

**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Lincolnshire Pension Board
Date:	18 July 2019
Subject:	Pension Fund Update Report

Summary:

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

Recommendation(s):

That the Board note the report.

Background

1 Local Authority Pension Fund Forum

1.1 The Fund participates in the Local Authority Pension Fund Forum 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:

- During this quarter, LAPFF engaged with 104 companies on issues ranging from human capital management and Board composition to climate change reporting and sustainability.
- In February Ryanair announced that current Chairman David Bonderman would be replaced during 2020. The statement was made after LAPFF had voiced an intention to requisition the AGM in order to propose a resolution requesting Mr Bonderman resign from the Board.
- The Government announced plans to replace the Financial Reporting Council (FRC) with the Auditing, Reporting and Governance Authority (ARGA). This comes in the aftermath of the Kingman Review which recommended the FRC be disbanded, a position promoted by LAPFF after many years of raising concerns over the FRC.
- After pledging to include the overall reduction of its net carbon footprint in considering executive remuneration outcomes, Royal Dutch Shell Plc published its remuneration report enacting this commitment. As a member of the Climate Action 100+ investor initiative, LAPFF welcomed Royal Dutch Shell's steps in addressing the need to tackle climate change proactively. This is considered a small but pioneering step towards enabling companies to prepare for the low carbon transition.
- The Forum joined investors in calling for the 20 largest carbon emitting utilities companies based in the US to commit to achieving net-zero carbon emissions by 2050.

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

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 No areas have changed since the last quarter's report, however in B12 there is now only one member of the Pensions Committee yet to complete their TPR Toolkit training.

2.3 The Areas that are not fully completed and/or compliant are listed overleaf.

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, whilst all Board members have completed this training, a certificate has not been received from one remaining Committee member.

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 Breaches Reporting - update

3.1 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 quarterly meeting, one breach has been added, detailed below:

- **Late payment of contributions** – a separate paper is presented to the Board at paper 9, updating the Board on all monthly employer contribution breaches over quarter (January to March).

4 Risk Register Update

- 4.1 The risk register is brought to this Board at agenda item 10, therefore an update is not provided in this report.

5 Asset Pooling Update

Sub Funds

- 5.1 Representatives from Border to Coast presented to the June meeting of this Committee, updating on progress of the sub funds for Global Equity Alpha, Investment Grade Credit and Multi Asset Credit.
- 5.2 The Fund will be making its first investment with Border to Coast in the coming months, into the Global Equity Alpha Fund. The next investments are expected to be into the Investment Grade Credit and the Multi Asset Credit funds.
- 5.3 The development of the Alternatives products have progressed well, with the Private Equity sleeve open and soon to be making its first investments. Work is progressing on the Infrastructure sleeve, with commitments expected to be made in the next few months, with Private Credit following after that. Discussion is still being had with Funds and advisors on the other alternative requirements. As the Committee are aware, Lincolnshire Pension Fund will not be transitioning across to the Alternatives offering until all sleeves are available, and the Committee is satisfied that Border to Coast are able to offer a fully managed solution, akin to the Morgan Stanley mandate currently held.
- 5.4 Officers and advisors across the Partner Funds have continued to work closely with Border to Coast on the development of the sub-fund products, with a number of workshops attended to discuss requirements and agree structures.

Joint Committee Meetings

- 5.5 The Joint Committee (JC) last met on 4 June 2019, and the papers were circulated to all Pension Board members. The minutes will be circulated once approved, and below are the agenda items for the meeting:

- Elections for the Role of Chair and Vice Chair of the Joint Committee and Nominee for the Directorship of Border to Coast Pensions Partnership Limited
- Future Meeting Dates
- Joint Committee Budget
- Update from the Climate Change Working Party
- Chief Executive Officer (CEO) Report
- Border to Coast Alternatives Capability – PE, Infrastructure and Private Credit
- Border to Coast ACS Fixed Income Fund – Investment Grade and Multi Asset Credit

5.6 The next JC meeting is being held on 11 September 2019 and papers will be circulated to Board members. Any questions or comments on the papers should be directed to the Chair of the Pensions Committee, Cllr Strengiel, who can raise them at the meeting.

