

## **COUNCIL**

### **12 JANUARY 2023**

## **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 meeting on 24 November and the Board meeting on 22 November 2022.

#### **LGPS Central update**

2. The Committee received a presentation from representatives of LGPS Central (LGPSC) which covered key areas of focus; key performance indicators; investment performance; holding managers to account; LGPSC Private market capabilities; and Responsible Investment and Engagement.

3. The Fund transferred its Active Emerging Market funds into the LGPSC Global Active Emerging Market managed mandate in July 2019. This is now subject to a 3-year review which is being conducted by LGPSC. This Fund's performance has not been particularly good since inception being -1.3% which is 5.00% below its target as at the end of September 2022 and the review findings and recommendations are awaited.

4. LGPSC have managed to recruit to their key posts although it remains a highly competitive recruitment market with principle candidate concerns around Remuneration and benefits packages and Location and flexible working. Discussions have begun on the LGPSC Strategic Business Plan and Budget for 2022/23 and this is due to be approved at the company meeting in February 2023. Further updates will be provided as to the progress at future meetings. The Committee has noted the LGPSC update and presentation.

#### **Pension Investment Update**

2. The Committee has received and noted an update on Fund performance and market background from the Fund's Independent Investment Adviser. The Committee has noted the update on the investment managers placed 'on watch' by the Pension Investment Sub-Committee.

3. As at the end of October 2022, the estimated funding level for the Fund was 93%. The Fund is anticipating that the pension increase next year will be 10.1% (based on the published CPI increase for September). This large increase in pension payments will be managed by the internal team at the Fund through appropriate cash flow planning. 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 in value and to provide a secure flow of income to pay those pensions. The Fund has noted the funding position compared to the investment performance.

4. The Fund took the opportunity to exit the equity protection given the continued downward trend in market valuations at the time. This was fully exited from Schroders early November and the £231m was then reinvested back into the passive equity market cap funds on the 10 November 2022. Although the Fund has exited the Equity Protection, the Fund still has the ability to put the equity protection back on if the opportunity arises as it is part of the Fund's overall investment strategy. The Committee has noted the update on the current Equity Protection Strategy.

5. Overall investment in equities is 69.8% (71.4% as at June 2022) (including the equity protection) compared to the revised strategic asset allocation target of 70%. The Property and Infrastructure investments target of 20% is slightly overweight at 22.1% with the Fixed Income slightly underweight at 8.1% compared to a 10% target. The impact of inflation and the Ukraine / Russia conflict is continuing to see a lot of market volatility which has seen equity market valuations decrease recently compared to the existing Property and Infrastructure investments.

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. The Fund has noted the update on Taskforce for Climate-related Financial Disclosures (TCFD) Consultation.

## **Business Plan**

7. 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.

8. The restructure of the Pensions Administration function has been implemented as of 1 November 2022. There are 13 vacancies across the service, and recruitment process is underway to fill these vacancies. The Fund has noted the Worcestershire Pension Fund (WPF) Business Plan.

## **Pension Fund Annual Report for the year ended 31 March 2022**

9. 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 Fund's audited annual accounts including the fund investments, administration, governance, valuations, accounts and membership. The statutory publication deadline for the Pension Fund annual report is December 2022. The Fund's external auditors have indicated that they are satisfied with the annual report and will provide a separate opinion before the statutory deadline.

10. The Committee received a report on the unaudited Pension Fund annual accounts for 2021/22 at the June 2022 meeting detailing some of the key highlights. The accounts have now been audited and were amended for a few minor points around presentation and await approval under the delegation approved by the Audit and Governance Committee. The Committee has approved the Pension Fund Annual Report for the year ended the 31 March 2022.

### **Risk Register**

11. There have been no increases or increases to risk scores resulting from the latest review of the Risk Register. In order to offer reassurances around Risk WPF 28 relating to Cyber security, the Fund has received the Heywoods Cyber Security Review 2022 summary and a bulletin from Heywoods highlighting the heightened security threat following the Ukraine/Russia conflict and the actions taken to assure the system is compliant. The Committee has noted the October 2022 WPF Risk Register.

