	No	No	2	5.3	4.9	Yes
ENEL Finance International N.V.	0.4%	0.6%	2.8%	9	1.2%	14	55.9M	69.2M	No	No	2	6.1	1.4	Yes
CLECO CORPORATE HOLDINGS LLC	0.4%	0.0%	18.6%	1	11.2%	2	9.2M	3.7M	No	No	4			No
WEC ENERGY GROUP, INC.	0.4%	0.0%	4.1%	5	5.5%	3	21.8M	29.0M	Yes	No	2	2.7	3.5	No
DUKE ENERGY CORPORATION	0.3%	0.1%	3.5%	8	5.3%	4	78.0M	26.5M	Yes	No	2	4.0	2.6	No
Dominion Energy, Inc.	0.2%	0.1%	1.5%	17	2.7%	6	35.0M	25.4M	Yes	No	2	3.7	2.9	No
RWE Aktiengesellschaft	0.2%	0.0%	8.3%	3	3.0%	5	89.6M	23.0M	Yes	No	2	4.5	6.6	Yes
Holcim Sterling Finance (Netherlands) B.V.	0.1%	0.1%	5.3%	4	1.9%	10	83.0M	30.9M	No	No	2	4.2	2.3	Yes
THE AES CORPORATION	0.1%	0.0%	2.0%	14	2.0%	9	41.0M	8.6M	Yes	No	2	4.2	3.6	No

Recommendations / Observations

- Data availability for the fixed income portfolio remains relatively low. Although availability has improved over time, the climate metrics included in this report should be considered with this limitation in mind.
- Total financed emissions have reduced significantly since 2022, and are now outperforming the benchmark.
- While normalised financed emissions and WACI have also seen significant YoY reductions, they remain above the benchmark.

Worst YoY Contributors	Stewardship Focus
DUKE ENERGY CORPORATION	No
ELECTRICITE DE FRANCE SA	No
RWE Aktiengesellschaft	No

High Impact Sectors / Climate Solutions Exposures (Portfolio vs Benchmark)

	Portfolio	Benchmark
Fossil Fuel Exposure	4.4%	6.3%
Fossil Fuel Revenue	1.2%	2.1%
Thermal Coal Exposure	1.5%	1.4%
Coal Power Exposure	0.0%	0.2%
Cleantech Exposure	22.3%	28.9%
Cleantech Revenue	3.7%	4.6%

Portfolio Alignment & Engagement

Engagement	Data Quality	LCT	ITR	SBT	Alignment
51.6%	2.2	26.1%	38.9%	39.7%	24.4%

Fixed Income *(continued)*

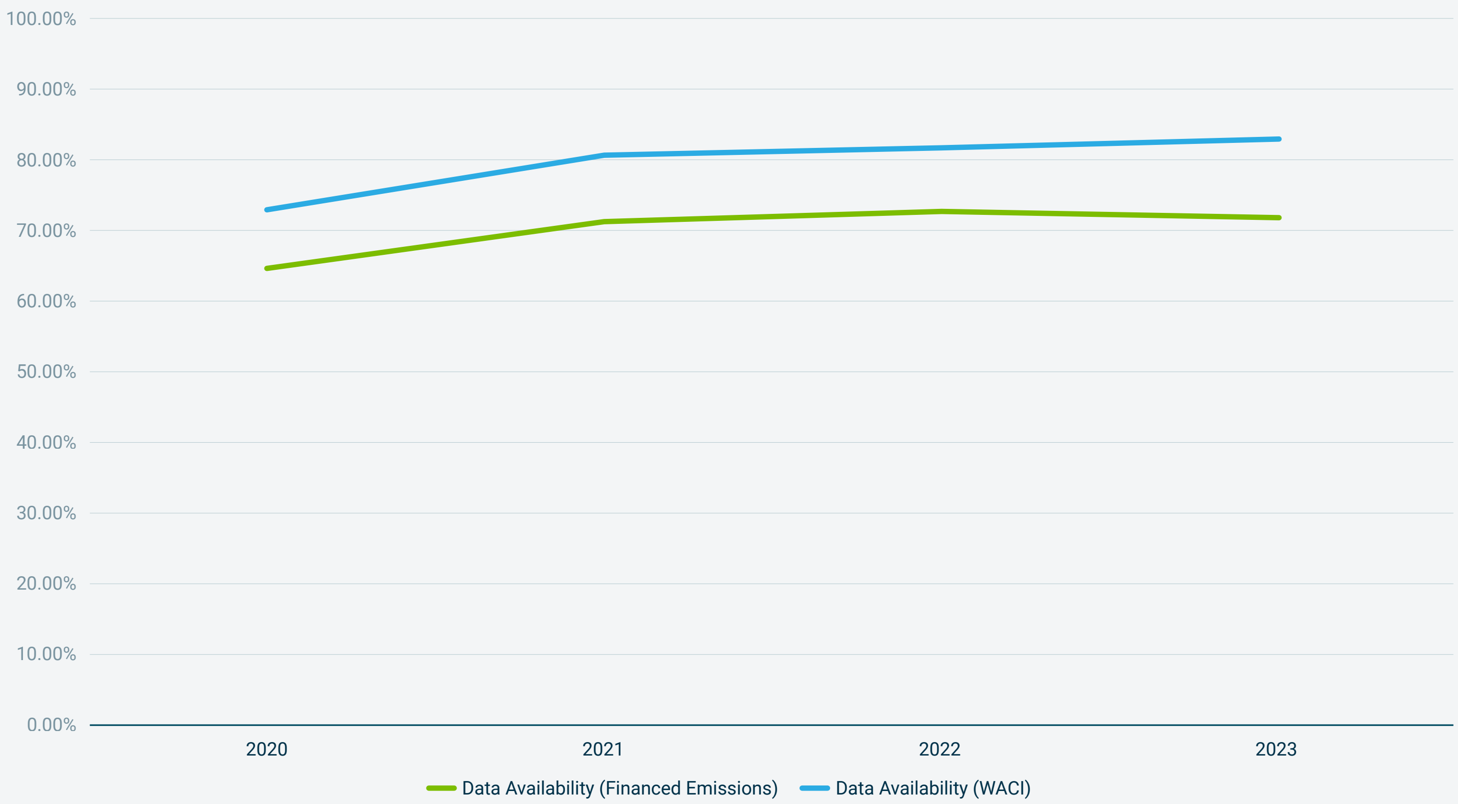
This is the first time that we are calculating the carbon footprint of WPF's fixed income investments, which encompasses a single fund (LGPSC Corporate Bond Fund).

It should be noted here that data coverage is typically much lower in fixed income portfolios than listed equity portfolios, due to the maturity of carbon reporting within that asset class. LGPSC typically sets a threshold of 60% data availability to include a portfolio within the climate analysis. Although the Corporate Bond Fund does exceed this threshold, the carbon metrics reported in this section of the report should nonetheless be considered with this limitation in mind. As climate analyses mature across the industry, data availability will increase.

The reference indices we used to measure the fund's relative performance was 50% Sterling Non-Gilt Index + 50% ICE BofA Global Corporate Index. It should be noted that the accuracy of any comparison with a reference index is likely to be affected by discrepancies in data availability between the fund and the index. Lower data availability often results in higher normalised financed emissions and WACI figures.

Data

Fixed Income: Data Availability Over Time



Fixed Income *(continued)*

The financed emissions associated with the fixed income portfolio have increased by 59% since 2020, while financed emissions normalised per £m invested have increased by 5%. The difference between those two figures is reflective of the increase in the Fund's NAV over the same period. It should also be noted that many portfolios follow a similar pattern due to the impact of the covid pandemic in 2020, and the subsequent rebound.

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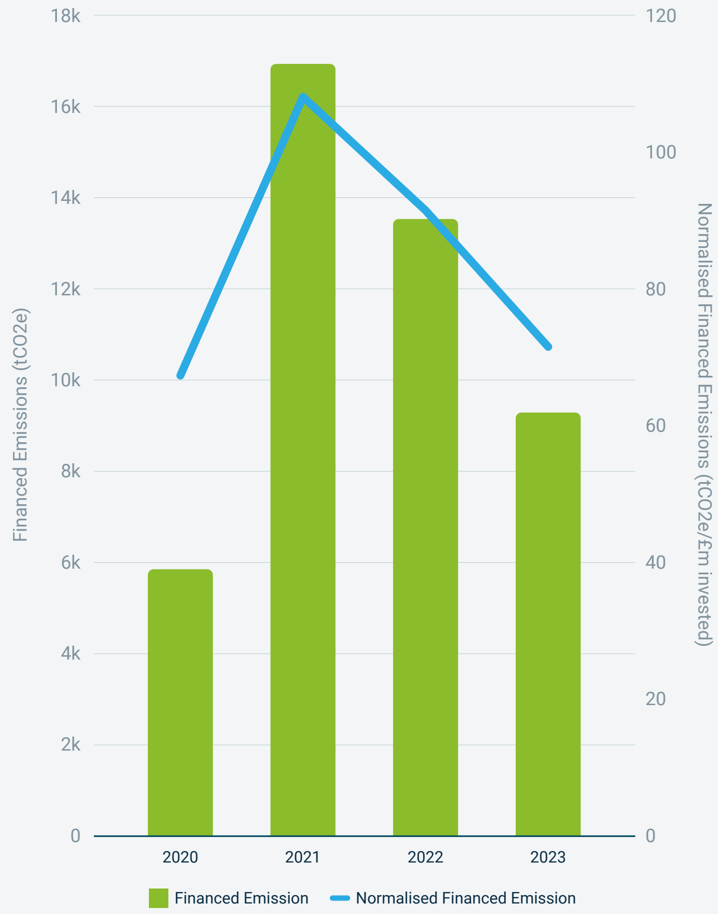
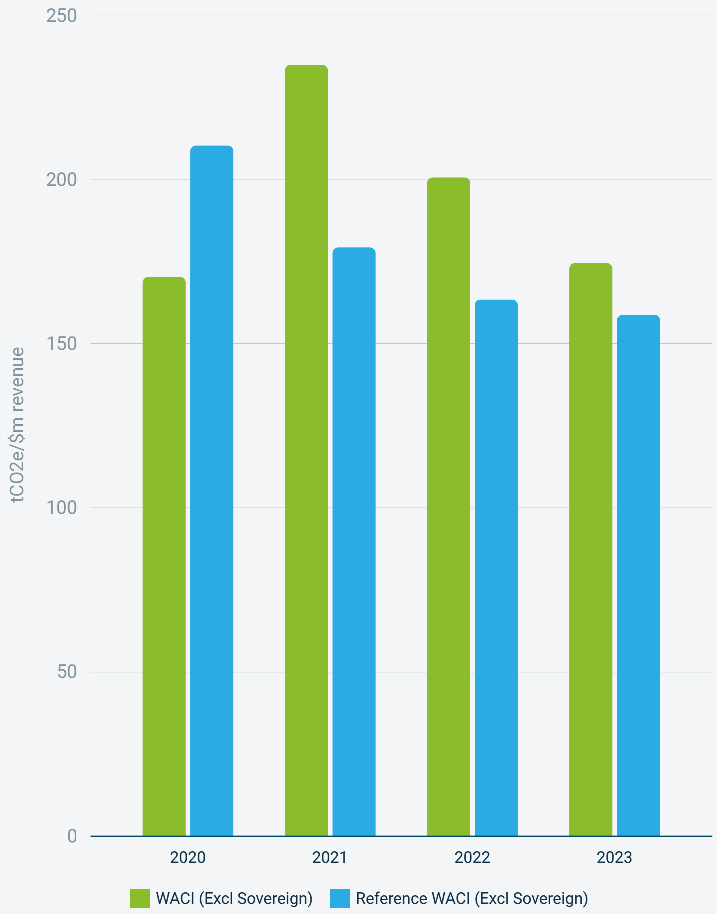
The fund's exposure to carbon intensive companies followed a similar pattern over the same time period, as evidenced by the WACI graph above. As with financed emissions, the fund saw a spike in 2021 and has been steadily decreasing since then. The Fund has been closing the gap between the portfolio WACI and the reference index over the last three years, suggesting that managers are increasingly incorporating climate risk considerations into their stock selection choices.

Carbon Footprint Metrics

Fixed Income: Financed Emissions Over Time

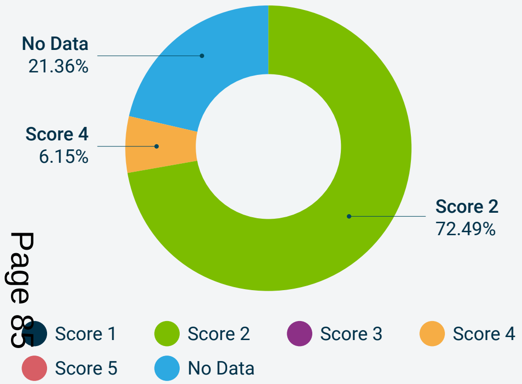


Fixed Income: WACI Over Time



Fixed Income *(continued)*

Fixed Income: Breakdown of Data Quality Score (March 2023)



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Data availability for fixed income is relatively low compared to those of its equities counterpart. However, it is worth noting that significant improvements have been made since we started carbon footprinting in 2020. It is also encouraging that a significant majority of the data within the protfolio (72%) is company-sepcific reported data, receiving a score of "2" for data quality.

Going forward, our immediate focus on fixed income is:

i) Adding sovereign emissions data into the calculation. This will significantly improve data coverage for emerging market debt funds. (NB: We are currently developing a methodology to calculate emissions from sovereign issuers in our model).

ii) Increasing coverage of EVIC data, especially for non-listed issuers. This will improve our financed emissions data coverage.

iii) Mapping securities to their parent issuer.

Malvern Hills, Worcestershire

Fixed Income *(continued)*

Sources of Emissions

The graphic below illustrates the distribution of emissions within the portfolio by sector and indicates whether these emissions are addressed through engagement activities.

