PENSION BOARD

MONDAY, 9 SEPTEMBER 2019

10.00 AM CC2, COUNTY HALL, LEWES

MEMBERSHIP - Ray Martin (Chair)
Councillor Carmen Appich, Councillor Doug Oliver, Stephen Osborn, Diana Pogson, Niki Polermo and Lynda Walker

A G E N D A

1 Minutes *(Pages 3 - 10)*

2 Apologies for absence

3 Disclosure of interests

4 Urgent items
Notification of any items which the Chair considers urgent and proposes to take at the appropriate part of the agenda.

5 Attended Training Events - Members' feedback *(Pages 11 - 12)*

6 Pension Committee Agenda *(Pages 13 - 16)*

7 Pension Administration updates *(To Follow)*

- 2019 Annual Benefit Statement Exercise
- GMP Reconciliation
- Membership Data Cleansing
- KPI's Comparison with other funds

8a Pension Fund Policies and Strategies - Governance Compliance Statement *(Pages 17 - 36)*

8b Pension Fund Policies and Strategies - Statement of Investment Beliefs *(Pages 37 - 44)*

8c Pension Fund Policies and Strategies - Communications Policy Statement *(Pages 45 - 56)*

9 Local Government Pension Scheme (LGPS) Regulatory Updates *(Pages 57 - 144)*

10 General Update *(Pages 145 - 150)*

11 Pension Fund Risk Register *(Pages 151 - 162)*

12 Work programme *(Pages 163 - 200)*

13 Any other non-exempt items previously notified under agenda item 4

14 Exclusion of the public and press

To consider excluding the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

15 Local Government Pension Scheme (LGPS) Pooling - ACCESS update *(Pages 201 - 234)*

16 Any other exempt items previously notified under agenda item 4

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30 August 2019

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PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 17 June 2019.

PRESENT	Ray Martin (Chair), Councillor Carmen Appich, Councillor Doug Oliver, Stephen Osborn, Diana Pogson, Niki Polermo and Lynda Walker
ALSO PRESENT	Kevin Foster, Chief Operating Officer Ian Gutsell, Chief Finance Officer Ola Owolabi, Head of Pensions Andrew Marson, Interim Lead Pensions Manager Danny Simpson, Principal Auditor Harvey Winder, Democratic Services Officer

1 MINUTES

1.1. The Board agreed the minutes as a correct record of the meeting held on 4 February 2019.

2 APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence.

3 DISCLOSURE OF INTERESTS

3.1 There were no disclosures of interest.

4 URGENT ITEMS

4.1 The Chair requested confirmation from officers as to the length of terms of the Pension Board members.

4.2 Ian Gutsell (IG) confirmed that the employer representatives from Brighton & Hove City Council (Cllr Carmen Appich) and Rother District Council (Cllr Doug Oliver) had been appointed for two years; and the additional three new Board members (Stephen Osborn, Lynda Walker and Niki Palermo) had been appointed for four years each. Furthermore, Diana Pogson (Pensioners Rep) had already served a year of her four term so had three years left. IG explained that this would ensure a staggered process of appointments to the Board in future.

5 PENSION COMMITTEE AGENDA

5.1 The Board considered the draft agenda of the Pension Committee's next meeting.

5.2 The Board RESOLVED to note the report.

6 NOMINATION OF VICE CHAIRS

6.1 The Board considered a report seeking nominations for the Vice Chair positions on the Pension Board.

6.2 The Board RESOLVED to:

1) Nominate Diana Pogson as the employee Vice Chair
2) Nominate Stephen Osborn as the employer Vice Chair.

7 PENSION ADMINISTRATION UPDATES

7.1. The board considered a report providing an update on matters relating to Pension Administration activities.

7.2. Councillor Carmen Appich (CA) asked why JLT (Jardine Lloyd Thompson), who have recently merged with Mercer, had been chosen to conduct the Guaranteed Minimum Pension (GMP) Reconciliation process on behalf of the East Sussex Pension Fund (ESPF).

7.3. Kevin Foster (KF) explained that JLT had been commissioned by the Fund, following a procurement process, to provide the work on the basis that they had been deemed to be the best provider and had a track record of doing similar work for other pension authorities.

7.4. Lynda Walker (LW) asked why a reference scheme test had replaced the guaranteed minimum pension system in 1997, and whether the ESPF was in a good position relative to other Local Government Pension Schemes (LGPS) in regards to the GMP reconciliation process.

7.5. Andrew Marson (AM) explained that the original GMP system of requiring pension schemes contracted out of the State Second Pension Scheme (S2P) to provide a Guaranteed Minimum Pension for contracted out employees broadly similar to the pension amount an employee would have received if they had not been contracted out had proven very complex; so instead a reference scheme test was introduced to allow comparison whether a pension scheme's benefits were greater overall than the S2P benefits and if so it was permitted to contract out. This was felt to be a more straightforward approach. LGPS had easily passed the test and had remained contracted out. AM said that ESPF's GMP Reconciliation programme was making good progress in relation to others around the country.

7.6. The Chair explained that GMPs were calculated as weekly amounts and asked whether the discrepancy threshold of £2 meant a discrepancy of 4p a week of pension, which would amount to £2.08 over the course of the year or whether it would be 3p a week, which would mean £1.56 per year. AM said he would confirm how the figure of £2 is arrived at.

7.7. Diana Pogson (DP) asked when the process may be complete. AM said it depended on HM Revenue & Customs' (HMRC) own deadlines, which have continuously moved in the past. He said that the reconciliation and rectification process, i.e., resolution of over and under payments to scheme members, should be complete by 31 March 2020 based on current HMRC guidance.

7.8. The Chair asked whether the number of critical errors contained within the data held by ESPF is recorded and reported as a percentage, as is a requirement of pension schemes in the private sector.

7.9. AM explained that the quality of the data held by ESPF is periodically scored as a percentage and this will be run again in September after the Annual Benefit Statements have gone out. He said that the quantity of errors has reduced considerably – with over 10,000 data items having been corrected – and the Fund has improvement the quality of its data in comparison to other LGPSs

7.10. LW asked how many employees there are in the one employer that has still not submitted its returns for the Annual Benefit Statement.

7.11. AM said that the employer had a single employee in the ESPF, who is also the Chief Executive of the company.

7.12. The Chair asked whether the ESPF had considered meeting regularly with payroll staff in employers to ensure they were aware of their obligations as members of the ESPF, including the provision of up-to-date data to the Fund.

7.13. IG said that the ESPF holds an Annual Employers' Forum and the Pension Regulator attended the most recent one to explain to the employers' their responsibilities around supplying data. He added that the Pension Board members were also in a good position to report back these responsibilities to the employers they represent. AM explained that there was a new team member joining the Pensions Administration Team (PAT) whose role is around engagement with and education of employers. He said the PAT realises that more work needs to be done engaging with employers, particularly as there are increasingly large numbers of them and the ESPF normally only contacts them formally on an annual basis and during the intervening period key contacts may leave, along with institutional knowledge of their obligations regarding the ESPF.

7.14. The Chair commented that maintaining this relationship with employers was key because the GMP issue arose as a result of a lack of contact with employers, who then gave different data to the administering authorities and HMRC that now no longer reconcile.

7.15. The Chair asked why, according to the Key Performance Indicators (KPIs), the PAT's performance dipped during April.

7.16. AM explained that the dip in performance was due to staff vacancies during that month. He said they had now been filled and figures for May were improving back towards normal levels. He added that whilst performance had slipped the cases that were overdue were only over by 1 to 2 days.

7.17. The Chair said it was worrying to see the Award for dependent benefits (Death Grants) target missed given the impact this can have on families who may be in immediate need of assistance. He also asked that the KPI summary include details of what the longest overdue cases were and the average response time, not just the number within target, as it can be difficult to see any improvements particularly when all targets are green.

7.18. Ola Owolabi (OO) said that the Board would have the opportunity in the future to review the KPIs as the pension administration system is re-procured.

7.19. LW asked how the KPIs were set.

7.20. AM explained that the KPIs have been set locally by ESPF and other LGPS will do the same. This means that there is variation in the KPIs, but an exercise could be undertaken to benchmark these measures against others to get a sense of the industry standard.

7.21. The Chair asked whether the allocated duration of a 'successful' completion of an activity listed in the KPIs, e.g., payment of lump sum made within 5 days, was for the entire activity or just the part the PAT was responsible for.

7.22. AM confirmed that these allocations were for the period of time the PAT was dealing with the case. Death cases, for example, would take a lot longer than 5 days and would involve other individuals, eg the member's family, dependents and the legal personal representatives of the deceased member.

7.23. The Chair asked whether the new pension administration system would be subject to a full procurement process.

7.24. Kevin Foster, (KF) confirmed that the contract with Heywood to provide a pension administration system would be ending in 2021. The procurement of the new software would be a meaningful one involving extensive research into the current market and how it has changed since 2016; the quality of the competition; and the performance of the current provider. AM added that preliminary engagement was ongoing with providers to compare the PAT's requirements with the capabilities of their systems.

7.25. The Board RESOLVED to:

1) Note the report; and

2) Request a future report on how the ESPF KPIs for pension administration compare with those of other local government pension schemes.

8 DRAFT EAST SUSSEX PENSION FUND INTERNAL AUDIT STRATEGY

8.1. The Board considered a report containing the draft ESPF Internal Audit Strategy, and Internal Audit reports on Pension Fund Governance and Investments and Pension Fund External Control Assurance.

8.2. LW asked how the East Sussex Internal Audit is not duplicating the work of other internal audit teams in the other 10 ACCESS local authorities in auditing externally managed investments held under the ACCESS pooling agreement.

8.3. Danny Simpson (DS) said that he will liaise with other internal audit officers to ensure that they are not duplicating work. OO added that an audit plan is being developed for ACCESS that will avoid duplication by enabling individual internal audit teams to use the assurance report of whichever internal auditor conducts the externally managed investment audit of ACCESS. He confirmed that these reports would comply with the Institute of Chartered Accountants' AAF 01/06 Assurance Reports so could be used by East Sussex County Council's Internal Audit team in lieu of its own assurance reports.

8.4. SO asked whether it was unusual to have two internal audit reports without any actions arising.

8.5. DS confirmed that it was unusual but external assurance – the subject of one of the reports – is usually straightforward to obtain substantial assurance for. The other four areas where internal audit seeks to provide assurance on (set out in 2.5 of the strategy) tend to be more complex. OO added that the substantial assurance of governance and investments was the result of several years of hard work in improving the governance arrangements of the ESPF.

8.6. The Chair asked whether Internal Audit proactively liaises with the external auditor, Grant Thornton, when seeking to provide assurance.

8.7. DS said that Internal Audit does not, but the external auditor may contact the team. IG added that the reliance of external auditors on seeking assurance from Internal Audit has diminished over the years and they generally seek their own assurance, however, Grant Thornton – which is newly appointed – has contacted the Internal Audit team this year.

8.8. The Board RESOLVED to:

1) note the report; and

2) recommend the following changes to the draft Internal Audit Strategy:

- change 2.3b) to read “provide strong governance and decision making”;
- remove from 2.3c) reference to “improve value”; and
- amend 2.5 to read “Pensions administration – people, processes and systems”, given the need to have assurance that there are competent people in place to manage the process and systems.

9 DRAFT PENSION FUND ANNUAL REPORT - 2018/19

9.1. The Board considered a report seeking comment on the Draft Pension Fund Annual Report for 2018/19.

9.2. DP asked whether it was realistic to lower the forecast management expenses for 19/20 when outturn for 18/19 was higher than forecast.

9.3. OO explained that the increased costs for 18/19 included a number of one-offs that were not expected to be incurred again for 19/20, for example the additional costs under supplies and services due to the triennial valuation, GMP, etc.

9.4. SO asked why there is no forecast for fees deducted at source.

9.5. OO explained that these were very difficult to predict as they depended on the performance of the assets from which they were deducted, which vary in value depending on market conditions.

9.6. CA asked whether any of the increase in return on investments from £86m in 17/18 to £260m for 18/19 was the result of pooling investments in ACCESS.

9.7. OO confirmed that some of it would have been as with the capacity and potential to invest significant larger amounts collectively, there are more opportunities to benefit from economies of scale as a result of investing into specialist areas. The Chair added that increase is also due to the considerable increase in the markets, which had seen significant increases during the year. Due to the reliance of return on investment on the markets, the figure is likely to always be volatile.

9.8. SO asked why payments from the fund varied by £30m between 17/18 and 18/19.

9.9. OO said that this was due to employers moving in and out of the scheme at varying degrees of regularity. The Chair added that death benefits and transfers of employees can also result in significant changes to payments from year to year.

9.10. The Chair asked whether there was a simplified version of the Pension Fund Annual Report and recommended it be sent out with the Annual Benefit Statement as people are more likely to read it.

9.11. OO confirmed that a summary will be included within the pension fund newsletter. IG added that the first 10 pages of the accounts are already a summary statement and the remainder of what is included is governed by reporting requirements.

9.12. The Board RESOLVED to:

1) note the report; and
2) request that the following are included in the Pension Fund Annual Report - 2018/19:
    - an explanation for the increased outturn in expenses being caused by one-off expenditure.
    - An additional line underneath management expenses total to include the expenses total minus the fees deducted from source.
3) recommend that the newsletter summarising the Annual Report is dispatched alongside the Annual Benefit Statement.

10 UK STEWARDSHIP CODE

10.1. The Board considered a report on the proposal to publish a revised statement regarding the Fund's compliance with the Financial Reporting Council's UK Stewardship Code.

10.2. LW asked how the ESPF compared to comparative Funds in terms of its responsibilities as a shareholder.

10.3. OO estimated that of the 89 LGPS, ESPF would be in the top 25% in terms of the strength of its stewardship arrangements. He said ESPF is one of few funds that meets the reporting expectations for Tier 1 – Asset Owner allocation from the Financial Reporting Council (FRC).

10.4. The Chair asked whether the Fund subscribes to Local Authority Pension Fund Forum (LAPFF)

10.5. OO confirmed that the Fund is a member of LAPFF, and fund managers are recommended by ESPF to vote in accordance with LAPFF guidelines. The Fund receives a report at the end of year to see how fund managers voted. LAPFF also nominated ESPF for an Environmental, Social and Governance award.

11. The Board RESOLVED to note the report.

11 LOCAL GOVERNMENT PENSION SCHEME (LGPS) REGULATORY UPDATE

11.1. The Board considered a report on the current regulatory environment, and consultations that could impact the LGPS.

11.2. CA asked what the Section 151 officer's response was to the Good Governance Review.

11.3. IG said that the response had included a recommendation for the development of guidance for officers, including Section 151 Officer, and Members around conflict of interest and their roles within the pension board and pension committee, and the role of the administrating authority in relation to pension funds, rather than of structural changes to the arrangements.

11.4. CA asked whether other employers than East Sussex County Council should respond to the Good Governance review consultation.

11.5. IG said that it is open for all employers and that Board members should encourage the employers to do so. CA said she would raise it with her Section 151 Officer.

11.6. The Chair commented that it seemed odd that the valuations for LGPS were recommended to go from every three to every four years when the private sector funds were moving to annual valuations.

11.7. OO explained that the purpose of the Government's proposal was to align the LGPS scheme valuation with other public sector schemes and allows for outcomes of each valuation to be looked at in parallel, and for Government to make consistent decisions for the public sector as a whole. He said it was a considerable risk to the accuracy of the valuation, as it would increase the chance of receiving information on employers that was very out of date. There may be a need for the administering authority having the option to perform an interim valuation if circumstances require changes to contribution rates.

11.8. The Board RESOLVED to note the report.

12 GENERAL UPDATE

12.1. The Board considered a general update on matters relating to the Board activities.

12.2. The Board RESOLVED to:

1) note the report
2) request the inclusion of communications of the Board to employers as part of the item on Communications Policy Statement.

13 PENSION FUND - RISK REGISTER

13.1. The Board considered the ESPF's Risk Register.

13.2. CA asked whether the mitigations put in place were reducing the likelihood and impact of risks.

13.3. OO explained that the risk register only showed risks that had not turned green. There were many risks that had been reduced considerably through mitigations but they were deliberately excluded from the register to make it a more useful document. It was also the case that some risks, like not achieving the Annual Benefit Statement deadline, would remain with the same post mitigation score until the deadline has passed.

13.4. CA said that it seemed surprising to see so much risk given the substantial assurance provided by the internal audit reports.

13.5. IG explained that the risk register was designed to show a degree of openness and understanding on the part of the ESPF around the fact that, whilst the risks mat not occur, the Fund is aware of them and has taken steps to prepare for them. Risks such as cyber attacks will always be there and likely remain as red scored risks, but the mitigations demonstrate that the Fund recognises and is taking action against it as a possibility. DS said that Internal Audit recognises that some risks can never be fully mitigated against, so as long as there is evidence of an appropriate level of mitigation then Internal Audit will not raise any concerns.

13.6. DP asked why several risks did not reduce even after mitigations.

13.7. The Chair said this was probably because the scale for impact and likelihood were only from 1-3 so it may not always show a change unless it is fairly significant.

13.8. Councillor Gerard Fox (GF) said that paying pensions and making financial investments both pose a significant risk, so mitigations may only ever reduce the likelihood or impact of something happening by a small amount.

13.9. SO asked whether the Fund was investing in any management portfolios like those of Neil Woodford with a high portion of illiquid assets.

13.10. OO confirmed that the fund was not investing in any such illiquid funds, although the fund does as a long term investor aim to benefit from an illiquidity premium in appropriate long term assets such as property and private equity.

13.11. GF added that after many years of a low interest rates and continued bull markets investors are likely to be chasing higher risk assets in order to achieve a return on their investments like the Woodford fund and high yield bonds.

13.12. The Board RESOLVED to:

1) note the report;
2) request that the risk register shows whether a risk is increasing or decreasing over time.

14 WORK PROGRAMME

14.1 The Board considered its work programme.

14.2 The Board RESOLVED to note the report.

15 EXCLUSION OF THE PUBLIC AND PRESS

15.1 The Board RESOLVED to exclude the public and press.

16 LOCAL GOVERNMENT PENSION SCHEME (LGPS) POOLING - ACCESS UPDATE

16.1 The Board considered a report on the activities undertaken by the ACCESS Pool group.

16.2 The Board RESOLVED to note the report.

The meeting ended at 12.35 pm.

Ray Martin
Chair

Report to:	**Pension Board**
Date:	**9 September 2019**
By:	**Chief Finance Officer**
Title of report:	**Attended Training Events – members feedback**
Purpose of report:	**To provide a verbal update on recent Pension Fund related training attended.**

RECOMMENDATIONS -
The Board is recommended to:

1. **provide feedback on recent training events attended; and**
2. ***make* suggestions as to how future *training* programmes and Members attendance can be improved.**

1. Background

1.1 The Pension Committee and Pension Board agreed work programme complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills and the CIPFA Knowledge and Skills Framework for Elected Representatives and Non Executives in the Public Sector as the basis of its Training Policy and Programme.

1.2 There is also a separate Framework for local pension boards, which covers the training requirements set out by the Pensions Regulator's Code of Practice Number 14 on the Governance and Administration of Public Sector Pension Schemes.

2. Training Feedback

2.1 The Board agreed during the June meeting and in line with the work programme that a verbal update from members on learning and development training events would be shared at meetings. It was also agreed that training and development should be an ongoing process, not a one-off induction. Members are encouraged to provide feedback on training sessions attended, through sharing presentation slides by e-mail, etc.

2.2 Future training plan includes -

- Provision of offsite training events, which are to be delivered to the Committee and the Pension Board by professional organisations, investment managers, etc.
- Short training sessions may be included in the quarterly meetings.
- Induction and refresher sessions can be arranged, as required.
- Members may arrange a meeting with the Fund's Officers to discuss their individual training requirements, which may then be incorporated into work programme.

3. Conclusion and recommendations

3.1 The Board is recommended to note the verbal update regarding the Pension Fund training activities.

IAN GUTSELL
Chief Finance Officer

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Report to: **Pension Board**

Date of meeting: **9 September 2019**

By: **Chief Finance Officer**

Title: **Pension Committee Agenda**

Purpose: **To consider and comment on the draft agenda of the next Pension Committee meeting**

RECOMMENDATION

The Board is recommended to consider and comment on the draft agenda for the next Pension Committee meeting.

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1. Background

1.1 The draft agenda or the next Pension Committee meeting is presented to the Pension Board for information.

1.2 If Board members have any specific comments about the agenda that they wish to be communicated to the Pension Committee, then they can do so. In any case, the draft Pension Board minutes will be circulated to Pension Committee members at or in advance of the forthcoming committee meeting.

2. Conclusion and recommendation

2.1 The Board is recommended to consider and comment on the draft agenda for the next Pension Committee meeting.

IAN GUTSELL
Chief Finance Officer

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Appendix 1

PENSION COMMITTEE

MONDAY, 23 SEPTEMBER 2019

10.00 AM COMMITTEE ROOM, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Gerard Fox (Chair)
Councillors David Tutt, Simon Elford, Nigel Enever, Trevor Webb

A G E N D A

1 Minutes

2 Apologies for absence

3 Disclosure of Interests

Disclosures by all Members present of personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.

4 Urgent items

Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda.

5 Pension Board Minutes

6 Quarterly Performance Report - Hymans Robertson

7 Fund Performance - Newton

8 Carbon Footprint Measurement – Trucost

9 Pension Fund Policies and Strategies-

- Governance Compliance Statement
- ESPF Investment Beliefs – Climate Change
- Communications Policy Statement

10 Pension Administration – reports

- 2019 Annual Benefit Statement Exercise

11 LGPS Regulatory updates

- Response to the LGPS Consultations (triannual valuation)

12 General Update/Triennial Valuation updates - Hymans

13 Forward Plan

14 Any other non-exempt items previously notified under agenda item 4

15 Exclusion of the Public and Press To consider excluding the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely

information relating to the financial or business affairs of any particular person (including the authority holding that information).

16 LGPS Pooling ACCESS Update

17 Any other exempt items previously notified under agenda item 4

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13 September 2019

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Report to: **Pension Board**

Date: **9 September 2019**

By: **Chief Finance Officer**

Title of report: **Pension Fund Policies and Strategies - Governance Policy Statement**

Purpose of report: **The Local Government Pension Scheme Regulations provides the statutory framework from which the Administering Authority is required to prepare a Fund Governance Policy Statement.**

RECOMMENDATION

The Pension Board is recommended to consider and comment on the Governance Policy Statement

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1. Background

1.1 Local authority pension funds are required to publish and keep under review a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduces a framework for the governance and administration of public service pension schemes. The Act has a material impact on existing governance arrangements in the Local Government Pension Scheme (LGPS), which are enforced by changes to the LGPS regulations.

1.2 Under the regulation, all LGPS Funds in England and Wales are required to produce a Governance Compliance/Policy Statement, revise it following any material change in their delegation arrangements and publish it.

2. Regulatory Requirement of the Governance Compliance Statement

2.1 The relevant regulation requiring this statement is Regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended). The Governance Compliance Statement must include the following information:

- The delegation arrangements (from the administering authority to a Committee and/or officers);
- The frequency of any meetings, terms of reference, structure and operational procedures of the delegation;
- Whether the Board/Committee includes representatives of employing authorities (including non LGPS employers) and members.

2.2 The Statement must include details of the terms, structure and operational procedures relating to the Local Pension Board.

3 Changes to the Governance Compliance Statement

3.1 The statement (Appendix 1) has been updated to reflect the following -

- *Pension Board Representatives nomination/appointment* - that a phased approach to the term of office for Board members has been developed. The Pension Board members for the East Sussex District and Borough Councils and Brighton & Hove City Council be appointed for 2 years. Subsequent appointments will then be made for 4 years. This will then ensure that at no point is the Pension Board required to seek nominations for more than 50% of the Board.

- *Pension Board Vice Chair appointment* - that in order to maintain the balance between scheme members and employer representation that a scheme member vice chair and an employer vice chair would be nominated from the existing Board members, and that the role of vice chair would alternate between scheme member and employer at each meeting.
- *LGPS Asset Pooling Governance* - ACCESS Pool being a 'A Collaboration of Central, Eastern and Southern Shires made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities, which are committed to working together to optimise benefits and efficiencies.
- *ACCESS Pool Governance* – that the ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement and the formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.
- *ACCESS Pool Operator* - Link Fund Solutions Ltd was appointed to provide a pooled operator service, responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds to meet the needs of the investing authorities.

4. Conclusion and reasons for recommendations

4.1 The Board is recommended to note the amendments to the Governance Policy Statement, which will further strengthen the Pension Fund governance structure as required by Regulation 55 of the Local Government Pension Scheme Regulations 2013.

