

Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection

Report to:	Lincolnshire Pension Board
Date:	18 October 2017
Subject:	Pension Fund Update Report

Summary:

This report updates the Board on Pension Fund matters and any current issues.

Recommendation(s):

That the Board note the report.

Background

1 Responsible Investment

1.1 To assist the Fund in meeting its requirements as a responsible investor, it participates in the Local Authority Pension Fund Forum (LAPFF) that has a work plan addressing the following matters:

- **Corporate Governance** – to develop and monitor, in consultation with Fund Managers, effective company reporting and engagement on governance issues.
- **Overseas employment standards and workforce management** - to develop an engagement programme in respect of large companies with operations and supply chains in China.
- **Climate Change** - to review the latest developments in Climate Change policy and engage with companies concerning the likely impacts of climate change.
- **Mergers and Acquisitions** - develop guidance on strategic and other issues to be considered by pension fund trustees when assessing M&A situations.
- **Consultations** – to respond to any relevant consultations.

1.2 The latest LAPFF engagement report can be found on their website at www.lapfforum.org. Some of the highlights during the quarter included:

- On executive pay, voting alerts were issued to LAPFF members on binding pay policies at Carillion, Smith & Nephew, GlaxoSmithKline, BP, Shell, Babcock and WPP.
- LAPFF issued a number of voting alerts recommending members back shareholder resolutions on climate change disclosure at US energy firms PPL, Chevron and Exxon Mobil. The resolutions are in line with LAPFF's policy position to press companies to use scenarios to provide forward-looking analysis, and that companies should be positioning themselves for a low carbon future by disclosing strategic business transition plans.
- The Forum announced that it is partnering with the 50/50 Climate Project. The new partnership will enhance the Forum's actions to promote climate competent boards and enhance collective investor action advocating better climate strategies and decision making at board level.
- As part of the ongoing concern that the Financial Reporting Council (FRC) has been setting accounting standards that are not aligned with the law, in particular the requirement to reflect the solvency of a company, LAPFF submitted a response to the consultation on the Green Paper on Corporate Governance. That response makes the recommendation that the problems with the FRC run so deep that the FRC is disbanded and that a proper competent authority is set up to replace it.
- LAPFF executive member, Ian Greenwood met with BT Chairman, Sir Michael Rake, for the second time in a year to discuss a range of issues, including Sir Michael's views on Brexit and the British economy, BT's recent accounting scandal and cybersecurity.
- Ian Greenwood met with the Chairmen of Aberdeen Asset Management, Simon Troughton, and Standard Life, Sir Gerry Grimstone, on the same day to discuss the imminent merger of the two companies. The meetings both focused on the extent to which each company had considered the human capital and cultural integration of the two Scottish firms.

1.3 Members of the Board should contact the author of this report if they would like further information on the Forum's activities.

1.4 In addition to being members of LAPFF, the Fund votes on all its segregated holdings with external asset managers. A summary of votes cast is provided to the Pensions Committee in each quarterly Fund Update Report.

- 1.5 The Fund has a published Stewardship Code Statement, which shows how it complies with the Financial Reporting Council's (FRS's) code. It has been classified as a Tier 1 response – in that it meets the requirements of the Code. This was brought to the Board in July as part of the annual policies review paper.

2 TPR Checklist Dashboard

- 2.1 The Pension Regulator's (TPR's) checklist for how Lincolnshire meets the code of practice 14 for public service pension schemes is attached at Appendix A.

- 2.2 The Areas that are not fully completed and compliant are listed below.

B12 – Knowledge and Understanding - Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?

Amber – It is the intention that all PB and PC members carry this out, and provide copies of the completion certificate to the Pension Fund Manager, however completion certificates have not been received for all members.

F1 – Maintaining Accurate Member Data - Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?