Financed Emission (Scope 1+2) by GICS Sector and Climate Engagement

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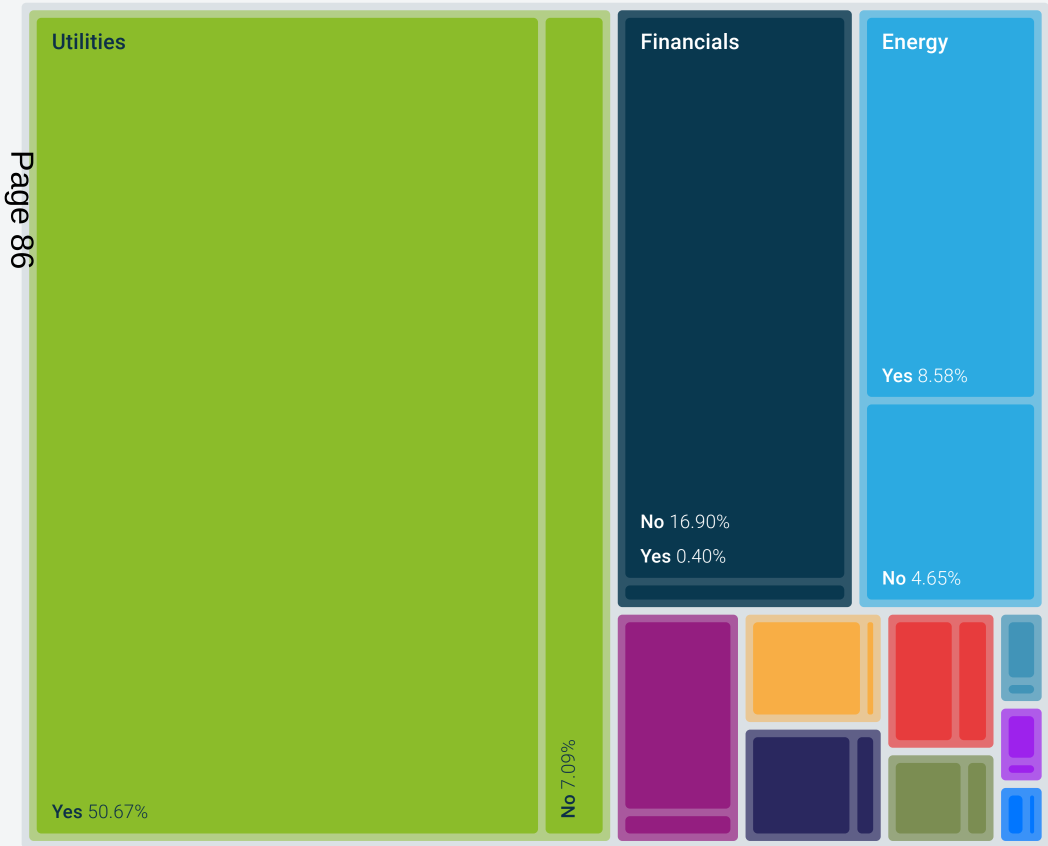

- **Consumer Discretionary** **No** 3.18% **Yes** 0.32%
- **Communication Services** **No** 1.85% **Yes** 0.11%
- **Materials** **No** 1.68% **Yes** 0.28%
- **Industrials** **No** 1.27% **Yes** 0.61%
- **Consumer Staples** **No** 0.91% **Yes** 0.29%
- **Health Care** **No** 0.41% **Yes** 0.08%
- **Real Estate** **No** 0.34% **Yes** 0.08%
- **Information Technology** **No** 0.22% **Yes** 0.07%

The proportion of financed emissions arising from each sector has changed significantly since 2020. Most notably, the proportion of financed emissions arising from Utilities is currently 57%, up from approximately 26% in 2020. Simultaneously, the financed emissions arising from the Energy sector have decreased from 38% to 13%.

Overall engagement coverage has also increased significantly over the same period. As of 31 March 2023, 51.6% of financed emissions are under one or more engagement program. In the fixed income portfolio, the major sector with the least engagement is Energy, which could be an area to improve going forwards. It should be noted here that engagement in the fixed income asset class does face some challenges. Firstly, there is often a lack of desire for companies to engage with their debtholders. This problem is often exacerbated as high portfolio turnover means engagers cannot commit to a long-term engagement plan with single issuers. Nevertheless, the expectation placed upon delegated managers is to perform ESG integration and stewardship. It is imperative that this metric improve over time as we believe that engagement can lead to improvements in carbon performance.

Relative to reference indices, the Fund's equities portfolios have lower exposure to fossil fuels, thermal coal, and coal power generation. This can be attributed in part to Fund's underweight position in the Energy and Materials sectors.

Fixed Income *(continued)*

Highest Emitting Issuers

Cleco Corporate Holdings, a public utility holding company, is the fixed income portfolio's top emitter and is responsible for 18.6% of financed emissions and 11.2% of WACI. Unfortunately, the issuer is not covered by MSCI for LCT and ITR scores. The issuer's private company status (it is owned by private equity firms) makes it difficult to analyse and engage with. LGPSC is communicating with the underlying manager on how they plan to engage with the company.

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Another of the fixed income portfolio's top contributors to financed emissions is **Enel**, which contributes 2.8% of financed emissions. Enel is generally seen as a leader in low carbon transition amongst its Utilities peers, demonstrated by the companies ITR of 1.4, LCT of 6.1 and SBT. We therefore consider Enel to be at least aligning to the Paris Agreement. It has an ambitious plan to be net zero by 2040 by switching its generation capacity to renewables (85% by 2030, 100% by 2040).

RWE is responsible for approximately 8.3% of the portfolio's financed emissions and 3.0% of the portfolio's WACI. The German energy company is a major emitter but also a major investor in the transition, with targets to add 25GW of renewable energy capacity by 2030 and reach carbon neutrality by 2040. That said, the company's Scope 1 & 2 emissions did increase from 2022 to 2023, meaning the manager's engagement with the company should be closely monitored.

Dunstall Castle, Croome Park, Pershore, Worcestershire

Definition of Carbon Metrics

TABLE 1: DEFINITION OF CARBON METRICS USED[10]

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Scope 1 Emissions	tCO2e (Tons of CO2 equivalent)	These are the Greenhouse Gas (GHG) emissions that a company is directly responsible for through its generation of energy.	The emissions generate through the company's direct operations, such as fuel combustion, company vehicles, etc.	These metrics must be considered together to gain a full understanding of a company's carbon profile. They do not consider a company's size and they do not capture the impact of the company's business model on the climate. Scope 3 emissions can also be counted multiple times by companies at different stages of the same supply chain.
Scope 2 Emissions	tCO2e	GHG emissions that a company produces indirectly through its operations via the consumption of purchased energy.	The emissions generated through the energy purchased by the company during its operations, such as energy consumption used to heat buildings.	
Scope 3 Emissions	tCO2e	All indirect GHG emissions resulting from the company's wider business practice.	Capturing emissions up and down the company's supply chain, including the emissions produced by customers' consumption of its products.	
Financed Emissions	tCO2e	This figure represents the amount of emissions attributed to the investor based on the proportion of the company that the investor owns.	Measures the absolute tons of (scope 1 and 2) CO2 emissions for which an investor is responsible.	Limited usefulness for benchmarking and comparison to other portfolios due to the link to portfolio size (benchmarks are assumed to have equal AUM to the respective portfolio to overcome this challenge). Attribution factor (EVIC)[11]

[10] Further information can be found at this link: Carbon Footprinting 101 - A Practical Guide to Understanding and Applying Carbon Metrics - MSCI
[11] EVIC is the Enterprise Value Including Cash. In other words, this refers to the company's total value.

Definition of Carbon Metrics *(continued)*

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Normalised Financed Emissions	tCO2e/£m Invested	Financed Emissions are normalised by the portfolio's AUM as to provide a measure of carbon intensity.	This measure converts the absolute measure of Financed Emissions into a relative measure of carbon intensity, creating greater ease when benchmarking and comparing to other portfolios.	This measure will complement Financed Emissions, as alone it cannot provide an absolute measure of portfolio emissions.
Weighted Average Carbon Intensity (WACI)	tCO2e/$m revenue	Is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M revenue) 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'. As this metric is a product of revenue, the figure may fluctuate independently of the company's carbon emissions.
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 companies challenged by the transition to a lower carbon economy and is a measure of the impact of the portfolio.	It does not consider the amount of revenue a company generates from fossil fuel activities. Consequently, diversified businesses (e.g. those that are involved in a range of economic activities) would be included when calculating this metric regardless of the proportion of their revenue derived from fossil fuels. As a result it is not a precise measure of transition risk.

Definition of Carbon Metrics *(continued)*

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Exposure to Fossil Fuel Reserves by Revenue	%	This figure identifies each portfolio company's maximum percentage of revenue (either reported or estimated) derived from conventional oil and gas, unconventional oil and gas, as well as thermal coal. Each company's maximum possible revenue values are summed and weighted by the portfolio weights to produce a weighted exposure figure.	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. This is also a binary measure, whereby all exposures to clean technology are categorised equally. Therefore, companies with very limited exposure to clean technology may have a significant influence on the final figure. This limitation is met by the revenue metric below.

Definition of Carbon Metrics *(continued)*

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
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). Company values are summed and weighted by the portfolio weights to produce a weighted exposure figure.	Allows for a comparison of company's exposure to clean technology, adjusted according to a proportion of that company's revenue generated from those activities.	This measurement uses maximised estimates where reported values are not available. Therefore, there is potential to overestimate exposure.
Engagement	%	Is calculated by the proportion of financed emissions which are accounted for under an engagement program either directly, in partnership and/or through stewardship provider.	This allows us to understand how much of the portfolio's financed emissions are accounted for under engagement programs.	This figure does not demonstrate the degree of progress made with the portfolio company as a result of the engagement. This will also include engagement on issues outside of environmental topics.
Data Quality	Numerical (1-5)	This metric is presented as a score between 1 and 5, with 1 representing the highest quality of reported emissions. A score of 1 would represent independently verified emissions data, whereas a higher score may represent estimated emissions based on sector averages.	Understanding data quality provides an insight into the accuracy of other climate metrics.	Simple quantification of the quality of data, does not provide in-depth understanding of data availability/reliability.

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Definition of Carbon Metrics *(continued)*

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Low Carbon Transition	Numerical (1-10)	Low Carbon Transition scores are assigned from 1 to 10, whereby a score of 10 indicates exceptional management of climate risks and opportunities, while a score of 1 indicates poor management. For this metric the proportion of financed emissions associated with a portfolio with a manager score above 5 is aggregated.	This views how well a company manages risk and opportunities related to the low carbon transition. The overall figure for this metric is apportioned by financed emissions, highlighting the proportion of emissions within the portfolio which arise from companies with effective carbon management policies.	While this considers the ability of a company's management to incorporate low carbon transition risks and opportunities, it is not an overall indicator of the company's low carbon transition performance.
Implied Temperature Rise (ITR)	%	ITR is typically expressed in degrees centigrade, and is based on the implied global temperature rise if the entire economy adopted the same decarbonisation policy as the company in question. The reported figure is expressed in a percentage, and relates to the share of financed emissions within the portfolio with an ITR of 2C or less.	Implied temperature rise is an intuitive, forward-looking metric, expressed in degrees Celsius, designed to show the temperature alignment of companies, portfolios and funds with global temperature goals.	Implied temperature rise is heavily reliant on the model's parameters and assumptions.
Science-Based Targets	%	This is calculated as the proportion of financed emissions which are accounted for by a portfolio company with science-based climate target.	Provides an insight into the proportion of companies which have implemented science-based targets. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial.	This metric only measures the proportion of companies with official science-based targets which have been verified by an independent body. A company with robust and ambitious targets which have not been verified may be omitted.

Definition of Carbon Metrics *(continued)*

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Paris Alignment	%	This metric is constructed in-house. A company is considered to be aligned if they have a Low Carbon Transition score greater than 5, as well as either an ITR of 2 degrees Celsius or lower, or a science-based target.	This figure is designed to provide an insight into the overall Paris alignment of the portfolio. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial.	The limitations of the figure will be carried over from the limitations of the underlying metrics. There is currently no consensus opinion on what it means for a company to be aligned.

LGPS Central Limited

Worcestershire Pension Fund Climate-related Disclosures

Report prepared in alignment with the recommendations of the TCFD

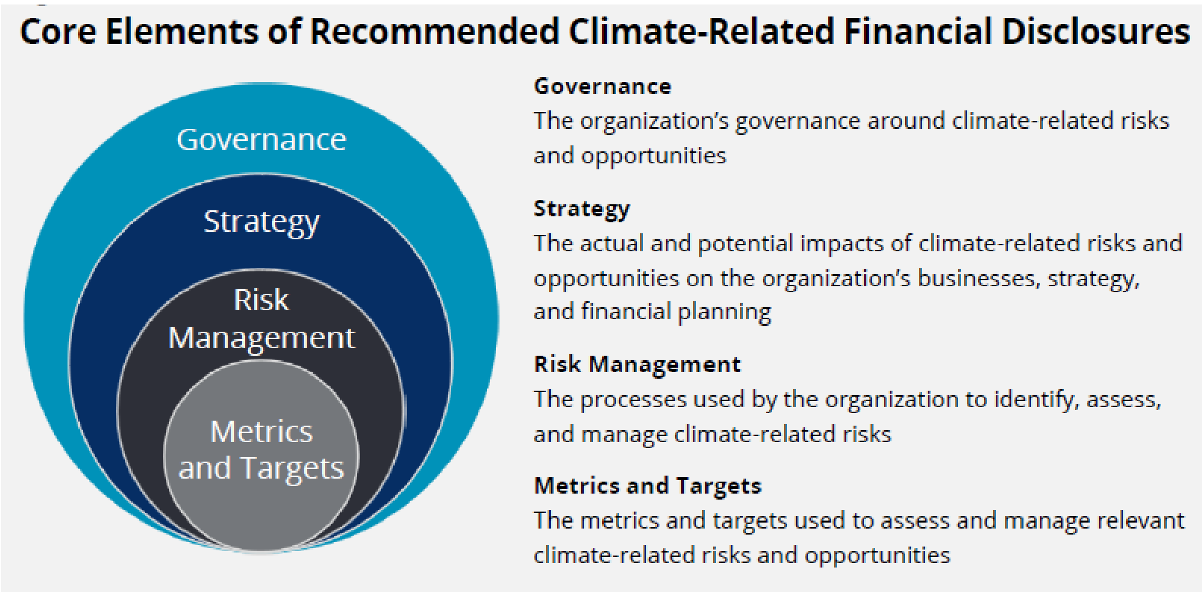
January 2024

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 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') fourth climate-related disclosure report. It describes the way in which climate-related risks are currently managed within the Fund.