IAN GUTSELL
Chief Finance Officer

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Background Documents
None

EAST SUSSEX PENSION FUND

GOVERNANCE POLICY STATEMENT

September 2019

Contents

Governance Policy Statement

Introduction

1. This is the Governance Policy Statement of the East Sussex Pension Fund, which is managed by East Sussex County Council, the Administrating Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish and keep under review a Governance Compliance Statement.
2. The Governance Compliance Statement of the East Sussex Pension Fund is comprised from the Compliance to Statutory Guidance Statement and a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduces a new framework for the governance and administration of public service pension schemes. The Act has a material impact on existing governance arrangements in the Local Government Pension Scheme (LGPS), which are enforced by changes to the LGPS regulations.
3. As a result of the Act, The Pensions Regulator has introduced codes of practice covering specific areas relating to public sector pension schemes. The changes to the LGPS regulations and introduction of the Pensions Regulator code of practice 14 and changes in the Scheme of Delegation approved by County Council on 14 October 2014 require revisions to the existing East Sussex Pension Fund Governance Compliance Statement.
4. As Administering Authority, East Sussex County Council is the designated statutory body responsible for administering the East Sussex Pension Fund of behalf of the constituent Scheduled and Admitted Bodies in the relevant area. The Local Government Pension Scheme Regulations specify that, in investing the Fund’s money, regard must be given to the need for diversification and for proper advice obtained at reasonable intervals.

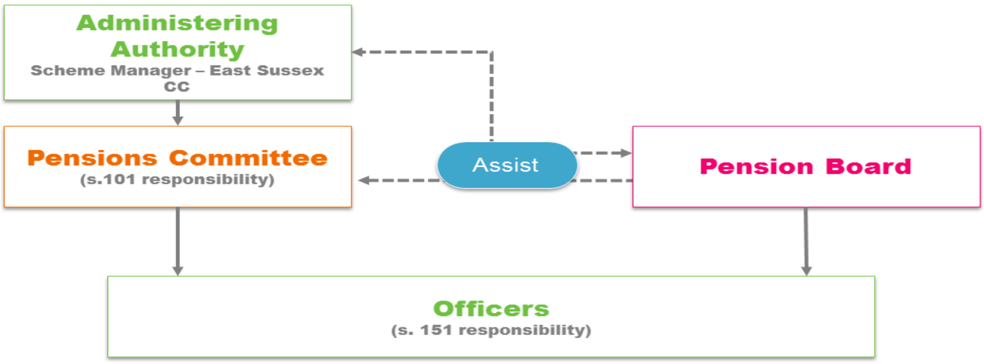
Governance of East Sussex Pension Fund

5. East Sussex County Council operates a Cabinet style decision-making structure. Under the Constitution, the Pension Committee has delegated authority to exercise the powers of the County Council in respect of the pensions of all employees of the Council (except teachers), including the approval of the pension fund admission agreements. It also has authority for the management of the pension fund. The pension fund governance focuses on:

   - The effectiveness of the Pension Fund Committee, the Board and officers to which delegated function has been passed, including areas such as decision making processes, knowledge and competencies.
   - The establishment of policies and their implementation.
   - Clarity of areas of responsibility between officers and Pension Fund Committee/Board members.
   - The ability of the Pension Fund Committee/Board and officers to communicate clearly and regularly with all stakeholders.
   - The ability of the Pension Fund Committee/Board and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
   - The management of risks and internal controls to underpin the framework.

   The Overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Committed.

The East Sussex Pension Fund



Responsibilities of the East Sussex Pension Board

6. To help to ensure that the East Sussex Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
7. To provide assistance to East Sussex County Council as the Administering Authority and the LGPS Scheme Manager in securing compliance with:
   - LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
   - requirements imposed in relation to the LGPS by the Pensions Regulator
   - the agreed investment strategy
   - any other matters as the LGPS regulations may specify.
8. The role of the Board will be oversight of these matters and not decision making.

Frequency of meetings of the East Sussex Pension Committee/Board.

9. The Pension Board meets at least 4 times a year. The full term of reference are publicly available as part of the County Council constitution and are available on the Funds shared website with ESCC at https://www.eastsussex.gov.uk/yourcouncil/about/keydocuments/constitution/

Operational Procedures of the Pension Committee/Board.

10. The Pension Fund Committee/Board receives and reviews quarterly reports from all its Investment Fund Managers and the independent Investment Adviser, Hymans Robertson. The Committee/Board is also advised by an additional Independent Advisor. In addition, the Committee/Board is advised by the County Council's Chief Finance Officer (in their capacity as the Council's designated Treasurer). The Committee/Board also receives an annual report from the Fund's independent performance measurement provider which reviews the long-term performance of the Fund and of each of the Investment Fund Managers in relation to their targets. The Committee also holds a separate Annual Strategy Meeting at which its reviews the overall investment strategy of the Fund.

11. To secure effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:
    - Considering decisions taken by the Pensions Committee, or any identified issues raised by Board members and other relevant parties, and to ensure that appropriate procedures are carried out.
    - Retaining an overview of LGPS policy and strategy and performance information and the performance review timetable.
    - Making representations and recommendations to the Pensions Committee as appropriate.
    - Considering and responding to any SoS / Responsible Authority performance data concerning the local fund.

Membership of the Pension Board

12. In accordance with Regulation 107 of the LGPS Regulations 2014, a Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. In considering the size of the East Sussex Pension Board, the Council has taken into consideration number of factors including:
    - The size of the Council's existing Pension Fund governing arrangement and decision making process.
    - The number of scheme members, number and size of employers within the Fund and any collective arrangements in place for them to make decisions or provide input in relation to Fund matters;
    - The direct and indirect cost of establishing and operating the Board.
13. Composition of the East Sussex Pension Board - The Pension Board shall consist of 7 members as follows:
    - Employer representative x 3
    - Scheme member representative x 3
    - Independent Chair x 1

Pension Board Representatives nomination/appointment

14. The methodology for appointing employer and member representatives is not prescribed by the Regulations. It is therefore up to the Administrative Body's (ESCC) discretion to establish an appropriate process, which has been included within the East Sussex Pension Board constitution and terms of reference.
15. The term of membership and the impact of seeking representations every 4 years, a phased approach to the term of office for Board members have been developed. The Pension Board members for the East Sussex District and Borough Councils and Brighton & Hove City Council are appointed for 2 years. Subsequent appointments will then be made for 4 years. This will then ensure that at no point is the Pension Board required to seek nominations for more than 50% of the Board.

Vice Chair appointment

16. Meetings of the Board cannot go ahead without the Chair or Vice Chair present, so there is a risk that a meeting of the Board would not be able to proceed if the Chair is unable to attend for any reason.
17. The Board agreed that in order to maintain the balance between scheme members and employer representation that a scheme member vice chair and an employer vice chair would be nominated from the existing Board members, and that the role of vice chair would alternate between scheme member and employer at each meeting.

Membership of the Pension Committee

18. The County Council appoints five members to the Committee in accordance with political balance provisions. All members of the Committee have voting rights.
19. In relation to Pension Matters, the Committee consider directly all issues relating to pension administration, such as changes in benefit regulation, admission agreements, the Pension Fund Investments, etc.

Consultation with Employing Authorities

20. All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by newsletter. They are encouraged to get in touch if they have questions.
21. In addition to these electronic briefings, the East Sussex Fund holds an annual employers forum to which all admitted bodies of the Fund are invited. This annual meeting covers both actuarial and investment issues and always contains a presentation from the Fund's Actuary. The District Councils receive feedback from their representatives on the Pension Board and are also briefed on pension matters bi-monthly by the Fund's Treasurer at meetings of the East Sussex Financial Officers Association. Update briefings to these meetings are also circulated by email to all other employers in the East Sussex Pension Fund.
22. All employees receive periodic newsletter update on pension issues, especially on any changes affecting benefits. These updates are shared with all employers.
23. More detail on the approach to communication is covered in the separate Pension Fund Communication Statement.

LGPS Asset Pooling Governance - ACCESS Pool

24. ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities, which are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.

ACCESS Pool Governance

25. The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

26. The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

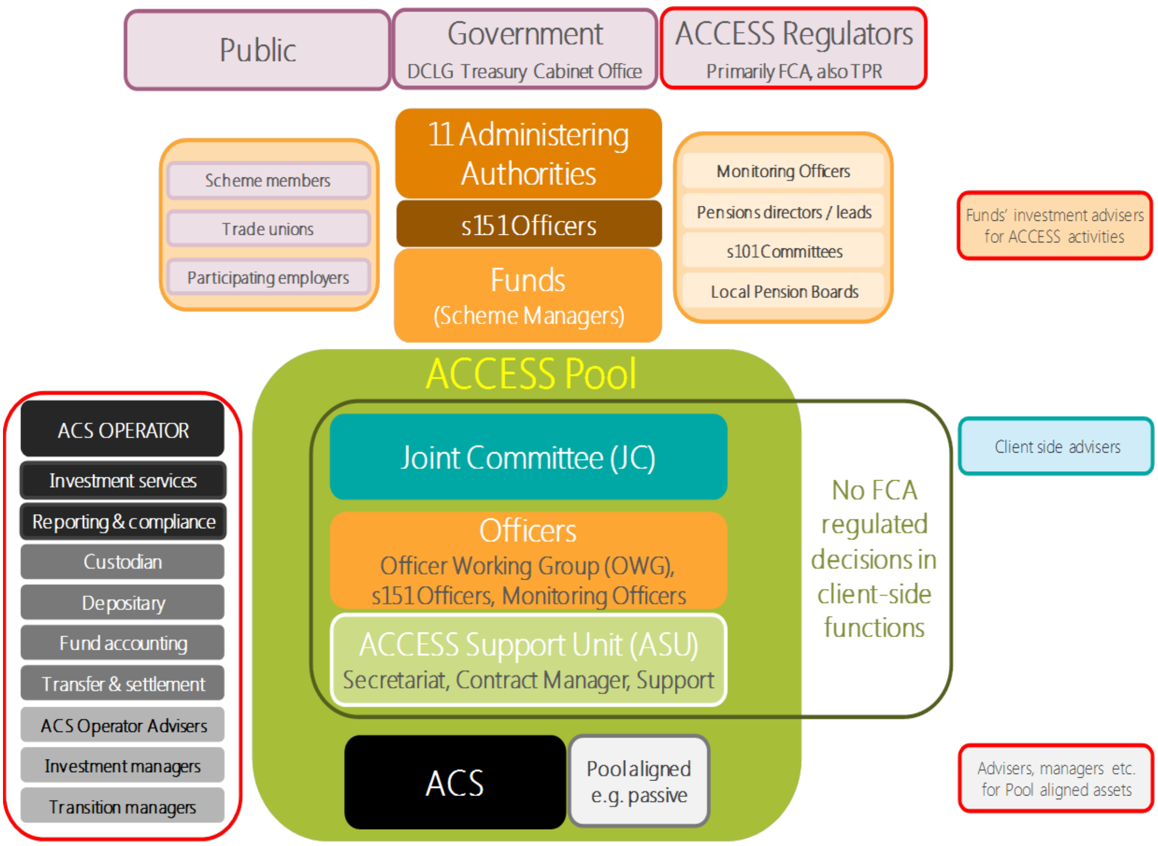
27. The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the S151 Officers, Officer Working Group and the ACCESS Support Unit. The Officer Working Group are officers identified by the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

28. The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services.

29. The Section 151 Officer of each Pension Fund provide advice to the Joint Committee and in response to decisions made by the Joint Committee ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

30. Strategic oversight and scrutiny responsibilities remain with the Administrating Authorities as does all decision making power to their own Funds asset allocation and the pooling of assets that each Fund holds within the arrangements developed by the ACCESS Pool.

31. The diagram below sets out the overarching ACCESS governance arrangements.



ACCESS Pool Operator

32. Link Fund Solutions Ltd was appointed to provide a pooled operator service. Link is responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds to meet the needs of the investing authorities enabling them to execute their asset allocation strategies and the appointment of the investment managers to those sub-funds.

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Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective committee delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, and provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for "Scheme Administrator" functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Committee (monitoring)

Chief Finance Officer (Pension Fund Governance and Investment implementation)

Funding

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Chief Finance Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Committee shall be responsible for approving the FSS.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Committee shall be responsible for maintaining the Investment Strategy Statement (ISS).

Delegated to:

Pension Fund Committee (strategy approval, manager selection, benchmarks, monitoring)

Chief Finance Officer (Pension Fund investment implementation)

Communications

Governance Principle: Effective information flow; written plan policies

Including setting of a communication strategy, issuing of benefit statements, annual newsletters, and annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

Risk Management

Governance Principle: Effective committee delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Committee shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Committee (pension fund risk register approval)

Chief Finance Officer (maintaining the pension fund risk register)

Terms of Reference and Decision Making

Terms of Reference:

Governance Principle: Effective board delegation; written plan policies

The Pension Fund Committee Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix A** to this document.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund administration, funding, investment, communication, risk management and the overall governance process surrounding the Fund.

Structure of the Pension Fund Committee and representation:

Governance Principle: Effective committee delegation

The Pension Fund Committee shall be made up of:

5 County Councillors appointed by the Governance committee according to the political makeup of the council including the chairman. Decision making quorum of 3 members.

Decision Making:

Governance Principle: Effective committee delegation; rigorous supervision and monitoring

The Pension Fund Committee shall have full decision-making powers.

Each member of the Pension Fund Committee shall have full voting rights.

Operational Procedures

Frequency of Meetings:

Governance Principle: Effective board delegation; effective information flow

The Pension Fund Committee shall meet quarterly. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Chief Finance Officer, and any matters requested by members of the Pension Fund Board. Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective board delegation; appropriate accountability

Officers and Members of the Pension Fund Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency are evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Committee.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

i) Pension Board

The Pension Board is established by the administering authority to assist in securing compliance with the LGPS Regulations, any other legislation relating to the governance and administration of the scheme, and any requirements imposed by the Pensions Regulator.

The Pension Fund Committee shall:

- Provide the Pension Board with adequate resources to fulfil its role.
- Consider and respond to reports from the Pension Board within a reasonable period of time.

The Pension Board

The role of the Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013, is to assist the Administering Authority:

- to secure compliance with:
    i) The scheme regulations;
    ii) any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
    iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
- to ensure the effective and efficient governance and administration of the LGPS Scheme.

Terms, Structure and Operational Procedures

The Pension Board's Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix B** to this document.

Review of Governance Policy Statement

Responsibility for this document resides with the Chief Finance Officer and will be reviewed by no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority's governance policy or if there are any changes in relevant legislation or regulation.

Appendix A

Pension Committee terms of reference and membership

1. In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.
2. To exercise the powers and duties of the County Council in respect of:
    - the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and
    - management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.
3. To make arrangements for the investment, administration and management of the Pension Fund.
4. To arrange for the appointment of investment managers and advisors.
5. To agree Policy Statements as required under the Local Government Pension Scheme regulations.
6. To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.
7. To set the Investment Policy and review the performance of the Pension Fund's external investment managers.
8. To determine the fund management arrangements and to appoint fund managers and fund advisers.
9. To decide on the admission and cessation of bodies to the Pension Fund.
10. To consider and agree actuarial variations.
11. To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.
12. To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership

Five members appointed in accordance with political balance provisions.

Appendix B

Constitution and terms of reference of the East Sussex Pension Board

1. Introduction

1.1 The Public Service Pensions Act 2013 requires the establishment of a Pension Board with the responsibility for "assisting the Scheme Manager" in securing compliance with all relevant pensions law, regulations and directions – as well as the relevant Pension Regulator's codes of practice. This role is one of providing assurance in and governance of the scheme administration.

1.2 The *scheme manager (East Sussex County Council – ESCC) will provide the necessary input into the Pension Board to support the Board to deliver on its assurance responsibilities. This may require their attendance at meetings at the request of the Board.

1.3 The terms of reference, membership of the Pension Board and any variations thereof are determined by the Scheme Manager, i.e. ESCC.

2. Objectives of the Pension Board

2.1 To help to ensure that the East Sussex Pension Fund (ESPF) is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

2.2 To provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by the Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify.

2.3 To assist with securing effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:

- Seeking assurance that due process is followed with regard to Pension Committee, and any identified issues raised by Board members.
- Retaining an overview of LGPS policy and strategy and business plan timetable.
- Making representations and recommendations to the Pension Committee as appropriate.
- Considering and, as required, responding to any Government / Responsible Authority performance data concerning the local fund.

2.4 The role of the Board will be oversight of these matters and not decision making.

3. Management and operation of the Pension Board

3.1 The Pension Board shall:

- meet at least 4 times per year
- have the power to establish sub committees or panels as required
- agree a programme of training and development for its members.

- provide the Scheme Manager (ESCC) with such information as it requires to ensure member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
- ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- consider any issue raised by any Board Member in connection with the Board's work.
- produce an annual report outlining the work of the Board throughout the scheme year, which will help to –
    - inform all interested parties about the work undertaken by the Panel
    - assist the panel in reviewing its effectiveness and identifying improvements in its future operations.
- help to ensure that decisions made by ESCC are fully legally compliant, including consideration of cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;
- monitor administrative processes and supporting continuous improvements;
- ensure the scheme administrator supports employers to communicate the benefits of the LGPS Pension Scheme to scheme members and potential new members.

4. Membership - composition of the Pension Board

4.1 The Pension Board shall consist of:

a) **3 employer representatives** - employer representatives that can offer the breadth of employer representation for the ESPF. (Regulation 107 of the Pension Act permits elected members to sit on a local pension board. However, under Regulation 107(3), elected members or officers of ESCC (as the Scheme Manager), who are responsible for the discharge of any function under the Principal 2013 Regulations, may not sit on the Pension Board.)

b) **3 scheme member representatives** - member representatives nominated to ensure a broad representation of scheme membership (active, deferred, and pensioners).

c) **1 Independent Chair**

4.2 The Pension Board shall be chaired by an Independent Chair.

5. Appointment of members of the Pension Board

5.1 The appointment process has been approved by the Governance committee

5.2 All appointments to the Board shall be by the Governance Committee under delegated authority from the County Council, including the Independent Chair and Vice Chair.

6. Term of office

6.1 The term of office for Board members shall be 4 years or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted.

6.2 A Board member who wishes to resign shall submit their resignation in writing to the Pension Board Chair. A suitable notice period must be given, of at least 1 month, to enable a replacement member to be found.

6.3 The role of the Pension Board members requires the highest standards of conduct and the Code of Conduct of the East Sussex County Council will apply to the Board's members. The County Council's Standards Committee will monitor and act in relation to the application of the Code.

6.4 Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Board member, which will be in accordance with the Code of Conduct of the East Sussex County Council.

7. Independent Chair

7.1 The Independent Chair will be the independent member appointed for a term of 4 years by Governance Committee or such time as resolved by the Governance Committee. A job description approved by the Committee will be used to identify the candidate best suited to the role.

7.2 It will be the role of the Chair to -

- Settle with officers the agenda for a meeting of the Board
- Manage the meetings to ensure that the business of the meeting is completed
- Ensure that all members of the Board show due respect for process and that all views are fully heard and considered
- Strive as far as possible to achieve a consensus as an outcome
- Ensure that the actions and rationale for decisions taken are clear and properly recorded.

7.3 Removal of the independent chair will be in accordance with the Code of Conduct of the East Sussex County Council and the County Council's Standards Committee decision.

8. Support arrangements

8.1 ESCC will provide secretariat, administrative and professional support to the Pension Board and as such will ensure that:

- meetings are timetabled for at least four times per year
- adequate facilities are available to hold meetings
- an annual schedule of meetings is produced
- suitable arrangements are in place to hold additional meetings if required papers are distributed 7 days before each meeting except in exceptional circumstances
- minutes of each meeting are normally circulated 7 working days following each meeting.

9. Expert advice and information

9.1 The Board will have access to professional advice and support provided by officers of East Sussex Pension Fund and, via them and where appropriate, advisers to the East Sussex Pension Fund.

9.2 Insofar as it relates to its role, the Pension Board may also:

- request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund

- examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
- access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major decisions, i.e., investment strategy, triennial valuation, etc.,
- access to professional advice regarding non major decisions will require the approval of the Pension Committee for additional resources.

10. Knowledge and Skills

10.1 Board members will be required to have the ‘capacity’ to carry out their duties and to demonstrate a high level of knowledge and of their role and understanding of:

- the scheme rules
- the schemes administration policies
- the Public Service Pensions Act (i.e. being conversant with pension matters relating to their role).

10.2 A programme of updates and training events will be organised. Board members will be encouraged to undertake a personal training needs analysis or other means of identifying any gaps in skills, competencies and knowledge relating to Pension Board matters.

11. Minutes

11.1 The minutes and any consideration of the Pension Board shall be submitted to the Pension Committee.

12. Standards of Conduct

12.1 The main elements of East Sussex County Council's Code of Conduct shall apply to Board members.

13. Access to the Public and Publication of Pension Board information

13.1 Members of the public may attend the Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in East Sussex County Council's Constitution.

13.2 Up-to-date information will be posted on the East Sussex Pension Fund website showing:

- Names and information of the Pension Board members
- How the scheme members and employers are represented on the Pension Board
- Responsibilities of the Pension Board as a whole
- Full terms of reference and policies of the Pension Board and how it operates.

14. Expense reimbursement, remuneration and allowances

14.1 All Pension Board members will be entitled to claim travel and subsistence allowances for attending meetings relating to Pension Board business (including attending training) at rates contained in the Members' Allowances Scheme in the East Sussex Council's Constitution. The Chair’s remuneration will be agreed on appointment. All costs will be recharged to the Pension Fund.

15. Accountability

15.1 The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions Regulator, and the National Scheme Advisory Board. The National Scheme Advisory Board will advise the Responsible

Authority (in the case of the LGPS the DCLG) and the Scheme Manager (in this case East Sussex County Council). The Pensions Regulator will report to the Responsible Authority (again, DCLG) but will also be a point of escalation for whistle blowing or similar issues.

15.2 In addition the Pension Board will continue to provide regular updates to the Pension Committee governance process. ESPF officers will be responsible for the contractual arrangements.

16. Decision Making Process

16.1 Employer representatives and scheme member representatives have voting rights albeit the Board is expected to operate on a consensus basis.

16.2 In the event of an equal number of votes being cast for or against a proposal there shall be no casting vote but the proposal shall be considered to have been rejected. The scheme manager shall be alerted when a decision is reached in this manner.

17. Attendance and quorum

17.1 Four of the voting members of the Pension Board shall represent the quorum for Board meetings to discharge business. The Chair or Vice Chair must be present for any meeting to proceed.

17.2 Advisors and co-opted persons do not count towards the quorum.

18. Conflicts of Interest

18.1 The Public Service Pensions Act 2013 requires that members of the Pension Board do not have conflicts of interests. As such all members of the Pension Board will be required to declare any interests and any potential conflicts of interest in line with legal requirements in the Public Service Pensions Act 2013 and the Pension Regulator's code. These declarations are required as part of the appointment process, as well as at regular intervals throughout a member's tenure.

Report to:	**Pension Board**
Date:	**9 September 2019**
By:	**Chief Finance Officer**
Title of report:	**Pension Fund Policies and Strategies – Statement of Investment Beliefs**
Purpose of report:	**To consider an update on the East Sussex Pension Fund's Statement of Investment Beliefs**

RECOMMENDATIONS

The Board is recommended to:

1. **Consider and comment on the revised East Sussex Pension Fund (ESPF) Statement of Investment Beliefs; and**
2. **agree to receive training on Environmental, Social and Governance (ESG) matters.**

1. Background

1.1 This report provides an update on recommendations at the Pension Committee – annual strategy day meeting. At the 10 July 2019 Annual Strategy Day, Hymans Robertson facilitated discussions on Responsible Investment matters, where the Committee discussed Environmental, Social and Governance (ESG) strategies next steps, which include short/long term approaches to mitigate climate change risks, a review of the Fund investment beliefs, etc.

1.2 The Pension Committee has on a number of occasions considered its approach to responsible investment practices and ways to increase the level of engagement on environmental, social and governance issues in relation to the management of the East Sussex Pension Fund (ESPF or "the Fund") investments including members training. The Fund itself is a member of the Local Authority Pension Fund Forum (LAPFF) and has used this primarily as a route to ensuring that the Fund's voice is heard in conjunction with other investors. Like most Local Government Pension Scheme (LGPS) funds, the Fund has preferred to use the route of engagement with its managers and companies rather than taking a particular stance of divesting in companies or market sectors, having considered the financial risks of such a course of action.

2. Statement of Investment Beliefs

2.1 To establish these additional beliefs, Hymans Robertson developed a questionnaire to gather the Committee's views on a range of areas relating to the Fund's investment approach. An action agreed from the session was to review the Fund current Statement of Investment Beliefs, which need to reflect the fund approach to climate change.