AGM and Shareholder Approvals

5.7 As the Board are aware, there are two distinct roles that Lincolnshire County Council has with Border to Coast: the shareholder and the investor (or client). The Committee's role is that of investor, and is represented at the Joint Committee by the Chairman of the Pensions Committee. The shareholder role is undertaken by the Executive Director of Resources, and fulfils the role as set out in the Shareholder Agreement, which was approved by Full Council in February 2017.

5.8 Ahead of any shareholder approvals, officers, including S151 officers, work closely with Border to Coast to ensure full understanding of the resolution, the impact of it not being approved and discuss this with the JC ahead of any resolution being sent for approval. An informal shareholder meeting is also held on the date of each Joint Committee meeting.

5.9 Two shareholder approvals were completed since the last Committee:

- Chief Executive remuneration – following the annual pay review of the CEO, undertaken by the Border to Coast Remuneration Committee, shareholders were asked to approve the proposal. Approval was received from the required 75% of shareholders.
- Chief Operating Officer remuneration – following the annual pay review of the COO, undertaken by the Border to Coast Remuneration Committee, shareholders were asked to approve the proposal. Approval was received from the required 75% of shareholders.

Visit to Border to Coast Offices

- 5.10 The planned visit on 11 July was cancelled due to a low take-up, therefore officers will be looking to rearrange later in the year, when more members are available.

6 Good Governance Project

- 6.1 The Scheme Advisory Board (SAB) appointed Hymans Robertson earlier this year to consider options for enhancing LGPS governance arrangements to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Their role was to facilitate an investigation of the issues and work with key stakeholders to develop options for change which will improve LGPS governance. Hymans have consulted widely and captured a wide range of views from those working within the LGPS. This included carrying out a number of related activities including issuing surveys, arranging interviews, organising seminars and discussing at various LGPS events including the PLSA conference in May.
- 6.2 The survey, which was open to all stakeholders, requested views on four example governance models, each with increasing changes to the current model. The options were to be considered against the criteria of standards, conflict, representation, clarity, consistency and cost.

Option 1 – Improved practice

Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.

Option 2 - Greater ring fencing of the LGPS within existing structures

Clearer ring-fencing of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 - Joint Committee (JC)

Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - New local authority body

An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

- 6.3 Highlights of the emerging themes from the survey responses and the discussions that have been had with stakeholders are shown below, across the six criteria:

Standards	Greater risk of Regulator intervention, strengthen KPI use, extend audit to cover adequacy/suitability of governance arrangement.
Conflict	Potential conflicts for S151 officers and elected members, high professional standards of S151's, schemes of delegation to reduce conflicts.
Representation	Many different views on employer/member representation, good employer engagement in some cases but needs to improve, voting rights for non-elected members.
Clarity	Roles and responsibilities clearly documented, what's statutory vs. fiduciary vs. locally decided.
Consistency	Update existing guidance and signpost better, strengthen training e.g. CIPFA S151 training, S101 training (same regulatory requirement as Local Pension Boards).
Cost	Strong desire that approach is not disproportionately onerous to implement and does not add unnecessary cost, some funds have difficulties paying market rates for pensions/investment specialists within the authorities pay structures.

- 6.4 Hymans will report their findings to SAB in July, detailing proposals to improve governance for them to consider. Following that, SAB will make recommendations to MHCLG where appropriate.

7 Actuarial Services Contract

- 7.1 The contract for Actuarial services was awarded to Hymans Robertson in December 2012, with an expiry date of 31 December 2019. As 2019 is a valuation year, the Fund will still be in the process of agreeing rates with employers and finalising the Funding Strategy Statement at that date, all of which require input from the Actuary.
- 7.2 The valuation process has to be finished by 31 March 2020, however at that time the process for the employers accounting reports has started, and continues across different groups of employers until the final reports are issued to academies in September/October.
- 7.3 Therefore to limit any impact to the Fund or the employers should the provider change, officers requested that the Committee approve a ten month extension to the contract to 31 October 2020 at their meeting on 18 July 2019. This will also realign the contract end date for any subsequent appointments.

8 Internal Audit Report

- 8.1 The Council's internal audit service undertook an audit of the key controls and effectiveness of the management of the Pension Fund in April 2019.

