

COUNCIL

13 JULY 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 meetings on 13 and 14 June 2023 and the Board meeting on 6 June 2023.

Pension Fund Unaudited Annual Accounts 2022/23

2. The draft accounts were published on 31 May 2023 alongside the County Council accounts in line with the statutory deadline. The key points to note on the accounts are as follows (previous year comparatives in brackets):

- The Fund had a revenue surplus of £4.9m before the net return on investments (deficit of £7.4m)
- Employers' contributions into the fund were £97.9m (£90.7m)
- Benefit payments increased by £7.0m (6.1%) to £122.6m (£115.6m)
- Management expenses (which include fees pay to external investment managers) have decreased from £21.5m to £16.1m
- Payments to and on account of leavers increased by £2.7m year on year to £12.7m (£10.0m)
- Investment income of £37.9m (37.2m) increased
- The value of net assets as at 31 March 2023 is £3.609bn from £3.585bn as at 31 March 2022. This represents an increase of £0.024bn

3. As in the previous year's accounts, the Fund has included an estimate to reflect the possible impact of the McCloud judgement (Note 2) on the cost of paying LGPS benefits. The actuary has allowed for the impact of the judgement based upon the proposed remedy. The Committee has approved the unaudited Pension Fund Annual Accounts 2022/23.

4. Grant Thornton, the Fund's external auditor, provided their Pension Fund Audit Plan for the year ending the 31 March 2023 and one of the key risks is the valuation of Level 3 investments. The key reason being that Level 3 assets are financial assets and liabilities considered to be the most illiquid and hardest to value. The Fund's Level 3

investments mainly relate to the property and Infrastructure investments and the Corporate private debt investment with Bridgepoint.

5. The Committee has noted the process on how Level 3 investments are shown at fair value in the final accounts. The Committee has agreed that the Level 3 investments reflected a fair assessment of value at the time the draft accounts were provided to the auditors. The Committee has noted the differences in valuation of Level 3 investments acknowledging that these are below the materiality levels of the Fund.

UK Stewardship Code 2021 Updated 2023 Submission

2. 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.

3. The Fund had been successful in becoming an original signatory to the Code. The Financial Reporting Council (FRC) provided feedback on last year's annual resubmission on a number of areas under each of the twelve principles where the FRC required improvement for future submissions to remain a code signatory. The Fund's submission for Stewardship Code for the period 1 January – 31 December 2022 took on board the improvement areas identified by the FRC in the last submission (reported to Committee on 13 October 2022). Applicants that effectively evidence how they apply the principles and meet the reporting expectations will be listed as signatories to the Code in the Summer of 2023. This reflects considerable work on behalf of the officers but is not an area that is mandatory rather a sign of good governance that the Committee considered added real value.

4. The Committee has noted the Fund's application submitted on 21 May 2023.

Pension Investment Update.

5. 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.

6. As at the end of March 2023, the estimated funding level for the Fund was estimated at approx. 96%. The Committee has noted the funding position.

7. The Fund took the opportunity to exit its equity protection strategy given the continued downward trend in market valuations at the time. This was fully exited from Schroders in early November 2022 and £231m was then reinvested back into the passive equity market cap funds on the 10 November 2022. Although the Fund has exited equity protection, it is looking to have this facility as part of the investment tools in its investment strategy. The Fund will need to reprocure equity protection going forward. The Committee has noted the update on the equity protection current strategy.

8. The Committee has noted the update on Responsible Investment activities, Local Authorities Pension Fund Forum (LAPFF), strategic asset allocation and Stewardship.

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.

LGPS Central (LGPSC) Update

9. The Pension Investment Sub Committee agreed an indicative £30m per annum for the next 2 years investment into LGPSC infrastructure funds subject to due diligence. The 3-year review being conducted by LGPSC of its Emerging Market Fund is still in progress. Due to the poor performance of this fund since inception (-0.6% which is 2.40% below its target as at the end of March 2023), LGSPC are in the process of replacing Columbia Threadneedle Investments with another manager.

10. At their EGM meeting on 10 May, LGPSC announced to partner funds that the Chief Executive Officer (CEO) Mike Weston had left the company with immediate effect. Due to legal constraints, a specific reason was not given but this was not due to financial impropriety. At the same meeting, the non-executive directors urged partner funds to consider a 2-year extension for the existing chairperson.

11. Notwithstanding the unexpected recruitment of a new CEO and the potential search for a new chairperson, LGPSC are seeking to add an additional headcount to the Client Services Team. The Fund has noted the LGPSC update.

Business Plan

12. The average target turnaround for April 2023 and the LGPS year 2022 / 2023 for all twelve pensions administration KPIs has been met. A scoping exercise of internal systems controls and existing workflows is being undertaken alongside the Council's Internal Audit team. A plan will be formulated and brought to future meetings with an update on progress including an updated Project schedule.

13. In respect of the systems procurement exercise, work is underway with the procurement team. The relevant documents have been completed and submitted to the Council's Commercial Board.

14. The process of completing documentation to sign up for the LGPS National Framework has begun to enable the procurement of actuarial services, in conjunction with the Council's procurement team.

15. The Fund has successfully recruited to the post of Governance Lead, Systems and Projects Lead, Project Officer (that was an internal appointment) and to one of the vacant Pension Business Support positions as an apprenticeship through the Council. The remaining four vacancies are being held intentionally to support ongoing training needs within the team. The Committee has noted the Worcestershire Pension Fund Business Plan as at May 2023.

Training Update

16. Progress in mitigating risks has included officers participating in various scheme / industry groups / fora to keep up to date on pensions issues. These have included

attending a Pensions and Lifetime Savings Association (PLSA) webinar on Pensions Dashboards on 20 April. Officers have also been continuing to review specialist publications. The Committee has noted the Worcestershire Pension Fund Training Update. The Committee were informed that Amanda Lewis would be retiring from her position of Membership Manager in October 2023 after over 30 years' service. The Committee thanked Amanda for her many years of service to the Fund.

Risk Register

17. The Risk Register is kept under regular review . The May 2023 review added no new risks and resulted in no increases or increases to risk scores. The Committee has noted the May 2023 Worcestershire Pension Fund Risk Register.

Governance Update

18. Progress in mitigating risks has included: a) Updating the progress made in preparation for Scheme Advisory Board's (SAB's) Good Governance proposals being taken forward by the Department for Levelling Up, Housing and Communities (DLUHC); and benchmarking the Fund's Governance Compliance Statement. The Committee has noted the Worcestershire Pension Fund Governance Update.

Forward Plan

19. 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 meeting of the Pensions Committee held on 28 June 2023:
[Agenda for Pensions Committee on Wednesday, 28th June, 2023, 10.00 am - Worcestershire County Council \(moderngov.co.uk\)](#)