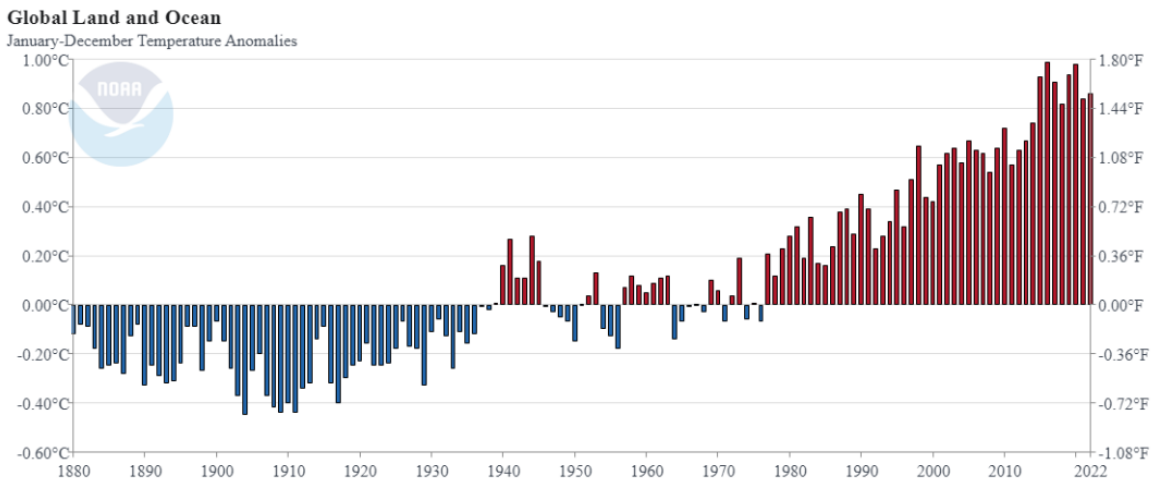
Since September 2020, WPF has received four Climate Risk Reports from the Fund's pooling company, LGPS Central Ltd (LGPSC). These reports have provided an in-depth review of the Fund's climate risks under different climate change scenarios across all asset classes. The Fund is currently using the findings 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 1.1°C of global warming above pre-industrial levels,[1] while the UN anticipates approximately 2.9°C of warming by the end of the century.[2] Most of this warming has occurred in the past 35 years, with each of the ten warmest years between 1880 and 2022 taking place over the last 12 years.[3] 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: Global Land and Ocean Annual Temperature Anomalies (1880-2022) [4]



In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the majority of climate scientists anticipate that given the current level of climate action, by 2100 the world will be between 2°C and 4°C warmer. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

[1] IPCC_AR6_SYR_SPM.pdf
[2] EGR2023.pdf (unep.org)
[3] Annual 2022 Global Climate Report | National Centers for Environmental Information (NCEI) (noaa.gov)
[4] Annual 2022 Global Climate Report | National Centers for Environmental Information (NCEI) (noaa.gov)

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 the Fund's annual reports include a Governance Compliance Statement. Overall responsibility for managing the Fund lies with Worcestershire County Council which has delegated the management and administration of the Fund to the Worcestershire Pension Fund Pensions Committee.

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

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

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

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 Head of Pension Investments, Treasury Management & Banking 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.

Fund Officers have received annual Climate Risk Reports since 2020. These enable the consideration of climate change within strategy setting, including asset allocation and fund 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 continue occurring 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

Risk	Transition / Physical	Time Horizon	Impact Area	Mitigation / Management Strategy
Policy Changes (Including Carbon Pricing)	Transition	Short Medium Long	Across investments and funding	• Monitor potential regulatory changes (domestic and international), and consider impact of these changes on Fund's investments and operations.

Risk	Transition / Physical	Time Horizon	Impact Area	Mitigation / Management Strategy
			Investments in carbon-intensive industries Operational	• Monitor managers' preparedness and awareness of changing carbon prices across relevant markets • Consider impact of likely policy changes in strategic decisions
Technological Change	Transition	Short Medium Long	Across Asset Classes	• Monitor potential technology disruptors • Monitor manager awareness of emerging and disruptive technologies • Consider impact of these changes in strategic decisions
Extreme Weather Events	Physical	Short Medium Long	Physical Assets Corporate Holdings	• Carry out scenario analyses on various climate scenarios to assess impact • Monitor portfolio company's assessments of extreme weather impacts on their operations
Resource Scarcity	Physical	Medium Long	Physical Assets	• Monitor manager awareness of resource scarcity • Special consideration to agricultural holdings

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 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 Q2 2022, the Fund invested approximately £170m in LGPS Central's Global Sustainable Equity fund. The carbon metrics associated with this fund are significantly lower than those of the benchmark, representing another significant step forward for the Fund's management of climate risk.

The Fund is exploring options to further embed climate-related risks and opportunities into its investment strategy 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 2020 and 2022 the Fund engaged the expertise of an external contractor, Mercer LLC,[5] 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.

The scenarios are defined according to the change since pre-industrial times in mean global surface temperatures. A Rapid transition scenario is characterised by sudden divestments on a global scale in 2025 in order to align society to the Paris Agreement goals. The Orderly transition scenario represents the markets pricing-in dynamics occurring gradually over four years. A Failed transition represents a scenario in which society makes no attempt to limit global warming, with severe physical and extreme weather events and the markets pricing in these risks.

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.

[5] Via LGPS Central Limited

The analysis concluded with several key recommendations, including That the fund continues with the development of its net zero strategy; that the portfolio increases its weighting of sustainable equity; and that it works with fund managers to understand how they monitor climate risk.

The Fund has also carried out a Climate Scenario Analysis on the impact of three different climate scenarios on the Fund's funding. This analysis also considered the impacts in a Rapid Transition, Orderly Transition, and Failed Transition. The analysis concluded by showing that Funding would be least impacted in a Rapid Transition, with the most impactful shocks in a Failed Scenario.

It should be noted that 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.

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). Based on the findings of the Fund's climate reports, the Fund is devising a Climate Stewardship Plan in order to focus engagement resources on the investments most relevant to the Fund.

The fund will continue to monitor and consider both existing and emerging regulatory requirements relating to climate change.

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 methods include the utilisation of various tools and techniques for assessing climate-related risks; accessing the best climate 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. Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website. The Responsible Investment Team at LGPS Central engages companies on WPF'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	WPF 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
Reliance Industries	Energy
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 LGPSC 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: [6]

- Absolute Emissions (measured by 'Financed Emissions')
- Emissions Intensity (measured by 'Normalised Financed Emissions' and 'Weighted Average Carbon Intensity', or WACI)
- Data Quality
- Paris Alignment

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 greenhouse gas (GHG) emissions 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. The Fund is also aware that the results are primarily useful in facilitating decisions, to enabling the prioritisation of risk management measures, and to assess progress from a climate risk management perspective.

[6] Definitions of these metrics can be found in the Glossary at the end of this report.

TCFD Recommended Disclosure

b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. TCFD Guidance: *Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.*

In line with the TCFD guidance and following receipt of a report from LGPSC, the carbon footprints of the applicable portfolios are presented below.[7] Further information is available in the full dashboard at the end of this report.

Table 4: Carbon risk metrics for the equity portfolio as of 30th March 2023 [8]

Portfolio	Financed Emissions		Normalised Financed Emissions		Weighted Average Carbon Intensity		Data Quality	Alignment
	PF	BM	PF	BM	PF	BM		
Total Equities	167,214	222,645	72.7	93.2	98.7	164.1	2.1	19.7%

The financed emissions (scope 1&2) associated with the Fund's equity portfolio are approximately 25% lower than the benchmark, while the portfolio's WACI is approximately 40% lower than the benchmark. Both of these figures are also lower than 2022. As the NAV of the total equity portfolio increased in 2023, the scale of the year-on-year decrease was significantly larger for normalised financed emissions than absolute financed emissions.

The equity portfolio also outperforms the benchmark in terms of its exposure to fossil fuels, both in terms of absolute exposure and when apportioned by revenue. While the Paris Alignment metric is currently quite low (19.7%), the high engagement percentage (71.2%) should help ensure that this figure increases over time.

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

[7] Analysis undertaken on the listed equities portfolios with holdings data as of 30th March 2023. 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 three underlying portfolios managed for the Fund by LGPS Central and one underlying portfolio managed by Nomura. The Total Passive Equities portfolio contains four underlying portfolios managed for the Fund by LGIM, and one managed by LGPS Central.

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

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 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.

Data Quality: this metric assesses the quality of a company's carbon reporting. It is represented on a scale of 1-4, where 1 (the highest score) suggests that emissions data has been independently verified. A score of 4 (the lowest score) suggests that data may be based on sectoral estimates.

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.

Financed Emissions: the absolute amount of greenhouse gas emissions associated with a particular holding or portfolio. This is calculated by assuming the investor is responsible for their share of the company's total emissions. For example, if an investor owns 10% of a company which emits 1000 tonnes of CO_2, the investor's financed emissions will be 100 tonnes.

(Normalised) Financed Emissions: the portfolio's financed emissions divided by £1m invested. This intensity figure allows investors to track changes in financed emissions over time, irrespective of changes in AUM.

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

Paris Alignment: This score, expressed as a percentage, shows the proportion of financed emissions within the portfolio that are aligned to LGPSC's 'alignment' metric. In order to classify as aligned, the company must meet several threshold criteria across a variety of climate metrics.

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.

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.

Weighted Average Carbon Intensity (WACI): 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.

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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Appendix 4: Total Equities Dashboard

Equity

LGPS Central

Equity	Multiple	Multiple	£2,433,117,663	Blended	Q1 2023
Asset Class	Fund Classification	Fund Manager	NAV	Reference Index	Period

Carbon Footprint Metrics		Portfolio	Reference	Previous Year	Data Availability Portfolio	Data Availability Reference
Total Financed Emissions	Scope 1+2	167,214	222,645	164,359	96.3%	98.3%
tCO2e	Scope 3	1,754,764	1,857,785	1,546,893	96.1%	98.1%
Normalised Financed Emissions	Scope 1+2	72.7	93.2	81.5		
tCO2e/£M Invested	Scope 3	767.0	777.7	770.3		
Weighted Average Carbon Intensity	Exclude Sovereign	98.7	164.1	114.4	96.3%	98.4%
tCO2e/$M Revenue	Include Sovereign	98.7	164.1	114.4	96.3%	98.4%

Top 10 Emissions Contributors

Issuer	PF Weight	Ref Weight	% Financed Emission		% WACI		Scope 1+2	Scope 3	Engagement	Focus	Data	LCT	ITR	SBT
Taiwan Semiconductor Manufacturing Co., Ltd.	1.8%	1.3%	0.9%	19	3.7%	4	11.3M	35.0M	Yes	Yes	2	5.8	2.9	No
SHELL PLC	1.7%	2.0%	15.2%	1	6.5%	1	137.7M	1,174.0M	Yes	Yes	2	2.9	2.5	No
BP P.L.C.	1.0%	1.1%	3.6%	5	1.5%	11	35.5M	640.7M	Yes	Yes	2	2.8	2.4	No
RIO TINTO PLC	0.7%	0.7%	3.1%	7	4.1%	3	30.3M	583.9M	Yes	Yes	2	5.5	5.9	No
ANGLO AMERICAN PLC	0.4%	0.4%	1.4%	13	1.7%	10	13.3M	335.2M	Yes	No	2	5.8	5.5	No
CRH PUBLIC LIMITED COMPANY	0.3%	0.4%	4.8%	3	3.4%	6	33.8M	22.4M	Yes	Yes	2	4.9	1.8	Yes
CEMEX, S.A.B. de C.V.	0.1%	0.0%	5.0%	2	3.4%	5	39.3M	14.8M	Yes	Yes	2	4.0	1.9	Yes
SOUTH32 LIMITED	0.1%	0.0%	3.0%	8	2.8%	8	21.0M	67.4M	Yes	No	2	4.0	5.2	No
SEMBCORP INDUSTRIES LTD	0.1%	0.0%	4.4%	4	4.3%	2	25.5M	8.9M	No	No	2	3.4	3.2	No
Huaxin Cement Co., Ltd.	0.0%	0.0%	2.6%	10	2.8%	7	36.0M	3.5M	No	No	2	1.4	8.3	No

Recommendations / Observations

- Financed emissions have increased slightly since the previous year. However, as the fund's AUM also increased by a greater proportion over the same period, normalised financed emissions have decreased by 11%.
- The fund's financed emissions are 25% lower than that of the benchmark, driven by underweight exposure to Materials, Energy, and Utilities.

Worst YoY Contributors	Stewardship Focus
BLUESCOPE STEEL LIMITED	No
SEMBCORP INDUSTRIES LTD	No
SOUTH32 LIMITED	No

High Impact Sectors / Climate Solutions Exposures (Portfolio vs Benchmark)

Fossil Fuel Exposure	Fossil Fuel Revenue	Thermal Coal Exposure	Coal Power Exposure	Cleantech Exposure	Cleantech Revenue
5.7% | 8.3%	2.0% | 3.9%	2.1% | 2.9%	0.0% | 0.1%	38.1% | 38.2%	4.9% | 5.2%

Portfolio Alignment & Engagement

Engagement	Data Quality	LCT	ITR	SBT	Alignment
71.2%	2.1	37.1%	26.1%	35.7%	19.7%

worcestershire
countycouncil

PENSIONS COMMITTEE
20 MARCH 2024

FUNDING STRATEGY STATEMENT (FSS)

Recommendation

1. The Chief Financial Officer recommends that the proposed updated FSS (Appendix) be noted.

Background

2. 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.

3. The FSS was agreed at Pension Committee on the 22 March 2023 and any further updates were delegated to Fund officers on the proviso that the FSS was not expected to change fundamentally in between the actuarial sign off at 31 March 2023 and when the next actuarial valuation takes place.

4. The FSS provided as an Appendix has been reviewed and amended to ensure that the Climate Change analysis and termination policy proposals previously agreed by the Pension Committee are incorporated along with other minor changes.

FSS Consultation Outcome

5. The consultation on the previous draft FSS ended in January 2023. The Fund received no responses from employers and therefore the FSS provided to the March Committee was published. As the amendments in the updated version are either cosmetic or minor, further consultation with employers is not considered to be necessary.

Contact Points

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Supporting Information

- Proposed updated Funding Strategy Statement (Appendix)

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 March 2023

WORCESTERSHIRE PENSION FUND

FUNDING STRATEGY STATEMENT

March 2024

Find out more online: www.worcestershirepensionfund.org.uk

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 101% 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 considering 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, considering 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 considering 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 considered 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 considering 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 considering 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 and any other employer at the sole discretion of the Administering Authority, where secondary 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 decide 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 ISS

The results of the 2022 valuation show the liabilities to be 101% 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, considering 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 has been 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. The actions taken (both historically and in future) by the Fund in relation to making its asset portfolio more sustainable will ultimately be set out in the separate Taskforce for Climate Change (TCFD) reports and analysis of the asset portfolio adopting similar (but not necessarily the same) scenarios although this can be over a different time period.

