

COUNCIL
16 JULY 2020**REPORTS OF COMMITTEES****(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE**

Pension Board and Pension Investment Sub-Committee Minutes

1. 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. In addition, the Pensions Board has requested that their deliberations be reported to the Committee. The Committee noted the Minutes of the PISC. Unfortunately, the scheduled meetings of the Pension Board did not take place.

LGPS Central Update

2. Discussions have been ongoing between the 8 Partner Funds (including Worcestershire Pension Fund) in relation to the setting of the 2020/21 budget. This has now been agreed as a cash limited budget at £11.728m an increase of 5.1% compared to the 2019/20 annualised budget of £11.158m.

3. The updated 2019 Cost Savings Model presented to Committee in January was forecasting £284m of collective cost savings from the launch of the Pool in April 2018 to March 2034. The estimated impact for Worcestershire Pension Fund (WPF) was a forecast loss of £0.281m at the end of 2033/34 compared to the £3.977m saving in the original model. Although an updated cost sharing model with the proposed revised budget is not yet available, the proposed budget reduction from that previously presented, is likely to have a minimal impact for WPF on the cost sharing highlighted in January 2020.

4. The transition across of the Corporate Bonds mandate to LGPS Central has now been completed. There are no further transitions planned at this stage but are presently looking at potential infrastructure investments with LGPS Central. LGPS Central had appointed Susan Martin as a Non-Executive Director and are still looking to appoint a Head of Private Markets. The Committee were informed that the Head of Responsible Investment had left his position at LGPS Central. The Committee were concerned about the risks to the Fund, particularly in the current circumstances of a volatile market place, and the impact that these top level staff upheavals at LGPS Central could have and asked that these concerns be raised by officers at their next meeting with the Chair and Chief Executive of LGPS Central. The Committee has noted the LGPS Central Update.

Actuarial Valuation and Pension Fund Strategy Statement

5. 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. Several areas have been updated since the last report to Committee in December and the Committee has noted the Final Funding Strategy Statement.

6. The actuary provided an initial draft of the 2019 valuation rates and adjustment certificate using the same approach as 2016 to certify a 3-year valuation. The Committee has noted the Initial draft of the 2019 Valuation rates and adjustment certificate.

7. A partial Government response on Changes to the Local Valuation Cycle and the Management of Employer Risk covering Exit Credits was published on 27 February 2020 and came into force on 20 March 2020. The response to the remaining parts of the consultation e.g. moving to a 4-year valuation cycle are promised “in due course” and no timescale was given. This change was intended to clarify the position on Exit Credits payable to employers exiting from a Fund where there are risk sharing arrangements between the employer and the original contracting authority and is backdated to apply from 14 May 2018 when Exit Credits were first introduced into the LGPS. Whilst the Regulations undoubtedly provide the regulatory support to Funds when they determine their policies on payment of Exit Credits, whether they provide absolute clarity to Pension Funds is perhaps debatable in terms of how the process is governed.

8. Worcestershire Pension Fund policy around exit credits has been provided for within the FSS covering instances where employers have and do not have guarantors participating in the Fund. The level of exit credit will vary dependent on the employers funding levels and risk sharing agreements in place. The Chief Financial Officer has therefore been granted delegated authority to undertake any dealings with exit credits except for those above £0.5m which may only be undertaken in consultation with the Chairman of the Pensions Committee.

Good Governance Reviews and Objectives of the Fund’s Investment Advisor

9. The Committee received a position statement to summarise how the Pension Fund is taking forward the LGPS Scheme Advisory Board’s (SAB) Good Governance workstream in preparation for draft statutory guidance being issued. The key proposals related to an ‘Outcomes-based approach to LGPS governance; Enhanced training requirements; and updates to relevant guidance and better sign-posting. The Committee has noted the Scheme Advisory Board (SAB) ‘Good Governance’ review and Worcestershire Pension Fund ‘Good Governance’ position at the March Committee and a further update was provided at the June Committee.

10. In addition to the work being undertaken by the SAB, The Pension Regulator (TPR) also published its report in September 2019 into the governance and administration risks in public service pension schemes. The key areas of focus that were covered within the findings and recommendations, together with case studies were as follows and these will be considered alongside the SAB governance review: Record keeping; Internal controls; Administrators; Member communication; Internal Disputes Resolution Procedure; Pension Boards; Employers and contributions;

Cyber security; and Internal Fraud and false claims. The findings and recommendation from the TPR review will be considered alongside the outcome of the SAB 'Good Governance' review. The Committee has noted TPR governance review.