2.2 The attached (Appendix 1) draft Statement of Investment Beliefs reflects feedback from the questionnaire. The draft changes are highlighted in yellow. Having a clear set of investment beliefs can improve governance by providing a framework for all investment decisions and will form part of the overall investment process. The updated Investment Beliefs will be included as an appendix to the Investment Strategy Statement (ISS) to demonstrate the fund commitment to managing carbon risk and set targets that are both quantifiable/measurable where this is appropriate.

3. Conclusion and recommendations

3.1 The cornerstone of the Fund's policy on ethical investment – as set out in its ISS – is its interpretation of the Fund fiduciary duty and legal position regarding its duty towards ethical investment. This is an area in which further work will continue to be undertaken over the coming months.

3.2 Board members indicated in their responses to the Hymans Robertson questionnaire that they wished to receive additional training on ESG matters to further develop their understanding of this subject matter. The Board is recommended to agree to this proposed training.

IAN GUTSELL
Chief Finance Officer
Contact Officer: Ola Owolabi, Head of Pensions
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BACKGROUND DOCUMENTS

None

East Sussex Pension Fund

Investment Beliefs

September 2019

Fund specific investment beliefs

The Pension Committee has prepared a set of investment beliefs based on their experience of the workings of the Fund and the nature of the underlying investments held. These are set out below:

Belief: Clear and well defined objectives are essential to achieve future success

The Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.

Belief: Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection

The Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters.

Belief: Funding and investment strategy are linked

The Committee understands that a number of funding related aspects feed into investment strategy decisions, including maturity, sponsor covenant and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Committee.

Belief: Long term investing provides opportunities for enhancing returns

The Committee believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

Belief: Equities are expected to generate superior long term returns

The Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

Belief: Alternative asset class investments provide diversification

The Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Committee believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, absolute return funds, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Government bonds provide liquidity and a degree of liability matching

Government bonds have characteristics that are similar to the assumptions used in valuing pension liabilities e.g. sensitive to changes in interest rates and (for index-linked) to changes in market-implied inflation. This makes them a suitable asset for reducing the Fund's funding risks. In addition, this asset class has proven to be highly liquid at times of market stress, enabling it to be used for rebalancing and to help meet any outflows that may fall due. Given this, the Committee holds a proportion of the Fund's assets in this asset class.

Belief: Fees and costs matter

The Committee recognises that fees and costs reduce the Fund's investment returns. The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process.

Beliefs: Rebalancing can add value

Academic studies show that regular rebalancing can help add value over the long-term. As a result, the Fund has put in place agreed tolerance ranges for their liquid assets, with the intention that assets will be rebalanced, at least towards target, should these ranges be breached.

Belief: Active management can add value but is not guaranteed

The Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Committee will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance will arise, the Committee seeks to minimise the additional risk from active management, and continue to monitor active managers to ensure their mandates remain appropriate for the Fund.

Belief: Passive management has a role to play in the Fund's structure

The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

Belief: Choice of benchmark index matters

The Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focuses on the benchmark's underlying characteristics and considers how they may be appropriate for the Fund. Choice of benchmark is particularly relevant for passive mandates where the manager's job is to track the index as closely as possible.

Belief: Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments

The Committee recognises that ESG issues can impact the Fund's returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG related risks and issues through the Fund's investment managers. The Committee believes that companies with a responsible ESG policy are expected to generate better sustainable returns than companies with either a weak or no ESG policy, over the longer term. The Committee is reviewing its approaches to engagement and voting and will consider its ESG aims when constructing the Fund's investment portfolio. Divestment will remain the ultimate sanction for the Committee but will only be considered if prolonged engagement is viewed as being unsuccessful. The Committee intends to make use of collaboration with other funds to pursue their ESG objectives, including through being members of various bodies where this is felt to be effective. The Committee is also committed to an ongoing and continuous development of its ESG policy to ensure it reflects latest industry developments and regulations.

In addition, the Committee has agreed a set of beliefs in relation to the potential impact of climate change on the Fund's investments.

Belief: Climate change presents a financial risk to the future investment returns from the Fund.

The Committee recognises that climate change issues can impact the Fund's returns and reputation. The impacts of climate change on the returns from the Fund in the future are unknown at this point but the Committee recognises that they need to allocate sufficient time and resource to monitor the possible risks and also identify any investment opportunities which may become available as a result. A carbon measurement report will be commissioned periodically from a specialist provider.

The Committee believes that Climate change is a long-term material financial risk for the Fund, and therefore has the potential to impact our beneficiaries, employers and all our holdings in the portfolio. As a long-term investor, the Committee is aware that a transition to a low-carbon economy brings with it opportunities/risks and at all times the Committee need to balance that with having a clear focus on the financial performance of our portfolio.

The Committee recognises the need to integrate our climate goals with our wider programme of responsible investment, in particular the social impacts of transition, and will look for investment opportunities to support the Sustainable Development Goals and the Paris commitment for an orderly and just transition.

Belief: Close engagement with - and challenge to - the investment managers will improve understanding of these risks.

The Committee believes that investors with long term time horizons are more exposed to certain risks and requires that its investment managers are aware of and consider these when making investments. It is acknowledged that investment managers carry out detailed research on the prospects for individual companies and industries and have access to company management. The Committee meets with investment managers at their regular meetings and has the opportunity to discuss relevant developments in detail. To challenge investments to ensure these are being followed and that all relevant risks have been considered.

Belief: Individual stock selection decisions will be delegated to active managers but the Fund will retain the right to sell holdings in exceptional circumstances.

The Committee believes that it is the role of its active managers to do the necessary due diligence on each individual stock selection they make. The Committee requires that its active managers provide on request the investment rational for each investment that the have made. Where the Committee has determined through this engagement with the active manager that the risks posed by a stock outways the potential gain they will retain the right to instruct its active managers to sell those holdings. As a result, no restrictions are currently placed on the Fund's active investment managers.

Belief: The Fund will aim to collaborate with other investors where this is expected to have a positive impact

The Committee recognises that through active shareholder engagement it can get those companies it is invested in to improve their corporate behavior. Improvements made by these engagements lead to an increase in the long term value of the Fund's investments. The Committee believes that these can be maximized by collaborating with other like minded investors to increase the pressure for change and encourages improvements to be made.

Belief: The nature of the underlying benchmark is an important consideration, most notably for passive mandates.

The Committee understands that the underlying benchmark they set their investment managers will drive the behavior of the managers and the investment risks they will take. The Committee also recognises that for its passive mandates the manager will only buy the stocks within the benchmark they are tracking. The Committee understands that to ensure it is investing in the way that meets the needs of the Fund it needs to ensure it provides suitable benchmarks for each investment mandate. Therefore, the choice of benchmark index by the Committee is very important, it continue to explore the potential for using low carbon indices.

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Report to:	**Pension Board**
Date:	**9 September 2019**
By:	**Chief Finance Officer**
Title of report:	**Pension Fund Policies and Strategies – Communications Policy Statement**
Purpose of report:	**This report provides the Board with a draft updated version of the East Sussex Pension Fund's Communications Policy for consideration.**

RECOMMENDATIONS

The Board is recommended to consider the draft Communications Policy Statement and propose any amendments they may wish to make to it.

1. Background

1.1 The Local Government Pension Scheme (Administration) Regulations requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the East Sussex Pension Fund (the Fund).

1.2 This report sets out the current thinking regarding the Fund/Members communication responsibilities, using the most appropriate communication methods for the audiences receiving the information. The policy requires an annual review to be carried out.

1.3 The role of the Pension Board is to assist in the good governance of the scheme through the monitoring of Fund performance, adherence to statutory duties and efficient administration of the Local Government Pension Scheme (LGPS).

1.4 The Board represents the interests of the employers or members within the Fund and should channel information back to them effectively. The draft communication statement is attached as Appendix 1 to this report, and the Board Representatives are being consulted/requested to discuss and *propose any amendments they may wish to make to the attached communication policy statement,* taking into consideration how the Board want the fund to ensure effective communication between the Fund, scheme members and participating employers.

2. Communications Policy Statement

2.1 The overarching aim of the attached document is to maximise membership of the scheme through incrementally improving information and support to all members of the scheme and prospective joiners.

3. Conclusion and recommendations

3.1 There is a legal requirement under the Local Government Pension Scheme Regulations for a policy and its best practice to be refreshed on a regular basis. The updated 2019/20 version of the Fund's Communications Policy statement will be presented to the Committee for approval at its meeting on 23 September 2019.

IAN GUTSELL
Chief Finance Officer

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BACKGROUND DOCUMENTS

None

EAST SUSSEX PENSION FUND

GOMMUNICATION POLICY STATEMENT

September 2019

Communications Policy Statement

1. The Communications Policy Statement covers the policy of East Sussex County Council in its role as the administering authority for the East Sussex Pension Fund as required under Regulation 61 of the Local Government Pension Scheme (Administration) Regulations 2013. Communication is at the heart of everything East Sussex Pension Fund does and is key to us achieving our administrative objectives.

2. There is now a greater awareness of pensions amongst the public than ever before resulting in an increased demand for information and this demand means that as a LGPS Fund we need to continue to be proactive in providing and delivering clear and timely communications.

3. There have been changes for both the Fund and Scheme Employers as the LGPS came under the oversight of The Pensions Regulator. This change has meant that our Communications Policy regarding Scheme Employers became even more crucial to the effective administration of the LGPS, towards our joint role in maintaining the flow of accurate and timely information and ensuring compliance with The Pensions Regulator's Record Keeping Requirements.

4. The change also includes the effective governance of LGPS Fund with the recent changes to the composition of the Local Pension Boards and the formal establishment of a Pension Committee.

5. All local government pension schemes are required to publish a statement on the approach of the Pension Fund to communication with members, prospective members and employing authorities.

6. The East Sussex Pension Fund liaises with over 133 employers and approximately 75,000 members.

Day to Day Responsibilities

7. East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn the past and present contributing members, and their dependents.

8. The officer responsibility for the East Sussex Pension Fund rests with the Chief Finance Officer for East Sussex County Council (with the exception of the employees' benefits service). The Chief Finance Officer and officers of the Pension Fund, report to the Pension Committee and Pension Board. The day to day responsibility for pension governance, strategies, investment management and communication with employers rests the Head of Accounts and Pensions, who reports directly to the Chief Finance Officer.

9. The County Council entered into a partnership arrangement with Surrey County Council under the umbrella of Orbis to undertake the day-to-day functions pension administration of the ESPF of the LGPS. The main services provided by Orbis include governance, investment, maintenance of scheme members'

records, calculation and payment of retirement benefits including premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund’s Actuary.

10. Although the day-to-day work associated with governance and administering the LGPS are under the Orbis umbrella, the County Council takes its statutory responsibility very seriously. The County Council ensures that all the participating employers within the ESPF are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

11. It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with East Sussex County Council, as administering authority for the East Sussex Pension Fund. The County Council has in place an established annual employers’ pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

Overview of the Approach to Communication.

12. The East Sussex Pension Fund communicates with a wide variety of stakeholders, each with slightly different needs.

13. The Pension Fund maintains a dedicated web-page on the County Council’s website and in addition a dedicated member’s website known as the East Sussex Pension Fund website (ESPF). Regular communications are issued by the East Sussex Pension Fund to both employers and members of the Fund via periodic newsletters, E-mail Alerts, meetings and statements. Newsletters are communicated electronically to all employers who are encouraged to disseminate to all relevant staff.

14. The Pension Fund also accepts electronic communication, e.g. by email, as well as the more traditional telephone and paper-based communications.

15. In addition to regular electronic or paper based updates, there is an annual employer’s forum meeting for all Employers in the scheme hosted by the Administering Authority.

16. A dedicated customer telephone number, to handle the majority of queries, is maintained by the Business Operations - Orbis.

17. We recognise that individuals may have specific needs in relation to formats or language. We can, and do, respond to this on a request basis. Demand is not high enough, however, to incur the cost of automatically preparing and maintaining such alternative formats etc.

Communication with Deferred and Active Members.

18. The core communication objective is that all active members, within all relevant employer organisations, are kept up to date with any changes in scheme benefits, can access scheme advice and have an awareness of the overall performance of the Investment Fund.

The Fund communicates with its members throughout the membership journey before the point of enrolment continuing to retirement and provides a dedicated webpage on the County Council's and East Sussex Pension Fund website and a customer contact centre. The types of information provided to members at various stages in the employment relationship are as follows:

New Starters
All new employees with an employment contract with the authority exceeding 3 months are auto-enrolled to the scheme at the end of the three month period. These members can opt out of the scheme or join the 50/50 part of the scheme. All new starters are provided with the following information, which is also available on the Orbis Pension portal:

- Opt-out form
- Scheme Membership form
- Scheme booklet
- Previous Pension Rights form
- Expression of Wish Form

Active and Deferred Members

- Throughout the term of their membership, all active and deferred members will receive an annual benefit statement providing details of the current value of their benefits, the value of death benefits and a projection of the benefits payable at retirement. The statement also includes membership information including details of the member's expression of wish and details of the annual allowance. The annual benefit statement is available on the self service portal and can be posted to members on request. Other communication tools include: Dedicated web-page on the County Council's and East Sussex Pension Fund web-site;
- Regular electronic or paper-based newsletters. For other employer bodies, this is dispatched to a lead contact (usually within the HR and Payroll function) with a request that it is shared with all relevant staff;

- Notification of a dedicated customer query telephone line maintained by the Business Operations – Orbis;
- Maintenance and availability of Scheme Booklet;
- Advice on request about such matters as estimated retirement benefits etc.

The pension team provide presentations to all staff to cover matters such as making additional voluntary contributions, preparing for retirement, estimating projected retirement benefits, pension commutation options etc. These topics are also covered in the **bi-annual** newsletter

Communication with Pensioners

19. The core communication objective is to ensure that pensioners are aware of the general performance of the fund (recognising this will not impact on pensions in payment) and any specific factors that do affect pensions in payment (e.g. annual pensions increase).

20. This is achieved by the following:

- Notification of pension increase posted to the home address;
- Clear detail on customer query contact routes on payslips posted to the home address;
- Access to the websites;
- Access to periodic road shows (advertised in payslips posted to the home address).

Communication with Prospective Members and their Employing Authorities.

21. The core communication objective is to ensure that all employee joiners, to all employers in the East Sussex Pension Fund, are made aware of the benefits of becoming a member of the Local Government Pension Scheme – and are assisted in the subsequent joining arrangements.

22. This is achieved by the following:

- Joiner information via all relevant employers, made available to all employee joiners;
- Access to customer query contact details;
- Access to the dedicated web-page and sites;
- Newsletters;
- Receipt of all information and opportunities afforded to existing active members as set out above.

Communication with all Relevant Employer Organisations

23. The core policy communication objective is to ensure that all employers are aware of the performance of the Investment Fund (given its impact on employer contribution rates); any scheme changes impacting on the employer's HR or workforce planning; any key discretions to be exercised by the individual employer; advice on the future valuation outlook; and advice and agreement on key frequent and annual data and financial transaction flows between the administering authority and individual employers. All this is in addition to the general pensions awareness employers will wish to maintain as a 'good employer'.

24. This is achieved by the following:

- Regular employee newsletters shared with all employers;
- Specific communications on scheme changes for employers;
- Quarterly summary reports to employers on the Investment Fund through ESFOA;

- Annual general meeting with all employers dealing with investment performance, actuarial insights and any scheme changes;
- Routine sharing of employers discretions exercised by ESCC as a preformed to enable other employers to consider their own approach.
- Direct access to the Actuary to the fund if required;
- Periodic road shows/seminars with individual groups of employers;
- Specific employer guide, both paper based and maintained on the websites;
- Briefings for groups of senior managers as requested including sharing of key committee papers produced;
- Briefings and sharing of information with union representatives.

Communication with the Pension Committee and the Pension Board

25. The core communication objective is to ensure all elected members are aware of the benefits of joining the LGPS to ensure the nominated members, in their committee roles and members of the Pension Board, are kept up to date on key investment or scheme issues.

26. This is achieved by the following:
    - Providing relevant information on current issues at Pension Committee and Pension Board meetings.
    - Periodic electronic briefing notes for ESCC members on key issues, but shared with all employers to share with the elected members or equivalent;
    - Detailed periodic reports to the appropriate committee to agree, for example, official responses to consultation requests. Again, these are shared with all employees to provide some pro forma guidance.
    - Detailed and dedicated training for all Members of both the Pension Committee and Pension Board.

Communication between the Local Pension Board, Scheme Members and Employers

27. The Local Pension Board was established in April 2015 to assist the Committee in securing compliance with the scheme regulations and the effective and efficient governance and administration of the LGPS. It is made up of 3 scheme members' representatives and 3 scheme employers' representatives along with a non-voting independent chairman.

28. Pension Fund officers will provide professional support to the Pension Board, ensuring regular communication with members and employers through –
    - Opportunity for members of the public to attend the Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in East Sussex County Council's Constitution.
    - Up-to-date information will be posted on the East Sussex Pension Fund website with full terms of reference and policies of the Pension Board and how it operates.

- Officers ensuring that draft reports on investment, governance and administration matters are available for consideration.

Pension Board Scheme Members Representative – Engagement*….ideas for discussion at the meeting*

29. Our aims for communicating with our scheme members are:
    - to increase the take up of the LGPS
    - to better educate members of the benefits of the scheme to reduce the general queries being directed to the ESPF administration team
    - to keep members briefed and informed of any changes to their scheme benefits and pension arrangements.

    The Key actions will be:
    - review of communication methods to ensure they are effective and efficient
    - ensuring automatic enrolment and re-enrolment is well communicated to new starters and joiners
    - A dedicated page on the East Sussex Pension Fund website, including details of the Board and publication of its Annual Report
    - Ad hoc articles in newsletters, if required
    - Regular pension presentations to staff to explain arrangements for members to top up or enhance their pension position and to discuss major changes to the scheme.
    - Signposting on the website to the Employee Representative to facilitate 'meet your representative meetings'
    - Issuing briefing notes to keep them updated with the activities of the fund/PB.
    - Regular email bulletins following each PB meetings
    - Seeking contribution to the PB agenda on areas of concerns/specific topics.
    - Introduction to pensions on the employer induction course for new starters and other joiners and introduction to the Employee's representative(s)…………………………
    - Signposting to the annual report on the pension fund to create a better understanding of the investment arrangements

Pension Board Scheme Employers Representatives – Engagement *….ideas for discussion at the meeting*

30. Our aims for communicating with our scheme employers are:
    - to clarity the role and responsibilities of a scheme employer and improve communication and engagement particularly in meeting statutory deadlines and complying with legislation.
    - to assist them in understanding their role as a scheme employer
    - to work in partnership with employers to develop sound funding strategies / and covenant support.
    - to work together to achieve accurate scheme actuary data submissions
    - to ensure smooth staff transfers
    - to put in place a clear performance management framework that governs the orderly conduct of business as usual.

The Key actions will be:

- offer induction meetings for all new scheme employers
- assist with the implementation online submission portal
- training and development of employers in the requirements of the fund
- Introduce a quarterly electronic employers newsletter to provide guidance on common problems
- on-going promotion of the employer section of the ESPF pension website
- working with relevant parties to admit new employers to the fund
- A dedicated Employers' pages on the East Sussex Pension Fund website, including details of the Board and publication of its Annual Report
- Ad hoc articles in newsletters, if required
- Regular 'meet your representative meetings'
- Issuing briefing notes to keep them updated with the activities of the fund/PB.
- Regular email bulletins following each PB meetings
- Seeking contribution to the PB agenda on areas of concerns/specific topics.
- Extending Invitation to the Annual Employers Forum.

Communication with other Key Stakeholders

31. These vary from the Administering Authority Fund's Actuary to the Inland Revenue and Orbis. The needs are different. The Administering Authority takes upon itself the responsibility to ensure the most effective and efficient communication processes with these other stakeholders to ensure proper and necessary business is conducted efficiently and effectively. In addition, the Administering Authority will seek to ensure proper and professional response to media queries.

Communication with Council Tax Payers

32. The core communication objective is to ensure that the Council Tax Payer are aware of the pension cost issues as part of the whole range of cost and service dynamics that the Council has to deal with. This is a matter for each individual council.

33. For ESCC, this is achieved by ensuring the pensions cost issues are a transparent part of the Council's wider approach to Reconciling Policy, Performance and Resources.

Conclusions and Performance Management

34. ESCC, as Administering Authority, takes its responsibility on behalf of all employees and employers in the scheme very seriously. Communication is vital with all key stakeholders. This is not just to ensure relative needs are recognised

and met but to ensure a continued high confidence in the administration of the scheme in East Sussex.

35. Each communication channel will have an obvious performance measure in terms of inputs (e.g. annual pensions meetings are held annually or telephone calls are answered within 30 seconds or post enquiries are responded to within seven days). Most importantly, it is necessary to assess the quality of the communication.

Key contacts

Wendy Neller Pensions Strategy and Governance Manager Business Services Department East Sussex County Council County Hall St Anne's Crescent Lewes East Sussex BN7 1UE Tel: 01273 481904 Wendy.Neller@eastsussex.gov.uk	Ola Owolabi Head of Pensions Business Services Department East Sussex County Council County Hall St Anne's Crescent Lewes East Sussex BN7 1UE Tel: 01273 482017 Email: Ola.Owolabi@eastsussex.gov.uk

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Agenda Item 9

Report to:	**Pension Board**
Date:	**9 September 2019**
By:	**Chief Finance Officer**
Title of report:	**Local Government Pension Scheme (LGPS) Regulatory Update**
Purpose of report:	**To provide the Board with an update on the current regulatory environment, and consultations that could impact the Local Government Pension Scheme.**

RECOMMENDATION

The Board is recommended to consider and comment on the report.

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1. Background

1.1 There are a range of ongoing consultations and discussions concerning the Local Government Pension Scheme (LGPS) and any proposed regulatory matters that could affect scheme administration. This includes responses to consultations that have been made.

1.2 The appendices to this report sets out updates in relation to the topics below, which are currently underway or completed within the LGPS:

- Good Governance in the LGPS;
- The Pensions Regulator (TPR) Public service governance and administration survey 2018;
- Response to the Changes to the local valuation cycle consultation.

2. Good Governance Review

2.1 At the June meetings of both the Pension Board and Pension Committee, members considered various updates under the LGPS Regulatory Updates, including the Good Governance Review; and that the LGPS Scheme Advisory Board (SAB) in England and Wales has commissioned Hymans Robertson to facilitate a consultation with LGPS stakeholders on governance structures and to examine the effectiveness of current LGPS governance models, including considering alternatives or enhancements to existing models which can strengthen LGPS governance.

2.2 SAB has now published its report (attached as Appendix 1), which sets out the outcomes of the survey; recognising strengths and weaknesses in all governance models; and proposing that an outcomes-based approach would be the most effective method of improving governance, rather than mandating a single governance structure for all. This allows pension funds to continue doing what currently works well while still ensuring the highest governance standards across the scheme.

2.3 The summary of the proposals are as follows:

- Outcomes-based approach to LGPS governance with minimum standards rather than a prescribed governance structure;
- Critical features of the 'outcome-based' model to include –
  - Robust conflict management, including clarity on roles and responsibilities for decision making;
  - Assurance on sufficiency of administration and other resources (quantity and competency), and appropriate budget;
  - Explanation of policy on employer and scheme member engagement, and representation in governance

    - Regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes and delivered.

- Enhanced training requirement for S151s and Pension Committee members (requirement of Pension Committee should be on a par with the Pension Board members).
- Update relevant guidance and better sign-posting.

2.4 The Scheme Advisory Board has now invited the Hymans Robertson project team to assist the Secretariat in taking forward the next stage of the good governance project. Two working groups will be established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out; and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. Both groups will comprise a wide range of scheme stakeholders to ensure a full range of views and options are considered. The aim is for an options report to be ready for the Board's consideration it meets in November. Any proposals agreed by the Board would be subject to a full stakeholder consultation before being put to Ministry of Housing, Communities and Local Government (MHCLG).

3. The Pensions Regulator Annual Governance and Administration Survey 2018

3.1 The 2018 Annual Governance and Administration Survey for public service pension schemes has been published (Appendix 2) by The Pensions Regulator (TPR). The key observations are:

- *Foundation blocks in place* - The report indicates that the vast majority of LGPS funds have now got, at the very least, the basic governance and administration foundations, such as Local Pension Boards, risk registers and data improvement plans, in place.
- *Administration matters* - Appreciation of the importance of scheme administration has increased, but there is still much more focus needed in this area from Pension Committees and Pension Boards, both of which have a big role to play. TPR commented that it is imperative that Pension Boards cover administration issues on every agenda, particularly those that are persistent or emerging.
- *It's all about data* - Not surprisingly the importance of member data runs throughout the report. TPR's expectation is for improvement plans to be in place and funds to continue the push towards full electronic data submissions from all employers.
- *Cyber security, keep vigilant!* - Cyber security has its own separate section within the report and TPR wants to ensure public service pension schemes give this issue due prominence in the running of the scheme.
- *TPR role now clearer and more relevant* - The role and perception of TPR is one that it is both visible and respected but falls down in the area of being tough and decisive. Nevertheless, TPR has been seen as a strong driver in increasing good governance and raising administration standards and performance across public service pension schemes.

