Warwickshire Local Pension Board

Tuesday 30 January 2024

Minutes

Attendance

Committee Members
Keith Bray (Chair)
Jeff Carruthers
Keith Francis
Sean McGovern
Councillor Ian Shenton
Beverley Farmery

Officers
Liz Firmstone, Head of Finance Transformation and Transactions
Victoria Moffett, Pensions and Investments Manager
Sarah Cowen, Senior Solicitor
Martin Griffiths, Technical Specialist Pensions Fund Policy and Governance
Paul Higginbotham, Investment Analyst
Lisa Eglesfield, Pension Administration Service Manager
Andy Carswell, Democratic Services Officer
Rob Powell, Executive Director for Resources

1. Introductions and General Business

The Chair welcomed the Board's newest member, Beverley Farmery, to the meeting and Lisa Eglesfield, who was attending her first meeting since taking on the role of Pension Administration Service Manager. The Chair said this would be Victoria Moffett's (Lead Commissioner, Pensions and Investments) final Board meeting before she left Warwickshire County Council for a new job elsewhere. He said members would be sorry to see her go, and thanked her for all her help supporting the Board.

(1) Apologies

Apologies were received from Mike Snow.

(2) Board Members' Disclosures of Interests

The Chair stated that he worked for the Local Authority Pension Fund Forum and also for a firm of American lawyers which had Pension Fund clients, although these did not include Warwickshire.

(3) Minutes of the Previous Meeting

The minutes of the meeting held on 24 October 2023 were approved as an accurate record, save for a small amendment to change the acronym TFCD to TCFD.

Arising from the minutes, it was clarified that the government would like for pension funds to have choice but not competition against each other. Victoria Moffett said it would be for the administrating authorities to decide whether to invest in a pool product, and for the pools to potentially select other pooled products. Regarding the retrospective checks to rectification cases, Lisa Eglesfield said this was still being worked on and there had been a delay as part of the required software was not quite ready. However it was anticipated this would be completed ahead of the March deadline. Responding to a question from Beverley Farmery, Lisa Eglesfield confirmed pension holders were able to request paper copies of statements. It was confirmed the acronym BAU on page 3 of the minutes meant a business as usual task.

The Chair asked for clarification on whether the government's desire for local investments referenced in the report meant those specific to Warwickshire or the UK generally. He stated his belief the Funds were for paying pensions and should not be used for political priorities. Rob Powell (Executive Director, Resources) said it referred to UK investment, and advised members that Border to Coast had set up a UK Opportunities Fund, which would be a vehicle to support UK investment and, through this, the levelling up agenda. Warwickshire County Council's Pension Fund Investment Sub Committee had not yet decided whether to invest in this; if it did then there was the possibility for investments in Warwickshire to be proposed. However a decision on whether to endorse a proposed investment based in Warwickshire would then be made independently by Border to Coast as part of a strategic investment approach.

Responding to a question from the Chair, Paul Higginbotham (Investment Analyst) said there were some equity funds included within the Border to Coast portfolio whose benchmarks and targets were being met. The Chair said it would be useful if future reports could highlight if there were cases where the benchmark was being met but not the higher target.

Regarding the reference to a section 114 notice, Rob Powell said the Council's budget papers were due to be published the following day. These would enable the Council to set a balanced budget for the 2024/25 financial year and a five-year medium term financial strategy, and a section 114 was not something that Warwickshire County Council needed to be concerned with at this time. He added this was a topic that had been raised due to well-publicised financial issues and the issuing of section 114 notices at other local authorities, in part reflecting sector-wide national challenges.

2. Governance, Regulatory and Policy Update Report

The report was introduced by Martin Griffiths (Technical Specialist, Pensions Fund Policy and Governance). The first item presented was the Forward Plan, which detailed the areas of governance work to be covered over the next 12 months. Although nothing specific needed to be brought to the attention of the Board, they were reminded of the training session that had been organised for the following day (31 January). This covered 'Club Vita', the tool that Hymans Robertson use to monitor member longevity. Members were thanked for completing the

Knowledge and Skills Assessment and informed that a report would be made available shortly when the results were published.

Members' attention was drawn to the red-rated risks on the risk register, relating to climate change, long term market risk and cyber security. The risk item of governance failure had also become a red risk since the time of writing the report. This related mainly to the introduction of the Pension Regulators' General Code of Practice and the expected Scheme Advisory Board Good Governance Review. The Board were assured that the Fund would meet the basic requirements of the General Code as it was already meeting the required components of the original Code of Practice 14.

Responding to a question from Jeff Carruthers about what action the Regulator would take if Funds didn't comply with the General Code, Martin Griffiths said action could be taken against non-compliant Funds using spot checks. However if evidence could be provided that a Fund was working on becoming compliant, legal action would not be taken. A cross unit working group had been set up to look at cyber security, and AON had been asked to review the Cyber Security Policy. Training would be offered to officers, the Committees and Board in due course. Martin Griffiths said the issue of cyber security would ultimately become a business-as-usual item, but practice relating to it had been heightened as a result of the General Code of Practice and had been added as a specific item for the first time. The new Cyber Security Policy would be presented at the Staff and Pensions Committee meeting in March 2024. The Fund would also be updating its Business Continuity Plan shortly and this would include some cyber security scenario testing.