The analysis considers 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 provides 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 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. In relative terms to the best estimate basis at the valuation date, this could have a detrimental impact on the funding level of 5% after 5 years as the larger transition risks manifest, 5% after 20 years and increasing to 8% after 40 years where the physical risks become more dominant.

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. In relative terms this could have a detrimental impact on the funding level of 3% after 5 years as the transition risks are less impactful and 3% after 20 years. The impact after 40 years is 16% which is higher than the Rapid Transition scenario as the higher temperature rises begin to have a greater impact.

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. In relative terms this could lead to a marginal increase in the funding level of 3% after 5 years which reflects the lower impact from transition risks (versus the market pricing) and a hugely detrimental impact of 22% after 20 years and 50% after 40 years which shows the material consequences of the physical risks from the significant temperature increases as time progresses.

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 considered with other risk factors so the analysis will be further developed and be monitored over time.

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 valuation and 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

After reforming public service pension schemes in 2014 and 2015, the Government introduced transitional protections for older members. However, in December 2018, the Court of Appeal ruled that younger members of the judicial and firefighters' pension schemes had been unlawfully discriminated against because the protections did not apply to them.

This ruling is called the 'McCloud judgment'. As a result of the ruling, changes have been made to the LGPS to remove the age discrimination. These changes are known as the 'McCloud remedy'.

At the time of the 2022 valuation, proposals for the remedy had not yet escalated to regulation. The Fund noted the Department for Levelling Up, Housing & Communities (DLUCH) guidance for inclusion of the remedy within that valuation. Now that legislation for delivering the McCloud remedy has been published, the Fund will review all 'in scope' benefit entitlements.

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:

- An allowance for supply/demand distortions in the bond market is incorporated, and
- 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 reflects 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 IN 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 considered 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 (except where total contributions have been agreed to be expressed as a % of pensionable pay at the sole discretion of the Administering Authority), 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 consider 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 considering the risk assessment carried out by the Fund Actuary.

ADMITTED BODIES PROVIDING A SERVICE

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

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

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

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

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

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

PRE-FUNDING FOR TERMINATION

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

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

Appendix D

TERMINATION POLICY, FLEXIBILITIES FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

INTRODUCTION

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

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:

- 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 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.
- The final termination certification of the exit credit by the Fund Actuary.
- The Administering Authority's determination based on the information provided and all other relevant factors.
- 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 considering 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 from time to time (see below).

All demographic assumptions will typically be the same as those adopted for the 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 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 taxpayer. 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:

- 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.
- 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.

- 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.
- If it is agreed that the exit payment can be spread then the Administering Authority will engage with the exiting employer regarding the following:
  - The spreading period that will be adopted (this will be subject to a maximum of 5 years).
  - The initial and annual payments due and how these will change over the period
  - The interest rates applicable and the costs associated with the payment plan devised.
  - The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account, etc.
  - 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.
  - The views of the Fund Actuary, covenant, legal and any other specialists necessary
  - The covenant information that will be required on a regular basis to allow the payment plan to continue.
  - 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).
- 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:

- 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.
- 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).
- 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.
- 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.

- 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.

- 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:

- Parental Guarantee and/or Indemnifying Bond.
- Transfer to a more prudent actuarial basis (e.g., the termination basis).
- Shortened deficit recovery periods and increased cash contributions.
- Managed exit strategies.
- Contingent assets and/or other security such as escrow accounts.

Appendix F

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 manage the overall risk more efficiently.

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 consider 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:

- 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.
- 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.
- 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 considered 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 consider 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.

Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

- Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
  - Restructuring of an employer
    - A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
    - A bulk transfer into or out of the employer
    - 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 consider 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.

Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

- 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.
- 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.
- The Fund becoming (or ceasing to be) subordinate behind other creditors of the employer such as banks or other pension funds.

- 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

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:

Significant changes in the employer's membership / liabilities

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

- Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
    - Restructuring of the employer involving significant changes in staffing.
    - A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund) *
    - A bulk transfer of staff into the employer, or out of the employer to another pension scheme*
    - Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or large a number of member withdrawals*
    - A decision which will restrict the employer's active membership in the future*
        - Two or more employers merging including insourcing and transferring of services*
        - The separation of an employer into two or more individual employers*
        - 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.

Significant changes to the employer covenant

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):

- An employer's forecasts indicate reduced affordability of contributions.
- A significant reduction in funding (e.g. reduction in grants, central government funding or other income stream)
- Provision of security to any other party including lenders and alternative pension arrangements
- Impairment of security, bond or guarantee provided by an employer to the Fund against their obligations.
- The sale or transfer of significant assets, where the net book value or sale value exceeds 10% of the employer's net assets.

- A material increase in gearing (i.e. taking on additional debt in order to finance its operations)
- The employer has defaulted on payments.
- There has been a breach of banking (or other) covenant, or the employer has agreed a waiver with the lender.
- The employer's officers are seeking legal advice in the context of continuing to trade and/or potential wrongful trading.
- An employer becomes insolvent.

A change in the employer's circumstances

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

- A merger of the employer with another organisation
- An acquisition by the employer of another organisation or relinquishing control
- An employer commences the wind down of its operations or ceases to trade.
- A material change in the employer's business model
- A change in the employer's legal status (to include matters which might change qualification as a scheme employer under the LGPS Regulations)
- The employer becoming aware of material suspected / actual fraud or financial irregularity.
- The employer becoming aware of material legal or court action against them.
- There has been suspension or conviction of senior personnel.
- Regulatory investigation and/or sanction by other regulators
- 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:

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

Employers will be 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.

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.

worcestershire county council

PENSION COMMITTEE
20 MARCH 2024

BUSINESS PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Worcestershire Pension Fund Business Plan as at February 2024 (Appendix 1) together with the Internal Audit Reviews of Pensions Administration (Exempt Appendix 2) and Pensions Investment (Exempt Appendix 3) be noted.**

Background / Management Summary

2. We produce rolling, quarterly Business Plans designed to be a one-stop-reference-shop for everything going on at Worcestershire Pension Fund and in the LGPS world.

3. The Business Plan has had some amendments to ensure that it is clear in how the structure of Worcestershire Pension Fund supports the delivery of the Fund aims and objectives as detailed within the plan (section 2). We have also detailed the work plan for 2024/205 – 2026/2027 (section 7) to show what is coming up either as regular or ad hoc deliverables for the Fund and this is split across Administration, Governance, and Investments.

4. We are not aware of any matters that need to be escalated.

5. Our latest pensions administration KPIs are reassuring and in line with targets, except for transfers where we have now received the new factors by GAD however these are awaiting to be implemented into the pensions system by the provider. The KPIs are being reviewed alongside the workflow processes following improvements in functionality we now have. This work has been added to the work plan for 2024/2025 and 2025/2026.

6. We have not had to report anything to The Pensions Regulator since the last quarterly, rolling Business Plan.

7. We have 4 IDRPs in progress and we have 3 cases we assume maybe with the Pensions Ombudsman.

8. Our Fund performance for the quarter to 31 December 2023 of 4.7% was 0.6% below the benchmark that was 5.2%.

9. Since the last update we have received improved communication with our in-house AVC provider, Scottish Widows. We have issued a joint letter alongside other Funds expressing our dissatisfaction of the service received from Scottish Widows. We had previously sought guidance from the LGA in respect of facilitating payments

for members awaiting AVC payments. We have added to our work plan for 2024/2025 a review of the AVC provider and other available options.

10. The actuarial services procurement has been completed with Hymans Robertson being the successful bidder. Hymans Robertson started as Fund actuary on 22 January 2024 for all new work from this date.

11. The Fund has successfully internally recruited to the 2 Senior Pensions Officer roles, the Governance Officer role, and a Pensions Officer role via internal appointments. We have recruited 2 Apprentices to join within the Membership team taking our total number of apprentices up to 3. We will be advertising internally, across WCC, for 2 Pensions Assistants that are now vacant following the appointments mentioned. The remaining roles we now have vacant are being intentionally held.

12. We have received the finalised internal audit review from the WCC Internal Audit team. There were no fundamental findings, 2 significant findings around division of duty and 2 areas that merit attention. Plans have been put in place with officers to implement process changes which will bring around improvements to these areas.

13. Our projects / budgets are on schedule and members' attention is drawn to our list of projects in section 3 (Looking Ahead). Section 3 also provides a more detailed statement of progress on McCloud and the member portal. It is worth noting that:

a) We are live as far as implementing the McCloud remedy is concerned. Work to be carried out on retrospective cases showing a potential 'guarantee amount' is on hold until further guidance and system development is released.

b) We have gone Live with the member self-service portal following extensive testing. The member portal link is now active and has been applied to the Worcestershire Pension Fund website, meaning all members can access their account through this.

c) In respect of communications being issued, the schedule is set by membership type. All active members will receive a letter including an activation key from 1 March 2024, Deferred members will receive their letters from 16 March 2024. Pensioner members will receive a letter and activation key once key functionality is applied.

d) We will now start to begin project planning the implementation of I-Connect (monthly data collection from employers). More detailed updates will be provided as this project progresses.

e) It is also anticipated that Pensions Dashboard programme will also start to progress more this year and is illustrated on the project's appendix and in section 7 of the Business Plan.

14. **Please note that Appendices 2 and 3 contain exempt information (on salmon pages) and should members wish to discuss the information included in these Appendices they would need to consider passing the appropriate resolution and moving into exempt session.**

Supporting information

- Appendix 1 - Business Plan February 2024
- Appendix 2 - Pensions Administration Internal Audit review February 2024 **(Exempt Information – Salmon pages).**
- Appendix 3 - Pensions Investment Internal Audit review February 2024 **(Exempt Information – Salmon pages).**

Contact Points

Specific Contact Points for this report

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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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Worcestershire Pension Fund

Business Plan

2024/2025 – 2026/2027

Introduction

The Business Plan is an important document which sets out the aims and objectives of the Fund for 2024/2025 – 2026/2027. The plan outlines the way in which the Fund will set out and deliver against its objectives, and how it will aim to improve its services for our members.

The business plan is used as a working document, monitored continuously and is a standalone point of discussion at every Board and Committee meeting. Where changes to the business plan are necessary these will be discussed and agreed with the Pension Committee.

The purpose of the Business Plan enables the Fund to:

- Set out strategic goals for the Fund.
- Check progress using short term and medium-term objectives.
- Take action effectively if objectives are not being met.
- Prioritise scheme business and agenda items.
- Demonstrate how the Fund engages with stakeholders.

If you require any information in respect of the Business Plan, please contact:

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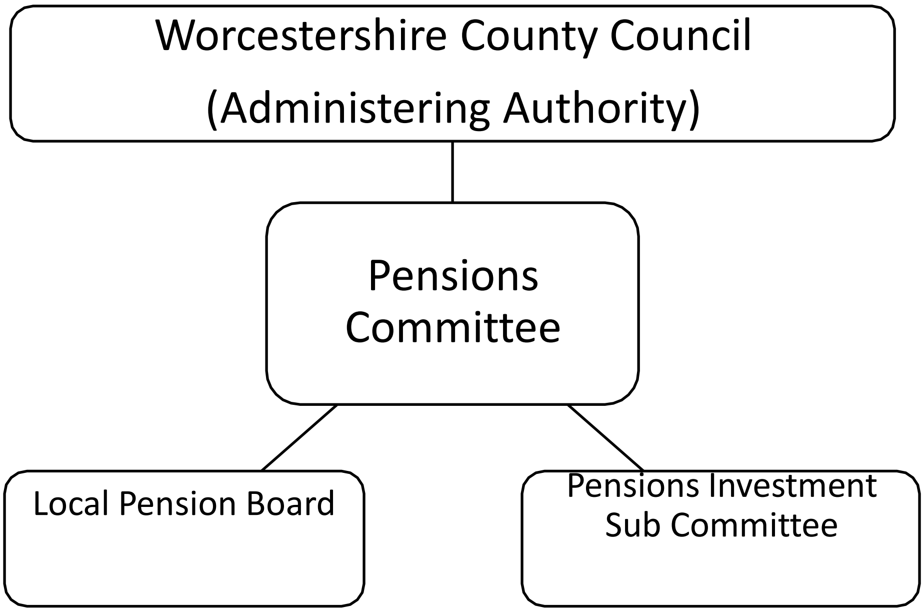
1 GOVERNANCE OF WORCESTERSHIRE PENSION FUND

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 (s151) and his staff.

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.

The Local Pension Board supports the Fund comply with the LGPS rules, overriding pensions legislation and guidance from the Pensions Regulator.

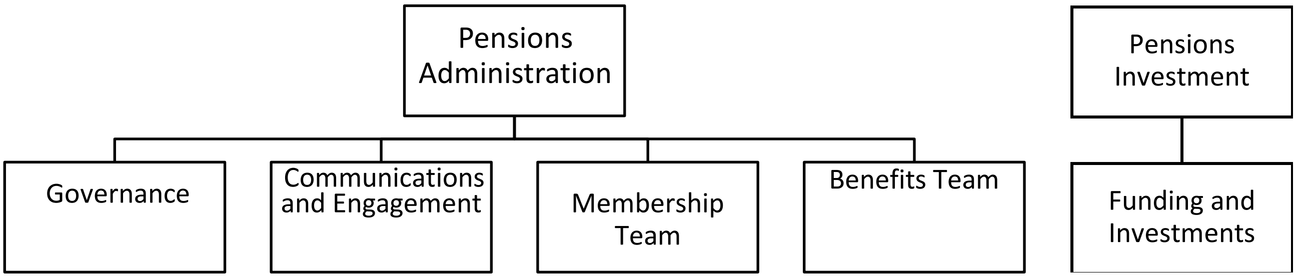
Overview of Worcestershire Pension Fund Governance Structure



More information on the management of the Fund is detailed within the Funds Governance Policy statement.

2 OPERATIONAL DELIVERY OF THE FUND

The day-to-day delivery of the Fund is delegated by the Chief Financial Officer (s151) to the Head of Pensions administration and the Head of Pensions Investment, Treasury Management and Banking as demonstrated below:



The Pensions Administration team has several sub teams that deliver different aspects of the service to ensure the best experience for our membership. The teams are:

Governance Team:

The governance team are responsible for monitoring, reviewing, and updating Fund policies. They are also responsible for supporting the Board and Committees and monitoring the Funds' performance against the targets in place.