3.2 The report is an important insight into the wider LGPS governance and administration landscape. Encouragingly they have seen year on year improvements across every category. But, as ever, TPR does not expect schemes to rest on their laurels – continuous improvement and development is still expected. TPR is quick to state that this is merely the start of the journey to improve governance and administration standards and has said it will use its 2018 survey results to inform future regulatory initiatives and schemes will continue to see greater engagement from TPR.

4. Response to the Consultation on changes to the local valuation cycle

4.1 The Board recently considered the MHCLG policy consultation called 'LGPS: Changes to the local valuation cycle and the management of employer risk policy'. The consultation contains proposals on a number of matters relating to the LGPS in England and Wales. Amongst these, it is proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial). The Government consultation is intended to ensure that scheme and local valuations are aligned. *The closing date for responses was 31 July 2019.*

4.2 The East Sussex Pension Fund (ESPF or "the Fund") response is attached as Appendix 3 focusing on the proposed number of changes. This includes the proposal to move the local valuation cycle (which sets employer contributions) from triennial to quadrennial, with the aim of aligning with the scheme valuations (carried out by the Government Actuary Department for cost management purposes). Although the rationale is weak when considered from a local, funding perspective, MHCLG does, however, appear to recognise this and has proposed a number of potential mitigations, including interim valuations.

4.3 ESPF's response also addresses what has proved to be a material oversight in the introduction of the requirement to repay an exit credit to an outgoing employer, i.e. the failure to allow administering authorities to consider any risk sharing or other arrangements which are not consistent with any surplus being repaid on exit. Many administering authorities have put exit credits on hold, but clarity will be needed on what should happen where exit credits have already been paid but where risk sharing arrangements were in place – will steps need to be taken to reclaim these payments?

5. Competition and Markets Authority order

5.1 The Competition and Markets Authority (CMA) has established new requirements affecting LGPS funds. There is now a requirement for the Fund to establish investment consultant's objectives that are linked to the Fund longer-term investment objectives. There may also be wider reaching implications of the Order, including how some of the new pooling arrangements might be viewed and what advice will be deemed as being regulated.

5.2 The changes follow an investigation by the CMA into the investment consultancy market which found weaknesses, including trustees entering into uncompetitive terms or failing to switch to potentially better providers because they struggled to compare fees and performance.

5.3 Following this new requirement, TPR has published a consultation (Appendix 4) on new guidance to support tougher rules on investment governance. This consultation appears to reflect a position of the LGPS only being in scope for CMA remedy 7 - the obligation to set strategic objectives for investment consultants. The consultation runs until midday on 11 September and involves guidance for a pension committee on how to choose an investment model, how to set objectives for those providing investment advice to the committee, and how to run competitive tenders before appointing investment consultancy services. SAB has also produced a briefing note (Appendix 5) on the CMA Order and its impact on the LGPS taking into account the currently understood position that only remedy 7 will apply to the LGPS.

5.4 The Pension Board and Pension Committee will need to establish objectives for consultants by no later than 10 December 2019. To support this, Hymans Robertson will be raising awareness of the new requirements and initiating discussions around potential objectives, after which a logical progression would be to consider setting objectives for all key service providers.

6. The LGPS Community

6.1 The Local Government Association (LGA) has published a new document called 'the LGPS Community' attached as Appendix 6. The document was produce in response to a request from the Local Government Pensions Committee (LGPC). The purpose of the document is to explain the relationship between the different bodies that make up the LGPS community. The document will be particularly helpful to Pension Committee and Pension Board members, as well as administration staff, in explaining how their role fits in to the wider LGPS community.

7. Conclusion and reasons for recommendation

7.1 The Board is recommended to consider and comment on the report.

IAN GUTSELL
Chief Finance Officer

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BACKGROUND DOCUMENTS

None

HYMANS ROBERTSON

Good governance in the LGPS

July 2019

Addressee

This report is addressed to our client, the Scheme Advisory Board for the Local Government Pension Scheme in England and Wales (SAB).

This Report has been prepared for the benefit of our client, the SAB. As this Report has not been prepared for a third party, no reliance by any third party may be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the SAB. If this report is shared with any third party, it must be shared in its entirety.

Thanks to contributors

We are indebted to all those who responded to the survey and engaged in interviews and events that helped inform this report. We are grateful to you for being generous with your time and expertise, for your confidence in sharing your experiences openly and for responding so constructively and creatively.

Your views on current best practice, areas for improvement and creative and practical ideas for further strengthening governance in the LGPS are reflected in the proposals we present to SAB here.

We hope that your contribution will help further strengthen and future-proof governance in the LGPS.

Contents

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Executive summary

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward.

Given the unique nature of the LGPS, guaranteed by administering authorities and funded to a large degree by tax-payers, a criterion specified by SAB is that any models considered must maintain strong links to local democratic accountability.

Process

We engaged extensively with all stakeholder groups and all fund types via an online survey (140 respondents), one-to-one conversations through interviews and seminars (153 respondents), speaking engagements, a workshop with the Association of Local Authority Treasurers (ALATS), and discussion with the CIPFA Pensions Panel and the Society of County Treasurers (SCT).

We focussed on the following criteria for assessing governance arrangements; Standards, Consistency, Representation, Conflict Management, Clarity of Roles and Responsibilities and Cost. We were asked by SAB to consider how existing and alternative governance models fared against these criteria.

We considered four governance models:

- **Model 1:** improved practice
- **Model 2:** Model 1 plus greater ring-fencing
- **Model 3:** joint committee; and
- **Model 4:** separate Local Authority body.

These models were described in qualitative terms with the recognition that some of the characteristics attributed to one model could also be replicated in another model and that the final solution may draw on the features of more than one model.

Results and themes from survey responses

The online survey responses indicated a first preference for governance Model 2 (greater ring-fencing) followed by support for Model 1 (improved practice). Respondents recognised that governance models along these lines may need independent monitoring to add bite and ensure consistency of application. »

140 respondents to our online survey

one-to-one conversations

153 attendees at interviews and seminars

discussions with CIPFA and SCT

Respondents favour developing a set of standards that all funds are required to achieve...

Model 2 was also the clear preference in additional surveys at the PLSA conference in May* and other events (*Models 1 and 2 between them had more than 70% support).

Few respondents supported Model 3 (joint committee) citing no benefits over existing arrangements and considerable added complexity as the main reasons. Some respondents could see value in Model 4 (separate LA body), including one trade union for whom a version of this was the favoured model. However, for most this value was outweighed by concern about weakening relationships with councils who are key sponsors of the scheme and a belief that establishing this model would incur disproportionate cost to any benefits that could be delivered.

Through the written responses, interviews and other engagement, many stakeholders pointed out that their existing models provided many of the features and benefits of Models 1 and 2. Many had found good solutions to some of the challenges faced within the current structure and welcomed the opportunity to share these with peers and learn from others' experiences. This process enabled us to identify

i. Some best practice within current governance arrangements that is delivering good outcomes and may have potential for wider application across the LGPS; and

ii. Additional ideas for further strengthening governance within the current regulatory framework.

We have included these in the report.

Conclusions

- It is clear from survey responses that governance structure is not the only determinant of good governance. Funds with similar governance models deliver different results and good examples exist across a range of different set ups.
- Survey respondents were also clear that establishment of new bodies is not required, although this should be facilitated for funds who wish to pursue other arrangements voluntarily. Instead, the focus should be on greater specification of required governance outcomes from within the existing structures, and a process to hold funds to account for this.
- Respondents favour developing a set of standards that all funds are required to achieve, drawing on current best practice and not imposing disproportionate burden on administering authorities or disrupting current practices that deliver good outcomes already.
- Respondents emphasised that independent review is needed to ensure consistency in application of standards.

Key proposals

1. **'Outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance model.

2. **Critical features of the 'outcomes-based' model** should include:
   (a) robust conflict management including clarity on roles and responsibilities for decision-making;
   (b) assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget;
   (c) explanation of policy on employer and scheme member engagement and representation in governance; and
   (d) regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.

3. **Enhanced training requirements** for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).

4. **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for s151s on LGPS responsibilities and 2008 statutory guidance on governance compliance statements. This guidance pre-dates both TPR involvement in LGPS oversight, local pension boards and LGPS investment pooling.

We also set out suggested actions for implementing these proposals if agreed by SAB.

1. Introduction

Context, purpose and scope

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in the scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The purpose of the survey, undertaken for SAB, was to identify ways of further strengthening LGPS governance in the face of these new challenges, setting a bar for standards that all funds should achieve, drawing on current best practice and not imposing additional unnecessary burden on administering authorities or disrupting current practices that deliver good outcomes already.

Given the unique nature of the LGPS, guaranteed and funded to a large degree by council tax-payers, a critical condition specified by the SAB was that any proposals must maintain strong links to local democratic accountability.

In developing the proposals made in this report, we consulted with many LGPS stakeholders. As expected, there were many different views and suggestions made to improve the governance arrangements in the LGPS. We have reflected many of these views in the body of the report, particularly where a view or proposal was articulated by several parties, and where possible we have indicated why some of these views or suggestions have not been taken forward in the final proposals. The proposals submitted to SAB in this report are those we believe would deliver improved governance at proportionate cost and reflect a consensus across most stakeholders.

We recognise that there are a small number of administering authorities (such as London Pensions Fund Authority and the Environment Agency) with unique arrangements. While we engaged with both of these funds to understand their perspectives and approaches to governance we recognise that some of the potential governance models as set out in the survey may not be appropriate, or even possible, for these bodies.

2. Process

The aim of the work we have undertaken was to deliver proposals to the Scheme Advisory Board that:

- Identify and address any actual or perceived issues within current LGPS governance arrangements, including conflicts for LGPS host authorities;
- Are based on a wide consultation to increase the likelihood of stakeholder support;
- Are proportionate and can be readily implemented; and
- Maintain local democratic accountability.

Process

The process we used is described below:

1. **Fact-find phase:** We carried out interviews based on an open-scripted questionnaire with a diverse range of experienced officers, elected members and other stakeholders in order to identify any issues within current LGPS governance arrangements. The outcome and conclusions were shared with SAB in order to assist in developing the governance models which were consulted on in the online survey.
2. **Online survey:** We conducted a wider consultation in the form of an online survey on the governance models identified by SAB. Input was sought from all relevant parties including s151 officers, s151 officers of non-administering authorities, pension fund officers, elected members, pension board members including scheme member and employer representatives as well as other interested parties and organisations.
3. **Other engagement activities:** In addition to the survey, we engaged stakeholders through other activities such as interviews, seminars and speaking events to capture as wide a view as possible.
4. **Report:** This report sets out the outcomes of our consultation activities including a full analysis of the key issues and proposals for addressing these issues, including commentary on any required legislative or guidance changes were these would realise significant benefits.

Who we consulted

In conducting our wider consultation, we engaged directly with all stakeholder groups and all fund types via:

- Online surveys which were sent to all relevant contacts on SAB's and Hymans Robertson's databases. These were also sent to any individual or organisation that requested them out with the initial mailing lists. In total, 140 responses were received to our online surveys by the closing date.
- One-to-one interviews were carried out with individuals or organisations by request or where further clarification of online responses were sought. Organisations included PSAA, NAO, CIPFA, SLT, Unite and Unison.
- Some organisations, such as CIPFA and PIRC, provided their own written submissions.
- Three seminars were held with open invitations to collate feedback from larger group.

There are 87 [1] funds within the LGPS in England and Wales. We had direct feedback from representatives at 76 of these split across the various designations used by SAB in their annual report (see **Table 1**).

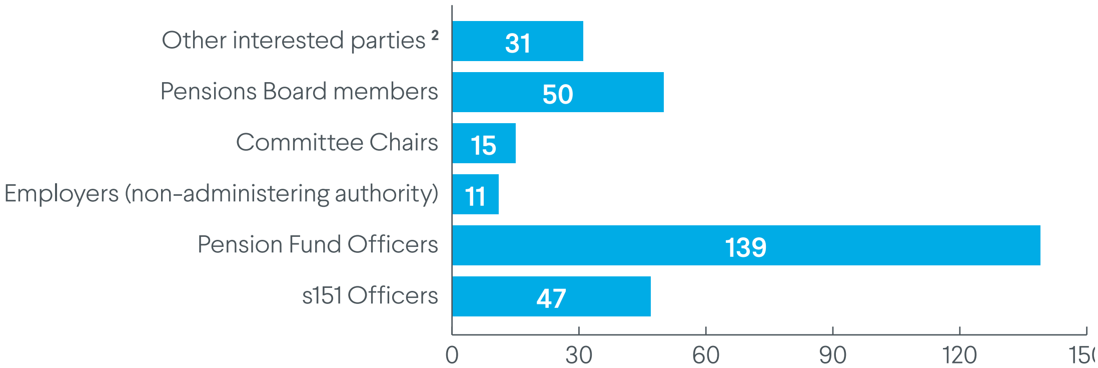
We engaged with a wide variety of stakeholders as set out in **Chart 1** below.

In addition, we have presented and collected feedback at key events over the period including the PLSA conference, CIPFA Pensions Panel, meetings of the Society of County Treasurers, Society of Welsh Treasurers and ALATS. Our findings and proposals reflect feedback from all of these.

Table 1: Respondents from LGPS funds in England and Wales, as designated by SAB annual report

	Universe	Responses	Interaction through: Survey	Interaction through: Interview
Unitary Authorities	12	11	24	17
London Boroughs	31	22	20	25
County Councils	27	26	64	55
Welsh Funds	8	8	15	14
Metropolitan Boroughs	6	6	8	17
Other	3	3	2	3
Independent responses			7	22
TOTAL	**87**	**76**	**140**	**153**

Chart 1: Stakeholders we engaged



1 Excluding admission body funds, passenger transport funds and the environment agency closed fund.

2 Including trade union representatives.

3. Survey results

The online survey issued as part of the consultation is set out in **Appendix A**. We sought views on four potential governance models SAB chose to consult on. All were assessed by respondents against criteria agreed with SAB. This was done through a combination of numerical scoring and free form commentary.

A summary of the numerical scores are set out below for each of the four structures:

- **Model 1 (Improved practice)** Introduce guidance or amendments to the LGPS Regulations to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.
- **Model 2 (Greater ringfencing)** Clearer ringfencing of pension fund management from the host authority, including budgets, resourcing and pay policies.
- **Model 3 (Joint committee)** Responsibility for all LGPS functions delegated to a joint committee comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes joint committee responsible for recommending budget, resourcing and pay policies.
- **Model 4 (New Local Authority Body)** An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act 1972 provisions.

In carrying out the survey, respondents were asked whether each of the models shown would have a positive or negative impact on each of the following criteria:

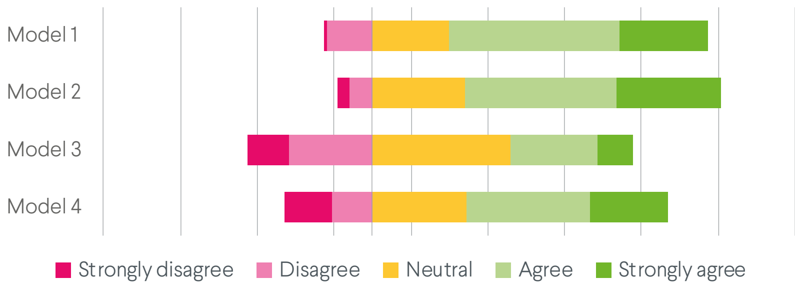
1	**Standards**	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
2	**Clarity**	The model delivers clarity of accountability and responsibility for each relevant role.
3	**Conflict**	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such as budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
4	**Consistency**	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
5	**Representation**	The model allows for appropriate involvement in decision-making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
6	**Cost**	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

The following charts summarise the extent to which respondents agreed that each model delivered against the six criteria. The further to the right the line appears, the more strongly respondents favoured the model against the criteria.

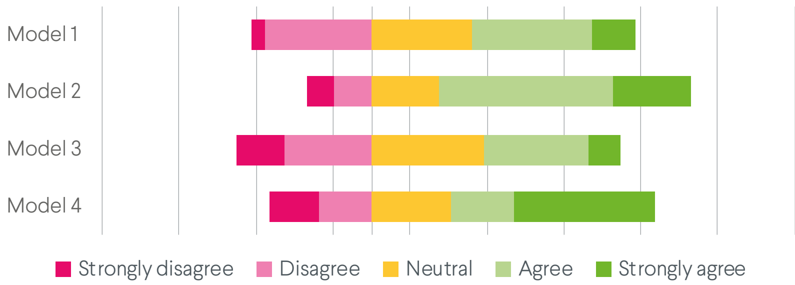
Comments on survey responses

- Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.
- Model 4 scored reasonably well on questions relating to criteria 1 to 4. A minority of respondents supported this model or some variation on it. For example, one of the trade unions favoured a variant of Model 4 with a changed role for local councillors because they believe that it could reduce potential governance conflicts they see in the role of local councillors who must act in the best interests of scheme members and at the same time in the interests of local tax-payers. However, the majority of respondents raised concerns over the question of appropriate involvement in decision making. These respondents felt that democratic accountability may be weakened in this model or the influence of the lead local authority, who is the guarantor of last resort for the fund, would be diluted. The model also scored very poorly on cost or value for money with a majority of respondents feeling that the model would be very expensive and disruptive to implement.
- Model 3 received weakest support overall. Respondents felt that the model would be complex to set up and manage and would deliver no perceived improvements in governance outcomes.
- The sentiment reflected within the commentary in the responses was also strongly in favour of Models 1 and 2, with many respondents identifying features of Models 1 and 2 that are already delivered in their current structure.
- However, responses also recognised that in order to achieve governance improvements through Models 1 and 2, the governance regime needs to include independent monitoring or review of local fund arrangements to ensure that everyone attains a minimum standard and that those beyond that level seek continuous improvement.

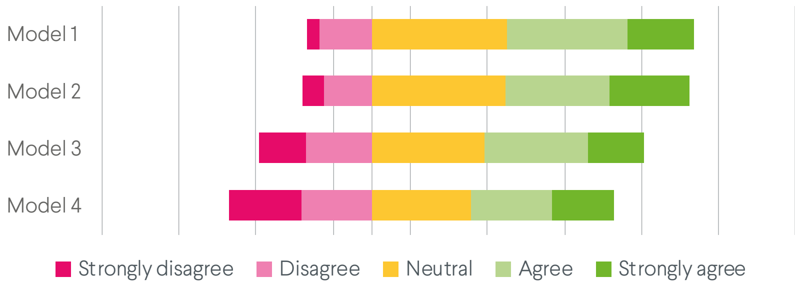
The model enables funds to meet the required standards



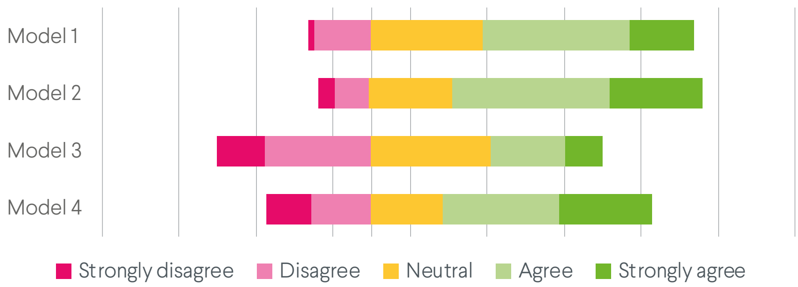
The model minimises conflicts between the pension function and the host local authority



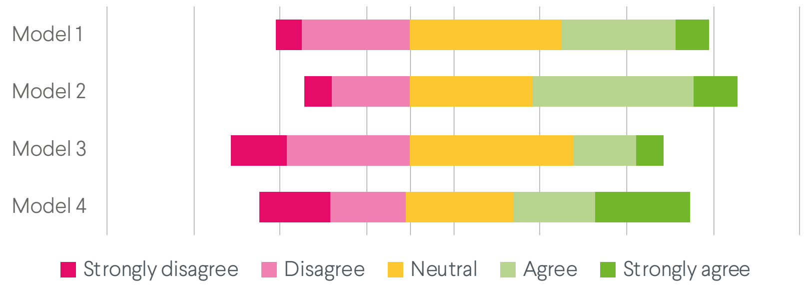
The model allows for appropriate involvement in decision-making for key stakeholder



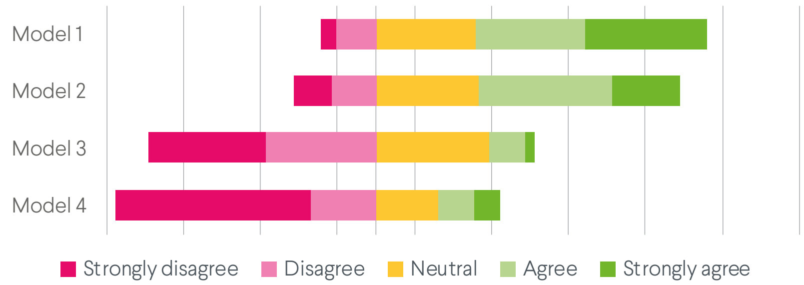
The model delivers clarity of accountability and responsibility for each relevant role



The model minimises dependence on professionalism and relationships to deliver statutory responsibilities

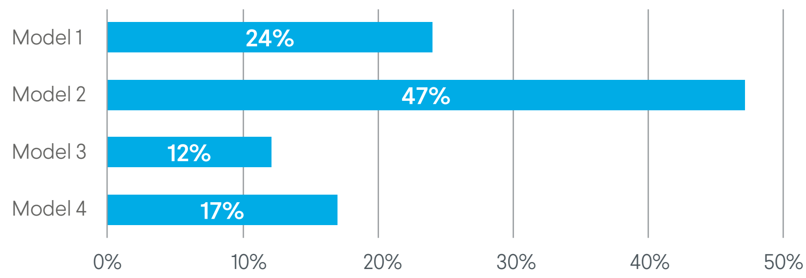


The cost of implementing and running the model is likely to be worthwhile versus benefits delivered



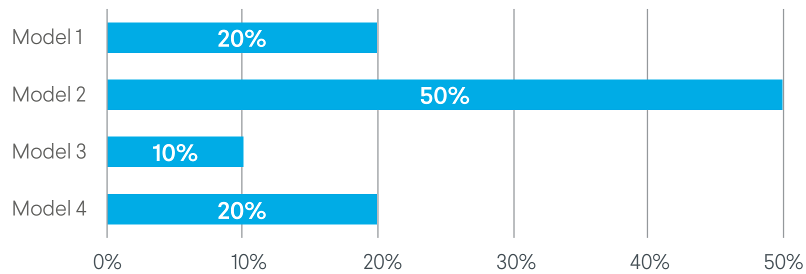
PLSA

Which structural governance model do you prefer from the four models discussed?



Webinar

Which structural governance model do you prefer from the four models discussed?



Additional survey data

In addition to the online survey, we asked attendees at our PLSA session and other events a set of questions on their preferences.

Around 70% of respondents favoured Models 1 or 2.

Very similar results (from a smaller sample size) were recorded at our webinar.

4. Survey themes

The following section reflects some of the views raised during various conversations. Direct quotations reflect a specific point made by an individual which we judged to be representative of views of a number of respondents. Comments not in quotations are our expression of views expressed by a significant number of respondents.

Key:

CC	County Council
Met	Metropolitan
LB	London Borough
TU	Trade Union

Standards

1. There was an almost unanimous view that there should not be a single model of LGPS governance imposed on all funds.
2. The view 'one size does not fit all' was frequently stated by respondents from all categories of respondent.
3. There was a strong view from respondents that members of pension committees should be mandated to have the same level of training as local pension board members.
4. A small minority expressed the view that this would lead to problems getting elected members to sit on pension committees.
5. The fact that pension committee members can change due to elections or being moved around can cause problems with consistency and maintaining knowledge and skills.

   "It is a perversion that LPB members require a higher degree of training than elected members."

   Officer, LB

   "[The] biggest issue is stability at elected member level. Too much turnover."

   Officer, LB

6. Several respondents said that guidance from several sources caused confusion as to which was current, which was relevant and what are 'musts' (mandatory) and 'shoulds' (guidance or best practice):

   "Funds are currently pulled in too many directions by lots of guidance – CIPFA, SAB, TPA etc."