Amber - Scheme member records are maintained by WYPF. Therefore much of the information here and in later questions relates to the records they hold on LCC's behalf. However, as the scheme manager, LCC is required to be satisfied the regulations are being adhered to. Data accuracy is checked as part of the valuation process and the annual benefits statement process. Monthly data submission will improve data accuracy going forwards, however there are a number of historical data issues that are in the process of being identified and rectified.

F5 - Maintaining Accurate Member Data - Are records kept of decisions made by the Pension Board, outside of meetings as required by the Record Keeping Regulations?

Grey – not relevant as we do not expect there to be decisions outside of the PB. This will be monitored.

H5 - Maintaining Contributions - Has an annual benefit statement been provided to all members with AVCs within the required timescales?

Grey – provided directly by Prudential, with no Pension Fund involvement.

H6 – Maintaining Contributions - Do these meet the legal requirements in relation to format?

Grey – provided directly by Prudential, with no Pension Fund involvement.

H7 - Maintaining Contributions - Is basic scheme information provided to all new and prospective members within the required timescales?

Amber - New starter information is issued by WYPF, when they have been notified by employers. This is done by issuing a notification of joining with a nomination form, transfer form and a link to the website. However, because the SLA relates to when notified, it does not necessarily mean the legal timescale has been met which is within 2 months of joining the scheme. The monthly data returns are improving this process.

K7 – Scheme Advisory Board Guidance - Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.

Remaining Amber - Annual Training Plan of Committee shared with PB and all PB members invited to attend. Self-assessments were carried out in March, however no personal training plans have been put in place, as the assessments have been used to identify training areas required across the Board.

2.3 The areas changed since the last Pensions Committee meeting are:

H1 – Maintaining Contributions - Has an annual benefit statement been provided to all active members within the required timescales?

From Amber to Green on compliance – 97.9% of Statements as at the deadline of 31st August 2017 were issued. This is considered as meeting the requirements of the Regulator. The remaining 2.1% will be sent out in due course.

H3 - Maintaining Contributions - Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?

From Amber to Green on compliance – 99.96% of deferred benefit statements were produced. When taking into account the actives too, this covers 99% of active and deferred members. This is considered as meeting the requirements of the Regulator.

3 Risk Register Update

3.1 The risk register is a live document and updated as required. Any changes are reported quarterly to the Committee and Board, and the register is taken annually to Committee to be approved.

3.2 Two additional risks have been added over the quarter. Risk 27, concerning the Fund acting as a responsible investor and risk 28, concerning opting up to professional investor status, under the MIFIDII requirements.

Risk 27	Consequences	Controls	Risk Score	
			L	I
Failure to meet requirements as a responsible investor - across all ESG risks	Reputational risk, loss of Fund value	Stewardship code compliance Managers reporting requirements LAPFF membership Voting	1	2

Risk 28	Consequences	Controls	Risk Score	
			L	I
Failure to be opted up to professional investor status following the implementation of MIFIDII	Fire sale of assets, inability to implement investment strategy	Use of LGA/SAB templates and letters, trained Committee, professional officers, use of investment advisors and consultants	2	4

3.3 There are now three red risks. Risk 28 is shown above. Risk 24, which was added in June '16 as a result of the Brexit vote, and given the continuing uncertainty as to how this will play out, it is felt that the red status is still appropriate. Risk 22, which has been increased to red from blue, following discussion at the Pension Board meeting in July '17. The deputy post is still vacant, however a recruitment exercise has been undertaken. The outcome of this will be known in early October.