### **Actuarial Valuation and Funding Strategy Statement Update**

12. Every three years, in line with legislation, the Fund Actuary, Mercer, carries out a full Actuarial Valuation of the Fund to calculate how much the employers in the Scheme need to contribute going forward to ensure that its liabilities, the pensions due to current and future pensioners, will be paid as they fall due.

13. Alongside the Valuation, the Fund provides a Funding Strategy Statement (“FSS”) which looks 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. The LGPS Regulations require each administering authority to prepare and publish an FSS. The draft FSS has been produced for consultation with employers. It incorporates the initial proposals on the funding strategy. The draft FSS is based on preliminary information so will need to be finalised once the valuation analysis is complete. The consultation with employers will take place over December and January and the final FSS will be brought back to the March 2023 Committee for final approval. .

14. The Fund's funding level has increased from 91% funded at 31 March 2019 to 100% at 31 March 2022. This has been updated for employers’ actual member data, demographic and mortality sensitivities and inflation and discount rate (Funds rate of investment return) sensitivities. These are only preliminary results and the Funding level and forecast contributions will vary per employee. The reduced discount rate option is the main proposal for the scheme and other options are being explored particularly the moderate stagflation option as a potential alternative, dependant on employer’s circumstances. The Fund is really mindful of the inflation issue and the potential cashflow increases this will make on the Fund. This is where the Investment Strategy will look to take on the implications of the Funding strategy when it is reviewed over the next 3 months. The Committee has noted the update on the preliminary 2022 Actuarial Valuation

15. The draft FSS is based on preliminary valuation information and incorporates the key updates in relation to the CPI inflation assumption, the discount rate (average expected return) basis for past service liabilities (funding target), the discount rate (average expected return) basis for future service liabilities, Pay growth assumption (including increments), demographic assumptions, Recovery periods (surplus and

deficit), the McCloud Judgment and a climate change funding level scenario analysis. The Committee has approved the proposed key actuarial assumptions and funding parameters, in paragraphs 15 to 29 of the Committee report which will be incorporated into the Funding Strategy Statement.

16. The Committee has approved the draft Funding Strategy Statement (noting some information can only be included when the actuarial valuation is complete) and noting the provisional results as set out below. The final actuarial outcome will be reported to Committee at its March 2023 meeting, however preliminary whole Fund results (based on the proposed assumptions in the draft FSS) are a funding level of 100%, a surplus of £14m and a future service contribution rate of 18.8% of pay. The equivalent 2019 valuation results were a funding level of 90%, a deficit of £324m and average future service rate of 17.5% of pay. Overall, the theoretical total average employer contributions are expected to fall at this valuation due to the improved funding position despite an increase in the future service rate. The outcomes will vary materially between employers although the major councils will broadly follow the total Fund.

17. The Committee has granted delegated authority to the Chief Financial Officer to refine and finalise the draft FSS, following formal consultation with employers, having regard to the advice of the Fund Actuary.

### **Governance update**

18. . The Fund produces a quarterly Good Governance Position Statement to summarise progress on how the LGPS Scheme Advisory Board's (SAB) Good Governance workstream is taken forward in preparation for draft statutory guidance being issued. One of our key focuses is to review the Fund's KPI reporting using Altair Insights. A training session has been arranged with Heywoods specifically on how to utilise Insights for improved KPI reporting. The Committee has noted the Governance Update

### **Training update**

19. The Fund's training programme is being reviewed and a training matrix will be built in to assess knowledge. This will ensure that the most appropriate training sessions are identified and then scheduled going forward. The Committee has noted the training update.

### **Forward Plan**

25. The Committee has approved the Forward Plan.

### **Strategic Asset Allocation Review Update December 2022 (exempt item)**

26. The Committee has noted the Strategic Asset Allocation Review update.

**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 December 2022:

[Agenda for Pensions Committee on Tuesday, 13th December, 2022, 2.00 pm - Worcestershire County Council \(moderngov.co.uk\)](#)