   Officer, CC

   "[Guidance from numerous sources] muddies the waters between what is statutory guidance and what isn't."

   Independent Advisor

7. The idea of extending the existing concept of peer challenge to include pensions was mentioned by some respondents. (Committee Chair CC, s151 CC and officers Met)

Clarity of decision-making

1. Some respondents felt that there was already a clear framework around decision making within their authority but other reported that there was very little clarity around where key decisions were made.
2. Two funds suggested that it was unclear who was responsible for decisions around outsourcing the administration function; was it the pension committee, s151 officer, full council?
3. One fund reported it very difficult for the council's constitution to be updated - the updates required for pooling have still not been made.
4. Greater clarity around decision-making is a good idea: "Some decision-making conventions are lost in the mists of time."

   Officer, CC

Consistency

1. Commentary on Models 1 and 2 recognised that some sort of monitoring, enforcement or independent review would be needed to ensure that the required standards and governance outcomes are delivered.
2. There was strong support for the professionalism of s151 officers and the role they play.
3. A few respondents noted that the work pressures on s151 officers is greater than ever before and worried about their scope to devote the necessary time to the fund.

   "My s151 is incredibly supportive and helpful but I accept s151s at other funds are not as engaged or are engaged in the 'wrong way'".

   Officer, CC

   "Separation would actually push s151s away from the fund, leading to less responsibility and engagement with the fund, leading in turn to less expertise and worse decisions. Better to get s151s more closely involved so they understand the requirements of the LGPS and make better decisions."

   Officer, CC

4. A number of respondents stated that "Statutory/ fiduciary duty clarity would be useful."

Conflicts

1. Most respondents felt that there was acknowledgement of the potential conflict faced by elected members and officers and that those potential conflicts were managed well.

2. However, it was not unusual for respondents to suggest that there needed to be better distinction between the employer and administering authority role.

   "No one in the council understands the difference between the 'council' function and the 'pension' function."

   Officer, LB

   "The make-up of panel/committees is not working – too much political interference."

   LPB Chair

   On conflicts:
   "I don't see abuses. The ability is there for there to be abuse but it doesn't happen."

   Officer, CC

   "LGPS is full of conflict, s101 committees are beholden to the council who are mainly focused on council tax-payers."

   TU

3. Some pointed out that concentrating on conflicts missed some of the advantages of LGPS funds being part of local authorities.

   "[This review] should address the many advantages and benefits of working for a large, well-run and modern council.

   s151 CC

   "[s151] role involves tensions, not conflicts. Tension can't always be seen as a bad thing."

   Officers, Met

Budgets and resourcing

1. There was a range of approaches when it came to budget setting. In some instances, the budget available to the pension fund was determined as part of the wider council budget setting process with little or no input from pension officers and no role for the pension committee. Other funds reported that budget setting and in-year management of the budget was the responsibility of pension officers and that the local authority's s151 was 'kept informed'.

   "It hadn't occurred to me that the [pension] committee could get involved with budget setting. Guidance on that would be good."

   Officer, LB

   "Potential problems include transparency in the AA of its costs. Recharges of time. Costs recovered by the AA via the PF."

   LPB Chair

2. There was also a split in terms of whether funds had the ability to set their own staffing or whether they were subject to recruitment freezes or downsizing exercises that apply to the main council.

   "[There should be] resourcing such that there is the quality and competence to deliver their statutory duties"

   s151, CC

   One s151 expressed "disbelief that blanket hiring bans and pay policies affected the pensions section. s151's should be flexible enough to understand how to 'spend' resources. If they need to pay differently for pensions to get the right experience/quality."

   s151, CC

   When it comes to budgeting and workplans
   "...the s101 committee decides including requests for extra resource if required."

   Chair of Committee. CC

Representation

1. Most respondents felt that there was a role for some sort of scheme member presence on pension committees. although there was a difference of opinion about whether this should be a voting role or an observer role. A number of funds suggested that the scheme member role should not be limited to trade union representative. All agreed that the majority representation must lie with the administering authority.

   "Less than 50% of our members are in a union."

   s151, CC

   "Representation is key – members must have a say"

   TU

   "Other employers reps and member reps should have voting rights [on the committee]. That's right and should happen."

   Chair of Committee, CC

   "We are warm towards the idea of an independent advisor/trustee who sits on committees."

   s151, CC

   "We want to improve things for our members in terms of governance, transparency and representation."

   TU

2. There were strong views on both sides about the value that local pension boards bring. Some feeling that they increased bureaucracy without adding value while for others they had become a useful part of the fund's governance arrangements.

   "I welcome the involvement of the Pension Board it adds value, second opinion."

   Chair Committee, CC

   One respondent believed that joint committee and local pension boards "give scheme members and other employers a voice and avoids duplication."

   s151, CC

   "Many administering authorities see boards as threats rather than opportunities. There are still boards who are dictated to. Need administering authorities to release tight control."

   Chair of LPB

3. There were a range of practices in how funds engaged with employers:

   "As s151 of a non-admin authority, I didn't feel engaged in the pension fund, it was something that was dictated to me every few years."

   s151 speaking of their time in a non administering authority

   "Employer liaison is tricky as your participating employers often don't see it as a priority."

   s151, CC

5. Examples of current best practice

It was apparent during our conversations that many funds exhibited excellent examples of good governance but that practices across funds were not consistent. This section captures some of the examples of best practice that we identified.

Regular governance reviews

A number of funds confirmed that they use internal audit to provide assurance on administration and governance matters. Some reported an annual programme of work with different aspects of delivery being assessed each time.

Other funds had commissioned external governance reviews in order to receive an independent assessment of their current arrangements.

Committee membership and effectiveness

A large number of funds stated that they required pension committee members to attain the same level of knowledge and expertise as local pension board members. This was achieved through training policies which set out clearly how the fund will deliver training and assess its effectiveness.

One fund reported how members of the pension committee are required to sign a declaration stating that they will act in the interests of the fund and not be influenced by party political matters. One view is that councils should waive the requirement for political representation on committees to allow the most appropriate members to sit, rather than allocate places according to political party.

Most funds have some sort of scheme member representation on pension committees and a small number allow scheme member representatives to vote.

Independence

A number of funds reported that there was a clear understanding of, and separation between, the functions of the pension fund and the local authority which recognised the specialist nature of the LGPS. This was typically achieved through one or more of the following features:

- A dedicated Head of Pensions role which was at an appropriately senior level within the authority's structure.
- A recognition by elected members serving on the pension committee that, when carrying fund specific business, they were acting on behalf of scheme members and all of the employers in the fund, not simply their own local authority.
- Independent business planning and resourcing decisions made by pension fund officers and signed off by the pension committee and s151. This allows the pension fund to plan and resource appropriately to deliver its strategic objectives.
- Pension fund not subject to same recruitment freezes or restructuring exercises applied at a council level. Some funds reported using market supplements to attract appropriately skilled staff, where a strong business case could be made.

Focus on quality of service to scheme members

Some funds were prepared to 'go the extra mile' in terms of the quality of service delivered to scheme members. This might involve encouraging face-to-face interaction between pensions staff and scheme members (particularly when considering complex or emotive matters), producing a range of communications aimed at active, deferred and pensioner members or holding annual member meetings to raise awareness of current issues.

6. Proposals

The proposals we set out for consideration by SAB are informed by feedback from stakeholders. Many are things which well-run funds already do.

- **Table 1** shows the proposals in summary.
- **Table 2** sets out the rationale for each proposal and, if SAB agrees with proposals, suggested actions to implement.

Table 1: Summary of proposals

1	**'Outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance structure.
2	**Critical features of the 'outcomes-based' model** to include: a. Robust conflict management including clarity on roles and responsibilities for decision making. b. Assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget. c. Explanation of policy on employer and scheme member engagement and representation in governance. d. Regular independent review of governance - this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
3	**Enhanced training requirements** for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).
4	**Update relevant guidance and better sign-posting.**

Table 2: Rationale for proposals and suggested actions

	Proposal	Why	Suggested actions
1	**'Outcomes-based' approach** to LGPS governance rather than a prescribed governance structure.	We observe (and the survey evidences) that different administering authorities with the same governance structure can have different outcomes in terms of quality and standards of governance. All the governance models in the SAB survey can deliver good or bad governance outcomes. Focussing on the desirable traits and outcomes expected of LGPS governance will enhance governance in a more reliable and cost-effective manner than prescribed changes in structure. Further, we do not believe it is appropriate to impose a 'one size fits all' approach.	i. SAB should consult on: • Desirable features and attributes of LGPS governance arrangements; • The outcomes governance arrangements should be expected to deliver; and • How each administering authority might evidence that its own governance model displays the required attributes. ii. Once identified and agreed through consultation, the desirable features and expected outcomes should be set out in statutory MHCLG guidance (replacing the 2008 CLG guidance).

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2	**Critical features of the 'outcomes-based' model** to include: a. Robust conflict management. b. Assurance on sufficiency of administration resources (quantity and competency) and appropriate budget. c. Explanation of policy on employer and scheme member engagement and representation in governance. d. Regular independent review of governance.	The detailed specification of the desirable features and expected outcomes of an 'outcomes-based' model are beyond the scope of this project and should be determined in a second stage of work and through consultation. However, based on responses to the survey we propose a small number of critical elements to ensure this approach is effective. These proposals are shown below under 2(a) – (d).	SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).
2a	**Robust conflict management.** Administering authorities should be able to decide locally how they will evidence this requirement including for example: • Published conflicts policy. • Protocols for setting and managing budgets. • Schemes of delegation. • Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.	Elected councillors and s151 officers have multiple competing statutory responsibilities, within their roles in the LGPS and in wider council responsibilities. High professional standards and experience help them to navigate. Additional measures specific to their LGPS duties can help reduce conflicts and perception of conflicts. Many administering authorities already have a conflicts policy or alternative arrangements to help reduce the risk of conflicts including, for example, schemes of delegation or well defined and documented roles and responsibilities.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2b	**Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.** This will require a transparent approach to setting and managing budgets. Administering authorities should be able to decide locally how they will evidence this requirement including for example: • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. Administering authorities may need freedom to use market supplements to attract and retain staff and should not be tied to council staffing policies such as recruitment freezes.	The administrative burden on the LGPS has increased significantly due to increasing complexity (pre- and post-Hutton benefits) and the massive growth in employer numbers. At the same time, there is increased scrutiny from TPR and risk of fines and other regulator interventions. It is critical that pension administration teams are sufficiently well resourced with competent personnel and appropriate administration systems. This aim must be supported by transparent processes for setting appropriate budgets. Pensions administration is a specialist role and, at the current time, it is difficult to attract and retain staff. Many administering authorities already have pay and recruitment policies relevant to the needs of their pension functions rather than being tied to the general policies of the council.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.
2c	**Explain policy on employer and member engagement and representation in governance.** At the current time, employer and member representation (with or without voting rights) should be encouraged but not compelled. Decisions on the approach to member representation should remain a local matter but administering authorities should explain their approach.	Most administering authorities have non-administering authority employer and scheme member representatives. Non-administering authority employers are often chosen to represent certain employer constituencies (e.g. academies, FE, charities and housing associations). In some cases, scheme member representatives have voting rights. ››	SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
		Many survey respondents support greater encouragement to include scheme member reps on s101 committees. However, administering authorities prefer some local flexibility on this, including how representatives are selected and whether they have voting rights. Importantly, administering authorities should retain majority voting representation because of the statutory responsibilities they bear.	
2d	**Regular independent review of governance** to assess effectiveness of administering authority's governance arrangements in the context of the desirable features and expected outcomes set out in guidance on an 'outcomes-based' model. This should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered. Guidance should not prescribe the approach but could set out acceptable methods which may include: i. Internal or external audit assessment; ii. Scrutiny by LPBs; iii. A peer review process.	It is important that any 'outcomes-based' approach is policed. Self-assessment is insufficient. Independent review is required for a more objective assessment. We discovered that some funds do this on a regular basis already using a variety of approaches including internal and external audit and other external experts and advisors.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.

Table 2: Rationale for proposals and suggested actions (continued)

<table>
<tr><th></th><th>Proposal</th><th>Why</th><th>Suggested actions</th></tr>
<tr><td>3</td><td>Enhanced training requirements for s151s and s101 committee members. This is to include all s151 officers, not just those currently with administering authority responsibilities.</td><td>s151s: Current CIPFA training does not have specific pensions modules. CPD for those at or close to s151 level would be more effective and have impact sooner than changes to exam syllabus, although the latter would also have longer term benefit. Greater understanding of the LGPS amongst the wider s151 community may also reduce perception of conflicts.

s101 committees: Currently the training requirements for Local Pension Board members (which are statutory) are more onerous than those tor s101 committee members. Survey respondents felt this inconsistency was unacceptable and that s101 training should be on a par with LPB requirements.</td><td>i. CIPFA to develop a CPD module for s151 practitioners in the LGPS.

ii. SAB / MHCLG statutory guidance to require training for s101s to be on a par with members of Local Pension Boards.</td></tr>
<tr><td>4</td><td>Update relevant guidance and provide better sign-posting.

It would also be helpful to provide greater clarity to officers and elected members on their statutory and fiduciary obligations.

As well as sign-posting, there should be clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice)</td><td>The main guidance relevant to governance includes:

i. CIPFA guidance for s151s in respect of LGPS responsibilities (2014); and

ii. CLG's statutory guidance on governance of governance compliance statements (2008).

Both pre-date PSPA 2013, involvement of TPR in LGPS governance and investment pooling.

Both must be updated.</td><td>i. CIPFA to review and update guidance for s151s in respect of LGPS governance.

ii. MHCLG to review and update statutory guidance on governance. In particular, this should put greater emphasis on non-investment aspects of governance such as administration.

iii. SAB should consider commissioning legal input to give greater clarity on statutory and fiduciary responsibilities of s151 officers and s101 elected members.

iv. SAB or MHCLG should provide greater clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice.)</td></tr>
</table>

Table 3: Other ideas considered but rejected or out of scope

	Proposal	Reason for non-recommendation
1	**Separate s151 for pension fund.**	• A benefit would be specific focus on LGPS matters and therefore greater depth of understanding. • However, this is unlikely to help reduce conflicts (the pension fund s151 still has fiduciary responsibility to local tax-payers and may report to council s151) and may not be practical for smaller funds with greater resource constraints.
2	**Compulsory benchmarking.**	• Concerns because benchmark data not like for like (e.g. same cost per member but different service); and (ii) risk this drives lowest common denominator results instead of innovation in service delivery • We recognise that benchmarking has a place and would welcome the development of more sophisticated forms of benchmarking that focus on the quality of the service delivered.
3	**Legal separation of pension fund accounts.**	• Requires change in primary legislation. • Pension fund accounts already separated, audited and shown in Pension Fund Annual Report (annual report is a statutory requirement). • It is unclear what additional benefit there is in legal separation of PF accounts form administering authority/council.
4	**Mandating extension of audit to include an opinion on suitability of LGPS governance arrangements.**	• Some funds commission an external (or internal) audit view voluntarily. • NAO has confirmed that this could only be mandated through legal separation of pension fund accounts (see above). • Concerns on some external auditors' lack of LGPS knowledge and lack of continuity due to changing personnel. • Preference to allow flexibility in approach to independent assessment of governance arrangements and their efficacy.
5	**Removing s151 from decisions around admin budgeting due to conflicts.**	• s151 has statutory responsibility.
6	**Merger of funds to facilitate different governance models.**	• Weakened link to local democratic accountability. • Outside of the scope of the project.

Table 4: Suggested follow up work beyond the scope of this report

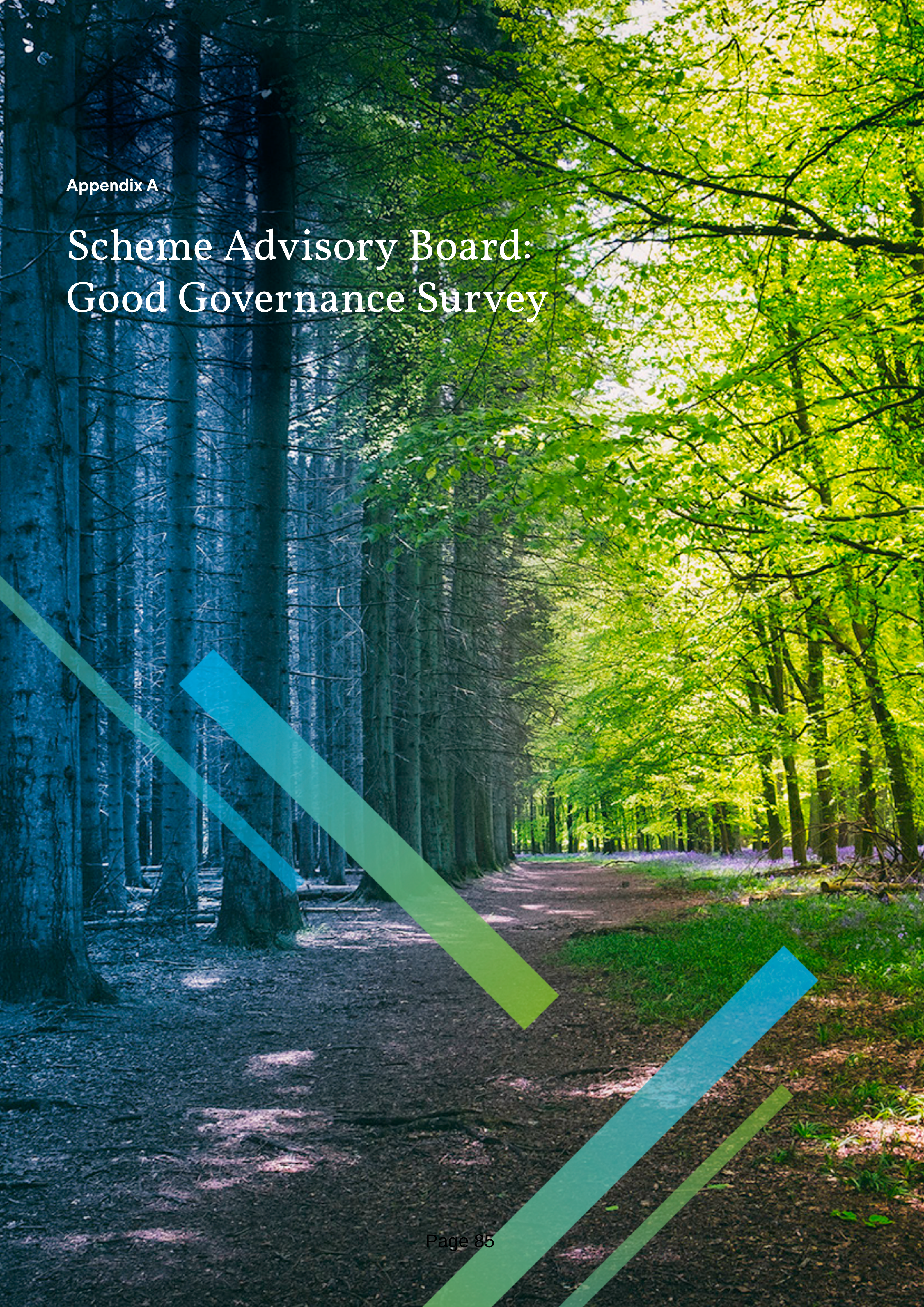
	Suggested follow up work	Why
1	**SAB to consult on detailed specification of desirable features and expected outcomes from an 'outcomes-based' model.**	• Important to get buy-in and support for the practical details of an 'outcomes-based' governance model.
2	**CIPFA and MHCLG to update existing guidance.**	• Existing guidance is out of date.
3	**Commission legal work to provide greater clarity on statutory versus fiduciary obligations (s151 and s101 committee members).**	• Statutory responsibilities take precedence. • Currently unclear.
4	**SAB to consider a 'Good Administration' review.**	• Survey respondents expressed interest in some work to set out what good administration looks like, examples of current best practice, good approaches to meeting the needs of scheme members and employers, and greater clarity on what standards will be required to satisfy TPR. • This will help administering authorities to be clear what standards they must achieve in order to provide 'assurance' that administration resources are sufficient in quantity and competency, identify any gaps and determine what practical steps they might take to address those gaps.
5	**SAB to consider a review of the role of Pension Boards in LGPS.**	• Very mixed reports on the role and success in working with Pension Boards in the LGPS.

Table 5: 'Outcomes-based' model - concept illustration

	Outcome: examples	How to demonstrate that your governance model complies: examples
1	**Robust conflict management.**	• Conflicts policy. • Scheme of delegation or decision matrix setting out who makes what decisions. • Transparent process for approving budgets. • Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.
2	**Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.**	• Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. • Process for setting administration budget. • Policies in respect of recruitment and market supplements to attract and retain staff.
3	**Explain policy on employer and member engagement and representation in governance.**	• Set out approach to employer and member engagement e.g. communication plan, AGM, employer liaison and support. • Set out approach to participation of non-administering authority employers in governance of fund e.g. representatives of academies, admitted bodies, FE, charity sector, etc. • Set out approach participation of scheme members in governance (e.g. observers, voting members, how selected, etc.) and rationale for approach.
4	**Regular independent assessment of governance arrangements.**	State method e.g. • Internal or external audit assessment; or • Scrutiny by Local Pension Board; or • External expert / consultant; or • Peer review process. Describe scope and approach e.g. • Reviewing policies, meeting minutes. • Reviewing committee efficacy in decision-making, etc.

Appendix A

Scheme Advisory Board: Good Governance Survey



The following pages replicate the online Good Governance survey on governance models for the LGPS. The survey closed on 31 May 2019.

Introduction

The Scheme Advisory Board has commissioned Hymans Robertson to review LGPS governance structures and practices. This survey is part of a key part of the project and we are keen to collect views from as wide a range of stakeholders as possible. Further details on the scope and background to the project can be found on the SAB website.

To help inform this survey and the options for governance change presented for feedback, views were sought from a representative range of LGPS stakeholders (including pension fund officers, section 151 officers, trade unions and other advisors) in order to understand the issues and challenges that the current LGPS governance arrangements present.

Examples of issues cited by respondents included:

- **Clarity:** There is sometimes lack of clarity over roles and responsibilities.
- **Conflicts:** A number of stakeholders raised the issue of perceived conflicts of interest between the fund and the council, in particular for the section 151 of the administering authority given his or her responsibilities for the financial management of other council functions. It was suggested these could manifest themselves in terms of the strategic decisions taken by the fund in respect of funding (contribution rate decisions) and investment or in respect of allocating resource to the pension fund.
- **Consistency:** It is widely recognised that there are many examples of good practice within the LGPS and that section 151s and pension funds manage these conflicts well. However, it was noted that this good practice largely relies on the professionalism and good will of individuals and the ethos of the authority. There is very little regulation or guidance that would safeguard the situation if such high standards were absent.
- **Representation:** The issue of appropriate representation was raised, in particular for non-administering authorities. Some respondents suggested that there could be improvements in the way administering authorities engage with the other employers in the fund on administration resourcing as well as funding, contributions and investment matters.
- **Standards:** It was also noted that LGPS funds evidence varying levels of compliance with the standards for administration, funding and investment set out in statutory legislation, relevant guidance and the TPR Code of Practice 14.
- **Miscellaneous:** Other issues raised included lack of continuity in committee members; shortage of in-house skills, expertise and subject matter knowledge in investment and funding; and restrictions on recruitment and pay policy for the pensions function.

Please use the box below to provide details of any additional issues which you believe the Board should address as part of this exercise.

Comment box provided.

The criteria

Based on the issues raised by stakeholders, the Board has agreed 6 criteria which will be used to assess any proposed changes to LGPS governance arrangements.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.
Consistency	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

Please use the box below to provide details of any additional criteria which you believe the Board should consider as part of this exercise.

Comment box provided.

Governance models in this survey

The Scheme Advisory Board would like to hear your views on four governance models set out below.

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.

It is recognised that a one size fits all approach may not be appropriate.

Final recommendations by SAB could be variations on the models described here, taking account of your feedback. Any regulation changes needed will be fully assessed before SAB makes final recommendations. We have not provided detailed costing of each of the models presented in the survey. The cost of implementation would in any case vary across different funds, but, generally, the effort and cost to implement increases as we move from Option 1 to Option 4. Detailed costing of any recommendations emerging from this exercise would be undertaken prior to implementation.

In the next section we set out a brief description of each of the options along with the opportunity for you to provide your views on how well each option compares against the agreed criteria.

For brevity the option descriptions have been included on the next two pages, followed by the response form (which was identical for all four options).

