

COUNCIL

18 MAY 2023

REPORTS OF COMMITTEES

(b) SUMMARY OF DECISIONS TAKEN BY THE PENSIONS COMMITTEE

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 2 March 2023 and the Board meeting on 3 March 2023.

Local Government Pension Scheme Central (LGPSC) Budget and Strategic Business Plan 2023/24 (Exempt item)

2. Each year LGPSC is required to produce an updated budget and Strategic Business Plan. The intention of the Company and Practitioners Advisory Forum (PAF) which has key representation from lead officers for each of the Partner funds, is to take an agreed set of papers to the Shareholder Forum. The budget proposed for the financial year 2023/24 is £15.195m, compared to £13.495m in 2022/23 an increase of 12.6%.

3. The Committee has noted the LGPSC Budget and Strategic Business Plan for 2023/24 update (The Fund's representative on the Stakeholder Forum addressed any changes on its behalf). The Committee has noted the latest version of the 2023/24 LGPS Central Strategic Business Plan and budget presentation. The budget was subsequently agreed at the Shareholder Forum on the 28 February 2023.

Strategic Asset Allocation Review (Exempt item)

2. The Committee has considered a Strategic Asset Allocation Review report which set the scene and took stock of the performance and composition of the Fund's Strategic Asset Allocation as endorsed by the Committee in 2019. The Committee also considered a series of recommended changes to the Fund's Strategic Asset Allocation. The recommendations are designed to shape the strategic direction of the Fund's investment strategy, which will involve further work and consideration before definitive recommendations are made to the Committee at the appropriate time.

3. The Committee has approved the Strategic Asset Allocation recommendations set out in the report. The recommendations will enable the Fund to continue to meet the assumptions contained within the Fund's Funding Strategy Statement with regard to

ongoing expected returns more than CPI inflation and consider Central Government's asset pooling agenda that established the LGPSC pool from the 1 April 2018.

Investment Strategy Statement (ISS) and Climate Risk Strategy Update

4. The LGPS Investment Regulations that came into effect from 1 November 2016 required all funds to publish a new ISS by 1 April 2017. The Fund's 2017 ISS was designed in collaboration with the seven other funds within LGPS Central to ensure a consistent approach to investment beliefs and responsible investment beliefs. The ISS must then be kept under review and revised from time to time and at least every three years.

5. The current 2022 ISS was approved by the Committee on 3 March 2022 and a key focus was to continue to enhance and strengthen the Stewardship and Responsible Investment (RI) areas. This was after taking into account the Fund's Environmental, Social and Governance (ESG) Audit, Sustainable Development Goals (SDG) mapping, the Fund's second 2021 Climate Risk report provided by LGPS Central and the first annual ESG review that the Fund conducted on 2 February 2022.

6. The Administering Authority is required to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The Committee has approved the Fund's 2023 Investment Strategy Statement. The Committee has approved the updated LGPS Central Voting Principles.

7. The Fund has a separate Climate Risk Strategy which sets out its approach to addressing the risks and opportunities related to climate change. This also reflects the potential material effect of climate change and the response to climate change on the assets and liabilities of the Fund. The Committee has approved the Climate Risk Strategy. This has been updated to take on board the outcome of the ESG workshop that was conducted informally with Committee members on the 8 February 2023. The Committee has noted the Fund's ESG Workshop Review and the recommended outcomes.

8. The Fund has received its 3rd Climate Risk Report – January 2023 report from LGPSC covering the Fund's listed equity portfolio. The report contains a series of recommendations by LGPSC for the Fund. The Committee has noted the Fund's 3rd Annual Climate Risk Report.

9. LGPSC provided the Fund with an updated draft Task Force on Climate related Financial Disclosures (TCFD report) and the Fund has added areas of additional activity and outcomes that have occurred during the year. The Committee has approved the TCFD report.

Pension Investment Update.

10. 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.

11. As at the end of January 2023, the estimated funding level for the Fund was 97%. The Committee has noted the funding position compared to the investment performance.

12. The Fund took the opportunity to exit the equity protection strategy given the continued downward trend in market valuations at the time in early November 2022 and the £231m funding was then reinvested back into the passive equity market capital funds. Although the Fund has exited the equity protection strategy, it is looking to have this facility available as part of the investment tools in its investment strategy. The Fund will need to reprocur equity protection going forward. The Committee has noted the update on the equity protection current strategy.

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

Business Plan

14. Progress has been made with the recruitment of new staff and now only 6 vacancies are left to be filled. A recruitment process is currently being run to fill the remaining business support roles and two apprenticeships have been offered for these vacancies. The remaining vacancies went out to advert during March 2023, including the newly created Governance Officer role.

15. A workforce plan has been implemented in conjunction with the wider finance team including regular one-to-one meetings and the development of bespoke training plans for all staff. This will help improve service resilience, staff development and future succession planning. The Committee has noted the Worcestershire Pension Fund Business Plan as at February 2023.