Risk 24	Consequences	Controls	Risk Score	
			L	I
UK leaving the EU	Volatility of market Lower gilt yields leading to higher liabilities Inflation increasing liabilities Uncertainty of political direction re pooling	Increased monitoring of managers Review investment strategy Regular communications with Committee and Board	4	3

Risk 22	Consequences	Controls	Risk Score	
			L	I
LCC team - workloads and resources - additional work of asset pooling along with team losses, means resources will be very stretched for the coming months	Statutory requirements not met Reputational risk Increase in key man risk	Monthly meetings with County Finance Officer Concerns reported to Pensions Committee and Pension Board Ability to recruit	3	3

3.4 The full risk register is available from officers should any member of the Committee wish to see it.

4 Breaches Reporting

- 4.1 The Breaches Reporting Policy was brought before this Board at the July meeting, for annual review. The Fund, and those charged with its governance, has a requirement to log and, where necessary, report breaches to the Pensions Regular. The Breaches Register attached at appendix B shows those breaches logged since recording began. Since the last Pension Board meeting, two breaches have been logged. These are detailed below:
- 4.2 **Late payment of contributions** – a summary of all late payers since April has been logged on the report, with an additional analysis included at appendix C, including last financial year's figures for comparison. As can be seen from this analysis, the number of employers with late contributions (or late data returns) average at 16 per month, reflecting 6.7% of the employers. None of these individually have been material and therefore not reported to the Pensions Regulator. Contribution monitoring is managed within the LCC team and each employer is contacted in any instance of late payment, and it is recorded within the monitoring system. Employers can be fined if they are late in any three months out of a rolling six month period, in line with the WYPF charging policy adopted by Lincolnshire Pension Fund. Since April, 17 invoices have been raised to employers. Employers are regularly reminded of the requirement to pay contributions in line with the statutory deadlines.
- 4.3 **Late receipt of member information** – WYPF have been working closely with Lincolnshire County Council's payroll provider, Serco, regarding their outstanding data submissions, particularly in respect of leavers. In September, the Pension Fund Manager wrote to LCC to ask for an improvement plan and timescales in which to clear the backlog of this information. Should this not be received, or be properly monitored by LCC, consideration will be given to referring them to the Pensions Regulator.

5 Asset Pooling Update

- 5.1 A detailed update was presented to the Board at the training session on 21st September, and circulated to all Board members, therefore there is no additional update to be provided on progress of BCPP.
- 5.2 On 22nd August, a letter was sent to all LGPS Pensions Committee and pool Chairmen, signed by Marcus Jones MP, Caroline Nokes MP and the Chief Secretary to the Treasury (Elizabeth Truss). It is attached at Appendix D for your information.
- 5.3 The theme of the letter was a reminder that all funds must fully participate in a pool, and that pools must have an authorised FCA operator. Where ministers were not satisfied that funds had a clear path and timetable for delivery, DCLG would consult on further action, including using the intervention powers that were included in the 2016 Investment Regulations.

- 5.4 Ministers have requested that pools complete a progress report as at 30th September (similar to the one provided in April this year) and it must be sent to them in October. The BCPP project team will draft a response, and it will be taken to the Joint Committee meeting on 20th October.
- 5.5 The Lincolnshire Fund is fully committed to pooling, and is working with BCPP to ensure that it is able to transition its assets at the most appropriate time.

6 Board Training

- 6.1 Three Board members attended all or part of the two day training session that had been organised for the members of Pensions Committee and Pension Boards that are part of the Border to Coast Pensions Partnership. The training covered all major activities involved in running a Pensions Fund, focusing on the responsibilities of those charged with Governance of a Fund. Feedback was very positive, and a similar event is expected to be held annually.
- 6.2 Three Board members attended the combined Pensions Committee and Board training held on 21st September in County Offices. The training covered an update on Lincolnshire's asset pooling progress and a presentation by the Pensions Regulator.
- 6.2 The Pension Fund Manager will keep the Board up-to-date with any training opportunities. If any Board members are approached directly with training opportunities, please contact the Pension Fund Manager before accepting them.

Conclusion

- 7 The Fund Update report will be a quarterly report to the Pension Board, to update the Board on Pension Fund matters and any current issues

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Appendices

These are listed below and attached at the back of the report	
Appendix A	TPR Checklist Dashboard
Appendix B	Breaches Register
Appendix C	Late Contributions Analysis
Appendix D	Joint Government Letter on Asset Pooling Letter

Background Papers

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk .