

Worcestershire Local Pension Board

Annual Report 2019

The Public Services Pensions Act 2013 required the Administering Authority for each Local Government Pension Scheme (LGPS) fund in England and Wales to establish a Local Pension Board.

The role of local pension boards is to assist the Administering Authority to secure compliance with LGPS Scheme Regulations and other legislation relating to the governance and administration of the Fund, together with any requirements imposed by the Pensions Regulator. In short, the Board's role is to ensure the effective and efficient governance and administration of the Worcestershire Fund

The Regulations require the membership of the Board to be made up of equal numbers of employer and scheme member representatives with a minimum of four members i.e. at least two employer representatives and two employee representatives. The employee representatives on the Board must be independent of the Fund - that is to say they must have no involvement with the day to day management of the Fund.

The membership of the Worcestershire Local Pension Board is as follows: -

Employer representatives

Councillor P Grove (Worcestershire County Council)

Councillor N Shaw (Herefordshire County Council)

Scheme Member Representatives

Ms L-M Chapman (Unison)

Ms K Wright (GMB)

Independent Chairman (Non- voting)

Mr K Bray (formerly Director of Financial Services at the City and County of Cardiff)

The Board met on four occasions during the year

- 25 July 2018 Apologies received from Councillor P Grove
- 31 October 2018 Full attendance
- 4 February 2019 Full attendance
- 25 April 2019 Apologies received from Councillor P Grove

The Board will next meet on 19 July 2019

During the year the Board's work programme has covered the following areas: -

Board meeting - 25 July 2018

The Board received the Agenda papers and draft Minutes of the Pensions Committee held on 22 June 2018

The Board received an Administration Update which confirmed that the delivery of Annual Benefit Statements was on schedule and that good progress was being made with the national GMP (guaranteed minimum pension) reconciliation with HMRC.

The new Chief Financial Officer confirmed that he was content with the working of the Equity Protection Strategy which he considered to be necessary given the Fund's heavy weighting in equities and the need to protect the Fund's funding level. He also indicated that he would be commissioning a review of the of the Fund's investment strategy

The Board approved its Annual Report.

The Board received an update on progress at LGPS Central but it was too early to assess the Pool's performance. Its Business Plan would be assessed by the Shareholders' Forum, where each fund member of the Pool has a power of veto. Progress at the Pool was also overseen by an officer group with representatives from each fund. Discussion is ongoing regarding scheme member representation on the Pool's governance bodies and about public access to Shareholders' Forum meetings

The Fund's Annual Report and Accounts was received by the Board.

It was confirmed that the Fund's Communications Strategy would be reviewed later in the year and the Chief Financial Officer advised the Board that the Fund's website and branding was under review.

The Board was reminded that the Fund provided information about benefits and about options, where available, but it was not authorised to give advice. Fund members were advised to take independent advice when necessary.

Board meeting - 31 October 2018

The Board received the Agenda papers and draft Minutes of the Pensions Committee held on 5 October 2018

Arising from these papers the Board received an Administration Update and were introduced to Chris Frohlich, the Fund's newly appointed Engagement Officer.

The contractor appointed to undertake the GMP/HMRC reconciliation was on schedule to meet the 31 October 2018 deadline. The Pensions Committee had agreed that any differences below £2 per week would be disregarded. This was a standard tolerance level being used by a number of LGPs funds but it meant that Fund members could be unaware of gains or losses of up to £100pa. The Fund's actuary was being kept fully informed of progress in this context.

The Board was informed that the LGPS Central Pool was seeking a new Chief Executive.

The Pool was somewhat behind schedule with transfer of assets and a revised cost sharing model was awaited. Many of the staff employed by LGPS Central had transferred from the West Midland and Derbyshire Pension Funds because both had longstanding 'in house' investment management expertise. Concern was expressed by Board members about the potential conflicts of interest that might arise from this, but were reassured that staff operated to a strict code of practice and Financial Conduct Authority regulations.

The Fund remained well funded and due diligence checks were being undertaken on its property and infrastructure investments. The suitability of all investments was assessed with the benefit of independent external advice. The Equity Protection Strategy was kept under review and Board members requested that future training should cover transfers in and out of the Fund, ill health retirements, death in service and retirement benefits.

The Training needs of Board members was discussed

The Board considered the Risk Register. There was a wide-ranging discussion about the risks arising from the covenant arrangements that existed with some employers admitted to the Fund. This issue had been and would continue to be kept under review. The Board was informed that the Pensions Regulator had not expressed particular interest in this but would be reviewing all aspects of LGPS funds' administrative arrangements

The Board received and considered the LGPS Central Partners Funds' Audit Assurance Framework being led by Ernst and Young, the external auditors to the Staffordshire Fund.

The Board received the minutes of the LGPS Central Local Pension Board Chairs Meeting held on 10 October 2018 which the Chairman had been unable to attend due to a long-standing prior commitment. He would attend and report back following the next meeting on 20 February 2019.