The scope of the audit was to provide assurance that:

- Key controls are in place within the pension system;
- Pension system controls are consistently operated;
- Pension transactions examined are complete and accurate;
- Management of the Pension fund is effective and assets are maximised through investment to cover liabilities;
- The fund complies with legislation and investment policy;
- Fund managers investment performance is monitored;
- Adequate security arrangements are in place for the IT systems; and
- LCC Pension staff have adequate knowledge, guidance and training.

8.2 The outcome of the report is shown in the Executive Summary below, and the complete final audit report is attached at appendix C.

High Assurance

Critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

Risk	Rating (R-A-G)	Recommendations	
		Low	Medium
Pension fund investments do not exist or are valued incorrectly	Low	0	0
There are insufficient assets within the pension fund to cover the liabilities	Medium	0	0
Investments do not comply with legislation	Low	0	0
Poor investment performance by Investment Fund managers	Medium	0	0
LCC pensions staff do not have the knowledge, training or skill to perform their duties effectively	Low	0	1
TOTAL		0	1

8.3 As can be seen, there are two residual amber risk ratings even though a high assurance audit rating was given overall. This was due to the following:

Risk - There are insufficient assets within the pension fund to cover the liabilities.

The last triennial valuation as at 31 March 2016 found that assets were less than liabilities with a deficit valuation of £529 million. The 2019 annual report detailing the results for the 31st March 2019 triennial valuation has not yet

been published but assets may still not cover the liabilities and therefore the risk is included as amber.

Risk - Poor investment performance by Investment fund managers.

The investment manager report for the quarter to 31/3/19 detailed that "Over the 12 month period, only four managers have achieved their benchmark: Morgan Stanley Global Brands, Legal and General, Blackrock (Fixed Income) and Blackrock Interim". Poor investment performance by managers does occur and therefore the risk is shown as amber.

8.4 High assurance was given despite these two amber risks, as explained below:

These risks are outside the control of the Pension team and have therefore not impacted on the overall High assurance rating given, which was based on the Governance and system processes in place within the Pension team.

8.5 As can be seen from the table at 8.2, one recommendation was given regarding the risk of LCC pensions staff not having the knowledge, training or skill to perform their duties effectively. The full detail given in the action plan is shown on page 7 of the Audit report, however the recommendation is shown below:

Recommendation

The Pension team need to:

- *Monitor and update the training log on a regular basis;*
- *Ensure that all members undertake all the training required in the Pension training plan and policy and other training needed following changes to policy or statutory requirements; and*
- *Consider whether a mandatory minimum level of training should be required for all members of the Pensions Committee.*

8.6 A training log is maintained by officers, and Committee members are informed regularly of training events and requirements. As mentioned in section 6 of this report, the Good Governance Project is likely to put forward a proposal to the Scheme Advisory Board that the training requirement for Pension Committees should be at least equal to that of Pension Boards, who are required to meet mandatory levels of knowledge on an individual basis, therefore the recommendation for consideration is very timely.

8.7 At their meeting on 18 July 2019, the Committee were asked to consider whether a mandatory minimum level of training should be required for all members of the Pensions Committee, and if so, the timescales in which this training should be undertaken. Following their consideration, any amendments required to the Training Policy will be made and it will be circulated to all Committee and Board members.

9 Conference and Training Attendance

- 9.1 It is stated in the Fund's Training Policy, approved each July by the Pensions Committee, that following attendance at any conferences, seminars or external training events, members of the Committee will share their thoughts on the event, including whether they recommended it for others to attend. It was agreed at the January meeting of the Board that this would also be a useful addition to future Board meetings.
- 9.2 For the Boards information, attached are Hymans Robertson Conference Highlights from the LGC Investment Summit (appendix D) and the PLSA Conference (appendix E).
- 9.3 The Pension Board members are therefore requested to share information on relevant events attended since the last Board meeting.

Conclusion

- 10 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	Internal Audit Report
Appendix D	Hymans Robertson Conference Highlights – LGC Investment Summit 2019
Appendix E	Hymans Robertson Conference Highlights – PLSA Conference 2019

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