Option 1 - Improved practice

Features

- SAB guidance on minimum expected levels of staffing and resourcing;
- SAB guidance on representation on pension committees and expected levels of training for those on pension committees and officers with an LGPS role. Additional guidance could also be considered on the best practice for pension boards.
- Legal clarification on the fiduciary and statutory duties of key individuals within LGPS funds.
- LGPS regulations set out enhanced process for consulting on FSS and ISS to ensure greater voice for the full range of employers in the fund.

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

Features

- The pension fund budget is set at the start of the financial year with reference to its own business plan and service needs.
- Any charges to the fund in respect of support services provided by the host authority, for example legal support, HR and procurement is included in the budget up front.
- Pension fund related expenditure then comes directly from the fund. This removes the common practice whereby pension fund expenditure is paid though the host authority's revenue account to be recharged at a later date.
- The section 151 of the administering authority would retain responsibility for the pensions function but recommendations on budget (including administration resources required to meet TPR standards) would be made by a pension fund officer to the pensions committee which would be responsible for agreeing the budget. (Alternatively, the pension fund could have a separate s151 officer to reduce conflicts currently faced by s151s.*)
- The pension committee would be responsible for agreeing the budget as well as approving any changes to that budget during the financial year.
- The cost of staffing would be met through the fund including any additional costs such as market supplements or redundancy strain.
- Changes to the Audit and Accounting Regulations 2015 could be considered to make the fund accounts legally separate and subject to a separate audit.

In addition to the budget related aspects outlined above further steps could be taken which would give funds greater autonomy over employment policies. The model is analogous to the fund being treated as an internal business unit of the council.

- Staff will continue to be employed by the host council but polices over certain HR matters such as recruitment and the payment of market supplements will be delegated to the pension committee.
- Decisions over other matters pertinent to the fund, for example investment in new administration technology, would also lie with the pension committee.
- Decisions around the structure of the pension function would be for the fund's management team to make with the approval of the pension committee.*

* Further consideration is required as to whether these practices could simply be encouraged by regulatory bodies or whether it is possible and/or desirable to find a mechanism by which these could be mandated.

Option 3 - Use of new structures: Joint Committees (JC)

Features

- The scheme manager function and all LGPS decision making, which currently sits with the administering authority, would be delegated to a section 102 JC. The committee would comprise all the local authorities who currently participate in the fund as employers.
- Consideration could be given to the representation of other employers and scheme members on the JC.
- Assets and liabilities still sit with the existing administering authority.
- Employment of staff and contractual issues dealt with through a lead authority or a wholly owned company. This could be codified within an Inter Authority Agreement (IAA).
- The IAA would stipulate that the budget will be agreed by the JC. s151s of the constituent local authority employers retain a fiduciary duty to the local taxpayer but the IAA would distance them legally from budget setting responsibilities in respect of the pensions function.

Option 4 - New local authority body

Features

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

This might be through a combined authority route or through a public body established by statute.

- The new body must retain a strong link to democratic accountability.
- Employment of staff and contractual issues dealt with by the new body.
- Assets and liabilities transferred to the new body.
- Separate accounts based on CIPFA guidance.
- Funded by an element of the contribution rate and by a levy on constituent authorities.
- Officers in the new body are responsible only for the delivery of the LGPS function.

Please use the voting buttons to indicate to what extent moving from existing arrangements to Option (1, 2, 3 or 4) would achieve each of the criteria.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.	Strongly disagree 1 2 3 4 5 Strongly agree
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).	Strongly disagree 1 2 3 4 5 Strongly agree
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).	Strongly disagree 1 2 3 4 5 Strongly agree
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.	Strongly disagree 1 2 3 4 5 Strongly agree
Consistency	The model minimises dependence on professionalism and relationships to deliver statutory responsibilities.	Strongly disagree 1 2 3 4 5 Strongly agree
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.	Strongly disagree 1 2 3 4 5 Strongly agree

Please provide any comments you may have regarding Option 1/2/3/4 in the box below.

Comment box provided.

Finally, respondents were asked:

Are there any alternative governance structures not covered between Option 1 – Option 4 which you believe the Board should consider?

Comment box provided.

Appendix B

Abbreviations

Abbreviations

ALATS	The Association of Local Authorities' Treasurers Societies
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
CPD	Continuous Professional Development
FE	Further Education
JC	Joint Committee formed under s102 of the Local Government Act 1972
LA	Local Authority
LGPS	Local Government Pension Scheme
LPB	Local Pension Board
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
PF	Pension Fund
PIRC	Pensions and Investment Research Consultants Ltd
PLSA	Pension and Lifetime Savings Association
PSPA 2013	Public Service Pensions Act 2013
PSAA	Public Sector Audit Appointments
s101	A committee established under s101 of the Local Government Act 1972
s151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board for the Local Government Pension Scheme in England and Wales
SCT	Society of County Treasurers
SLT	Society of London Treasurers
SWT	Society of Welsh Treasurers
TPR	The Pensions Regulator

The Pensions Regulator

Public service governance and administration survey 2018

Commentary on results

July 2019

Background

Public service pension schemes provide pensions for nearly 17 million civil servants, judiciary, local government workers, teachers, health service workers, members of fire and rescue services, members of police forces and members of the armed forces.

Our code of practice 14 sets out the standards we expect of the people who manage these schemes. Our aim is to improve standards across the board, focusing our interventions on the schemes that we consider present the greatest risk.

In the past year we have engaged with a number of pension scheme managers and pension board members. This, together with one-to-one relationships with large schemes, has helped to inform our understanding of the landscape.

To gather further information about public service pension schemes, we carried out our fourth annual governance and administration survey in November and December 2018. Previous surveys identified that key features of good governance were becoming more commonplace across public sector schemes. In the latest survey, we looked in more depth into how these features were operating in practice.

The survey findings support our existing assessment that the top risks in this landscape are around governance, record keeping, and member communications. They also identify cyber security as a significant issue requiring attention.

The survey is anonymous by default, although scheme representatives can attribute their answers so that we and/or their Scheme Advisory Board can see them. We do not take direct regulatory action based on the answers given, but the answers in aggregate may inform our regulatory approach.

This commentary accompanies the full research report which details all the survey results. It is intended to draw out the key points and areas of concern we have identified. Scheme managers should read the full results of the survey to understand more about the issues highlighted in this statement.

Key issues

Three-quarters (74%) of public service schemes had all six of our key processes in place, an improvement on previous years. However, it is disappointing that the remainder of schemes still did not have all six of these simple measures in place.

Pension Board meetings

Only half of schemes had four or more pension board meetings in the previous 12 months. We have previously highlighted that scheme governing bodies should meet at least quarterly. We are concerned that irregular meetings may be an indicator of poorly-governed schemes. We note that Fire schemes had both infrequent meetings and were the most likely cohort to postpone meetings. We expect to see an improvement in this area.

Knowledge and understanding

Almost all respondents believed that the scheme manager and pension board had access to all the knowledge and skills necessary to run the scheme and were more confident than in previous years that they had sufficient time and resources to do so. However, the survey results did not fully support this view. Only in four-fifths (82%) of schemes did the scheme manager and pension board evaluate the board's knowledge and understanding at least annually. Furthermore, 39% of schemes saw recruitment, training and retention of staff and knowledge as a barrier to improving their governance and administration over the next 12 months, and 47% cited lack of resources or time. We see this lack of knowledge and resources as a key reason for scheme managers not being able to drive the improvements that we expect.

The concerns expressed by respondents about knowledge and understanding may partly be driven by the significant annual turnover in pension board members. On average schemes reported that 20% of the total positions on their pension board had left in the previous 12 months. The loss of knowledge and understanding that this represents is significant. It is essential that pension boards have documented processes in place to ensure the preservation of knowledge and should carry out a skills analysis to assess the areas where their knowledge may be weakest. This will also highlight situations where there is a concentration of knowledge in particular individuals. This will help in the recruitment of members with the knowledge, skills and experience required. Pension boards should also ensure that they have all appropriate training in place for new recruits to build their own understanding.

Board membership

We have very significant concerns about 11 schemes that reported that at the time they completed the survey they were operating with fewer pension board members than required by their respective scheme regulations. The situation appears to have been temporary in most cases until new pension board members could be recruited. In the meantime, however, these schemes were breaching the law. We urge scheme managers to maintain a pension board with more than the minimum number of members to avoid this situation. They should also take steps to ensure that pension board members are recruited before a vacancy exists to enable an effective handover to take place.

Risk registers

While more schemes had a risk register than in previous years, it does not appear that every scheme recognises their value. Only half of schemes had reviewed their exposure to new and existing risks at least quarterly in the previous 12 months. The risk register should be a living document that recognises how risks are emerging, developing and being mitigated or controlled. The pension board and scheme manager are key players in identifying and controlling risks, and a review of the risk register should form part of every meeting.

Collecting data

We expected to see that multi-employer schemes had lower levels of employers presenting data in a timely or accurate and complete manner. This was borne out by the survey findings, although some single employer Police and Fire schemes also reported that they were facing issues. However, we feel that some schemes, particularly the local government schemes, could do more to facilitate the collection of data. Only half of Local Government schemes said that all their employers submitted data electronically and just two-fifths said that all their employers submitted their data monthly. Monthly electronic data submission should be the default for all schemes and we recommend that schemes take steps to put this in place. Aligning data submission with payroll cycles makes it easier for employers to comply as information can be provided as part of the payroll process. Current practices that allow data to be submitted by annual paper return increase the burden for both participating employers and the schemes processing that data. Paper schedules also increase the chances of mistakes occurring that take longer to rectify.

Cyber security

In recent years we have asked schemes to recognise the importance of cyber security. The survey found that there were generally high levels of compliance with basic security measures such as system and access controls and policies on data and use of devices. However, these basic measures were not universal - for example, 17% of schemes did not report that they have controls restricting access to systems and data. A similar number (18%) did not report that they have systems controls such as firewalls, antivirus or software updates. Around half of schemes said that they had experienced a cyber breach or attack in the previous 12 months. The majority of these involved staff receiving fraudulent emails or being directed to fraudulent websites and attacks that try to take down websites or online services.

It is vital that schemes also consider their cyber footprint. Pension schemes share large amounts of data with third parties such as administrators, actuaries, employers and legal advisors. An awareness of the security processes that these bodies have in place is necessary too. Cyber security is not just about reducing the risk of incidents occurring, but also requires preparation for when things go wrong. Schemes need to have an incident response plan in place, and the scheme manager must be aware of the contingencies in place. The lack of pension boards and scheme managers who received regular updates on cyber risks, incidents and controls indicates that this risk is still not being taken seriously.

Data quality

Around three-quarters of schemes that had reviewed their common data in their most recently completed review said that they had identified problems with it. This is lower than we would expect, given that common data includes addresses which can rapidly become out of date. We therefore think it is likely that schemes are not reporting on all elements of common data. Fewer Police schemes reported identifying issues with their common and scheme specific data in their most recently completed review than other cohorts. We are aware that data cleansing has been a focus for Police schemes for some time now and we trust that their results indicate that a well-functioning and effective data cleansing process has now been widely adopted. To ensure comparability within cohorts, we support the work of Scheme Advisory Boards to develop a common definition and standard for their schemes to report on.

Annual benefit statements

There was a general improvement in the number of annual benefit statements issued on time again this year. However, there is still considerable scope for improvement by schemes in this area. We are troubled by the 10% of schemes (15% of Local Government schemes) that did not report that all the annual benefit statements they sent out in 2018 contained all the data required by regulations. We understand that schemes may be taking this action to meet the 31 August deadline for issuing statements. In our view however, deliberately sending out a statement with missing or incorrect data is worse than sending out an accurate statement late. Those schemes that have given us a Breach of Law report in relation to annual benefit statements in recent years have typically had a plan to get their statements out very soon after the deadline, for the few members it affected. We are unlikely to take action on the basis of a breach of law report on its own where there is a reasonable plan for rectification of the situation.

Administration

Pension boards have two fundamental responsibilities - to oversee both the governance and administration of the scheme. A board that is failing to meet its basic responsibilities by not having administration as a feature of every meeting is failing in one of its fundamental functions. We are pleased to see that more schemes are giving administration the attention it deserves, with three-quarters of schemes considering it at every pension board meeting in the previous 12 months. We do still see some space for improvement in the locally administered (Police, Fire and Local Government) schemes, however. It is notable that most of the complaints received by schemes continue to stem from poor administration. This might be around disputes or queries about the amount of benefit paid, slow or ineffective communication, delays to benefit payments, or inaccuracies or disputes around pension value or definitions. Pension boards should continue to ensure that administration is considered on every agenda to identify persistent and emerging issues, and to advise the scheme manager to make improvements.

Conclusion

The pattern of results this year indicates that while pension boards have managed to drive improvements in some areas, they continue to struggle in many others. The locally administered schemes appear to find it particularly hard to meet their responsibilities. There are a variety of reasons for this depending on the exact circumstances of the scheme. Scheme managers and pension boards need to drive improvements in the key areas highlighted here. Some are more straightforward than others but taken together will improve the running of the scheme. We suggest that pension boards, scheme managers and scheme advisory boards examine ways in which collaboration and sharing of resources can deliver better governance and administration.

The information gathered in the survey will be used to inform our regulatory initiatives with all schemes. Over the course of the next year some public service schemes will experience greater engagement from us through our new supervisory processes. This new range of regulatory tools and techniques, which includes one-to-one relationships with schemes of strategic importance and broader scheme supervision and thematic work, helps clarify our expectations of schemes on whom millions of savers rely.

How to contact us

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www.trusteetoolkit.com
Free online learning for trustees

www.pensionseducationportal.com
Free online learning for those running public service schemes

Public service governance and administration survey 2018 Commentary on results

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when responding please contact
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our ref
OO/cd

your ref

By email to LGF Reform and Pensions Team at LGPensions@communities.gov.uk

Dear Sirs,

Re: Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk - Policy consultation

General Observations

In response to your consultation on Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk, please accept this as the response from East Sussex County Council (ESCC) in its capacity as administering authority to the East Sussex Pension Fund (ESPF).

The ESPF has over 74,000 scheme members and 133 contributing employers, including local authorities, academies, private contractors and small local charities. The actuarial valuation of the fund was carried out as at 31 March 2016 and set the employer contribution rates from 1 April 2017 to 31 March 2020, and is discussed in some detail in the Funding Strategy Statement. It is important to note that significant valuation shortfalls are rarely funded in one go. The Pension Fund's strategy is to phase in its own contribution rate increases over three years, with the view of recovering the deficit over 20 years. The Pension Fund Funding Strategy Statement explains how it intends to meet those liabilities over the longer term.

ESPF is a member of various networking groups, such as the CIPFA Pensions Network, where information and ideas are readily shared. The consultation brings together a number of changes, most of which we welcome. The proposal to move the local valuation cycle (which sets employer contributions) from triennial to quadrennial to align with the scheme valuations (carried out by GAD for cost management purposes) has been well trailed although the rationale is weak when considered from a local, funding perspective. MHCLG does, however, appear to recognise this and has proposed a number of potential mitigations, including interim valuations. In addition, the valuation cycle within the private sector has been taking place every three years, which has worked well for over 20 years, and there is a trend there to move to more regular valuations as technology has reduced the manual number crunching required.

The consultation also proposes to address what has proved to be a material oversight in the introduction of the requirement to repay an exit credit to an outgoing employer, i.e. the failure to allow administering authorities to consider any risk sharing or other arrangements which are not consistent with any surplus being repaid on exit. Many administering authorities have put exit credits on hold but clarity will be needed on what should happen where exit credits have already been paid but where risk sharing arrangements were in place – will steps need to be taken to reclaim these payments?

The ESCC/ESPF responses to the specific questions asked in the consultation re Changes to the Local Valuation Cycle and the Management of Employer Risk are set out below:

Section 1 - Valuation cycle

Question 1: As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial cycle?

No – the Fund believe that 3 years remains an appropriate period. There are already mechanisms in place to deliver stability of employer contributions via Regulation 62 of the LGPS Regulations 2013 and CIPFA guidance on Preparing and Maintaining a Funding Strategy Statement. Administering authorities do generally make use of various mechanisms available to them to keep contributions stable. Lengthening the valuation cycle to 4 years does not suit the LGPS for a number of reasons including:

- The LGPS is a multi-employer scheme with many different types of participating employers. Employer circumstances and their financial covenant can change quickly, and lengthening the valuation cycle may expose LGPS funds to greater covenant risk.
- The majority of public service schemes are unfunded. However, the LGPS is funded and holds assets with values and performance that can fluctuate significantly over time. This volatility needs careful and regular management - a longer period puts more pressure on funding strategies, and increases the likelihood of bigger changes to employer contribution rates from valuation to valuation (particularly for shorter term employers such as closed charities).
- The Fund has a funding strategy that stabilise contribution rates, commonly for longer term and secure employers. We are not convinced that a 4-yearly cycle will lead to more stability in rates as suggested in the consultation. In fact, as mentioned above, a longer cycle may lead to the funding position drifting over a longer period and therefore a sharper correction to contribution rate being required at the end of the period.
- Moving to a 4-year cycle, with the use of interim valuations, will also add to the burden of already stretched administration teams. When considering any changes to the current arrangements it is equally important to ensure that administering authorities have the capacity to comply with those changes, at no detriment to their current obligations to scheme members and their dependents.
- The fund believe that the rationale would be stronger if the LGPS were only comprised of long-term, secure employers fully backed by taxpayers for which contributions could be set for 4 years without the risk of employer failure with insufficient funds. However, as budget setting becomes more short-term it's questionable whether those employers would favour contributions being set for 4 years reviews. In addition, there are a number of non-taxpayer backed employers, principally community admission bodies, some of which are increasingly short-term and whose covenant is less strong than the Tier 1 employers.

The Fund has developed much more robust risk management policies in relation to employer risk and moving to a quadrennial valuation cycle where contributions are only reviewed every 4 years would represent a backwards step. It could even increase costs if it meant interim valuations were carried out every 2 years for these employers.

It is difficult to be certain that moving to a 4 yearly cycle will save costs. This will largely depend on the balance of savings made due to a one year increase to the cycle versus the cost of carrying out interim valuations and any other additional employer work required as a result. We are also of the opinion that any cost saving analysis should consider the more substantive possible costs arising from the funding impacts of a delayed valuation as well as costs directly associated with carrying out the valuation process, as well as any interim valuations.

Question 2: Are there any other risks or matters that you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

The impact on annual pension accounting disclosures should be considered. Actuaries in the LGPS use a ‘roll forward’ approach from the latest formal valuation to estimate balance sheets and other figures in FRS102 and IAS19 reports. This approach helps to control the costs of producing disclosures for employer and avoids the need to carry out a full annual valuation based on fresh data. The downside to the ‘roll forward’ approach is its accuracy –the ‘tracking error’ (i.e. the extent to which the estimated figures deviate from the true figures that would arise if a full annual valuation was undertaken) increases over time. Auditors are increasingly querying the use of a ‘roll forward’ approach to cover a 3 year period, and are likely to be very concerned if this were lengthened to 4 years. Moving to a full annual valuation would be time consuming, leading to delays in reporting deadlines and significantly higher costs to employers for producing the disclosures.

One other benefit of a more regular valuation cycle is to recognise that a formal valuation is not just about number crunching. It provides a governance opportunity to undertake a ‘health check’ on the Fund’s data and risk management policies, and the metrics provided (cash flows, benefit projections, funding positions etc.) are often used for strategic investment reviews. Funds following best practice already carry out annual data validation checks and reviews of contributions for short term employers. However, whilst tPR's requirements in relation to data scoring should assist in relation to annual assessments of data quality, if there is no formal requirement for interim valuations the proposed mitigations may have no effect. Increasing the cycle may encourage less governance, and less frequent valuations may therefore be detrimental to data quality.

The Fund is aware that the cost management process is under review, but alignment of the scheme and local valuations on a triennial cycle has not proved to be helpful for the 2019 local valuations. A further consideration should therefore be the timing of benefit/member contribution changes following the cost management process, and how these align with local valuation calculations. The aim should be to avoid a repeat of the current situation, where the 2019 valuations are to be carried out without knowing what the benefit structure of the LGPS as at the valuation date will be.

Question 3: Do you agree that the local fund valuation should be carried out at the same date as the scheme valuation?

We can understand why MHCLG may believe this will be helpful, e.g. that the calculations could be based on the same set of data, but we do not believe that this will bring the hoped for benefits. We are aware that GAD had some material concerns in relation to the quality of the data needed to establish the baseline for cost management calculations and that it was thought that accuracy would have been improved had the date coincided with a local funding valuation. However, if funds are adhering to the new tPR requirements, data accuracy should be improved regardless of the local valuation date. To the extent that there are concerns this isn't happening, extending the local valuation cycle may simply make the issue worse, as it will be longer between formal valuation data validation exercises.

Ideally, we think that the ‘as at’ date of the scheme valuation should be ahead (by perhaps a year?) of the local fund valuations. This would allow time for:

- the Government Actuary’s Department (GAD) to gather the necessary data and do the calculations;
- discussion to take place on the results with the various national oversight bodies;
- agreement to be reached over any changes to the benefit structure or employee contribution rates to get the cost of the scheme within the +/- 2% of pay corridor; and
- software providers to make the necessary changes to systems and for those changes to be fully tested ahead of the effective date.

This should avoid changes to benefits or employee contributions being implemented retrospectively and allow time for administration and valuation systems to be updated to reflect the correct structure for the local valuations.

Question 4: Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Yes, we agree that approach b) (completion of the 2019 valuation with a three year Rates and Adjustments Certificate followed by another valuation as at 31 March 2022 and a two year Certificate) is preferred to a five year gap between the 2019 valuation and the next.

Approach a) has the disadvantages relating to scheme governance, potential larger changes in contribution rates due to additional intervaluation experience, and accounting implications referred to above, exacerbated by the period being 5 years rather than 4 years.

Question 5: Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Yes, this power is needed. LGPS funds have a diverse range of sponsoring employers, and they bring varying degrees of risk. The Fund already closely monitor employer funding positions between valuation dates, particularly for short term contractors or closed bodies close to exit, and use the results to align contribution rates with funding targets. Giving funds full power to carry out an interim valuation and amend the Rates and Adjustment certificate under a wider range of circumstances than the current Regulations allow would be welcome from a risk management perspective.

The consultation is not specific on whether an interim valuation refers to the whole fund only, or if it could be applied only to certain employers. A whole fund valuation would normally require full up-to-date membership data and would be more time consuming and onerous than a valuation undertaken using an approximate ‘roll-forward’ approach. We think it would be sensible for funds to have the discretion to do an interim valuation at either whole fund or specific employer level (on an approximate basis or otherwise), with the decision depending on the reasons for undertaking the valuation.

Question 6: Do you agree with the safeguards proposed?

The Fund agrees that safeguards should be put in place to ensure that the power to do interim valuations is being used appropriately by funds and employers. Regulations and statutory guidance on protections is also welcome to ensure that there is some consistency across funds – this will be important for employers that participate in multiple LGPS funds. Whilst the Local Pension Board is not a decision-making body in the LGPS, it does have an oversight role to ensure that funds are complying with legislation and regulations and to hold the

Pension Committee to account. The proposal to consult with the Board should provide comfort to funds and employers that due process is being followed.

We note the proposal for the Secretary of State (SoS) to have the power to require an interim valuation on representation from scheme employers. It would be helpful for funds to understand the factors that the SoS may take into account before using this power – funds will be keen to avoid 'moral hazard' situations where employers lobby for a valuation to take advantage of favourable market conditions.

Consideration also needs to be given to the administrative burden of providing data for interim valuations, particularly where requested by scheme employers. If the scope for requesting and agreeing to interim valuations is not clearly defined, such requests could be an unwelcome distraction and divert attention from the delivery of administration services to scheme members and their dependants.

Question 7: Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

We welcome the ability for funds to deal more flexibly with employer contributions between valuations, as the current Regulations only allow for limited circumstances. We believe that this principle should apply to all employers and include contribution rates that apply in the period after cessation (where such arrangements have been agreed). We believe that more flexibility is already needed to amend contributions between valuations so we welcome proposals to facilitate this. It will be important to be able to amend contributions more frequently than quadrennially for all non-permanent employers. But as the consultation suggests, employer contribution reviews may be needed in other areas too, such as following a merger or take-over and this should be extended to material transfers of staff to or from any employer, whether involving another scheme or employer within the fund.

Suggestion would be that any proposals should explicitly allow contributions to be changed:

- if an employer closes the fund to new entrants, including where one employer within a group or pool closes to new entrants;
- if there is a material transfer of staff to or from an employer (noting this has become common in certain sectors, such as mergers of colleges and housing associations), or following a material outsourcing or insourcing;
- if there is a change in covenant, including but not limited to a material change in the level or source of funding of an employer. (It is important that employers provide such information proactively to funds rather than it being for the administering authority to seek out such information);
- where an employer pays contributions above the level specified in the Rates and Adjustments certificate in any year then arguably remaining deficit contributions should be reduced. However, protections maybe needed to prevent payment of additional contributions to trigger a full review when market conditions are favourable, perhaps by limiting contributions reductions to those justified by the additional payment.
- other situations where contributions should be reviewed should be at the discretion of the administering authority as set out in the FSS.