Members were told the new Department of Levelling Up, Housing and Communities had published statistics relating to the LGPS and published its response to the consultation on investment reforms. Responding to a question from Jeff Carruthers about some of the statistics published by the Department of Levelling up, Housing and Communities, Martin Griffiths said the Warwickshire Pension Fund did not need to have any great concerns regarding the market value decrease in the LGPS Fund, as the figures quoted related to every Fund in the country and not specifically Warwickshire. He also confirmed that the new Code of Practice would address pension scams. Consideration would be given to providing additional communications to pension holders warning of possible scams.

The Chair stated his annual report would be going to the July meeting, not the April one as recorded on the Forward Plan. The Forward Plan would be amended to reflect this.

Members noted the contents of the report.

3. Pensions Administration Activity and Performance update.

The item was introduced by Lisa Eglesfield. Sign-up to the member self-service portal was continuing to increase and were comparable with other local government pension schemes. Communications encouraging pension holders to sign up to the portal were continuing to be sent out.

Key performance indicators were continuing to improve. External factors outside of the team's control had had an impact on the ability to meet some of the measures; for example, the KPI relating to the SCAPE discount rate had been affected due to a delayed update from the government's actuarial department impacting on calculations. The notice of termination form for retiring members had been redesigned as it was believed the drop in performance was related to employers being delayed by having to request additional information. Lisa Eglesfield said the Local Government Association had advised to block certain transfers for pension holders being in scope for the McCloud remedy, which was also affecting the team's KPIs.

No concerns had been raised over the performance of the payroll team in the latest quarterly review. The introduction of the iConnect system and member self-service portal had massively reduced the number of required data entry tasks, freeing up staff for other projects. The telephony system was being updated to make it easier to obtain data on the number and length of calls received, and which topic they related to.

Members were told no further action would be taken against a Multi Academy Trust that had been in red breach due to a persistent failure to provide data to the Fund in a timely manner. The Trust had been reported to the Pensions Regulator, which had made the ruling that no action would be taken as the missing data had now been supplied and the Trust's payroll provider was working more effectively with the Fund.

Lisa Eglesfield said there had been a second IDRP reported since the time the report was written. Both were at the initial investigation stage.

The implementation date of the pensions dashboard programme had been moved from October 2026 to October 2025. Lisa Eglesfield said this was the date the data needed to be provided by, not when the system would go live. She said she was confident this would be done by the revised date. Procurement for an integrated service provider to supply this had begun. A tracing exercise to establish missing addresses and other details would also take place. Jeff Carruthers said there had been issues with the software provider dealing with the pensions dashboard within the police service, and said he was reassured this not the case within the Warwickshire Pension Fund.

McCloud cases were now being processed following the implementation of the new legislation on 1 October 2023. Lisa Eglesfield said although there was a large number of people that were in scope for the project, the number that would actually see a change in benefits was very low.

Responding to a question from Jeff Carruthers, Lisa Eglesfield said quarterly meetings were planned with employers relating to new payroll providers, to share any issues that had been raised and any examples of good practice.

Responding to a question from Councillor Ian Shenton, Lisa Eglesfield said two posts referred to in the report were being filled on a temporary basis due to maternity leave. It was anticipated the two staff members would return upon completion of their leave. She said the team was fully resourced.

Responding to a question from Keith Francis, Lisa Eglesfield said people attempting to visit the pensions dashboard would be redirected to use the member self-service portal. In future the two services were likely to be strongly interlinked. New members signing up to the portal had plateaued and communications were still being sent out to drive up interest.

Keith Francis suggested a group of staff should be set up that looked at the implementation of new payroll systems, so any issues could be anticipated and tackled proactively. He said employers were likely to only get in touch with the Fund when there was a problem. Lisa Eglesfield said that the fund will liaise with employers on issues around changing payroll during the quarterly employer meetings and support would be offered for employers going through a payroll change.

Members noted the contents of the report.

4. Pension Fund Business Plan Update Report

The item was introduced by Victoria Moffett, who said that of the 37 activities outlined for the Fund for 2023/24 financial year, 30 had either been completed or were on track to be completed. Of the remaining seven, two had been highlighted in the report as providing areas of concern. These had amber ratings rather than red. One of these was the production of the accounts. Since the time of writing this had now been completed and gone through Full Council. There had been issues with staff turnover within the Fund and the external auditors' capacity and processing some of the information, which had left the accounts' production behind schedule. This was a situation that had been replicated elsewhere however. Victoria Moffett also highlighted compliance with the 2020 UK Stewardship Code and Task Force on climate related financial disclosure requirements, which was not a regulatory requirement. The required metrics were being monitored and it was felt the Fund would eventually be in a good position to get external certification. Consideration was being given to having this as a single entity with other members of the Border to Coast Partnership.