Governance Update

16. Following a review of the Fund's Risk Register, progress in developing mitigating action for five risks will henceforth be reported as part of the Governance Update, to enable the Committee to assess whether further mitigating actions are appropriate. These risks are WPF 26 Fraud by staff; WPF 15 Failure of the actuary to deliver the services contracted; WPF 01 Failure of governance arrangements to match up to recommended best practice; WPF 17 Failure of custodian to deliver the services contracted; and WPF 04 Not having an established and meaningful Business Plan / Pension Administration Strategy. The Committee has received details of the mitigation action taken on these risks since the last report.

17. The Committee has noted the Good Governance Position Statement as at February 2023. The Committee has approved the draft Worcestershire Pension Fund Governance Policy Statement 2023.

18. The Committee has approved the draft Worcestershire Pension Fund Policy on Representation 2023. The Committee has noted the Worcestershire Pension Fund Policy on Conflicts of Interest.

19. The Committee has approved the draft Worcestershire Pension Fund Pension Administration Strategy 2023. The Committee has noted the update on reviewing the objectives for and performance of the independent investment adviser.

Worcestershire County Council Pension Fund Administration Budget 2023/24

20. The Fund's forecast outturn is estimated to be £21.638m compared to a budget of £21.015m, which represented an overspend of £0.623m. Excluding the uncontrollable costs of investment management fees, this forecast overspend is within the £0.5m variation limit delegated to the Chief Financial Officer by the Committee and in line with the Administration budget reported to the October Committee where the variations were agreed.

21. The budget now proposed for 2023/24 is £22.964m, an increase of £1.949m (9.3%) from the 2022/23 budget. The largest proportion of the budget (£19.817m) is investment managers' fees that are dependent on the value of assets being managed, and the investment return performance which is dependent on market conditions. Also, to comply with the cost transparency code initiative, this also includes all known transaction and associated costs. The Fund's "controllable" budget (i.e. excluding investment management fees) is £3.147m, which is an increase of £0.161m (5.4%) net increase on the original budget.

22. The Committee has approved the Pension Fund Administration Budget, including manager fees, for 2023/24 totalling £22.964m. The Committee has noted the indicative budget allocations for 2024/25 and 2025/26, and the monitoring of the variations against budget. The Committee has granted delegated authority to the Chief Financial Officer to approve variations of up to £0.5m.

Actuarial Valuation and Final Pension Fund Strategy Statement (FSS)

23. 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. The purpose of the 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.

24. The consultation on the draft FSS was sent to Employers in November 2022. The Fund received no responses to the proposed FSS by the closing date and therefore the FSS provided to the December 2022 Committee meeting together with those changes highlighted within the report to the March 2023 Committee meeting will provide the final published FSS. The Committee has noted the outcome of the Funding Strategy Statement consultation and the proposed final FSS.

25. An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate transition risks and physical risks on the potential funding outcomes. The impact of different scenarios at the whole Fund level versus the baseline (which assumes the funding assumptions are played out) is being considered as part of

the valuation to ensure the funding strategy is sufficiently robust to the risks posed by climate change. The Committee has noted the update to the climate change funding level scenario analysis within the FSS.

26. The Committee has noted the Initial draft of the 2022 valuation rates and adjustment certificate provided by the actuary.

LGPSC Update

27. The Pension Investment Sub Committee has agreed an indicative £30m per annum investment into LGPSC Infrastructure Strategy for the next 2 years subject to due diligence. The Committee received details of the proposed LGSPC 2023/24 strategic business plan. The key focus areas are in line with the previous year.

28. At a recent meeting, LGPSC Shareholders approved the appointment of 2 replacement non-executive directors. 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, location and flexible working. The Committee has noted the LGPS Central update.

Training Update

29. The Training Plan summarises the training work that the administration team plan to progress. Its cornerstone for pensions administration staff is using a buddy system and an internal Skills Matrix to highlight the progress being made in delivering resilience in pensions administration by identifying knowledge and knowledge gaps for staff. The Committee has noted the Worcestershire Pension Fund Training Update including the Training Policy and Programme (Appendix 1) and the Training Plan.

Risk Register

30. The Risk Register is kept under regular review. The February 2023 review has resulted in the re-grouping of existing risks into two risk areas: Investment / Funding and Administration. The review also resulted in the number of risks included in the Register being reduced from 32 to 16. The review added no new risks. The review resulted in no increases or increases to risk scores. The Committee has noted the February 2023 Worcestershire Pension Fund Risk Register.

Forward Plan

31. 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 Democratic Governance and Scrutiny Manager) the following are the background papers relating to the subject matter of this report:

Agenda papers for the meetings of the Pensions Committee held on 8 February 2023 and 22 March 2023:

[Agenda for Pensions Committee on Wednesday, 8th February, 2023, 12.45 pm - Worcestershire County Council \(moderngov.co.uk\)](#)

[Agenda for Pensions Committee on Wednesday, 22nd March, 2023, 10.00 am - Worcestershire County Council \(moderngov.co.uk\)](#)