We are less supportive of the reference to a scheme employer being able to request a reassessment because it believes this would lead to a reduction in its contribution rate unless there are safeguards around it, as this provision may lead to employers picking the timing to request such a review, or pay a lump sum deficit contribution to trigger a review, to coincide with favourable market conditions. This would negate MHCLG's objective of stability of contributions and acknowledgement that safeguards are needed to avoid interim valuations being timed to reduce contributions. Therefore, we believe that any provision to allow employers to request reviews of contribution rates should not be so wide ranging that it is open to such manipulation.

Question 8: Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Yes, we think (statutory) guidance would be helpful to ensure some consistency across funds around the process and reporting. It would also be helpful if such guidance were to cover the tests that would need to be met in order for a scheme employer to request an interim valuation itself from the SoS. Any guidance however needs to recognise local circumstances and funding plans, and not fetter the ability for funds to carry out interim valuations in line with their own FSS's.

We suggest that a principles-based approach to guidance would be preferable to a prescriptive approach, and give funds the discretion to demonstrate compliance using methods that work for their own circumstances and employers.

We note that little guidance (other than the CIPFA guidance mentioned in the consultation) is in place about the principles that should apply to full valuations. It seems odd that SAB guidance should be created for interim valuations and yet be missing for full valuations, and we suggest that any guidance should cover both types of valuation, and point out how the process and reporting may differ.

We don't believe that administering authorities need to have identical policies, noting that this is not compatible with local decision-making nor the diversity of funding levels and employers within funds. However, it would be helpful for funds and employers alike if the process by which administering authorities' policies were derived were governed by a single set of principles set out within national guidance.

Question 9: Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

The Regulations make it clear that the Fund Actuary is responsible for undertaking full valuations. Actuaries are bound by professional standards and a code of conduct, and have experience of providing advice that is proportionate to the work being undertaken. The fact that a valuation is interim rather than full does not take away the need for professional advice; the actuary would apply professional judgement over the amount of advice needed under either approach.

It will be important that it is clear that it is administering authorities and not employers who have the final say on reviewing employer contributions. Employers may request interim valuations for accounting purposes and administering authorities should be able to accede to those requests without then being obliged to review the employer's contributions. Other areas which the guidance could cover include:

- Situations that the fund is expected to be included in their FSS as requiring an interim valuation;
- Timescales: "as at" dates for interim valuations, timescales for signing off interim valuations and timing of implementing new contribution rates;
- Situations that shouldn't, on their own, trigger an interim valuation.
- An indication of the circumstances that may or may not 'trigger' the need for an interim valuation, particularly if requested by a scheme employer

Section 3 - Flexibility on exit payments

Question 10: Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

It should be noted that the Regulations as they currently stand do not subscribe any one basis for valuing exit debts and in practice, these can differentiate materially between different types of employer and between funds. Funding strategies are set locally and any suggestion that there is (or could be) a standard exit basis would not be welcome. We are not aware of any cessations being carried out on a full 'buy-out' basis as can happen in the private sector. However, we do believe that additional flexibilities would be helpful in constructively managing the exit of any employer, independent of the basis of the exit valuation.

Regulation 64(4) already offers the flexibility for Administering Authorities to agree the repayment of deficits beyond the effective exit date if the agreement takes place while the employer still employs active members of the scheme. The timing of an exit event and the magnitude of any exit debt may not be known until well after the exit event. Therefore, we would welcome any clarification in the Regulations to extend this flexibility to exited employers. This would require an examination of how Regulation 64(4) interacts with 64(2).

Any change to allow repayment of exit debts to the Fund increases the level of risk faced by remaining employers. To manage the additional risks involved in extending this ability, we would suggest –

- This is at the discretion of the Administering Authority (and the guarantor where appropriate), allowing them to make a judgement on the covenant of the underlying employer;
- There is a maximum period for repayment, we suggest this is left as a local decision and included in the funding strategy statement or cessation policy (where applicable);
- Interest be charged at an appropriate rate; and
- The Administering Authority should have the ability to request additional security be put in place during the repayment period.

We would also encourage consideration be given to the interaction of these changes with suspension notices under Regulation 64(2A) and the extension of asymmetries where exit credits are identified (these must be paid within 3 months of an exit event whereas we may be giving years to repay exit debts).

Question 11: Do you agree with the introduction of deferred employer status into LGPS?

Yes. We agree with the introduction of a deferred employer status and the approach to deferred employer debt arrangements. However, we would suggest that a significant deterioration in covenant is enough to trigger termination (there should not be an attaching other 'relevant event').

It will be important for any proposed regulatory provisions and associated guidance to be robust and subject to a further, detailed consultation. We would be particularly keen to ensure that any regulatory changes flow through to Regulation 62 and other relevant regulations. We would also observe that if a deferred debt arrangement can only be entered into when an employer "has just, or is about to become an exiting employer" this make may it more difficult for administering authorities to develop their funding strategy to cope with the possibility of these arrangements. Employers not admitting new entrants may wish to have clarity years in advance of their potential exit that they will be able to continue to participate as a deferred employer and may be hoping to reduce certified contributions as a result. Given the uncertainty of the timing of any exit and the employer's covenant at that point, it may not be prudent for administering authorities to reduce employer contributions in anticipation of them becoming a deferred employer. Thus whilst it will assist in reducing the effect of a one-off exit payment being required, it may not have the desired effect of reducing ongoing contributions in the meantime.

Question 12: Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

We agree that any deferred employer arrangements need to include safeguards for the administering authority. We have seen legal side agreements which appear to commit the administering authority to continue to adopt "an ongoing basis" (i.e. the funding target adopted for local authorities) during the period of the agreement which appears to significantly favour the employer to the detriment of the fund (the only benefit to the fund being that there is an ongoing employer which would meet future funding risks). If the employer had sufficient resources at the point of exit to pay a gilts basis exit valuation entering into such an agreement would represent poor risk management by the fund.

However, viewing the proposed changes through the lens of a contractor/other employer, we can see that being able to request deferred status may be beneficial and justifiable in certain circumstances. Assuming letting authorities support that view (noting that if the deemed employer route is implemented there may be far fewer transferee admission bodies exits in future), the option to spread exit payments could be made available for employers to request as long as suitable guidance is provided to administering authorities on how to assess such requests. We would like to see provisions that –

- termination could be triggered on significant deterioration of covenant without an associated insolvency event, as by that point it could be too late to recover the full remaining exit debt;
- either the employer or the fund can trigger termination without agreement of the other party providing that this then leads to an exit valuation being carried out.

There is a difference of opinion between administering authorities as to whether or not operating different investment strategies for different employers is consistent with the LGPS Regulations. Where deferred debt arrangements are being entered into, and the liabilities will become orphan when the arrangement ends (it unlikely administering authorities will wish to enter into open-ended agreements), a "flight plan" approach whereby the funding and investment strategy are regularly reviewed in light of the longer-term target of being fully funded on a gilts basis may be appropriate, particularly for larger employers. In order to ensure consistency of understanding of what is possible within the Regulations, it would be useful if specific reference could be made to an alternative investment strategy being permitted for deferred employers. This may be of benefit to both the fund and employer in terms of risk management.

Question 13: Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

We agree only the key obligations and entitlements of parties should be set out in the Regulations. Careful consideration should be given to any supporting guidance and whether this is statutory in nature. In particular, funds are not required to follow guidance issued by the Scheme Advisory Board. Therefore, where there is desire for commonality of approach across Funds, this should be detailed in statutory guidance from the Secretary of State. Any commonality must be balanced with local funding strategies and therefore any guidance should have significant input from LGPS practitioners throughout the drafting and consultation stages.

Ultimately it should be for administering authorities, having taken appropriate advice, to weigh up the risks and competing interests of stakeholders so we agree that these matters should be for fund discretion. However, if SAB guidance is only "advisory" the risk will remain of some administering authorities entering into arrangements without as thorough an assessment or understanding of the various risks as would be best practice. As these proposals represent a material shift in how employer exits are dealt with, we believe the guidance should be statutory rather than advisory. It should be noted that a deeper risk analysis does not imply a more risk averse approach leading to infrequent use of deferred employer arrangements. Such analysis could in fact provide administering authorities with the confidence to enter into such arrangements. Statutory guidance could therefore be in the interests of exiting employers if it results in more administering authorities being willing to enter into deferred employer arrangements. Given changes to the Regulations implemented earlier this year we note that it seems that only the Secretary of State can issue statutory guidance. We are not sure if that was intended to preclude SAB from developing guidance, which is then adopted and issued by the Secretary of State; it would be useful if MHCLG could confirm.

Question 14: Do you agree options 2 and 3 should be available to current rules on exit payments?

We agree options 2 and 3 should be available as alternatives to the current rules on exit payments. However, as set out in our response to Questions 10, 11 and 12, careful consideration should be given to the need for suspension notices under Regulation 64(2A) and the extension of asymmetries where exit credits are identified.

Question 15: Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

The additional options for managing exits could increase the overall administration costs of the scheme for both employers and administering authorities (whether in relation to actuarial fees or the time required from officers to consider and monitor proposals). Therefore, we believe there needs to be some level of statutory guidance in terms of the interpretation and application of the new Regulations. A balance will need to be struck between compulsion to ensure a consistent interpretation of the Regulations and the ability of funds to manage their own funding and employer risks. We would strongly encourage any guidance to go out for full public consultation.

Section 4 - Exit credits under the LGPS Regulations 2013

Question 16: Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

We agree that changes are required to remove the unintended consequences of the 14 May 2018 amendments. However, it is worth noting that there is a very wide range of risk sharing arrangements in place so it is not as simple as saying that if pass through is in place no exit credit is payable. In addition, by putting the onus on the administering authority, the fund will then be adjudicating on what is, in many cases, a contractual arrangement between two employers.

It should be noted that the Regulations as they currently stand do not subscribe any one basis for valuing exit credits and in practice, these can differentiate materially between different types of employer and between funds. Funding strategies are set locally and any suggestion that there is (or could be) a standard exit basis would not be welcome. We are not aware of any exit valuations being carried out on a 'full buy-out' basis as can happen in the private sector. However, we agree the Regulations should be amended to take account of a scheme employer's exposure to risk when calculating an exit credit.

Question 17: Are there other factors that should be taken into account in considering a solution?

Our concerns around exit credits go beyond contractors with risk sharing agreements. The use of pass through and risk sharing agreements has grown in prominence, however, there are still a significant number of former transferee admission bodies where risk sharing does not apply. The funding strategy of these employers, from the allocation of assets to cover past service liabilities at their date of joining to their ongoing contributions and bond requirements, were predicated by the Regulations and Funding Strategy Statements that were in force at the time they joined (and any subsequent formal valuations). The introduction of exit credits effectively changed the risk these employers posed to ceding authorities which would have may have resulted in significantly different treatment throughout their time in the LGPS. As a result, we strongly believe that exit credits should not be applied retrospectively to any contracts that were in force prior to 14 May 2018, whether on a risk-sharing basis or otherwise. In other words, the exit credit regime should only apply to new contracts that were set up from 14 May 2018 onwards.

There are wide ranges of risk sharing agreements in existence in the LGPS, many of which may be made without the knowledge of administering authorities. The requirement for the administering authority to be satisfied the provider has not borne any risk is an extremely high hurdle given the nature of these arrangements (i.e. would an arrangement where the guarantor takes on all the pension risks with the exception of say excessive pay increases fail this test, even if pay awards were sensible?). Putting the onus on the administering authority to carry out this additional function may significantly increase costs (either through external consultancy or internal time of officers) as agreements are likely to be legal agreements that may need professional interpretation. The risk of challenge of any decisions would be material.

The 3 month timeframe on which to pay an exit credit remains overly onerous and will be exacerbated by this change. We would expect administering authorities to make a determination on whether the service provider has not borne any risk prior to instructing an exit valuation. It is questionable, especially where interpreting potentially complex legal agreements that this could be done within 3 months. In addition, if further flexibilities are added to manage exit debts, you could face a situation where you have to return a surplus within 3 months of an exit date, but deficits may not be recovered for a number of years. Therefore, we believe the 3 month limit on exit credits is asymmetric in favour of employers and consideration should be given as to whether it remains appropriate.

Section 5- Employers required to offer LGPS membership

Question 18: Do you agree with our proposed approach?

It is a policy decision to allow higher and further education bodies to close to new entrants. We are aware that some bodies are struggling to meet the cost of participating in the LGPS, and recent changes in the sector (as outlined in the consultation) do raise questions about their ongoing treatment as ‘scheduled bodies’ under the Regulations.

It is not uncommon for the LGPS liabilities of these bodies to be worth tens of millions of pounds. We expect funds to keep in close touch with these employers and regularly monitor their financial strength, and wherever possible seek security to reduce the risk of unpaid liabilities falling on other employers in the event of insolvency. Those bodies that close to new entrants may well see their pension costs increase in the short term as exit funding strategies are agreed between funds and employers. The extent to which total employer pension costs in the medium to longer term rise or fall will depend on the type of pension arrangement that employers put in place for new entrants to replace the LGPS.

Employers that use this proposal would create a two-tier work force in terms of pension's provision. There will be a need to monitor and ensure that promises are kept to those members currently in the LGPS i.e. that they are not induced out of the LGPS. The accompanying legislation should make it clear where that responsibility lies and the possible penalties for non-compliance.

Employers should also be aware that choosing this approach may not immediately reduce their pension costs. Indeed contributions may even increase in the short term, as administering authorities are likely to want to recalculate the employer contribution rate, allowing for the fact the employer is now closed to new entrants and potentially altering the funding basis to reflect the shorter term nature of the participation of the employer.

Section 6 – Public sector equality duty

Question 19: Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

We would agree that in relation to sections 1 to 4 of the consultation document there should be no equality issues to consider, given that member benefits and contributions would not be impacted by any eventual outcome from this consultation exercise. We assume that the current safeguards in relation to ongoing entitlement to member benefits would not be impacted on any relaxation of recovery of exit payments (i.e. it would fall to the Fund to make payment of benefits where it has not been possible to recover some or all of an exit payment and the remaining liability is spread across remaining employers with active members).

In relation to section 5 the consultation document refers to the fact that "It will be up to each institution to consider the potential equalities impacts when making their decision on which, if any, new employees should be given access to the scheme." Our concern would be whether such institutions may seek to offer inducements to existing active scheme members to opt to leave the scheme in order to accelerate their departure from the scheme as a whole. Appreciating that such action would be unlawful and counter to the requirements of automatic enrolment provisions there is a risk that such actions could be taken, disadvantaging existing active members.

I trust that these comments are helpful and would be happy to expand on or clarify any aspect if required.

ESPF Pension Board and Pension Committee

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The Pensions Regulator

Consultation

Draft guides to deliver the CMA's recommendation to produce guidance to trustees of occupational pension schemes on engaging with investment consultants and fiduciary managers

July 2019

Contents

Introduction

The Pensions Regulator (TPR) is the UK regulator of occupational pension schemes. We are a non-departmental public body established under the Pensions Act 2004. Our sponsoring body is the Department for Work and Pensions (DWP) and Parliament sets the legislative and regulatory framework within which we work.

Following an investigation into the investment consultancy and fiduciary management market, the Competition and Markets Authority (CMA) has introduced new duties for trustees and managers of occupational pension schemes,[1] which will take effect from 10 December 2019.

The DWP is currently consulting on bringing these new duties into pensions legislation, after which we will be tasked with regulating compliance with the requirements.

The CMA made recommendations in its final report for us to produce guidance to support trustees in complying with these new duties. This consultation is in respect of the guidance we have produced to support those recommendations.

Who is this consultation for?

We are particularly interested to hear from anyone affected by the requirements of The Investment Consultancy and Fiduciary Management Market Investigation Order 2019[2] ('the Order'). This is primarily for trustees of occupational pension schemes and providers of fiduciary management and/or investment consultancy services, including trustees who have appointed a fiduciary manager that will be required to run a competitive re-tender. The final order brought local government pension schemes into scope for some aspects of the order. We would therefore also be interested to hear from them, particularly in respect of the guidance on setting objectives for providers of investment consultancy services. References in the guidance documents to trustees include, where applicable, scheme managers of LGPS funds.

We are also interested to hear from third parties who provide trustees with support and advice in selecting and reviewing the performance of providers of fiduciary management and/or providers of investment consultancy services.

Impact assessment

We will be liaising with the DWP, and may seek further external evidence to support our assessment of regulatory burden and Business Impact Target obligations under the Small Business, Enterprise and Employment Act 2015.

1 https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf
2 https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf

Responding to the consultation

We have provided a form for responses which you can complete electronically and submit to us. We are also happy to accept paper responses. You can send your response:

- by email to **FMandICguidance@tpr.gov.uk** (documents should preferably be in Word format)
- by post to **Louise Spicer**, Regulatory Policy, The Pensions Regulator, Napier House, Trafalgar Place, Brighton, BN1 4DW

We may share the feedback you send us within our own organisation or with other government bodies, including the CMA. We may publish this feedback as part of a response to the consultation. If, for the purposes of our published consultation response, you wish your response to be kept confidential or your comments to remain anonymous, please make this known and we will take the necessary steps to meet your request.

However, please be aware that, should we receive a formal request under the Freedom of Information Act, we may be required to make your response available. When responding, please advise whether you are responding as an individual or on behalf of an organisation (and, if the latter, which organisation).

Closing date

This consultation document was published on **31 July 2019**. The closing date for responses is **12 noon** on **11 September 2019**.

Government consultation principles

For the purposes of this consultation paper, we are following the government's consultation principles at: **http://bit.ly/ContPrin**.

The key principles state that consultations should:

- be clear and concise
- have a purpose
- be informative
- be only part of a process of engagement
- last for a proportionate amount of time
- be targeted
- take account of the groups being consulted
- be agreed before publication
- facilitate scrutiny

Background

The CMA investigated the investment consultancy and fiduciary management market following a referral made by the Financial Conduct Authority (FCA) in September 2017. Trustees of occupational pension schemes are among the largest institutional investors that use these services in the UK. The CMA therefore focused on trustees as customers in this market.

The CMA published its final report[3] in December 2018 and concluded that there was an adverse effect on competition in the investment consultancy and fiduciary management market. It found low levels of engagement by trustees when choosing and monitoring their investment consultant and low levels of tendering when first moving into fiduciary management. The CMA also found that it was difficult for trustees to access and assess the information needed to evaluate the quality of their existing investment consultant and to identify if they would be better off switching adviser. The costs of switching out of fiduciary management were found to be high and it was identified that it was also difficult for many trustees to access and assess the information they needed on the fees and charges within their existing fiduciary manager agreement to consider if they would be able to receive better terms from another provider. These features were considered to result in substantial detriment to scheme and member outcomes.

The final report set out a number of remedies to improve the information that investment consultants and fiduciary managers provide trustees on fees and performance and to facilitate trustee engagement when tendering for services and assessing the performance and quality of service of their providers. These remedies apply to trustees and providers of investment consultancy and fiduciary management services. The specific remedies that apply to trustees are as follows:

- **Remedy 1:** Requirement to tender for fiduciary management services when 20% or more of scheme assets are delegated.
- **Remedy 7:** Requirement to set strategic objectives for providers of investment consultancy services.

The CMA has introduced the remedies via the Order,[4] which was published on 10 June 2019 and the duties that apply to trustees will take effect from 10 December 2019. The CMA has recommended the DWP legislates to bring the new duties for trustees into pensions legislation so we can be tasked with regulating compliance. The DWP is currently consulting on amendments to regulations. References to the new duties in the guidance currently relate to the CMA Order. Following the DWP's consultation to transition the requirements of the order into pensions legislation, we intend to update the guidance to reflect the final regulations.

3 https://www.gov.uk/cma-cases/investment-consultants-market-investigation#final-report
4 https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf

The CMA also recommended that we produce guidance for trustees to support them in meeting these new requirements in relation to Remedies 1 and 7. The CMA also included further recommendations, including that we produce guidance to assist trustees in tendering for investment consultancy services.

Investment consultants and fiduciary managers perform an important role for trustee boards and have a significant influence over investment matters that affect member outcomes. It is therefore important that trustees are well-informed in order to select good quality suppliers of investment management services and are able to monitor their performance to ensure that the expected quality of service is delivered.

We support the CMA's recommendations and we believe this guidance will help to address the underlying issues.

We are consulting on a suite of guidance aimed to support trustees in meeting the new duties and engaging with their providers of investment consultancy and fiduciary management services:

1. **Draft guide to tendering for fiduciary management services**
2. **Draft guide to tendering for investment consultancy services**
3. **Draft guide to setting objectives for providers of investment consultancy services**
4. **Draft guide to choosing an investment governance model**

We welcome comments on any aspect of the guidance. We have provided some specific questions on areas where we have a particular interest. Following the consultation, we will consider comments and make appropriate changes before publishing the final guidance.

Consultation

1. A guide to tendering for fiduciary management

Click on the question below to go to the response form at the end of this publication

- **Question one: Is the language used in the guidance clear and unambiguous? If not, what would provide clarity?**

From 10 December 2019, trustees will be required to run a competitive tender exercise for any agreement with a fiduciary manager provider that would result in 20% or more of scheme assets being delegated. Trustees who appointed a provider prior to 10 June 2019 without conducting a competitive tender process will be required to conduct a competitive tender process within five years after the first appointment of a fiduciary management services provider. Where the five year period expires before, on or within two years of 10 June 2019, trustees must complete a competitive tender no later than 9 June 2021.

The guidance aims to provide practical information to support trustees in meeting the legal requirement. We also set out that it is good practice to tender, even when the legal requirement does not apply. When describing a legal requirement, we have used language such as 'the law requires' and 'you must'. 'You should' is used when describing good practice.

Click on the question below to go to the response form at the end of this publication

- **Question two: Do you consider that there are any areas of a competitive tender process missing?**

Under remedy 3 of the CMA's final report, they recommended that we produce guidance to support trustees in running a competitive tender process to select a fiduciary manager. The CMA Order sets out a definition of a competitive tender process and the requirement for reasonable endeavours to be adopted. The aim of this guide is to provide a set of key principles to illustrate a good practice approach to tendering and outline how these may be applied to tendering for fiduciary management services. These are supported by an illustrative case study to demonstrate how tendering for a fiduciary manager may be approached in practice.

Click on the question below to go to the response form at the end of this publication

- **Question three: Are the key principles of running a tender exercise reasonable and proportionate? In particular, are there any scheme types or sizes for which the principles would not be reasonable and proportionate?**

The guidance outlines a set of key principles for running an effective tender exercise as an example of good practice that could be applied when tendering for services. However, trustees should design an exercise which is proportionate and appropriate for the needs of their scheme. We explain how trustees can apply the key principles of tendering for fiduciary management, which includes developing a good understanding of the current fiduciary management market, outlines a process for shortlisting candidates and highlights the need to assess bids in a consistent and comparable way. We also explain that by documenting the fact that the trustees have followed a structured process and recorded key outcomes, it helps trustees to demonstrate that they have made an informed decision.

We are interested to understand if there are any challenges for trustees in applying the key principles outlined, particularly whether there are any steps which trustees of smaller schemes may find difficult and whether a simpler process would be more appropriate. We would also be interested in understanding whether any such simpler process could be expected to deliver the same level of potential benefits, for example in relation to fee savings over the term of the contract and improved terms and conditions.

2. A guide to tendering for investment consultancy services

Click on the question below to go to the response form at the end of this publication

- **Question four: Is it clear how trustees can apply the principles of a competitive tender exercise to the selection of a provider of investment consultancy services?**

In its final report, the CMA recommended that we consider how the competitive tender process could be applied to the appointment of an investment consultant. We have produced a shorter guide to tendering for investment consultancy services with the aim to provide guidance to trustees on the key matters to consider when tendering. We outline how the key principles of a competitive tender may be applied to the tender for investment consultancy services with an illustrative case study.

3. Setting objectives for providers of investment consultancy services

Click on the question below to go to the response form at the end of this publication

- **Question five: Is the language used in the guidance clear and unambiguous? If not, what would provide clarity?**

From 10 December 2019, trustees and managers will be required to set objectives for their providers of investment consultancy services. The guidance aims to provide practical information in meeting the duty. For the purposes of the new duty, 'investment consultancy services' has a particular meaning in the Order.