Communications and Engagement Team:

The communications and engagement team delivering training to all key stakeholders. They are responsible for creating and delivering communications and managing our digital offerings. The team also act as Employer Liaison and manage schemes employers' entry and exit to and from the scheme.

Membership Team:

The membership team is responsible for delivering various casework including transfers, Refunds, Divorces and New starters. In addition to this the Systems and Projects sub team are responsible for the development and maintenance of the Altair Pensions system, as well as additional functionality. The Projects team coordinate all new projects being delivered within the teams also. The collection of monthly data and contributions also sit within a sub team as well as producing accounting schedules and delivering the year end process.

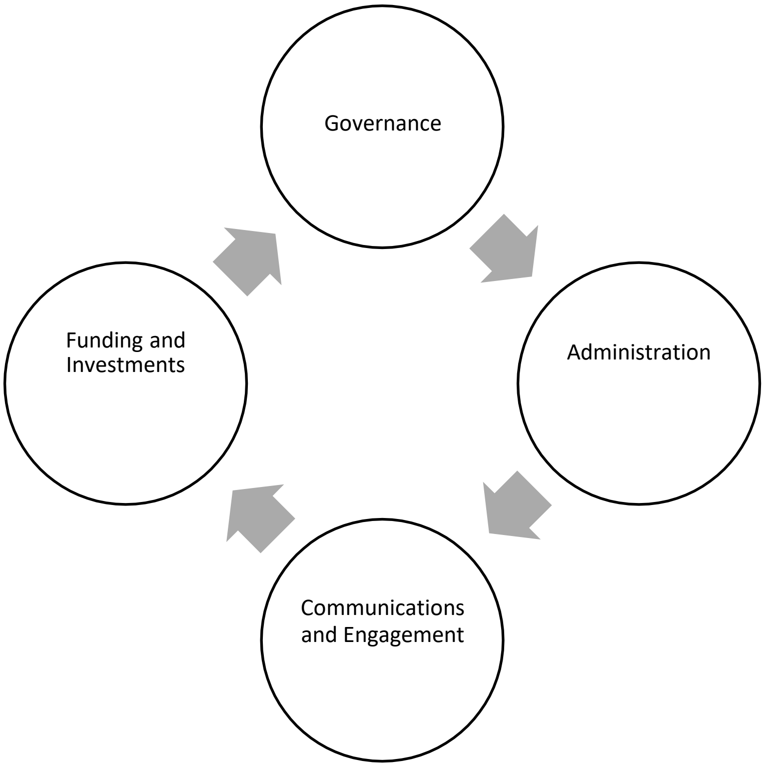
Benefits Team:

The Benefits team are responsible for several key areas including processing payment of benefits for members. They are also responsible for providing estimates to both members and scheme employers amongst other tasks.

More information is included within the Fund's Administration Strategy

3 Key Objectives of the Fund

The Fund has several key high-level objectives that its works diligently to deliver upon all supported by key documents and policies:



1. **Governance:** To ensure the effective management and governance of Worcestershire Pension Fund ensuring compliance with all regulatory and best practice requirements.

2. **Administration:** To ensure our administration processes are the most efficient they can be, exploring the use of technology where effective, so that members can receive their benefits accurately and in a timely manner.

3. **Communications and Engagement:** To continuously improve our communication and engagement offerings to our stakeholders, maximising the use of self-service functionality to help increase awareness of the benefits of the LGPS.

4. **Funding and Investment:** To ensure that there are sufficient assets available to meet liabilities as they fall due. To maximise returns at an acceptable level of risk.

4 THE LATEST ON INVESTMENT / FUNDING / FINANCE

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.

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

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

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.

Our Fund performance for the year to 30 09 2023 of 7.2% was 2.5% below the benchmark that was 9.7%. Over the 3 years to 30 09 2023 our return was 5.8%, 2.2% below the benchmark of 8.0%.

The Fund's investment portfolio excluding cash totalled £3,607m, and its solvency funding level was 92%.

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

Sector (market value)	Benchmark	Performance p.a. over the 3 years to 30 Sep 2023 v benchmark
Active equities (£847m)	Bespoke	0.4% (3.5% below benchmark)
Passive equities (£1,011m)	Bespoke	10.9% (0.4% below benchmark)
Alternatives (£595m)	20% RAFI / 40% MSCI WL Min / 40% MSCI WL Qual	8.8% (0.7% below benchmark)
Fixed Income (£272m)	60% LGPSC Corp Index / 40% Absolute Return +6%	Not available as only invested Apr 2021
Property (£293m)	60% MSCI UK / 40% Abs Ret +7.5%	Not available
Infrastructure (£662m)	70% UK CPI +5.5% / 30% Abs Return +10%	7.2% (3.6% below benchmark)

The Government consultation seeking views on proposals relating to asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments closed on 2 October 2023. The Fund participated and submitted a formal response. At the following Autumn Statement, the Government reaffirmed its position. The Fund is currently working with LGPSC and the other seven funds within the Central pool to assess the impact of the proposals.

Our 2023 Annual Report was successfully published before the statutory deadline of 31 December 2023.

We are currently exiting the LGPSC Emerging Markets Active Equities Fund and redeploying funds in the LGPSC JPM Infrastructure Investment Fund and the LGPSC Active Gilt Fund.

We are on schedule for all payments (for example to HMRC) and monitoring (for example cashflow) activities.
There are no issues with managing / reconciling the custodian accounts for investments including transactions, tax doc, cash controls, etc.

5 THE LATEST ON ADMINISTRATION

Actuarial services procurement:

Following a full tender process supported by WCC procurement team, using the LGPS National Frameworks, Hymans Robertson have been appointed the Fund Actuary commencing from 22 January 2024. The contract will run until 21 January 2028 with the option to extend for a further 2 years.

As part of the transition the funds incumbent actuary have provided the relevant information to Hymans Robertson as part of this process. The incumbent actuary ceased delivering services to the Fund at the end of February 2024 and all actuarial work going forward will continue with Hymans Robertson.

It is proposed to invite Robbie McInroy and Steven Scott from Hymans Robertson to the June 2024 Committee meeting to introduce themselves and provide and introduction to members.

AVCs:

Since the last update we have received improved communication with our in-house AVC provider, Scottish Widows. However, we still have this issue 'under review' and will be monitoring this closely.

Worcestershire Pension Fund have submitted a joint letter to Scottish Widows alongside a number of other funds expressing the dissatisfaction in respect of the service we have received.

We have added to our planned action list a review of the Funds AVC provider and will explore this during the 2024/2025 period.

Dashboards:

The staging deadline for public sector schemes has been put back to 31 October 2026.

The LGA has published a draft connection guide for administering authorities that includes actions to take, decisions to make, statutory timings, and the LGA's recommendations on timings that are not prescribed.

We are using the guide to map and plan the work we need to complete in preparation to the connection date. The current focus in preparation for the Dashboard program is working on the quality our data focusing on addresses held for members within the system.

We will be focusing more on the Pensions Dashboard during the 2024/2025 period and offering an update through our projects update as standard.

Data quality:

An extract of our data at the end of October 2023 using Insights has revealed that the quality of our data remains at a high level when compared to the October 2022 extract.

The percentage of member records passing ALL tests required by The Pensions Regulator was:

- Common data 95.9% (our 2022 score was 95.4%)
- Scheme-specific data 98.02% (our 2022 score was 98.3%)

We recognise that addresses held (94.06%) could do with further work to improve the data quality. As set out in the data improvement plan, we will be using our external tracing provider to support the efforts to improve this area and reviewing progress against this over the coming year.

More detailed information is held within our Data Improvement Plan.

Employer changes:

We are aware of the following employer changes in 2023 / 2024:

- Brookfield will be joining Mercian Education Trust from 1 April 2023, postponed to September 2023, TBC.
- The Chantry High School and John Kyrle High School & Sixth Form Centre will be joining the Heart of Mercia Multi Academy Trust on the 1 September 2023.
- The Forge will be joining Central Learning Partnership Trust, postponed to 04/2024.
- Astwood Primary joining Shires MAT from 1 September 2023.
- Maid Marion's (Rivers MAT) from 26 September 2023.
- Stoke Prior joining Three Counties Academy Trust (TCAT) from 1 November 2023.
- North Bromsgrove High School joining Shires Mat 01/12/2023.
- Honeybourne Primary Academy joining Black Pear MAT 01/12/2023.
- Bellrock Property and Facilities Management Ltd ceasing to be an employer from 31 July 2023.
- A&E Services joined the scheme on 02/11/2023.
- Platform Housing ceasing to be an employer from 30/11/2023.
- Oakhill first joining CRST on 01/01/2024.
- TTB ceasing to be an employer from 31/10/2023.
- Ridgecrest Cleaning Services Ltd joined the fund on 07/12/2023.
- Miquill Ltd joined the scheme on 21/12/2023.
- Catshill Middle School joining The Spire Learning Trust on 01/04/2024.
- Holywell Primary and Nursery School joining Stour Vale MAT 01/03/2024.
- Solo Services Group Ltd (Aylestone School HCC) joined the scheme on 11/01/2024.
- Lewis Cleansing (St Oswald's-DOWMAT) joined the scheme on 23/01/2024.
- Lewis Cleansing (St Kenelm's) joined the scheme on 25/01/2024.
- Connexus Housing ceased to be an employer from 31/01/2024.

Engagement:

We have issued our 2023 pensioner newsletter and life certificates.

On 19 October we ran a 'pensions taxation' webinar for high earners and those who breached the annual allowance in 22/23.

In January 2024, our website had 9,475 (306 per day) visits (sessions) compared to 8,473 (273 per day) in January 2023. Page views were 11,447 in January 2024 (compared to 8,776 in January 2023).

In January 2024 the top 5 pages visited were (excluding the homepage):

1. Contact us – 1,451
2. Pensioners, increases to your pension – 1,311
3. Employees - 882
4. About us – 607
5. Pensioners, pay dates – 451

A more detailed update on engagement is provided in our Training Update as part of our Committee/Aboard updates.

FRS:

We are on schedule to supply employers with a 31 March year end the required information for their accounts. Following the appointment of Hymans Robertson, information has been provided about the accounting treatment of surplus for those employers in surplus at their year-end.

Governance:

A Governance Update is tabled at Board / Committee meetings covering our activities and the risks facing us in this area.

The key area of work being undertaken within the Governance Team is reviewing the Pensions Regulator single code of practice and ensuring we are compliant in all areas.

Internal Audit Review

The Internal Audit report has been finalised (see appendix 2) and issued to the Fund following a review of the Pensions Administration team.

The audit focused on internal controls in place within internal processes. The result was that the testing 'demonstrated that overall, there are good systems of internal controls being operated within the pensions administration processes…'

The findings showed that the audit team could provide Moderate assurance, with the audit process raising 4 findings where action may be required. These are scored on a priority rating of 'Fundamental', 'Significant' and 'Merits Attention'. 2 of the actions were given 'Significant' rating and 2 of the actions as 'Merit Attention', none were given the 'Fundamental' rating.

A management response has been given for each of the 'Findings' with an 'Agreed Action' and a 'Target Date' that we are working towards.

Progress against these will be reported to Board and Committee as we complete the necessary actions.

KPIs:

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

As detailed below in Jan 2024 and for the LGPS part year 2023 / 2024, we met our average target turnaround for 10/12 of our key measured processes.

There were 3 KPI's where the % processed were below 90% (internal target set). The 3 KPI's are impacted by the delay in receiving GAD factors for transfers and therefore meant that the team have had to have some cases on hold.

In January 2024 there were 43 deaths, 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 42.

Activity / Process	Number processed in Jan 2024	% Processed within KPI in Jan 2024	Av turnaround (Working days) in Jan 2024	Target turnaround (Working days)	1 April – 31 January 2024 average number processed per month
Joiners notification of date of joining	834	68	31	40	381
Process and pay refund	39	74	7	10	44
Calculate and notify deferred benefits	173	99	4	30	161
Letter notifying actual retirement benefits	53	100	2	15	45
Letter notifying amount of dependant's benefits	14	100	2	10	11
Letter acknowledging death of member	43	100	2	5	42
Letter detailing CETV for divorce	18	100	2	45	11
Letter notifying estimate of retirement benefits	207	100	2	15	145
Letter detailing transfer in quote	35	80	6	10	16
Process and pay lump sum retirement grant	81	100	13	23	100
Letter detailing transfer out quote	38	89	4	10	33
Letter detailing PSO implementation	0	0	0	15	1

Activity / Process	Number processed from 1 Apr to 31 Jan 2024	% Processed within KPI from 1 Apr to 31 Jan 2024	Av turnaround (Working days) from 1 Apr to 31 Jan 2024	Target turnaround (Working days)
Joiners' notification of date of joining	3086	85	21	40
Process and pay refund	438	89	6	10
Calculate and notify deferred benefits	1613	99	5	30
Letter notifying actual retirement benefits	454	99	2	15
Letter notifying amount of dependant's benefits	109	100	2	10
Letter acknowledging death of member	416	98	2	5
Letter detailing CETV for divorce	111	95	7	45
Letter notifying estimate of retirement benefits	1448	100	2	15
Letter detailing transfer in quote	162	54	19	10
Process and pay lump sum retirement grant	997	100	13	23
Letter detailing transfer out quote	332	79	11	10
Letter detailing PSO implementation	6	67	9	15

In 2023 /2024 we have written off 8 cases (for £241.24; £165.75; £235.06; £986.13; £138.45; £382.05; £423.28; and £238.79).

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

Legal support:

We are continuing to work with the internal legal team to procure legal services, externally, using the National LGPS Frameworks' material, covering both Pensions Administration and Pensions Investment support.

Public sector exit payments:

We await the Government's plans on a subject that there have been no recent developments on.

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 recruited two apprentices to work within the Systems and Projects team. This has taken the total number of apprentices within the Fund to 3, further strengthening our commitment to building resilience and developing own staff.

We have also recruited internally to the Governance Officer and Senior Officer posts within the Benefits Team. All 3 members of staff will formally move into these posts on 1 April 2024. There are currently 2 vacancies across the teams being recruited to externally. These are a Pension Officer and a Pensions Assistant post.

The remaining vacancies within the structure, not being recruited to, are Governance and Engagement Manager and Pensions Officer (Benefits Team). The Fund is purposely not recruiting to these vacancies to allow the recent staff movements to embed.