Of the other activities that had been graded amber, one related to the implementation of a system with criteria to trigger enhanced scrutiny of fund performance, with a view to potentially reallocate funds elsewhere. Discussions were taking place on when interventions ought to take place, as some Funds may hit their benchmark but not targets, and others may underperform for a few months ahead of a future strong performance. Maintenance of business continuity planning had also been given an amber rating. Victoria Moffett said it was likely most of the amber rated items would move to a green or blue rating indicating completion. The segments relating to the UK stewardship code and TCFD were likely to remain at amber at the end of the financial year, but would not count as red as they were not regulatory requirements. However it was expected TCFD would become a requirement for LGPS schemes in the near future, as it was a regulatory requirement for some private sector pension funds.

Responding to a question from Keith Francis regarding the delay to having the accounts signed off, Victoria Moffett said this had been due to a number of factors, including workload issues within the Fund and the external auditor. Better project plans were in place this time to avoid a potential repeat.

Beverley Farmery noted the direct debit scheme had been tested with four employers, and asked if this would be rolled out further and if employers would have a choice over membership. Liz Firmstone (Head of Finance Transformation and Transactions) said testing was still taking place to identify any issues. Take up of direct debits would be the employer's choice, but was likely to be a topic at the quarterly review meetings that had been referred to earlier in the discussions.

Responding to a question from Jeff Carruthers, Victoria Moffett said the same external auditors were used for the Warwickshire Pension Fund and the County Council. Other auditors had faced resourcing issues and there had been delays to approving accounts elsewhere.

Members noted the contents of the report.

5. Investment Update Report

The item was introduced by Paul Higginbotham, who reminded members the report summarised the performance of the portfolio to the end of September. There was a return of 1.23 per cent against a target of one per cent. Overall performance had remained consistent despite market volatility.

Greater allocation of private market assets, such as growth assets, private equity and private credit, was taking place. Many of these sat with Border to Coast and Legal and General, who would vote on issues on behalf of the Pension Fund. These related mainly to issues associated with responsible investing. There had been 65 capital movements in the quarter covered in the report, with a significant proportion of these taking place in September. A total of £591million had been committed and there was a further £430million available. Allocation of this would be discussed at the March Pension Fund Investment Sub Committee. Cash balances were just under £40million, which was considered to be a healthy position.

Paul Higginbotham said there had been a review of the long-term strategic asset allocation. This had recommended more money was moved into protection assets, such as corporate bonds or index linked corporate bonds. This had subsequently been approved and the first had moved around £158million from equities into protection assets bonds. Potential moving of investments from equities to protection was being analysed by Hymans Robertson to see when the best opportunity to do this would be. Paul Higginbotham said the Fund would be able to act quickly on this when the analysis had been completed. A first tranche of investments into low carbon transition funds, worth £61.5million, had been made and another was due to go through on schedule within the next two weeks.

Paul Higginbotham said some recommendations relating to investment pooling had been announced by the government in November. It was expected all assets would be pooled by March 2025, which was likely to mean lower costs and make it easier to manage, but further clarification was needed on what overall effect pooling would have on the individual Fund. The Fund was talking to Border to Coast about a UK Opportunities Fund, and how this could be progressed, and levels of any allocation, would be discussed at the next Pension Fund Investment Sub Committee. Within that Fund it had been suggested the Border to Coast Fund would allocate 40 per cent of investments into real estate, 40 per cent into infrastructure renewables, and the rest into a mix of private credit and equity. Paul Higginbotham said Border to Coast had voted against the appointment of the proposed Chair at the National Grid AGM due to investments that did not positively impact on climate change, although the appointment was ultimately approved.

The CMA compliance statement had been signed and submitted.

Responding to a point raised by Jeff Carruthers, Paul Higginbotham said there was careful monitoring of the performance of pooled funds, particularly if there were concerns about performance. Responding to a question from Beverley Farmery, Victoria Moffett said the Fund had responded to the government consultation, both individually and as part of Border to Coast's pooled response.

Keith Francis said it would be helpful to know if the Warwickshire Pension Fund was either fully, under or over funded, instead of just relying on figures. Victoria Moffett said quarterly funding level updates were available from the Fund's advisors and these went to the Investment Sub Committee.

Councillor Ian Shenton said he had reservations over the government guidance, stating his belief that it could be construed as the government seeking to influence where Funds should be investing. The Chair said he shared those concerns.

Members noted the contents of the report.

6. Minutes from the December Pension Fund Committees

Members noted the contents of the minutes from the two meetings. The Chair stated his belief that in certain circumstances it may be useful for Board members to have sight of the exempt minutes.

7. Any Other Business

Members noted the minutes of the previous meeting had referred to a forthcoming item on climate change, and asked for an update on this. Victoria Moffett said this was considered by the Pension Fund Investment Sub Committee each quarter, and information on climate change had been included throughout the papers presented to this meeting. The Chair asked if consideration could be given to having an item providing a deeper dive into issues around climate change at a future meeting.

The meeting rose at 1.00pm

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