11. On the 31 July 2019, TPR published guidance on the implementation of the Competition and Markets Authority Order which similarly reflects the position that the LGPS, within the scope only of the Investment Consultancy strategic objectives requirements. Administering authorities should take note of the DWP consultation and TPR's guide "Setting Objectives for the Provider of Investment Consultant Services" IC Objectives Guide. This may result in the Pension Fund setting up formal objectives for its Investment consultancy advisor. The Committee has agreed the objectives for the Fund's Investment Advisor subject to a more detailed reference to the Fund's approach to monitoring portfolios.

Pension Investment Update

12. The Committee has noted the Independent Financial Adviser's fund performance summary and market background. The Committee has noted the update on the Investment Managers placed 'on watch' by the Pension Investment Sub-Committee.

13. After taking into consideration all due diligence, the Pension Investment Sub Committee agreed to invest £50m into the British Strategic Investment Fund (BSIF), a Fund with a mixture of Property and Infrastructure assets. The previously agreed £30m investment in the Venn Commercial Real Estate Fund II has also finally been concluded and both the investments are progressing. The Committee has noted the update on the Pension Investment Sub Committee's decision.

14. LGPS Central appointed Inalytics to provide transition oversight to look to provide as smooth as possible transition of the Active Corporate Bonds mandate into the LGPS 'Global active Investment Grade Corporate Bond Fund. The transition to the 2 appointed managers Fidelity and Neuberger by LGPS Central Ltd who became fully responsible for the performance of the sub-fund was completed on 5 June 2020. The Committee has noted the update on the transition of the Active Corporate Bonds mandate into the LGPS 'Global active Investment Grade Corporate Bond Fund.

15. The estimated funding level of the WPF in March 2019 was 91% with a deficit of £265m. There had been some recent significant volatility in the markets due mainly to the effects of the Coronavirus which has since been found to be unprecedented. This had a significant impact on our March 2020 estimated funding levels reducing to 81%, with a slight recovery in April 2020 and a further recovery in May 2020 to 88% funded. However, it is most likely that the market volatility will continue over the ensuing months which may impact on the overall funding levels. The Committee has noted the funding position compared to the investment performance.

16. River & Mercantile our Equity Protection Fund manager provided an update to the Pensions Investment Sub Committee on the 3 March 2020 and advised that no action at this point was necessary as the strategy was doing what it was set out to do. The Investment Sub Committee asked for a range of options / triggers based on different market scenarios that could be written into the existing Investment Management agreement so that action could be taken urgently if necessary. These were progressed and implemented with one of the triggers being if any of the

financial markets hit the bottom of the market cap for the protection level, i.e. the 70% then the Fund would exit from this Fund and bank the proceeds as there was no further benefit to be gained from the protection past this point. Due to the impact of COVID-19 the FTSE100 did hit the trigger point on the 23 March 2020 and the exit from the FTSE Mandate within the EP portfolio was exercised bringing in Funds of just over £27m which has since been reinvested back into the UK Passive portfolio. Discussions with River & Mercantile are currently taking place to explore further suitable options as the current mandate expires on the 7 August 2020. The Committee has noted the update on the Equity Protection current static Strategy.

17. The Committee has noted the update on Responsible Investment activities and Stewardship investment pooling and the Stewardship code. The Committee has noted the update on the LGPS Central report on the voting undertaken on the Funds behalf. The Committee has noted the update on the development of a Climate Risk Monitoring Platform.

18. Given the increased focus on Responsible Investment and particularly climate change, the Fund needs to conduct an Environment Social and Governance (ESG) audit to establish a baseline for the Fund for future action and consideration. The Committee has agreed the proposed (ESG) Audit be undertaken. Members have been asked for their view on where the Fund should be on the 'Spectrum of capital' ranging from a rating of 1 being the traditional forms of investment through to 8 being philanthropy. Based on the feedback so far, the consensus was that Members would like to see the Fund on a rating of 4 which is a mix of sustainable and impact driven investments. The Committee has noted the update on the feedback on the 'spectrum of capital.