Training:

A separate report is tabled at Board / Committee meetings covering our activities and the risks that we face in this area.

The key take away is that we have run a number of webinars for members.

6 LOOKING AHEAD

The overview table below summarises the work that we are doing to achieve particular aims.

Since the August 2023 Business Plan, we have:

- Removed project 32 (Reprocure pension admin system) as it has been completed.
- Merged project 9 (Increase assets managed by LGPS Central Limited) into project 5/6 (Review of Asset Allocation / ISS).
- Added project 38 (Stewardship Code Application).
- Added project 39 (Implementation of I-Connect)

To update members on two of our major, current projects the overview table is preceded by a more detailed statement of progress on McCloud and the member portal.

Note: 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.

McCloud (project 33):

The project is all about applying a McCloud underpin to in-scope members. We need to identify any rectification due and put in place procedures to identify affected members as part of business as usual.

The project is currently on schedule, requiring no corrective action.

Progress made within the period 1 November 2023 to 31 January 2024 includes:

- Being live re implementing the remedy for members who retire (or have a change in status or request an illustration) from 1 October.
- Monitoring the 705 members, who have a potential guarantee. This number may

fluctuate as work on ‘in scope’ members continue, and additional reports are being implemented.

- Guidance received from the LGA on 25 January 2024 for members who have outstanding transfer cases awaiting processing.
- Produced and issued an ‘all staff’ email to our scheme employers on 27 November 2023 explaining how the changes could affect them. Employers were asked to forward the email on to their respective staff.
- Information around McCloud and how it may affect members was included in the Pensioner Members newsletter (issued on 8 November 2023) Deferred Members newsletter (issued 22 December 2023).

The next steps and activities for the next period include:

- Continue to quantify and coordinate how to process queries identified for each status of member.
- Review Altair calculation documents for any changes because of the McCloud underpin.
- Continuing to review retirement calculations following the recent Altair update to ensure calculations are accurate.
- Consider ongoing impact and resourcing considerations on BAU.

We are currently awaiting on full guidance on how to proceed with retrospective cases. This will be processed using the resource we currently have in the team.

The member portal (project 3):

The project is all about implementing self-service functionality which enables members to view their benefits online through a secure portal and to carry out certain processes.

Docmail and bulk communication options are being investigated alongside the member portal.

Following on from the last update the project continues to be on schedule.

Progress made within the period 1 November 2023 to 19 February 2024 includes:

- User Acceptance Testing has been completed in preparation for ‘Go Live’ date of 19 February 2024.
- Technical Study has been completed in preparation for ‘Go Live’ date of 19 February 2024.
- Accessibility Statement and Cookies Policy signed off and implemented to the site.
- Testing on the postproduction site rolled out to internal Finance team before ‘Go Live’ as an additional layer of testing.
- Testing to ‘online payslips and P60’ functionality undergoing with Heywood’s. This will be applied to pensioner members portals later in the year.
- Member portal applied to Pension Fund website on 12 February 2024
- Letters with Activation keys distributed to 8,000 active members on 19 February 2024.

The next steps and activities for the next period include:

- Letters with activation keys to be issued to all active members from 1 March 2024.
- Letters with activation keys to be issued to all deferred members from 16 March 2024.

- Letters with activation keys will be issued to pensioners once ‘online payslip and P60’ functionality can be applied.
- As additional functionality is implemented post ‘roll out’ then this will be communicated with members.

7 WORK PLAN FOR 2024/2025 – 2026/2027

The tables below set out the work planned for the next 3 years. The plan is subject to change and where any amendments are made these will be communicated with the Pensions Committee.

Administration Activities

Task	2024/2025	2025/2026	2026/2027
Implementation of member self-service functionality (access for all membership Groups)	✔		
Member Self-service ongoing engagement (Communications)		✔	✔
Implementation of I-Connect functionality and roll out to all scheme employers	✔	✔	
Review of internal processes to utilise automation using Heywood Engage and I-Connect functionality	✔	✔	
McCloud Remedy – processing of remedial work to members with guarantees identified.	✔		
Preparation for the Pensions Dashboard Project (Including Data improvement work)	✔	✔	
Guaranteed Minimum Pension – Equalisation	✔		
Year End process (Collection, review of data and application to Altair)	✔	✔	✔
Production and Issuing of Annual Benefit Statements	✔	✔	✔
Issuing of FRS accounting schedules to scheme employers	✔	✔	✔
Triennial Valuation 2025 – Strategy and Preparation work	✔		
Triennial Valuation 2025 – Employer Engagement including results		✔	

Governance Activities

Task	2024/2025	2025/2026	2026/2027
Employer Annual Meeting (Forum)	✔	✔	✔
Review of Risk Register	✔	✔	✔
Review and implementation of any additional work because of the Pensions Regulator single code of practice	✔	✔	
Good Governance proposal	✔	✔	✔
Board/Committee Knowledge skills (including Training Programme)	✔	✔	✔
Cyber Security Review (including Cyber Security Policy)	✔	✔	✔
Review of Governance Policies	✔	✔	✔

Funding and Investment Activities

Task	2024/2025	2025/2026	2026/2027
Annual Report and Accounts	✔	✔	✔
External Audit	✔	✔	✔
Stewardship Code	✔	✔	✔
Investment Strategy Statement review and update	✔	✔	✔
Funding Strategy Statement review and update	✔	✔	✔
LGPS Central	✔	✔	✔
Triennial Valuation – Strategy work including FSS	✔		

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worcestershire county council

PENSIONS COMMITTEE
20 MARCH 2024

RISK REGISTER

Recommendation

1. **The Chief Financial Officer recommends that the February 2024 Worcestershire Pension Fund Risk Register be noted.**

Background and update

2. The Risk Register is kept under regular review and, following the February 2024 review by Officers, an updated Risk Register is attached as an Appendix.

3. Following the February 2023 review of the Register that resulted in the number of risks being included in the Register being reduced from 32 to 16, 5 risks are being covered in the Governance Update, and 4 risks are being covered in the Training Update.

4. The February 2024 review added no new risks and resulted in no changes to the risk scores.

5. Mitigating actions have been updated as below:

   a) Implementing self-service functionality has increased our ability to engage with our stakeholders positively impacting WPF 29;

   b) The procurement of the Pensions Administration system until 2029 as a minimum and implementing additional functionality such as the member portal has added further reassurance to WPF 19;

   c) We are live implementing the McCloud remedy and have added further resource following the recruitment of a Governance Officer which adds reassurance to WPF 07; and

   d) We have increased the number of employer training sessions which have been well attended. In addition to this we are building the project plan to deliver the implementation of I-Connect into our processes. I-Connect is functionality which enables employers to submit data electronically on a monthly basis improving data accuracy. It also reduces the impact on resources on a monthly basis. This is reflected in the risk WPF 24.

Supporting information

- Appendix - WPF Risk Register February 2024

Contact Points

Specific Contact Points for this report

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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.

WPF Risk Register Nov 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 (in areas 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: Shareholders meetings and the Practitioners Advisory Form (PAF) meetings 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 35 (Chief Financial Officer)	Being an LGPSC partner fund	Investment underperformance, ineffective management of pooled funds and increased expenditure	25	4	100	The Fund has requested to see the LGPSC company risk register. This request is still ongoing. Whilst partner funds have discussed staff turnover at LGPSC, there is not sufficient appetite to include a specific item relating to it on the PAF risk register. The Fund will therefore seek to address these concerns at the next 1-1 partner fund meeting with LGPSC. The Fund has continually expressed its dislike of the multi-manager model operated by LGPSC in emerging markets (EM) and challenged performance. LGPSC has almost concluded its 3-year review of its EM fund and has invited the Fund to an Investor Open Day to discuss performance, manager selection and investment geographies. The Fund is now investigating options concerning its allocation to the EM fund and liaising with other partner funds.	25	3	75

WPF Risk Register Nov 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 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. Our Investment Strategy Statement 2023 was approved by the Pensions Committee on 22 March 2023. Whole Fund and individual employer funding positions / contribution rates, actuarial valuation assumptions and mortality / morbidity experience were reviewed as part of the as at 31 03 2022 actuarial valuation and its report was approved by the Pensions Committee on 22 March 2023. Ideas are always encouraged by Officers who also carry out peer group discussions.	25	2	50
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	The Fund successfully operates a diversified investment portfolio, both in terms of asset class and also geographical allocation. That diversity provides a degree of inbuilt insulation to inflationary environments. Another key mitigation comes from the Fund's investment strategy. We are primarily focussed on a longer-term view when evaluating investments, therefore we believe that the Fund's investments are well positioned to ride out shorter term inflationary periods. 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 Nov 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 consulted employers on some changes to our Funding Strategy Statement that were approved by the Pensions Committee on 22 March 2023. 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 another ESG / responsible investment workshop on 8 February 2023 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 Nov 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 36 (Chief Financial Officer)	WCC procurement policies hindering the Fund's ability to secure key investment services efficiently	Further pressure on already stretched resources and the possibility of failure to secure key investment services in a timely manner having an impact on cost	15	3	45	As the Norfolk Framework provides for the most timely and cost efficient way possible of procuring investment services and in order to maintain a degree of agility when conducting its commercial affairs, the Fund is seeking to have greater control over its procurement by utilising the Norfolk Framework as far as possible.	15	2	30
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 asset-transition procedures are in place. We are monitoring developments following the Budget on 15 March 2023. 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	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 have re-procured our independent investment adviser. 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

WPF Risk Register Nov 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 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
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 2023. We have reviewed the responses from the Nov 2022 online pensioners (and the August 2023 for employee members) questionnaires 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. We are planning a further RI & ESG focussed workshop for those members on 31 January 2024.	15	1	15
ADMINISTRATION							In this risk area we have restructured and increased our headcount to 39 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 have established project streams on McCloud and Member Self Service.			

WPF Risk Register Nov 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	Regular quarterly meetings between WCC HR Lead, Head of Pensions Admin and Liberata Service Delivery Lead are in place to ensure that open communication takes place with issues that arise and to monitor improvements. Following our annual employer consultation and internal review, our updated Pension Administration Strategy was approved by Committee. We support employers with monthly newsletters / an area on our website that has a range of material / employer fora. Checking individual records at points of significant transaction is undertaken. We have increased the amount of employer training sessions we are delivering to employers, and have shared a detailed plan showing the training sessions available to support employers within the next 12 months. Officers are currently reviewing functionality linked to the Altair pensions system which enables employers to submit information electronically to the Fund on a monthly basis either directly from their payroll or an online portal. This functionality improves data accuracy and once all employers are onboarded removes the need for the time consuming year end process, as data is received each month.	20	2	40

WPF Risk Register Nov 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 on exit payments.	Increasing administrative complexity or failure to comply with The Pensions Regulator.	25	3	75	We have added resource to pensions administration and are implementing the McCloud remedy. We have recruited to a Governance Officer to help support this area and build resilience long term. We advise members about things that will affect their benefits through annual newsletters. We have a list of projects that we include in our quarterly rolling Business Plans reported to Board / Committee. Officers participate in various scheme and industry groups and fora. We are aware that as part of its Levelling Up agenda, the Government 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. We are currently reviewing the tPR's general code of practice against our current processes and using this as a chance to do a full review of our Governance arrangements. Any areas identifed in which we need to tighten up, improve or implement changes we will build a timeline and report this as part of the regular governance updates.	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	We have added resource to pensions administration. When the regulations come out we will develop measures to mitigate this risk. Meantime 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. Following the change of Actuary we will be using this opportunity to undertake further training around the employer life cycle to ensure the processes we have in place are robust and aligned with the new actuarial services provider.	15	2	30

WPF Risk Register Nov 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 121 preparation and meeting record as part of the 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, for example re employer admissions. We have completed a phased transition for staff who secured new roles in the service to ensure business continuity. We have recently lost a number of senior staff who held a lot of pensions knowledge so are assessing the training and support needs for the relevant areas. Although we have recruited to the Membership Manager, Communications & Training Lead, Governance Lead and Systems & Projects Lead positions, (comparable pay) 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	1	25

WPF Risk Register Nov 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 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 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 and assurances about connectivity to our pensions administration system given we do not use multi-factor authentication, and contract service is reviewed annually, with regular meetings / robust system maintenance routines / internal and external systems support / back-up procedures in place. We have produced a Cyber Security Top Tips document and a Cyber Security Data Transmission Grid detailing who we send data to or receive data from and how that data is protected when transmitted / received. We have also drafted a Cyber Security Policy as recommended within the General Code and this is currently being reviewed by WCC IT before being brought to committee.	25	1	25

WPF Risk Register Nov 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	We have re-procured our existing pensions administration system, Altair, using the National LGPS framework of which Heywoods are an approved supplier, and as such we have independent validation of our supplier. We have implemented a member portal to Altair to provide our scheme members access to information in respect of their pension benefits and have gone Live in February 2024, following months of testing. We are in the process of developing a bulk email facility. We attend our supplier's user groups to get the most out of the systems that we use. We have created a bespoke Systems and Projects team, within the Membership area, and have aligned systems development and maintainance to this team. The team is tasked with further reviewing current processes and implementing automation where there are benefits identified to our stakeholders. The team will also support building resilience within this area.	25	1	25

WPF Risk Register Nov 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 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 produced our first formal Data Improvement Plan. Our annual review of data against TPR categories has been conducted. 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. Tracing exercise on 'Gone away' members identified with tracing service provider in an effort to boost the data quality held. We undertake regular data quality reviews. As part of our ongoing reviews we are exploring additional functionality through our software supplier to help improve this area. This will also include how we receive contributions and how we can ensure contributions are recieved on time from employers.	15	1	15
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	After consulting our employers, our 2023 Policy Statement on Communications was approved by Committee on 22 March 2023. We issued the 2023 deferred annual benefit statements / newsletters and the 2023 employee annual benefit statements / newsletters by 31 August. We have also issued a pensioner newsletter that covers off our legislative obligations for McCloud to that audience and have plans in place to make employee / deferred members aware of what we are doing re McCloud. Implementation of the self service portal will expand our reach and frequency for member communications. Benefit Statements will also be able to be posted online removing the need for postage in some cases. Functionality is bing implemented to upload pensioners P60 and Payslips to the member portal.	5	1	5

WPF Risk Register Nov 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
[redacted]										

worcestershire
countycouncil

PENSIONS COMMITTEE
20 MARCH 2024

GOVERNANCE UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the following documents be approved:**

   - **Good Governance Position Statement March 2024 (Appendix 1)**
   - **Draft Governance Policy Statement 2024 (Appendix 2)**
   - **Draft Policy on Representation 2023 (Appendix 3)**
   - **Policy on Conflicts of Interest 2022 (Appendix 4)**
   - **Draft Pension Administration Strategy 2024 (Appendix 5)**

Background

2. The Fund has been updating its Business Plan and Risk Register, its key operational / planning / management documents, quarterly since March 2019.

