

COUNCIL
14 JANUARY 2021**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 meeting on 25 November 2020 and the Board meeting on 13 November 2020.

LGPS Central Update

2. There are no further transitions of the Fund's existing assets planned at this stage, but the Fund is presently looking at potential infrastructure investments with LGPS Central. The level of investment will be between 1 and 2% (£30 to £60m) of the Fund overall Value. The first iteration of the Strategic Business Plan and proposed budget for 2021/22 is due to be presented to the next Practitioner Advisory Forum meeting on the 3 December and the final proposals are planned to come to Committee for approval on the 28 January 2021.

3. The 2020 Cost Savings Model which is used to allocate and apportion costs and savings to individual partner funds is currently being updated and agreed with LGPS Central and will be presented to Committee in January 2021. Patrick O'Hara has been appointed as Director for Responsible Investment and Engagement, Cara Forrest as Client Relationship Manager and Satvinder Saini as Enterprise Risk Manager at LGPS Central. The Committee received a presentation from Mike Weston, Chief Executive of LGPS Central and has noted the LGPS Central update.

Pension Investment Update

4. 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.

5. The Covid 19 pandemic has had a significant impact on March 2020 estimated funding levels, but there was a slight recovery in April 2020 which has continued to recover to a funding level of 92% in September 2020. However, it is most likely that the market volatility will continue over the ensuing months which will impact on the

overall funding levels. The Committee has noted the funding position compared to the investment performance.

6. The revised Equity Protection Strategy that was adopted in September 2020 has required increased active management than the previously implemented strategies and fortnightly monitoring meetings have taken place with River and Mercantile since September 2020. The revised Strategy includes the implementation of trigger points to consider restructuring the Strategy for both upward and downward market moves. The Committee has noted the update on the Equity Protection current static Strategy.

7. 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.

8. The Committee has noted the update on the development of a Climate Risk Scenario Monitoring report and the Environment Social and Governance (ESG) and Sustainable Development Goals (SDG) mapping Audit exercise

Business Plan

9. 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 the Worcestershire Pension Fund Business Plan as at 23 November 2020 which included an update on the Funds Good Governance position statement and Competition and Markets authority (CMA) Independent Investment Advisor objectives.

Risk Register

10. The Risk Register is kept under regular review and, following the November 2020 review by officers, the residual risk score of WPF07 (Future change to LGPS regulations or other legislation) has increased from 20 (green) to 40 (amber). No new risks were added to the Register. Mitigating actions have been updated for new measures and previous measures that have been completed or developed further or have changed timelines. The Committee has noted the Risk Register as at 5 November 2020.

Guaranteed Minimum Pension (GMP) rectification

11. The Fund's supplier ITM have completed their dry run of the GMP rectification. ITM have reviewed a total of 8,952 pensioners and 1,005 dependant pensioner members. The initial findings show around 2% of the population reviewed will require a correction, which looks very typical for an LGPS fund. The results show 174 pensioners and 34 dependant pensioners will require a recalculation. If a trivial threshold of £12 per annum is applied the members who will require a re-calculation reduces to 95 pensioners and 17 dependant pensioners. The total cost of the adjustments, before a trivial threshold is applied, is within the authorised value delegated to the Chief Financial Officer.

12. The Committee has noted the previous decisions made by the Committee shown in the ITM report and specifically in respect of i) Historic overpayments will not be recovered; and ii) Historic underpayments will be paid, including back-pay, with interest. The Committee has approved i) Trivial threshold of £12 per annum for both under and over payments; ii) Correction of pension for overpayments will be made by decreasing the pension from the rectification date, of 28 February 2021; and iii) Correction of pension for underpayments will be made by increasing the pension from the rectification date of 28 February 2021.

Pension Fund Audited Annual Report for the year ended 31 March 2020

13. The Pension Fund accounts were formally signed off by External Audit on the 27 October 2020 and are included as part of the County Councils accounts. The Annual Report is a key communications channel between the fund and a wide variety of stakeholders. The report contains information relating to the Pension funds audited annual accounts including the fund investments, administration, governance, valuations, accounts and membership. The report has been verified by External Audit. The Committee has approved the Pension Fund Annual Report for the year ended 31 March 2020.

Training Update

14. The Committee has noted the feedback from the Induction training and specific training events that have been undertaken since the last Committee meeting. The Committee has noted the proposed training events plan for the next year up until April 2021.

Forward Plan

31. The Committee has noted the Forward Plan.

LGPS Regulation Update

32. The Government has recently introduced legislation, in the form of the Restriction of Public Sector Exit Payments Regulations 2020, which will cap (at £95,000) the amount of exit payments that can be paid by employers to public sector employees when they leave employment (e.g. because of redundancy). The Exit Payments Regulations came into force on 4 November 2020.

33. The sorts of exit payments ("Exit Payments") caught by the £95,000 cap are listed in Regulation 5 of the Exit Payments Regulations, and generally include the sorts of payments made to employees in consequence of termination of employment or loss of office. They also include (at Regulation 5(2)(b)) *'any payment to reduce or eliminate an actuarial reduction to a pension on early retirement or in respect to the cost to a pension scheme of such a reduction not being made'*.

34. These Regulation 5(2)(b) payments would cover 'funding strain' payments that LGPS employers can be required to make to their LGPS fund under regulation 68(2) of the Local Government Pension Scheme Regulations 2013 where they make an employee redundant over age 55. In those circumstances, regulation 30(7) of the LGPS Regulations requires the Administering Authority to pay the member an immediate unreduced early retirement pension.

35. The Exit Payments Regulations do not include any transitional provisions for redundancies that have commenced before 4 November 2020, but which will not conclude until after that date. There were two options for the Committee to consider in order to address this issue:

- **Option 1** – which is to pay a member an immediate full unreduced pension under existing regulation 30(7) and collect the strain cost above £95k from the employer in the future; or
- **Option 2** – which is to pay a member a fully reduced pension under existing regulation 30(5).

36. The Committee has approved Option 1 and restricted to exceptional cases (redundancies that started before 4 November) where the risk of challenge may outweigh the cost of non-payment, and determined in the interim period (4 November until LGPS Regulation changes enacted). The Committee also agreed that the Fund's policy be amended to make a partial move to using the draft GAD guidance to calculate strain costs for those employers subject to the Exit Cap Regulations.

Mr P Middlebrough
Chairman

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 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 9 December 2020.

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