19. The Committee also noted the update on the development of a Climate Risk Monitoring report and the proposed Environment Social and Governance (ESG) Audit and agreed the timeline and process specified as follows: i). Receipt of draft report Late September; ii). Set up a small working group of no more than 3 Members and Officers to review October to Mid November; and iii). Final report with recommendations to Committee in December 2020.

20. At the meeting on 17 March, the Committee were notified of the statement received from the LGPS Board which set out that "There has been a lot of disturbing news lately about the fall in stock markets and the potential resultant impact on defined contribution pensions. LGPS defined benefit pensions are not linked to stock market performance and are set out in statute. Although short term investment values may vary, the LGPS as a long-term investor is securely managed to address any longer-term impacts. LGPS Scheme members can therefore be assured that both their contributions and their pension, whether in payment or built up to date, will be unaffected."

Investment Strategy Statement Update

21. The LGPS Investment Regulations that came into effect from 1 November 2016 required all funds to publish a new Investment Strategy Statement (ISS) by 1 April 2017.

22. LGPS Central and the Funds Independent Investment adviser have provided support in reviewing the existing 2018 ISS and the recommendation from the Hymans Strategic Asset Allocation report that was presented to Committee in March 2019 have also been incorporated their suggested equity beliefs. The ISS has been updated to particularly strengthen the 'Stewardship and Responsible Investment (RI) areas and introduce the proposed 'Investment Pots' and have 3 Investment strategies being High, Medium and Low risk investment strategies. The Committee suggested that they would like these investment strategies to be called Growth, Medium and Cautious risk strategies as opposed to High, Medium and Low. The Committee has agreed the Fund's 2020 Investment Strategy Statement.

23. 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). The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark to ensure that it remains consistent with the overall objective. In addition to the fundamental review of the strategic asset allocation undertaken every three years, the Fund will monitor progress of employers within these Strategies on a regular basis. The Committee has agreed the monitoring arrangements for Employers for Growth, Medium and Cautious risk investment strategies.

Risk Register

24. The Risk Register is kept under regular review and, following the officer review in February the following changes have been made:

- two new risks have been added to the Register: WPF 31 (Pandemic) which has a residual risk score of 40; and WPF 32 (GMP rectification) which has a residual risk score of 15.

25. A further officer review took place in May 2020. The review paid particular attention to the risks posed by COVID-19. Some examples of risk areas where we have highlighted the impact of COVID-19 and the mitigation are:

- WPF 12 (mismatch in assets): Fund officers have liaised with all of the Fund's investment managers in response to the market volatility caused by COVID-19
- WPF 31 (pandemic): The Fund has proved that its staff can work from home to deliver a 'business as usual' service including the delivery of pensioner payroll successfully with the support of a small postal / scanning service at County Hall.
- WPF 28 / 18 (cyber-attack / failure of admin system): Business continuity reassurance has been obtained from Heywood following COVID-19
- WPF 25 (fraud by members): The Fund is keeping to the same standards following COVID-19 by requiring a member signature as authorisation and not taking instructions over the phone

26. No new risks have been added to the Register. Mitigating actions have been updated for actions that have been completed or changes to timelines. The Committee has noted the May 2020 Worcestershire Pension Fund Risk Register.

Business Plan

27. The Business Plan is reviewed and updated quarterly to deliver an extra management / governance tool to: help officers to manage the Fund's activities; and assist the Pensions Committee to ensure the ongoing management and development of the Fund is in line with longer term policy, objectives and strategy. The Committee has noted Worcestershire Pension Fund Business Plan as at May 2020 and the Administering Authority update. This also included the updated position statement on 'Good Governance'.

Pension Administration Strategy (PAS)

28. The PAS sets out the LGPS roles and responsibilities for the Worcestershire Pension Fund (WPF) and employers. The LGPS regulations do not require the WPF to have a PAS, but, if a PAS has been established, it must be kept under review. A draft PAS was sent to employers on 9 January and no comments were received.

29. . The key areas of change were in relation to: Investment pots consultation / notification / monitoring / management; Mandatory annual covenant reviews formalised; Employers specifically being required to retain data in line with our guidance, to include hours changes for all employees to ensure that we will be able to implement any McCloud remedy; Employers specifically being tasked with complying with TPR requirements; and the WPF to report on KPIs / data breaches. The Committee has approved the proposed changes to the Worcestershire Pension Fund Pension Administration Strategy to take effect from 1 April 2020.

