

COUNCIL

13 JANUARY 2022

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 Pension Board has requested that their deliberations be reported to the Committee. The Committee noted the minutes of the PISC meeting on 24 November 2021 and the Board meeting on 17 November 2021.

Pension Administration Resourcing

2. The Pensions Administration team was transferred into Finance from HR in the autumn of 2020. At the end of December 2020 and the end of March 2021 respectively the Head of Administration and Administration Manager retired. A review of the service, future need, changes in regulations and resource requirements has been undertaken over the last six months to assess and draw up a future fit for purpose structure and resource.

3. The Fund has a ratio of 1 FTE member of staff for every 3,041 members. Comparative data identifies that this is a low to middle range figure – 37th out of 83 funds. The level of pay across various grades identifies a lower pay range than other comparator funds. This increases the risk of retention and recruitment, especially given the increased flexible and home working capability within the sector/profession. However, when compared to other funds, the administration of the Fund is performing in the top quartile.

4. The review has focused on a number of principles it is felt will drive a continual successful pension administration team:

- Creating a structure and culture that enables higher success in any necessary recruitments, securing the best candidates and retaining staff we have
- Developing and supporting our people, to enable them to learn, building expertise and confidence
- Growing from within; developing our team will make our service and management even stronger

- Making sure the team is supported properly to deliver a great service
- Sharing the knowledge across all aspects of the Administration team to break down any silos across the Fund and enable great change to develop.

5. Based on the evidence gained from looking at other funds and the principles set out above a revised structure, additional resource and investment in developing staff is now proposed. However, the basic structure of the team is working and it is proposed that this will be retained. The grading of the team will be higher, there will be seven new FTE posts and three new entrant apprentice roles, with further internal apprenticeships for staff, particularly around management and professional qualifications. There will also be fewer more standardised job descriptions. There will be a new job description and single Head of Pension Administration role replacing the two posts that were vacated in the last 12 months due to retirements. Overall, this will add £0.2 million to the current pay budget at the top of scale, however this will still mean the average pay is expected to be at or just below the average for the LGPS.

6. The Committee supported the proposals to develop the Pension Administration function and approved an increase to the Pension Fund administration budget of £0.2 million.

Local Government Pension Scheme (LGPS) Central Update

7. The Pension Investment Sub-Committee has agreed to invest an indicative £30m per annum for the next 2 years into LGPS Central Ltd.'s infrastructure strategy subject to due diligence. The Sub-Committee has also agreed circa £200m to disinvest out of the LGIM Passive Low Volatility Factor Fund and transition this into the LGPS Central All World Equity Climate Multi Factor Fund. The Fund is presently looking at LGPS Central Global Sustainable Active Equity Fund and LGPS Central have now appointed 3 managers being Mirova, Liontrust and Baillie Gifford. The Sub Committee have considered further information relating to a risk/return analysis provided by LGPS Central.

8. There have been initial discussions with LGPS Central on their proposed budget and Strategic Business Plan for 2022/23. It was hoped that the Budget could be initially agreed by partner funds by the end of December to then present the outcome to the Pensions Committee on 3 February 2022.

9. The progress on the pooling return submission showed a like for like increase of assets under LCPSC Ltd management/stewardship to £22.2bn at 31 March 2021 from £17.3bn at 31 March 2020 (July 2021: £24.1bn, July 2020: £19.5bn) (this includes assets invested directly in LPGSC Ltd products, as well as those under discretionary and advisory agreements).

10. An interim Chief Legal Compliance and Risk Officer has been appointed and the recruitment process is at the end stage of interviews for the permanent appointment to this post and the Chief Stakeholder Officer. LGPS Central have appointed to the Communication Manager role. The company have now signed their lease agreement to move into the new I9 building in Wolverhampton and are looking to move during December 2021. The Committee has noted the LGPS Central update and expressed its disappointment at the time it had taken LGPS Central to transition existing assets and investment to LGPS Central products, particularly the Global Sustainable Active Equity

Fund.

Pension Investment Update

11. The Committee has noted the independent investment 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.

12. The Fund has an estimated funding level of 103% as at the end of September 2021 and initial pension 2022 valuation discussions have begun with the actuary . However, it is most likely that the market volatility will continue particularly now with the increase in inflation which may impact on the overall funding levels. The Committee has noted the funding position compared to the investment performance.

13. It was agreed to continue the equity protection for a further 12 months on the S&P500 (for our US passive equity holdings) and on the FTSE100 (for our UK passive equity holdings), and for 18 months on the Eurostoxx50 (for our European passive equity holdings). The revised strategy is more fluid and is aimed at capturing as much market upside as possible as well as protecting from significant downside market movements. Increased active management is required for these strategies and fortnightly monitoring meetings have taken place with River and Mercantile since September 2020. The level of protection still remains at 20% for any market downfall from the point at which the strategy is revised. The Committee has noted the update on the equity protection current static.

14. The Pension Investment Sub-Committee has agreed to invest 15% of its 35% existing passively managed equities target allocation equating to 6% of the overall Fund to sustainable active equities. This equates to circa £200m and 60% is to be invested in funds run by Liontrust Asset Management PLC and 40% to Baillie Gifford, however the percentage split of investment to each Fund manager was still to be confirmed. Any proposed changes to the Fund's strategic asset allocation have to be approved by the Pensions Committee. Therefore, to fund this proposed change in investment strategy, the Committee has agreed the proposed 6% decrease in the strategic asset allocation to market capitalisation passive indices and the increase of 6% to actively managed equities to allow for the investment in sustainable active equities.

15. The Committee noted the update on responsible investment activities, Local Authorities Pension Fund Forum (LAPFF) and stewardship. The Committee noted the update on the LGPS Central report on the voting undertaken on the Fund's behalf.

Pension Fund Annual Report for the year ended 31 March 2021

16. The Council and Pension Fund are required to prepare annual statement of accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2015 (as amended), and the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The statement of accounts presents the overall financial position of the Pension Fund, reflecting the Pension Fund net asset position.

17. In response to COVID-19, the requirement to prepare draft accounts by 31 May was extended to the 31 July and the requirement for the public inspection period was

amended to commence on or before the first working day of August 2021. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory audit deadlines for 2020/21 and 2021/22 for all local authorities and pension funds. The Pension Fund accounts had been approved but sign off by the external auditor was awaited.

18. The Committee has approved the Pension Fund Annual Report for the year ended the 31 March 2021.

Business Plan

19. 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 (WPF) Business Plan as at 1 November 2021.

Risk Register

20. The review undertaken by officers in October 2021 has resulted in the addition of risk WPF 34 (Inflation) as a separate risk (it was previously included in WPF 22, key actuarial assumptions). The review also resulted in 2 residual risk scores being increased and 1 reduced:

- a) WPF 31 (Pandemic) was increased from 30 to 40;
- b) WPF 24 (Employer resources) was increased from 30 to 40; and
- c) WPF 30 (Data quality) was reduced from 25 to 15.

21. Mitigating actions have been updated for new measures and previous measures that have been completed / developed further / have changed timelines. The Committee has noted the WPF Risk Register as at 1 November 2021.

Forward Plan

25. The Committee has approved the Forward Plan.

Cllr Elizabeth Eyre
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 8 December 2021.
[Agenda for Pensions Committee on Wednesday, 8th December, 2021, 10.00 am - Worcestershire County Council \(moderngov.co.uk\)](#)