Board meeting – 4 February 2019

The Board received the Agenda papers and draft Minutes of the Pensions Committee meetings held on 28 November 2018 and 21 January 2019

Further consideration was given to the efficacy of the Equity Protection Scheme. It was noted that the external providers had a vested interest in securing the continuation of the policy, but the Board was reassured that decisions about its continuation would be made solely in the interest of the Fund and further reports would be provided at future meetings.

In reviewing the ongoing relationship with LGPS Central, the Board shared the concerns of the Pensions Committee about the relatively small and reducing financial benefit to the Fund arising from membership of the LGPS Central Pool as indicated by the LGPS Budget and Business Plan. The Business Plan was poor and lacked a clear Executive Summary. Officers reported that the concerns of the Worcestershire Committee were recognised and shared by other funds in the Pool. It was hoped that the appointment of a new Chief Executive would prove beneficial. The Board was advised that it was too early to have any useful comparison of the costs of the various pooling arrangements but more meaningful comparisons should be available in future.

Board members were reminded that while stock selection and the appointment of fund managers would vest with LGPS Central in future, strategic asset allocation would still rest with the Fund and that it was this that had far greater impact on the investment performance outcomes for the Fund. This Fund's Asset Allocation Strategy would be considered in detail at the next Committee.

As all members of LGPS Central were now members of the Local Authority Pension Fund Forum, LGPS Central qualified for complimentary membership of the Forum.

The Board noted that the target recovery period set out in the Financial Strategy Statement was 18 years when the fund was 75% funded, but this would be reviewed following the actuarial valuation in view of the higher funding level anticipated.

The monitoring of the covenant arrangements with some employers remained a cause for concern but this was work in progress and it was anticipated that response rate would improve.

The Board received and noted the detailed Administration Strategy and some suggestions to improve the clarity of the document were accepted.

The Board were advised that the Government had sought leave to appeal the McCloud and Sergeant legal judgements with regard to age discrimination and pension protection. ***(NOTE the Supreme Court subsequently denied this request on 27th June 2019. At the time of writing the potentially very significant implications for the LGPS are under consideration by the Scheme Advisory Board and others nationally).***

Board Meeting 25 April 2019

The Board received the Agenda papers and draft Minutes of the Pensions Committee meeting held on 19 March 20

The Committee had received an initial Strategic Asset Allocation Review from Hymans Roberson and it was noted that this could be used as a reference point for the detailed Review. It was noted that the transfer of listed assets to the LGPS Central Pool should take place over a short period in line with statutory guidance and although none of the Fund's assets had been transferred at this date, the first transfer was imminent

The recently appointed Chief Executive of LGPS Central had attended the meeting in person and had indicated his willingness to listen to the views of Member funds, the Committee having stressed that the Pool had been created to serve the investment needs of the member funds. The main issue for the Fund was the need to have the cost sharing arrangements reviewed in view of the relatively small and reducing financial benefit to the Fund arising from membership of the Pool, as noted at the previous meeting

The Committee had approved the Administration Strategy which had been received and commented on by the Board at its previous meeting. The Board noted that the outcome of the GMP reconciliation would be reported to the June Committee when decisions would be made with regard to over payments and underpayments identified by the exercise. Expert advice will be received from ITM who had undertaken the exercise on the Fund's behalf.

The Board was informed that the Pensions Regulator had expressed concern about the performance of the LGPS in issuing annual benefits statements and was reassured that the Fund had met the new deadline and although the 100% target had not been met the failing was not a material breach. The possibility of considering an online approach to issuing statements was raised and the Board was informed that this was under consideration. It was however a significant piece of work with the need to ensure the security of member data being the top priority

The Board received and welcomed the revised streamlined draft Unaudited Annual Report and Accounts and requested that the Environmental Social and Governance (ESG) policy be reviewed

The Chairman reported that he had attended a meeting of Board Chairs of LGPS Central Pool and the Board agreed that a risk register for the Board similar to the Cheshire example should be brought to the Board on a regular basis. The Board also asked that consideration be given to forwarding the Board's minutes to the Pensions Committee or to other ways of reporting the outcome of Board meetings to the Committee

Joint training sessions were held for the Board and Committee on 18 September 2018, 18 December 2018, 19 June 2019 and 8 July 2019 covering both administration and

investment issues. The Board has asked for a future training session to include the implications of climate change for the management of the Fund's investments.

Ms L M Chapman has stood down from the Board. Ms Chapman has been a valued member since the outset. The Board thanks her for her contribution and wishes her well for the future. Mr P Ferret has been appointed as Ms Chapman's replacement as a scheme member representative.

Finally, the members of the Board would wish to express their thanks and appreciation to the officers of the Fund for the assistance they have provided during the year.

Keith Bray

Independent Chairman

July 2019