Worcestershire County Council Pension Fund Administration Budget 2020/21

30. The forecast outturn for Worcestershire Pension Fund is estimated to be £12.752m compared to a budget of £12.630m, a difference of £0.122m. The main reason for the variance is investment management fees (increase of £0.153m) due to some commitments to Property and Infrastructure being drawn earlier than originally anticipated. An increase above budget for investment professional fees (£0.045m) has also been incurred for additional independent advice on the transition of Emerging Market and Bonds to LGPS Central and advice on Capital gains tax from the Fund's tax consultants. This is partly offset by the Guaranteed Members Pension exercise being undertaken in 2018/19 and thus saving on the 2019/20 budget (a reduction of £0.066m). This is within the £0.5m variation limit delegation to the Chief Financial Officer and in line with the Administration budget reported to the Committee in October 2019 when the variations were agreed.

31. The budget proposed for 2020/21 is £13.296m, an increase of £0.666m (+5.3%) from the original 2019/20 budget. The largest proportion of the budget (£11.383m) is investment managers' fees that largely depend on the value of assets being managed, and the investment return performance which depends on market conditions. This includes the management fees for the Equity Protection Strategy that has been implemented and the contribution towards LGPS Central. The

Committee has approved the Pension Fund Administration Budget, including manager fees, for 2020/21 totalling £13.296m.

32. The Committee has noted the indicative budget allocations for 2021/22 and 2022/23 and noted that variations against the budget will be monitored. The Committee has granted delegated authority to the Chief Financial Officer to the Pension Fund to approve variations to the budget of up to £0.5m.

Worcestershire County Council Pension Fund Training for Pension Committee Members

33. The Committee agreed a Training Policy and Programme on the 22 June 2018 and a comprehensive training programme has since been delivered on a quarterly basis. The Committee has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills and the CIPFA Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector as the basis of its Training Policy and Programme. An update on the existing Frameworks is awaited and will be reported to the Committee when known. The Committee has noted the CIPFA Knowledge and Skills Framework for Members of Pension Committees.

34. The current Training Plan has been refreshed and it was proposed that the Pensions Committee, Pension Investment Sub Committee and the Local Pension Board adopt the Joint Training Policy and operate a joint approach to the delivery of training. The Committee has approved the Joint Training Policy for the Pensions Committee, Pension Investment Sub Committee and the Local Pension Board.

35. As agreed by the Committee in March, all members of the Committee, Pension Investment Sub Committee and Pension Board, along with appropriate Administration officers were requested to complete a self-assessment questionnaire. The returns that have been completed so far show a differing range of knowledge as would be expected. These will be used to prepare training plans and include a mixed programme of external and internal training events designed to meet the requirements both of new members of the committee and ongoing needs of existing members.

36. The Committee agreed that any proposed training event being developed for Funds in the LGPS Central Pool be linked into the Fund's overall training programme. The Committee agreed that the attendance of other councillors at training events be reviewed. This helps with both the effective running of the Committee when substitutes attend, and shapes future options for Committee membership. The Committee has agreed the proposed training events plan for the next year up until April 2021.

37. An Investment Beliefs workshop was provided on the 22 May 2020 presented by Karen Shackleton from Pensions for Purpose. The aim was to further train and update members in this area as well as an introduction into as to how Pension Funds may build up an investment case to support targeting relevant Sustainable Development Goals (of which there are 17) in a Pension Fund portfolio. The Committee has noted the feedback from the Investment Beliefs workshop.

Pension Fund Unaudited Annual Report and Accounts 2019/20

38. The Annual Report will be provided for Committee approval in September 2020.

The Committee has approved the unaudited Pension Fund Accounts 2018/19. Final approval of the Accounts will be sought from the Audit and Governance Committee on 30 July 2020, if the audit is concluded by this time.

Internal Audit Plan and Pension Administration Internal Audit Report

39. The recent audit of Pensions Administration is an extremely positive report and of the 23 examined controls that were assessed 20 were found to be satisfactory and rated green, the remaining 3 were given an amber rating. The Committee has noted the Internal Audit Plan and the audit of Pensions Administration.

Forward Plan

31. The Committee has noted the Forward Plan.

Mr P Middlebrough
Chairman

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Background Papers

In the opinion of the proper officer (in this case the Assistant Director for Legal and Governance), the following are the background papers relating to the subject matter of this report:

Agenda papers for the meeting of the Pensions Committee held on 17 March and 26 June 2020.

<https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=391&Year=0>