

## **COUNCIL**

### **10 NOVEMBER 2022**

## **REPORTS OF COMMITTEES**

### **(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE**

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#### **Pension Board and Pension Investment Sub-Committee (PISC) Minutes**

1. As set out in the Terms of Reference of the 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 meetings on 29 September and the Board meeting on 5 October 2022.

#### **Pension Investment Update**

2. The Committee received an update on Fund performance from the Fund's Independent Investment Adviser. A market background update to the end of June 2022 was provided to add context to the relative performance and returns achieved by the Fund's investment managers. The Committee has noted the update on the investment managers placed 'on watch' by the PISC.

3. The Fund had an estimated funding level of 96% at the end of August 2022, which is a weighted average of all employers across the Fund. In the short term the turmoil in the financial markets, rising interest rates and inflation have raised concerns.

4. Over the longer term the investment strategy of the Fund is designed to ensure that the ability to pay pensions in the short, medium and long term is fully maintained. The Fund invests in a diversified range of assets that over time is anticipated to increase value and provide a secure flow of income to pay the pensions. The forthcoming asset allocation review will ensure that the investment strategy is adjusted to maintain the correct balance of assets between those that see a growth in value over time and those that generate a steady flow of income. The long-term strength of the asset base of the LGPS means that it is able to absorb short term challenges.

5. Equity Protection of approximately £1.1bn (including the Equity Protection valuation) was in place for the Fund's passive equity portfolios. Due to the downward trend of the market the opportunity has been taken to exit the protection completely and near enough break even. The situation continues to be monitored and the equity protection can be put back on if the opportunity arises. The Committee has noted the update on the current Equity Protection Strategy.

6. The Committee has noted the updates on Responsible Investment activities, Local Authorities Pension Fund Forum (LAPFF), Stewardship investment pooling, and the LGPSC report on the voting undertaken on the Fund's behalf.

7. The U.K. Government has launched its consultation on Governance and Reporting of climate risks. The consultation will require Administering Authorities to consider and report against the four key areas of governance, strategy, risk management and metric and targets. The aim of the framework is to help the LGPS demonstrate how the consideration of climate change risks and opportunities are integrated into each Authority's entire decision-making process. The consultation closes on 24 November 2022 and regulations are expected to be in force by April 2023. The Fund is well placed to meet the key requirements as it has produced a Climate Risk Strategy and Taskforce for Climate-Related Financial Discussions report for the last 2 years. The Committee will continue to be updated on progress as the Fund works with LGPS Centrals Responsible Investment Realm and partner funds within the Pool to assess how to address the key requirements.

### **Worcestershire County Council Pension Fund Administration Budget Forecast Outturn 2022/23 and Updated Indicative Budget 2023/24 to 2025/26**

8. In line with good governance practice, the Committee considers budget monitoring reports twice a year.

9. It has reviewed variations to the Pension Fund Administration Budget for 2022/23, including manager fees. The forecast outturn for the budget is estimated to be £21.648m compared to a budget of £21.015m, a difference of £0.633m. This is mainly due to a forecast overspend against the Investment Management fees budget of £0.646m. They are the largest proportion of the budget and largely depend on the value of assets being managed and investment return performance which depends on market conditions and transaction costs such as commission, tax and other expenses incurred.

10. The Fund's 'controllable' budget is showing a forecast small underspend.

11. Having reviewed the variations, the Committee has agreed to revise the Investment Managers Fees budget to the forecast outturn of £18,674,400 which results in an overall proposed budget for 2022/23 of £21,648.600.

### **Business Plan**

12. 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 at 26 August 2022.

13. The Committee asked that its thanks be recorded to all involved who had issued the 2022 annual benefit statements and newsletters on time.

## **Governance Update**

14. The Committee has noted the Governance Update. The Committee has requested that the updated Business Plan and Risk Register are included in the agenda for the next Committee meeting. It has also asked that the pension administration structure be included in a future Committee report, together with an update on how it is proposed to fill vacancies.

## **Actuarial Valuation Update**

15. Every three years, in line with legislation, the Fund Actuary carries out a full Actuarial valuation of the Fund to calculate how much employers in the scheme need to contribute going forward to ensure that its liabilities will be paid as they fall due.

16. The preliminary results of the valuation show that the Fund's funding level has increased from 91% funded at 31 March 2019 to 100% at 31 March 2022. The provisional individual employer funding results and proposed employer contribution rates for 2023/24 to 2025/26 were discussed with the major employers in September. Employers will be consulted on the continuing specific risk management/contribution rate stabilisation proposals which were introduced as part of the 2019 valuation. These will then be considered, and the final proposed actuarial valuation and Funding Strategy Statement (FSS) will be presented to the Committee in December 2022.

17. The Funding Strategy Statement sets out a clear and transparent funding strategy. This will be mindful of current inflation pressures and potential cashflow increases this will make on the Fund.

## **Local Government Pension Scheme (LGPS) Central Update**

18. The Committee has noted the LGPS Central Update. LGPS Central comprises the Worcestershire Pension Fund and eight other Local Authorities established as a collective investment vehicle. It has been in operation since 1 April 2018 and several local authorities have moved some of their existing asset allocations to be managed by the company.

19. The Committee has asked that a visit to the offices of the company in Wolverhampton is arranged for Committee members.

## **UK Stewardship Code 2021 Submission**

20. The UK Stewardship Code 2020 ('the Code') sets high expectations for how investors, and those that support them, invest, and manage money on behalf of UK savers and pensioners, and how this leads to sustainable benefits for the economy, the environment and society. It is a set of 12 Principles for asset owners and asset managers, and a separate set of six Principles for service providers – investment consultants, proxy advisors, data providers and others.

21. The Worcestershire County Council Pension Fund is a signatory to the Code and submitted its 2021 application earlier this year and has received feedback that it has again been successful in continuing to meet the expected standard of reporting and will remain a signatory to the Code. The Committee specifically noted that 64 out of 189 qualifying organisations had not achieved accreditation.

22. In noting the successful application, the Committee asked that this achievement is included on the Pension Fund webpage and thanked all the officers involved in ensuring that the Fund continues to meet the requirements of the Scheme. The Committee recognises the enormous amount of work and time that this takes officers but feel that this is very important for governance that the Fund meets this standard.

### **Risk Register**

23. In noting the August 2022 Risk Register the Committee drew attention to the cyber security top tips which have been issued to all Pensions Board and Committee members. There will be an update on cyber security to the next meeting of the Committee.

### **Training Update**

24. The Committee has noted the Training Update.

### **Forward Plan**

25. The Committee has approved the Forward Plan.

### **Hymans Review of the Fund's Investment Strategy (exempt item)**

26. The Committee has noted the Fund's Investment Strategy review undertaken by Hymans Robertson LLP.

**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 Democratic Governance and Scrutiny Manager) 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 13 October 2022:

[Agenda for Pensions Committee on Thursday, 13th October, 2022, 10.00 am - Worcestershire County Council \(moderngov.co.uk\)](#)