

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

Report to:	Lincolnshire Pension Board
Date:	15th January 2018
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:

- LAPFF's engagement with Sports Direct International continued through correspondence over voting recommendations for the 2017 AGM. Sports Direct has been embroiled for some time in a controversy over poor corporate governance and workplace practices at its Shirebrook warehouse. At the AGM, employment practices remained a focus, and LAPFF called for an independent review of current employment practices.
- A LAPFF representative attended Ashtead Group's AGM to discuss the company's remuneration in light of the new Department for Business, Energy and Industrial Strategy's green paper. The Forum was pleased that the company listened to shareholders following the 2016 AGM by changing the leverage incentive in the Performance Share Plan (PSP) pay scheme. The Forum further inquired whether the company welcomed the Government's Green Paper proposals, specifically in regards to executive pay and whether the company thinks that comparisons of CEO pay to median worker pay is a useful disclosure item for the company's stakeholders.
- Cllr Toby Simon of LAPFF met with Lonmin Plc to obtain an explanation of how the company will meet its commitments to its Social Labour Plan (SLP), to understand the company's position on carbon price and to confirm the company's ability to sustain long-term performance. The Forum was pleased with Lonmin's openness to dialogue and asked about the poor conditions of the platinum market, the company's ability to increase its net cash under these conditions, and the effectiveness of the recent rights issues.
- The Forum met with Richard Burrows, the Chair of British American Tobacco to understand the role public health plays in influencing the company's business strategy and business model. The meeting followed a previous meeting in 2013 on similar concerns and followed up with discussions about the necessary steps taken to address public health issues and comply with anti-smoking regulations, including the introduction of new next generation products.
- LAPFF has written to the Chairmen of HSBC Holdings, Standard Chartered, WPP, Aviva and International Consolidated Airlines Group SA, seeking meetings to better understand each company's respective approaches to cybersecurity and how this issue is managed at the board level.
- LAPFF attended the National Grid AGM, and asked the Chair, Sir Peter Gershon, how the final recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD) would affect the company's reporting on climate change and in particular on scenario planning. Notably the Finance Director responded, who is aiming to see if other

finance directors can commit to the TCFD and noted that there will be a statement around the release of next year's annual report.

- 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.

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. There have been no changes since the last update report.

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 WYPPF. 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.

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 risks have changed status over the quarter. Risk 28, concerning opting up to professional investor status, under the MIFIDII requirements has moved from red to green, as all managers have now accepted the opt-up requests. Risk 22, concerning resourcing issues within the LCC team, has also moved from red to blue. The Accounting, Investment and Governance Manager has now been appointed, however it has not yet gone to green due to the 6 month phased transition into the team, which will still mean additional workloads for the Pension Fund Manager.

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	1	2

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	2	3

- 3.3 One new risk has been added over the quarter, risk 29 – concerning the implementation of the Global Data Protection Regulations (GDPR) from May 2018. This impacts how data is held and shared, and requires additional policies and procedures being put in place by WYPF as the Fund's administrator. This is not as onerous as first thought. Legal advice obtained by LGA confirms that the statutory requirements of managing the pension fund remove some of the most time-consuming and difficult requirements – such as explicit consent to hold data.

Risk 29	Consequences	Controls	Risk Score	
			L	I
Failure to meet the timescales to implement the requirements under GDPR	Reputational risk, referrals to ICO	WYPF project plan, monitoring, use of LGA guidance	1	3

- 3.4 There is now one red risk, 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 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

3.4 The full risk register is available from officers should any member of the Board 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 added. 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 21 per month, reflecting 8.5% 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, 19 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. A meeting was held in November with LCC, Serco and WYPF to discuss the issue, and a further meeting was held in December. An improvement plan was agreed and LCC and Serco are presenting to this meeting of the Board to explain their position.

5 Asset Pooling Update

5.1 The Joint Committee of BCPP met on 20th October and the papers and minutes have been shared with the Committee. Papers included:

- Briefing from the Chairman and Chief Executive Officer
- Update on Executive and Non-Executive appointments
- Update on general staff terms and conditions
- Discussion on BCPP Board structure
- Update on FCA submissions
- Updates on project workstreams

- 5.2 At the time of the meeting, it was expected that the Chief Investment Officer (CIO) and Chief Risk Officer (CRO) would be appointed in November. However, at the time of writing, these posts have not been filled. Recruitment for the posts of Head of Client Services, Head of Finance and Reporting, Head of Compliance and Head of Legal and Company Secretary has been started.
- 5.3 The CEO, Rachel Elwell has been visiting all partner funds to meet their Committees and share her vision of the development and future operation of BCPP and presented to the Lincolnshire Pensions Committee on 14th December. In addition, she has been meeting with officers to discuss their asset allocations and how the sub funds being developed will meet the funds' investment strategy requirements.
- 5.4 Progress across the workstreams continues at some pace, and the project is still on track for the June 2018 implementation date. Key milestones that have been met include the appointment of the service provider for the operation of BCPP, the third party administrator, and the site for the office accommodation in Leeds.
- 5.5 The next meeting of the Joint Committee is on Monday 16th January in Northallerton. The proposed budget and cost sharing principles will be taken to this meeting. Papers will be shared once received. Having seen the papers, should any member of the Board have any questions that they would like raising at the meeting, please let the Lincolnshire representative, Councillor Strengiel, know.

6 The Pensions Regulator Annual Governance Survey

- 6.1 The Pensions Regulator (TPR) issued their annual governance survey on 8th November 2017, with a completion deadline of 1st December 2017. Last year 90% of all public service schemes completed the survey, and this helped TPR build a comprehensive picture of governance and administration standards. This year's survey is designed to provide an update on how schemes are progressing as well as capturing data on some new areas of interest. TPR is hoping that all public service schemes will participate in the 2017 research.
- 6.2 To ensure that the response was representative of the Board, a copy of the survey was sent to the Independent Chair to complete, before being completed online by the Pension Fund Manager. A copy of the survey, with the Chair's response and any amendments by the Pension Fund Manager, is included at appendix D. The survey was submitted to TPR on 28th November, ahead of the deadline date.

Conclusion

- 7 The Fund Update report is 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	The Pensions Regulator Annual Survey

Background Papers

There are no background papers.

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