

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

Report to:	Lincolnshire Pension Board
Date:	26 March 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.lapffforum.org. Some of the highlights during the quarter included:

- The Forum issued a voting alert in support of JD Wetherspoon's remuneration policy. During 2017, LAPFF identified companies with highest and lowest oppose votes on their remuneration reports in 2016 that held policy votes in 2017. JD Wetherspoon has had very strong support for both its remuneration report in 2016 (88%) and its remuneration policy in 2014 (99.7%).
- A successful meeting took place between Executive Rewards Director at Diageo and LAPFF Executive member, Cllr Paul Doughty. The Forum met with Diageo to gain further understanding of the Company's pay policy, in particular the stakeholder consultation process and how pay rates are determined. Cllr Doughty also asked about the Company's gender pay disclosure. The Company was welcoming and open to future meetings with LAPFF.
- LAPFF attended the Hargreaves Lansdown AGM, and asked the Board about remuneration for the CEO, specifically awards given when he joined the Company. Faith Ward, who attended the AGM on behalf of LAPFF, also asked about the Company's plans to implement the findings of the Taskforce for Climate-Related Financial Disclosure (TCFD). The Company was receptive to LAPFF's views and is open to a follow up meeting on the TCFD.
- Reflecting growing member concerns on cybersecurity and data content, LAPFF has had a number of meetings with companies to probe their governance and risk management procedures on this issue. Companies met included WPP, Sainsbury, Prudential and IAG.
- LAPFF issued its Climate Change Investment Policy Framework in November, to help member funds in their policy approach to current and future investment risks and opportunities that result from the impacts of climate change. The framework provides guidance in terms of Governance, Investment Strategy, Risk Management and Metrics and Goals. A companion document provides practical guidance for considering climate risk in investment strategy for funds.
- LAPFF has engaged with a number of companies to promote greater board gender diversity including on a collaborative basis. Together with other members of the 30% Club Investor Group, LAPFF met with companies in the real estate sector to determine companies' initiatives to increase female representation. The Group is considering whether to publish a note about the engagements with the sector.

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 To assist in the governance of the Lincolnshire Fund, it assesses itself against the requirements of the Pension Regulator's (TPR's) code of practice 14 for public service pension schemes, as set out in a check list attached at Appendix A. This is presented to the Committee and Board at each quarterly meeting, and any non-compliant or incomplete areas are addressed. This is seen as best practice in open and transparent governance.

- 2.2 The areas that have changed since the last quarter's report are listed below.

H5 - Maintaining Contributions - Has an annual benefit statement been provided to all members with AVCs within the required timescales?
Grey to Green – Prudential has provided assurance evidence that this happened.

H6 – Maintaining Contributions - Do these meet the legal requirements in relation to format?
Grey to Green – Prudential has provided assurance they do.

- 2.3 The Areas that are not fully completed and/or 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 submissions and employer training are improving data accuracy, 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.

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 and employer training 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 No risks have changed status or been added over the quarter.
- 3.3 There is still 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 or incorrect data returns) average at 18 per month, reflecting 7.2% 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 32 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 presented to the January meeting of the Board. LCC are presenting again at this March meeting to update the Board on the current position.

5 Asset Pooling Update

- 5.1 An update on the progress of asset pooling project is provided in paper 8 of this agenda.

Conclusion

- 6 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

Background Papers

Not applicable.

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