3. Following the March 2023 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 01 Failure of governance arrangements to match up to recommended best practice;
   b) WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy;
   c) WPF 15 Failure of the actuary to deliver the services contracted;
   d) WPF 17 Failure of custodian to deliver the services contracted; and
   e) WPF 26 Fraud by staff.

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

   1. Reviewing our Governance Policy Statement, Policy on Representation, Policy on Conflicts of Interest and Pension Administration Strategy, all of which the Committee is asked to approve the attached appendices;
   2. Reviewing and amending our current Business Plan/ Pension Administration Strategy in line with best practices; and
   3. Overseeing a gradual transition to our new actuarial provider, Hymans Robertson, following a full procurement process and subsequent contract award.

5. It is also worth noting that:

- As a result of the administration strategy review, we have received no suggestions for amendments, but we have been receiving updated discretions policies from employers.
- Our Good Governance Position Statement March 2024 is the latest statement of where we are as we await statutory guidance.
- In anticipation for TPRs General Code which is expected 27 March 2024. We are actively reviewing our current Governance Library for any gaps and prioritising those identified.
- We are currently drafting a Fund Cyber security policy as per guidance set out in the General Code and are working with both WCC and Heywoods to produce this document.
- We have successfully recruited to the Governance Officer position with effect from 01/04/2024.

6. Members should note that no changes to the Draft Worcestershire Pension Fund Policy on Representation 2023 (Appendix 3) and the Draft policy on Conflicts of Interest have been made. Minor amendments have been made to the current versions of the Good Governance Position Statement 2024 (Appendix 1), Draft Governance Policy Statement 2024 (Appendix 2) and the draft Worcestershire Pension Fund Pension Administration Strategy 2024 (Appendix 5) proposed.

Supporting information

- Appendix 1 - Good Governance Position Statement March 2024
- Appendix 2 - Draft Governance Policy Statement 2024
- Appendix 3 - Draft Policy on Representation 2023
- Appendix 4 - Policy on Conflicts of Interest 2022
- Appendix 5 - Draft Pension Administration Strategy 2024

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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 March 2024

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 We have benchmarked our Governance Compliance Statement against Appendix 2 of the Phase 3 Report	RS Benchmark our Governance Compliance Statement against the Guidance once it has been issued and in the meantime against peer funds' statements annually.

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
	The 20 March 2024 Pensions Committee is expected to approve Governance Policy Statement following the annual review of the existing (2023) 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	Our 2023 Policy on Conflicts of Interest is expected to be re-approved for 2024 at the 20 March 2024 Pensions Committee meeting, following an annual review of the 2023 version Elected members' (not officers') conflicts of interest are declared at the start of each Pensions Committee and Pension Board meeting. 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	Our 2024 Policy on Representation is expected to be re-approved at the 20 March 2024 Pensions Committee meeting, following an annual review of the 2023 version 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	Our 2024 Training Policy and programme, is expected to be approved for 2024 at the 20 March 2024 Pensions Committee meeting, following an annual review of the 2023 version We have produced a Training Plan that summarises the training work that we plan to progress in 2024 /2025. We have signed up to LGPS Learning Online Academy for 2024/2025 & 2025/2026.	

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding	Our s151 officer has been included in our training plan for 2024/2025 ensuring their ongoing competencies. Our s151 Officers receives. And attends, training sessions as standard practice. He also has access to LGPS Online Learning Academy to support knowledge and understanding requirements.	
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 a Training Policy and Programme and review it annually: at the 20 March 2024 Pensions Committee meeting the 2023 version was re-approved for 2024, following an annual review of the 2023 version We have produced a Training Plan that summarises the training work that we plan to progress in 2024 /2025.	
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	RS/CFO
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	The Worcestershire County Council constitution and our	CFO / TBD

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Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
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	annual reports contain information about roles and responsibilities, and we have job descriptions for every officer's role The s151 Officer also delegates to the Head of Finance (Corporate) matters requiring a purely County Council decision affecting the Fund to ensure no conflict of interest arises	Publish a matrix that meets the requirements. This action will commence once we have a new S151 and a settled structure in place. This is underway and expected to be delivered 2024/2025
E.2 Each authority must publish an administration strategy	We comply with this requirement, and at its 20 March 2024 meeting the Pensions Committee is expected to approve an updated version, following an annual review of the 2023 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	TBD 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. The Fund has purchased Altair Insights, and we have recruited a Governance Lead and a Governance Officer

Good Governance proposal	Current position	Identified actions (that are owned by # / with a target delivery date of #)
		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 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.	CFO / TBD We are continually reviewing our structure and recruiting to the vacant roles in the pensions administration structure.
F. Compliance and improvement		
F.1 Each administering authority must undergo a biennial Independent Governance Review (IGR) and, if applicable, produce the required improvement plan to address any issues identified IGR reports to be assessed by a SAB panel of experts	We do not currently do this	CFO / TBD Prepare for IGRs. Awaiting more info
F.2 LGA to consider establishing a peer review process for LGPS funds	We do not currently do this	CFO / TBD Prepare for the process and investigate external benchmarking like PASA. Awaiting more info

Governance Policy Statement

March 2024

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 192 other Scheme employers in the administrative area of Herefordshire and Worcestershire, with 23,000 contributing members, 22,000 pensioners and beneficiaries and 24,000 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 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, 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.
- 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 in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders and the 3 co-optees are co-opted by the Chairman of the Committee.

5.7 The Pensions Committee will be advised by on an ad hoc basis by an independent investment adviser and the Fund's actuary.

5.8 **Pensions Committee Terms of Reference**:
The Pensions Committee will meet at least quarterly or otherwise as necessary to take decisions on:

- Changes to the Investment Strategy Statement, including the strategic benchmark for asset allocation, investment manager benchmarks and investment manager targets.
- Transition of investments to LGPS Central Limited or other pooling arrangements
- The termination and appointment of investment managers and associated professional service providers.
- The termination and appointment of the Fund's independent investment adviser, performance measurement consultant, global custodian, and actuary.
- The Pension Administration Strategy, Policy Statement on Communications, Governance Policy Statement, 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

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 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 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 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

- All Fund employers who wish to attend following invitation by the administering authority.
- The Fund's actuary (ad hoc basis).
- Fund officers.
- The employer representative and employee representative of the Pensions Committee.

Terms of reference:

8.3 The Forum will meet at least once 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.

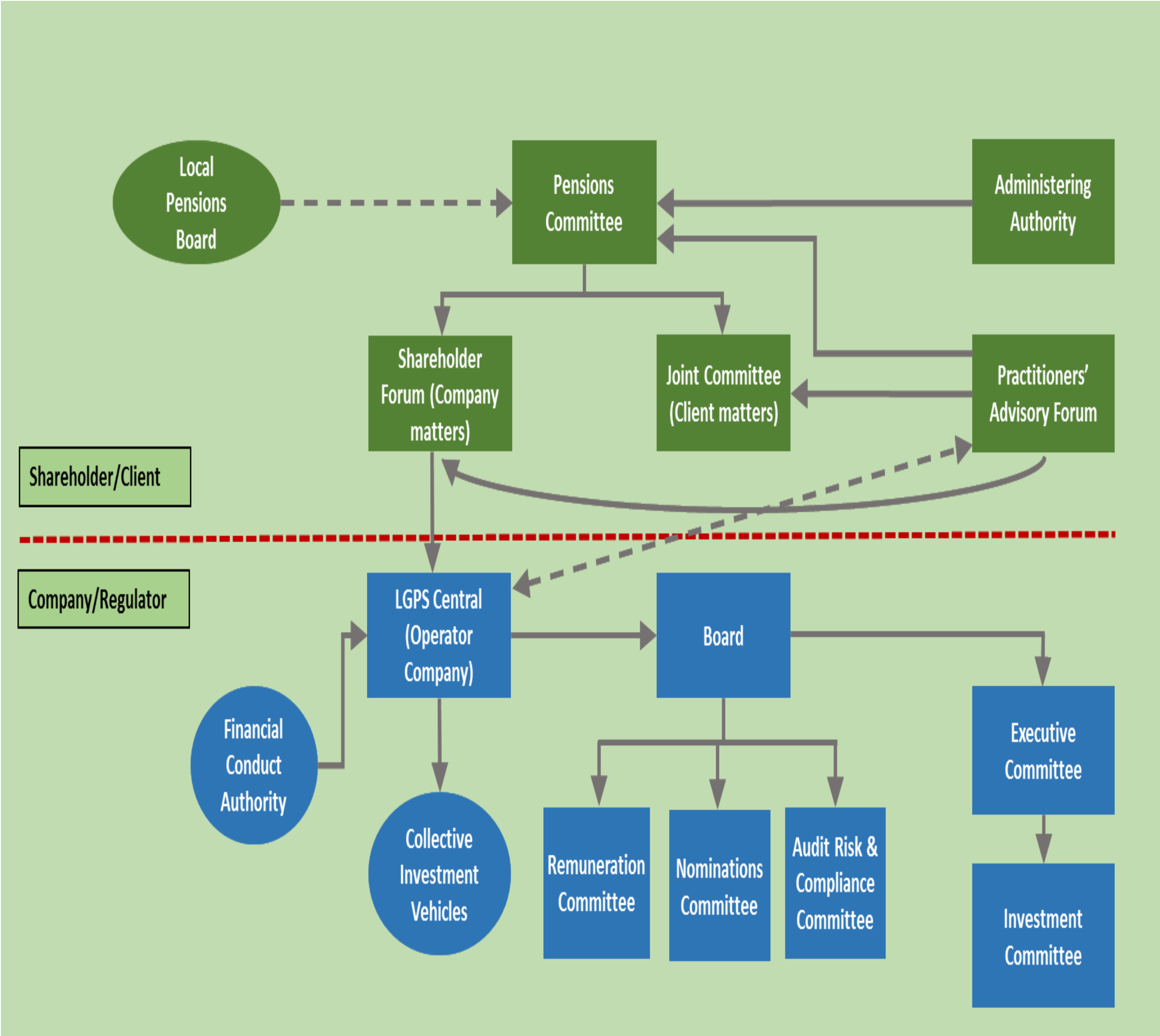
10.2 LGPSC is the company formed by the Partner Funds which is authorised as the operator of the Authorised Contractual Scheme (ACS), to provide investment services to the Partner Funds, by the Financial Conduct Authority (FCA). The company is therefore subject to the regulator's conduct of business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

10.15 Terms of Reference have been approved for the Joint Committee, the Shareholders' Forum, and the Practitioners' Advisory Forum. These are "live" documents which are likely to evolve as the practical day to day experience of working within the LGPSC pool evolves.

11. Knowledge and Skills

11.1 The administering authority has regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in creating a knowledge and skills policy for the Fund, to ensure all those involved in the decision-making process receive relevant training in order to obtain the appropriate knowledge and skills to discharge their responsibilities effectively.

11.2 Committee members and appropriate administering authority officers complete an annual knowledge and skills self-assessment form. These are used to prepare annual training plans and a log of training undertaken is maintained by the administering authority. The annual training plans include a programme of external and internal training events designed to meet the requirements both of new members of the committee and the ongoing needs of existing members. These events are reported formally to members on an annual basis. Individual reports to authorise attendance by members at these events are put to the Chief Financial Officer on an event-by-event basis.

12. Governance Compliance Statement

12.1 LGPS Regulations require pension funds to issue a statement confirming the extent to which their governance arrangements comply with guidance issued by the Secretary of State. The statement below confirms the mechanism in place to satisfy each requirement.

Ref.	Principles	Compliance Status	Evidence of Compliance
A	**Structure**		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) and its Sub-Groups are set out in the Fund's Governance Policy Statement. The Governance Policy Statement was approved by Full Council
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Pensions Committee membership includes an employee and employer representative. Full membership details are set out in the Fund's Governance Policy Statement.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Pension Investment Sub Committee provides strategic advice to the Pensions Committee regarding the management of the Fund's assets. The Chairman of the Pensions Committee also sits on the Pension Investment Sub Committee to ensure effective communication. The Pensions Committee receives quarterly investment updates from the Pension Investment Sub Committee. A Pension Administration Advisory Forum has been established. The employer and employee representatives from the Pensions Committee attend the forum and there is a standing invitation for the Pension Board to attend the forum.
B	**Representation**		

a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-Scheme employers, e.g., admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Compliant	Membership of the Pensions Committee and Pension Investment Sub Committee include employer and employee representatives and an independent investment adviser. Full membership details are set out in the Fund's Governance Policy Statement. Expert advisors attend the Pensions Committee as required for the nature of the main decisions. For example, the actuary attends when the valuation is being considered, and the main investment advisor attends when a strategic asset allocation decision is being made. The investment advisor regularly attends Pension Investment Sub Committee meetings. All members are treated equally in terms of access to papers and to training that is given as part of the Committee process.
C	**Selection and role of lay members**		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	The Pensions Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of Pensions Committee meetings are published on the Council's website. A detailed training programme is also provided to Committee members and Pension Investment Sub Committee members.
b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all Pensions Committee meetings. The Pensions Committee and Pension Investment Sub Committee are serviced by Legal and Democratic Services who invite members to declare any financial or pecuniary interest related to specific matters on the agenda. Members have also 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.
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 provided to the Pensions Committee.
F	**Meetings (frequency / quorum)**		
a.	That an administering authority's main committee or committees meet at least quarterly.	Compliant	The Pensions Committee meets quarterly. This requirement is set out in the Fund's Governance Policy Statement.

b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	The Pension Investment Sub Committee meets quarterly. These meetings are synchronised with the dates when the Pensions Committee sits. These requirements are set out in the Fund's Governance Policy Statement. The Pension Administration Advisory Forum meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Compliant	The Fund has employee representatives on its Pensions Committee and its Pension Board. It has established a Pension Administration Advisory Panel which meets twice yearly. All Fund employers are invited to attend the Panel meetings. The Panel arrangement and terms of reference are set out in the Fund's Governance Policy Statement.
G	**Access**		
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Compliant	All members of the Pensions Committee, Pension Investment Sub Committee and the Pension Administration Advisory Panel have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee. The Pensions Committee agendas and associated papers are published on the Council's website prior to the committee meeting. Pension Board papers and minutes are equally available to all Board members.
H	**Scope**		

a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Administration Advisory Panel is attended by the employer and employee representatives who sit on the Pensions Committee. This ensures flow of information between the wider scheme employers and the main committee. Scheme employers are invited to bring wider scheme issues to the attention of the Pensions Committee through the established communication routes. The Council has included benefits administration, investments, and wider governance issues under the remit of the Pension Committee. All aspects of fund management and performance are also reported to the Pensions Committee.
I	**Publicity**		
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Compliant	The Fund's Governance Policy Statement is published on the Fund's website and all scheme employers are invited to attend the Pension Administration Advisory Panel meetings. The Fund ran an open recruitment process for the employer and employee representative appointments to the now established Pension Board. Contact details are provided on the website, so other interested parties can find out more if they wish.

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Worcestershire Pension Fund Policy on Representation dated March 2024

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 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.
- Support our stakeholders and offer more efficient ways of providing information.

Help us: to administer the LGPS on behalf of our employers, as the scheme administrator need our employers (in a manner that is data secure) to do several 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.

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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 and automation of systems 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.

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.

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.

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 understand the differences between the benefits paid on death in service and the benefits paid on death in retirement 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.

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

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 payment provide us with the Contribution Remittance Payover Form PCF1 spreadsheet and a monthly CARE spreadsheet.

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 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 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 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 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

As at 31 January 2024 we managed £3,753 million of worldwide assets on behalf of about 190 LGPS employers and 66,000 member records (22,676 active / 24,160 deferred / 19,727 pensioner).

As at 31 January 2024 we were estimated to be 97% funded.

We have a budget of £1.75m for pensions administration and as of 31 January 2024 we have 36 staff in our pension administration department. We work with the following:

AEW
Barclays
BNY Mellon
Bridgepoint
Grant Thornton UK LLP
Gresham House
Hermes Investment Management
Hymans Robertson
Igneo
Invesco Real Estate
Independent Financial Advisor (P Hebson)
Legal & General Investment Management
LGPS Central Limited
Nomura Asset Management UK Ltd
Northern Trust
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: Draft (of the fourth annual review)
Author: Richard Sultana, Head of Pensions Administration
Dated:
Signed off at:

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worcestershire
countycouncil

PENSIONS COMMITTEE
20 MARCH 2024

TRAINING UPDATE

Recommendation

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

Background

2. The Committee reviewed the Fund's **Training Policy & Programme** at **its meeting on 22 March 2023**.

3. The training delivered to members since the last Training Update has included:

- An Introduction to Pensions Q&A webinar with WCC/WCF staff on 31 January 2024 (40 attendees)
- An LGPS Pensions Q&A webinar for WCC Staff on 1 December
- An ESG workshop and Benchmark training session was also provided at the Pensions Committee meeting on 31 January 2024.
- Pensions Administration processes and Key Performance Indicators for members on 28 February 2024

4. On 27 February online training was delivered to 10 employers on how to complete Year End submissions

5. Pension Fund staff attended a Webinar hosted by AON on 29 January to discuss the impact TPR's New General Code of Practice has on Public Service Pension Schemes.

6. One on one meetings were held with WCC employees and HR to discuss pension benefit options as part of a voluntary redundancy exercise in December 2023, a total of 16 attendees.

7. One on one appointments were provided to 44 HCC employees considering Mutual Early Resignation Scheme (MERS), these were online bookings on 20 December and 4 January 2024

8. 3 members of staff have just completed their level 3 CIPP certificate in pensions administration with 2 more completing the above course. We have 1 member of staff completing the final year for the Level 5 CIPP Foundation degree in pensions administration and management. We have a list of 9 members of staff waiting to continue their professional development on these and other courses.

9. Following the March 2023 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; and
d) WPF 27 Incorrect calculation of benefits through human error or delayed notification of a death.

10. Progress in mitigating the four risks since the last quarterly Board / Committee cycle has included Officers participating in various scheme / industry groups / fora to keep up to date on pensions issues. These have included:

a) Officers attending Hymans Robertson webinar on managing risk in the LGPS – a spotlight on Cyber security. (WPF 03);
b) PB / PC members were made aware of the LGPS governance conference on 18-19 January 2024. (WPF 02); and
c) Comparing our October 2023 skills matrix for the Benefits and Membership teams to now, reveals where we have boosted scores for our staff; moving staff internally to gain new skills has added to their matrix score; and the extra skilled resource that we have delivered. Headcount has changed from 32 to 31 (following a member of staff retiring), the total score for the 37 processes that we measure has risen from 23,685 to 24,840. (WPF 21)

11. To further support this a training needs analysis questionnaire has been issued to Board and Committee members to gather feedback on where they would like to improve on their understanding and knowledge of its members, and key officers. The training needs analysis will form the basis for individual training plans to be created and shared with members to support their training.

12. The Fund has taken the decision to take on Hymans Robertson's training platform LGPS Learning Online Academy to offer more flexibility around training. All members should have received a log in to access the platform from Hymans Robertson. This will allow members and Senior Officers to maintain their knowledge and understanding alongside face-to-face training sessions currently being delivered. The use of this product will be implemented into members training plans for 2024/2025.

Supporting information

- Appendix 1 - Training Policy and Programme
- Appendix 2 – Training Plan
- Appendix 3 – Training Calendar

Contact Points

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

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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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Worcestershire Pension Fund

Training policy and programme updated 31 01 2024.

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 Fund's training calendar was approved by the Pensions Committee and sets out when training will be delivered throughout the 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.

Members are given access to the Hymans Robertson LGPS Online Learning Academy "LOLA". This will be used in conjunction with the regular sessions delivered as part of the training programme.

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.

Senior Officers are given access to the Hymans Robertson LGPS Online Learning Academy "LOLA". This will be used in conjunction with the regular sessions delivered as part of the training programme.

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. Members will also be directed to relevant modules within the LGPS Online Learning Academy that will be useful for upcoming meetings.

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 2024

This Training Plan summarises the training work that we plan to progress in 2024 /2025.

The Communications and Training Lead and the Training Officer are now settled into their roles following the Pensions Administration restructure. This has led to more detailed training plans developed and an increase in stakeholder training and engagement.

Training of our elected members

We have conducted (the last one was conducted in October 2021) Training Needs Analysis in February 2024 with our members to support how we build 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.

Members will also be given access to the Hymans Robertson LGPS Learning Online Academy platform. This will support our members to be able to complete training flexibly outside of scheduled sessions whilst also forming part of their individual programme of learning.

Training of our employers

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

The feedback received has formulated our training sessions being delivered to our employers, as found on our training calendar.

Training to our employers being delivered is a mix of face-to-face sessions and remote sessions using digital technology.

Training of pensions administration staff

We 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 have been supporting 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

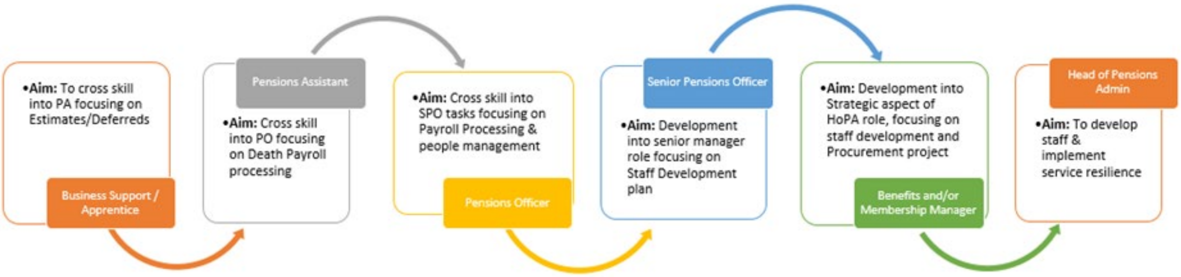
- An experienced Pension Business Support (at least 50% competency rating) learning an area from an experienced Pensions Assistant – learning the process but eventually taking an element of this work i.e. part of their alphabet split once they are feeling confident to start processes on their own with 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 on more strategic work including procurements alongside the Head of Pensions Administration

- For example:



We 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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Training and Conferences Calendar

Month	Scheme Members	Employers	Fund Staff	Board & Committee	Conferences
January	Pensions Basics, Q&A session with WCC staff	What being an LGPS Employer entails Employer Role, 30 Jan, online (LGA)	Pensions Administration Service meeting	ESG workshop, 31 Jan	Governance conference 18-19 Jan 2024 (LGA)
February	Pensions Basics, Q&A session with HCC staff	Preparing for Year End	Self Service functionality	Pensions Administration processes and Key Performance Indicators (28 Feb)	Strategic Investment Forum 1 Feb, London (DG publishing LAPF) Investment Conference 27-29 Feb, Edinburgh (PLSA)
March	Pensions Basics, Q&A session open to all employer staff	Funding, Investments and Finance		Pensions Administration processes and Key Performance Indicators (13 Mar)	Impact & Responsible Investment Summit 14 Mar, London (DG publishing LAPF) Investment Seminar, 14-15 Mar, Cheshire (LGC) Trusteeship – part 1: the theory, 14 Mar, London (PLSA)
April	Pensions Basics, Q&A session with WCC staff	FRS - Financial aspects of being an LGPS employer Employer Role, 16 & 22 Apr, online (LGA)	Pensions Administration Service meeting		Trusteeship – part 2: the practice, 16 Apr, London (PLSA) LGPS Pooling Symposium 23-24 April, nr Birmingham (DG publishing LAPF)
May	Pensions Basics, Q&A session with HCC staff Member Portal demo	Monthly returns drop in session Employer Role, 2 & 14 May, online (LGA)	Topical training session, subjects on page 3		
June	Pensions Basics, Q&A session open to all employer staff	Retirement process overview		Actuarial Methods training – Date TBC	Trusteeship – part 1: the theory, 4 Jun, London (PLSA) Local Authority Conference 11-13 Jun, Gloucestershire (PLSA)
July	Pensions Basics, Q&A session with WCC staff	Leavers forms, calculating final pay and APP	Pensions Administration Service meeting	Training session, subjects on page 2	Strategic Investment Forum 1 -3 Jul, Watford (DG publishing LAPF) Trusteeship – part 2: the practice, 2 Jul, London (PLSA)
August	Pensions Basics, Q&A session with HCC staff Member Portal demo	IDRP Process Employer Role, 13 Aug, London (LGA) Employer Role, 29 Aug, online (LGA)	Topical training session, subjects on page 3		
September	Pensions Basics, Q&A session open to all employer staff Understanding your ABS	What being an LGPS Employer entails		Training session, subjects on page 2	Investment & Pensions Summit, date TBC, Birmingham (LGC) Trusteeship – part 1: the theory, 12 Sept, London (PLSA)
October	Pensions Basics, Q&A session with WCC staff Pensions Taxation Webinar	Ill Health Retirements Employer Role, 1 Oct online (LGA)	Pensions Administration Service meeting		Fundamentals - Day 1, October, York/London/online (LGA) The Local Authority Responsible Investment 10 October, London (DG publishing LAPF) Annual Conference 15-17 Oct, Liverpool (PLSA)
November	Pensions Basics, Q&A session with HCC staff	Monthly returns drop in session Employer Role, 7 & 26 Nov, online (LGA)	Topical training session, subjects on page 3	Training session, subjects on page 2	Fundamentals - Day 2, October, York/London/online (LGA) Trusteeship – part 2: the practice, 5 Nov, London (PLSA) Trusteeship – part 3: the expert, 20 Nov, London (PLSA) LGPS Pension Managers' Conference, Date TBC, T ESG Conference 28 Nov, London (PLSA)
December	Pensions Basics, Q&A session open to all employer staff Member Portal demo	Outsourcing of Contracts			Fundamentals - Day 3, October, York/London/online (LGA) LAPFF Annual Conference, 6-8 Dec, Bournemouth

List of Training Possibles for Board and Committee Members

- Annual accounts and annual report
- Fixed interest investment
- Funding and investment strategy / risk
- Investing in alternative assets such as infrastructure and property
- Investing in equities
- Investing in private debt
- Investing in private equity
- LGPS Central Limited
- LGPS employers
- Pension administration processes and key performance indicators (KPIs)
  - Annual benefit statements
  - Paying pensions
  - Processing retirements
  - Year end
- Responsible investment / stewardship / climate change
- The Fund’s non-investment governance and associated documents i.e. Risk Register
  - Business Plan
  - Governance Policy Statement
  - Policy Statement on Discretions
  - Pension Administration Strategy
  - SAB Good Governance Project Positioning Statement
- What the LGPS provides members with

Topical Training for Fund staff

Administration system features

- Altair “hacks”
- Insights reports
- Member portal demo

Funding, investments and finance

Legislation changes

Process overviews:

- Aggregations
- Deferred benefits
- Employer returns
- Estimates
- Retirements
- Refunds
- Starters
- Transfers

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worcestershire
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PENSIONS COMMITTEE
20 MARCH 2024

FORWARD PLAN

Recommendation

1. **The Chief Financial Officer recommends that the Committee comment and approve the Forward Plan.**

2. The forward plan was presented to the last Committee meeting to highlight the key areas that are anticipated to be reported in the future. The Forward Plan was approved and was to be reviewed at each Committee meeting. This is attached as an Appendix and Committee are asked to comment and approve the plan.

Supporting Information

Appendix – Forward Plan

Contact Points

Specific Contact Points for this report
Sherief Loutfy
Head of Pension Investments, Treasury & Banking
Tel: 01905 843103
Email: sloutfy@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

Pensions Committee Proposed Forward Plan

Appendix

Pensions Committee items	25/6/2024	10/10/2024	12/12/2024	TBC
LGPSC Update	Y	Y	Y	Y
LGPSC budget and business plan			Y	Y
ESG workshop, Climate Risk Report, TCFD Report				Y
Annual report / accounts	Y			
Stewardship Code	Y			
Business Plan (to include the latest on administration and investment areas and CMA investment advisor objectives monitoring)	Y	Y	Y	
Annual Investment Strategy Statement / Climate Change Risk Strategy / Climate Risk Report / Climate-related Financial Disclosures reviews				
Training Update	Y	Y	Y	
Investment Update	Y	Y	Y	
Budget		Y		
Internal Audit report (Inv & Admin)				
Risk Register	Y	Y	Y	
Governance Update	Y	Y	Y	
Pension Board / regulatory updates including Scheme Advisory Board updates e.g., pooling & responsible investment consultations		Y		

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

AGENDA ITEM 14

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