However, we recognise that the range of advice and services offered by providers of investment consultancy services is much broader and that services may be bundled. The guidance therefore sets out that it is good practice to set objectives for the other services provided by investment consultants. When describing a legal requirement, we have used language such as 'the law requires' and 'you must'. 'You should' is used when describing good practice. We also aimed to clarify where we are describing investment consultancy services more broadly than the definition in the Order.

Click on the question below to go to the response form at the end of this publication

- **Question six: Are the case studies useful in illustrating the elements of services trustee should consider setting objectives in relation to? Do these present an accurate representation of how trustees may set objectives for their investment consultants? Do you have any other examples that could be usefully included to demonstrate the different approaches that schemes of different sizes, and with varying available resources, might take to comply?**

From December 2019, trustees and managers are required to set strategic objectives for those providers that meet the definition of investment consultancy services in the Order. The objectives trustees decide to set should be bespoke to their scheme and relevant to the services they have instructed their consultant to provide. We have set out in the guidance the requirement to set objectives, together with matters to consider when setting them and monitoring progress. We include a number of case studies to illustrate how this might be applied by a defined benefit and defined contribution scheme.

Click on the question below to go to the response form at the end of this publication

- **Question seven: Is the example balanced scorecard an effective way to assess the performance of providers of investment consultancy services? Are there alternative methods trustees could use?**

We provide an illustrative example of a scorecard trustees can use when reviewing the performance of their investment consultancy service provider, using a set of illustrative weightings against which the services could be assessed. The level of the weightings and the specific structure of the balanced scorecard will vary between schemes. Trustees should design a scorecard which is bespoke to the needs of their scheme and the investment consultancy services they obtain. There may be other methods trustees could use and we are interested to hear if there are alternatives which might be appropriate.

4. Guide to choosing an investment governance model

Click on the question below to go to the response form at the end of this publication

- **Question eight: The guide to choosing an investment governance model describes the key features of investment consultancy and fiduciary management. Are there any other features missing which would support trustees in deciding on a suitable model for their scheme?**

In response to the findings in the CMA's investigation and feedback from industry, we have produced guidance on matters which trustees should consider when choosing an investment governance model. This guidance does not reflect new legal requirements and its aim is to support trustees to understand their investment governance capability and highlight key matters to consider when deciding on an appropriate level of delegation that will support them to achieve their objectives. We consider this to be an important step before deciding to tender for services.

We recognise that there are various services and levels of delegation available to trustees and there are other solutions which trustees can consider to improve investment governance. We have primarily focused on full investment consultancy and full fiduciary management for the purpose of this guidance and we signpost to our existing guidance, where appropriate.

Appendix: Consultation questions and response form

Consultation: Tendering for fiduciary management and setting objectives for providers of investment consultancy services

This form is interactive. Please save the whole consultation pdf to your computer, fill in your response to the questions as appropriate and return it by **12 noon** on **11 September 2019** to the following email address: **FMandICguidance@tpr.gov.uk**

Your details

Your name:

Organisation (if applicable):

Job title (if applicable):

Postal address:

Telephone:

Email:

Which category best describes you or your organisation?

Please select one category from the drop down menu above.

Confidentiality

Please confirm whether you would like us to list your organisation on our list of respondents to this consultation:

☐ Yes, I wish my organisation to be included on the list of respondents.

We may need to share the feedback you send us within our own organisation or with other government bodies. We may also publish this feedback as part of our response to the consultation. If you wish your response, in whole or in part, to remain confidential, please tick the box below:

☐ Yes, I wish my response to remain confidential.

If so, please specify which part of your response you wish to remain confidential and why:

Part 1: A guide to tendering for fiduciary management

1. **Is the language used in the guidance clear and unambiguous? If not, what would provide clarity?**

☐ Yes ☐ No

Please give your reasons.

2. Do you consider that there are any areas of a competitive tender process missing?

☐ Yes ☐ No

Please give your reasons.

3. Are the key principles of running a tender exercise reasonable and proportionate? In particular, are there any scheme types or sizes for which the principles would not be reasonable and proportionate?

☐ Yes ☐ No

Please give your reasons.

Part 2: A guide to tendering for investment consultancy services

4. Is it clear how trustees can apply the principles of a competitive tender exercise to the selection of a provider of investment consultancy services?

☐ Yes ☐ No

Please give your reasons.

Part 3: Setting objectives for providers of investment consultancy services

5. Is the language used in the guidance clear and unambiguous? If not, what would provide clarity?

☐ Yes ☐ No

Please give your reasons.

6. Are the case studies useful in illustrating the elements of services trustee should consider setting objectives in relation to? Do these present an accurate representation of how trustees may set objectives for their investment consultants? Do you have any other examples that could be usefully included to demonstrate the different approaches that schemes of different sizes, and with varying available resources, might take to comply?

☐ Yes ☐ No

Please give your reasons.

7. **Is the example balanced scorecard an effective way to assess the performance of providers of investment consultancy services? Are there alternative methods trustees could use?**

☐ Yes ☐ No

Please give your reasons.

Part 4: Guide to choosing an investment governance model

8. **The guide to choosing an investment governance model describes the key features of investment consultancy and fiduciary management. Are there any other features missing which would support trustees in deciding on a suitable model for their scheme?**

☐ Yes ☐ No

Please give your reasons.

How to contact us

Napier House
Trafalgar Place
Brighton
BN1 4DW

www.tpr.gov.uk

www.trusteetoolkit.com
Free online learning for trustees

Consultation
Draft guides to deliver the CMA's recommendation to produce guidance to trustees of occupational pension schemes on engaging with investment consultants and fiduciary managers

The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (‘the Order’)

Revised 1st August 2019

The intention of this briefing is to set out, as far as is currently understood, the position of LGPS administering authorities under the Order and subsequent consultations. It is NOT a complete or definitive guide to the Order or subsequent consultations nor does it constitute advice as to the action LGPS authorities should or should take with regard to the Order or subsequent consultations.

Summary

The Order appeared to apply two new obligations to the LGPS

1. A requirement to tender for services provided by some pool companies which fall under the definition of Fiduciary Management (FM)
2. A requirement to set strategic objectives for providers of Investment Consultant (IC) services
3. It also flagged a potential change to the FCA’s regulatory perimeter to bring advice on strategic asset allocation within the definition of a regulated activity

Following extensive dialogue with CMA, MHCLG and DWP and subsequent consultations published by DWP and TPR it appears the position in brief is that although the risk of requirement 1 (FM) has subsided to a significant degree requirement 2 (IC) will apply and change 3 is still intended.

It would therefore be prudent for authorities to assume that the IC requirement will apply and therefore respond to the TPR consultation on draft guidance in particular that for setting strategic objectives for investment consultants.

Authorities should also be mindful that should FCA go ahead with the extension of the definition of regulated advice they may need to review the provision of advice on strategic asset allocation. We understand that FCA do not intend to consult on any provisions on the back of the Order before the first Quarter of next year.

The Order

On 10th June the Competition and Market’s Authority (CMA) published the Order placing new obligations on service providers and pension schemes with regard to Fiduciary Management (FM) and Investment Consultancy (IC) Services. The Order implements the CMA’s recommended remedy 1 (tendering for FM services) in Part 3 and remedy 7 (Setting objectives for IC) in Part 7.

Subsequent consultations

Since then the DWP have published a consultation entitled ***Trustee oversight of investment consultants and fiduciary managers*** which seeks to enact the obligations placed on schemes under Parts 3 and 7 of the Order.

Scheme Advisory Board Secretariat
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Also The Pensions Regulator has published a set of draft guides on ***engaging with investment consultants and fiduciary managers***

Q1 Do the obligations in Part 3 (Remedy 1) and Part 7 (Remedy 7) of the Order apply to the LGPS?

Although the Order appeared to clearly include the LGPS as set out in parts 1 and 2 of the Order. In particular by including in the definition of Pension Scheme Trustees the managers of occupational schemes including LGPS scheme managers (administering authorities). Subsequent draft DWP Regulations seem to have 'clarified' the intention with regard to the LGPS of it only being in scope for Part 7 (and Part 9 insofar as it relates to Part 7).

Such clarification is in line with correspondence received from the CMA that in spite of the wording of the Order it was never the intention for LGPS scheme managers to be required to tender FM services provided by 'in house' pool companies. Furthermore CMA have stated that they would not seek to enforce the Order in a way as would result in such a tender exercise.

Draft DWP regulations (29th July 2019) state that;

Scope of Part 6

30.—(1) This Part applies in relation to relevant trust schemes.

(2) A "relevant trust scheme" is an occupational pension scheme established under a trust other than—

(c) a public service pension scheme,

Furthermore LGPS scheme managers should note that Chapter 2(1) of the consultation document states;

The CMA order prescribes that all registrable DB and DC occupational pension schemes with 2 or more members are in scope of both remedy 1 and 7 with a number of exceptions including:

….public service pension schemes (PSPSs) as defined by the Pensions Act 2004, although local government pension scheme (LGPS) are in scope for remedy 7

It is therefore understood that LGPS scheme managers are not in scope for Part 3 of the Order (Remedy 1) but are in scope for Part 7, and Part 9 insofar as it relates to Part 7, (Remedy 7)

Chapter 2(3) It goes on to state that;

Our regulations do not therefore apply to the LGPS. In particular, we have made no provision for applying remedy 7 to the LGPS, as regulations and guidance in relation to the LGPS are a matter for Ministry of Housing, Communities and Local Government

Therefore it would appear that Part 7 (and Part 9 insofar as it relates to Part 7) of the Order will apply until such time as MHCLG make regulations and/or guidance which implements remedy 7 into the LGPS. The rest of this summary is based on this assumption.

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Q2 When does the Order come into effect and when does it cease?

Parts 7 and 9 come into effect 10th December 2019 and remain in force for 10 years, unless varied by the Enterprise Act 2002 or until;

Article 1.4 (a) the date on which the CMA confirms that equivalent provisions have been brought into force as part of the regulatory regime of a Relevant Sector Regulator

Based on the above it would appear that once the DWP draft regulations are in force and MHCLG have brought forward provisions on remedy 7 the Order will fall away for LGPS scheme managers. However that is yet to be confirmed by CMA.

Q3 In summary what does Part 7 contain?

Part 7 prohibits Pension Scheme Trustees (including LGPS scheme managers) from entering into a contract or continuing to obtain IC Services without setting strategic objectives for the IC Provider

Q4. How does the Order define an Investment Consultancy (IC) Service?

An IC Service is the provision of advice, this includes advice on which investments are to be made, advice that the scheme manager is required by law to take (for LGPS this includes proper advice under regulation 7(1) of the Investment Regulations 2016), advice on investment strategy and advice on manager selection.

Part 2 of the Order defines IC Service as:

'Investment Consultancy Services' *means the provision to Pension Scheme Trustees of services where the provider advises the Pension Scheme Trustees in relation to one or more of the following:*

(a) Investments that may be made or retained by or on behalf of the Pension Scheme Trustees;

(b) Any matters in respect of which the Pension Scheme Trustees are required by law to seek advice in relation to the preparation or revision of the statement of investment principles;

(c) Strategic asset allocation;

(d) Manager selection.

The reference to 'advises' means the provision of advice on the merits of the Pension Scheme Trustees taking or not taking a specific course of action and includes a recommendation or guidance to that effect

It is interesting to note the inclusion of advice on strategic asset allocation, as currently this is not included in the FCA Handbook definition of regulated advice. This appears to flag a future change to bring such advice within the definition of regulated and therefore only to be provided by an FCA authorised Provider.

We understand that FCA do not intend to consult on changes to implement the provisions of the Order on service providers until the first quarter of next year. The secretariat will continue

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to liaise with MHCLG and the FCA regarding confirmation and potential timing of such a change and the impact on LGPS scheme managers.

Q5. Are there any exclusions to the definition of IC services?

Yes, the definition excludes advice by the principal or controlling employer of the scheme (the administering authority in the LGPS) or commentary by the scheme actuary in the valuation report, as set out in part 2 of the Order:

The services do not include:

(a) the provision of advice by a provider to the Pension Scheme Trustees of a pension scheme of which the provider (or an Interconnected Body Corporate of the provider, or a partnership or joint venture with the provider) is the Principal Employer or Controlling Employer;

(b) The high-level commentary provided by the scheme actuary in or in respect of triennial valuation reports and with regard to the link between the investment approach and the pension scheme's funding objectives.

Q6. What are the obligations of Scheme managers under the Order in respect of IC services?

Scheme managers must set strategic objectives for their IC Provider as set out in part 7 of the Order

12.1 Pension Scheme Trustees must not enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy

Q7. What are Strategic Objectives?

Strategic objectives are defined in the Order as follows;

'Strategic Objectives' *means the objectives for the Investment Consultancy Provider's advice as applicable by reference to (a) to (d) of the definition of Investment Consultancy Services, in accordance with the Pension Scheme Trustees' investment strategy.*

On 31st July The Pensions Regulator published a consultation on a draft set of guides for schemes covering the obligations under the Order. These include a guide to ***Setting objectives for providers of investment consultancy services***.

The draft guide sets out the legal obligations of schemes, provides examples of Investment Consultancy services and expands on setting objectives including stating that

Adviser objectives can be quantitative and qualitative in their nature, for example these could be set in relation to investment performance delivered relative to the liabilities, adviser performance against service level agreements, communication skills, value for money and performance against specific tasks, such as asset transitions or investment manager selection exercises.

The guidance also provides examples of the areas that objectives may cover as outlined in the DB and DC case studies.

Q8. Do scheme managers have any other obligations under the Order?

Yes, they are obliged under Part 9 to submit a statement of compliance with their obligations under Part 7 of the Order within 12 months and 4 weeks beginning with 10th December 2019, and thereafter annually.

15.1 As applicable, Pension Scheme Trustees, IC-FM firms, Investment Consultancy Providers and Fiduciary Management Providers subject to any of Parts 3, 4, 5, 6, 7 and 8 must submit Compliance Statements to the CMA within 12 months and four weeks beginning with the date on which each of the relevant applicable Articles of any of Parts 3, 4, 5, 6, 7 and 8 come into force and annually thereafter. A Compliance Statement shall confirm the extent to which the relevant applicable Articles of the relevant Part or Parts of the Order that were in force during the reporting period have been complied with during that period.

The statement must be accompanied a certificate which confirms it has been prepared in accordance with the Order and that all relevant aspects of the Order have been complied with and is signed by a person (or persons) named in the Order.

16.1 As applicable, Pension Scheme Trustees, IC-FM firms, Investment Consultancy Providers and Fiduciary Management Providers must ensure that any Compliance Statement required by this Part 9 is submitted together with a signed certificate stating that:

(a) the relevant Compliance Statement has been prepared in accordance with the requirements of this Order; and

(b) for the period to which the Compliance Statement relates, the Pension Scheme Trustees, IC-FM firm, Investment Consultancy Provider or Fiduciary Management Provider (as applicable) has or have complied in all material respects with the requirements of this Order and reasonably expect to continue to do so.

16.5 Where the certificate is completed by Pension Scheme Trustees, it must be signed by:

(a) a director of any sole corporate trustee; or

(b) the Chair of the Board of Trustees; or

(c) only if there is no Chair or the Chair is not available, any other member of the Board of Trustees

SAB Secretariat

1st August 2019

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The LGPS Community

The purpose of this document is to explain the relationship between the different bodies that make up the Local Government Pension Scheme (LGPS) community. It does not explain the governance structure of the LGPS, which is already well documented, and is not a comprehensive guide to the roles and responsibilities of the bodies that make up the community.

The Pensions Regulator's (TPR) website provides information on the governance structure for public sector pension schemes and the respective roles and responsibilities.

Readers should note that the LGPS in England and Wales, Scotland and Northern Ireland are three different pension schemes.

The diagram on the next page illustrates the formal relationship between the different bodies. In reality, many of the bodies work together informally on a collaborative basis and are in regular contact.

LGPS administering authorities

Each administering authority is responsible for managing and administering the LGPS in relation to its members. The administering authority is responsible for maintaining and investing its own fund for the LGPS.

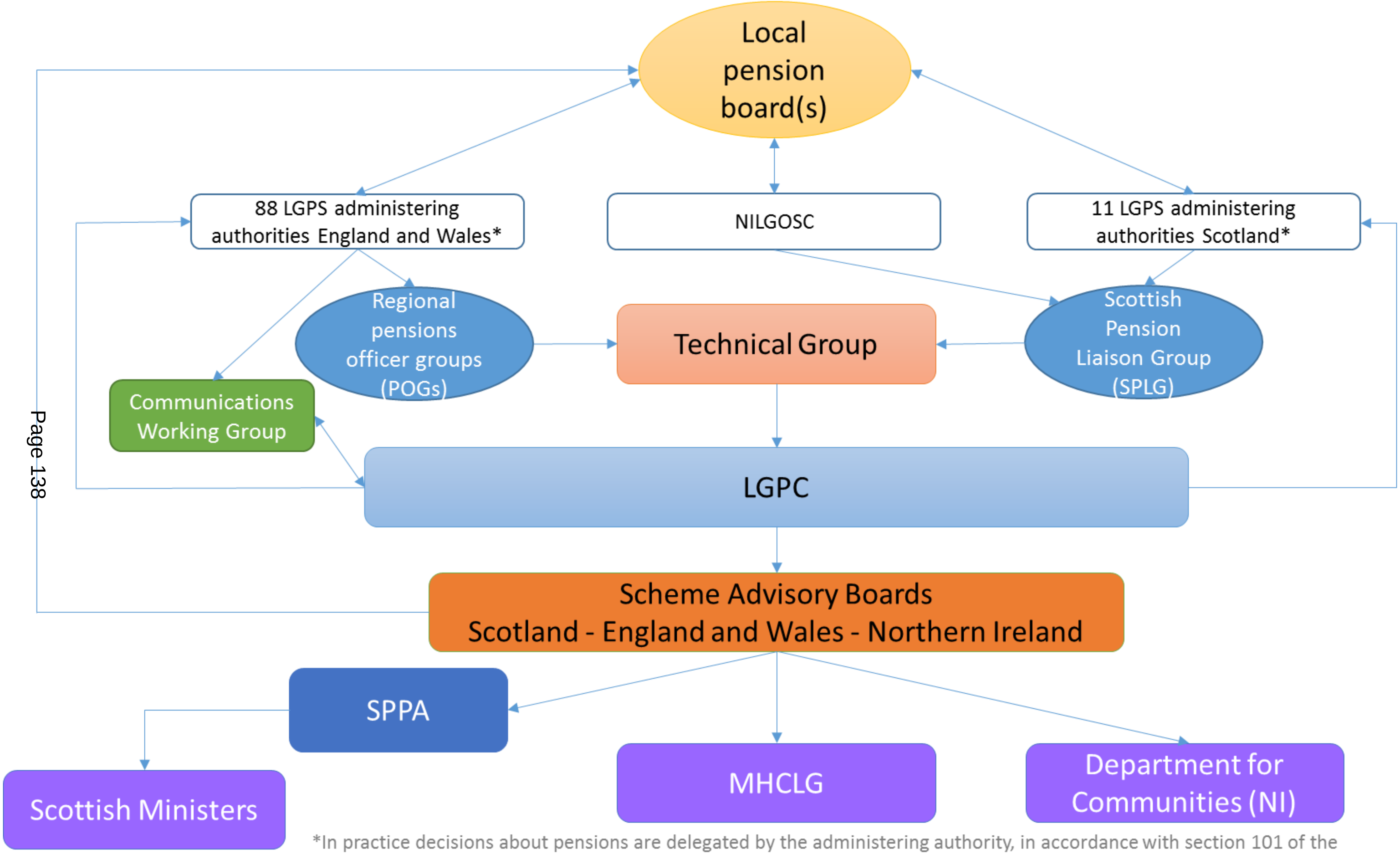
Where the administering authority is also the local authority (as is the case for the majority of administering authorities) it is not possible for certain decisions about pension allowances or the amount of pension to be paid to employees to be an executive decision. This means in practice that decisions about pensions are delegated in accordance with Section 101 of the Local Government Act 1972 Act to:

- pension committees or sub committees made up of the administering authorities' councillors (from all political groups). Some of the committees / sub committees will also have additional co-opted members such as employer and scheme member representatives, or
- administering authority officers.

Each administering authority must have in place a governance compliance statement setting out whether it delegates its functions, or part of its functions under the Regulations to a committee, a sub-committee or an officer of the authority.

Each administering authority will decide whether the day to day administration of the LGPS is performed in-house, by a third party or as part of a shared service agreement with another administering authority.

In Northern Ireland, the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) is responsible for managing and administering the LGPS in relation to members of the LGPS in Northern Ireland. It is also responsible for maintaining and investing the pension fund.



*In practice decisions about pensions are delegated by the administering authority, in accordance with section 101 of the Local Government Act 1972, to pension committees, sub-committees or officers

Pension officer groups (POGs)

POGs provide an opportunity for pension administrators (usually the pension manager and/or deputy manager) to meet on a regular basis to discuss current issues and share best practice. In Scotland the group is referred to as the Scottish Pensions Liaison Group (SPLG) and is also attended by representatives from NILGOSC.

In England and Wales there are eight regional POGs:

London	East Midlands
South East	Shrewsbury
Wales	Southern area
South West	North of England

Meetings usually take place quarterly.

Where an issue or query cannot be resolved within the POG itself, or a national view is required, it is referred to the Technical Group for consideration.

The LGPC Secretariat attends POGs to provide updates on the latest developments and provide technical support. Further information about POGs, including meeting dates and the contact details for POG chairs can be obtained by emailing the LGPC Secretariat – query.lgps@local.gov.uk.

Technical Group

The Technical Group is made up of nominees from the POGs and SPLG. Each POG is able to nominate up to two representatives for membership, whilst SPLG and NILGOSC are able nominate one member each.

The group is also attended by representatives of the following organisations:

- LGPC
- Ministry of Housing, Communities and Local Government (MHCLG)
- Scottish Public Pensions Agency (SPPA[1])
- Department for Communities (Northern Ireland)

The POG and SPLG nominees are able to raise any issues / areas for discussion identified at the regional POGs.

The purpose of the Technical Group is set out in its terms of reference – a summary is provided below:

- to provide advice and guidance to POGs and administering authorities, in particular in relation to the interpretation of legislation
- to assist with the development of consistent standards and improve the quality of information available to LGPS administering authorities

[1] SPPA provides policy advice to Scottish Ministers on public sector pension issues and is responsible for developing the regulations for Scotland's LGPS – and for determining any appeals made by its members

- to liaise with the responsible authority[2] for each LGPS scheme
- to represent the views of administering authorities in relation to the direction of pension policy and the desirability of making changes to Scheme regulations.

The group is facilitated by the LGPC Secretariat who publish the minutes on their website for LGPS administering authorities and employers.

Communications Working Group

The Communications Working Group (CWG) is a collaborative forum made up of representatives from 20 administering authorities in England and Wales. The group meets on a quarterly basis to develop items of communication for scheme members in the LGPS. The group was created and is run by the LGPC.

The CWG provides the opportunity for LGPS funds to share knowledge and experience in the field of communications and to assist the LGPC secretariat in the development and provision of centrally devised communications resources.

The CWG priorities include the identification of best practice within pension communications generally and the LGPS specifically, exploring the areas where centrally produced communications would save individual LGPS funds financial resources and staff time.

The documents produced by the LGPC in conjunction with the CWG for the LGPS can be found on LGPC's website for administering authorities and employers, along with the annual work plan and actions and agreements from each meeting.

Individuals can put themselves forward for membership of the group to the LGPC secretariat for consideration. To ensure effective debate and discussion can occur, the optimum number which the group aims to retain is approximately 20 members. Once at capacity the group will retain requests for membership from other interested parties and where members leave or are unable to attend meetings then consideration will be given by the Secretariat to incorporate these requests.

Local Government Pension Committee (LGPC)

The LGPC is a committee of councillors constituted by the:

- Local Government Association (LGA)
- Welsh Local Government Association (WLGA)
- Convention of Scottish Local Authorities (COSLA)

As such, it covers the LGPS administering authorities in England, Scotland and Wales. Councillors are nominated for membership of the LGPC by their respective political group at the LGA - each political group has its own appointment process.

Membership numbers mirror the political balance of the LGA. The chair is a committee member from the largest political group at the LGA and is nominated for the role by the Committee.

[2] Defined in the Public Service Pensions Act 2013 as the person who may make scheme regulations

The Committee meets four times a year. Meetings are facilitated by the LGPC Secretariat and are also attended by representatives from the following organisations:

- SAB England and Wales - the nominated practitioner representative
- the Technical Group
- Ministry of Housing, Communities and Local Government (MHCLG)
- Scottish Public Pensions Agency (SPPA)
- Department for Communities (Northern Ireland)

In addition any elected member of the Scheme Advisory Board (England and Wales) is able to attend LGPC meetings as an observer. Meeting minutes are published on the LGPC secretariat's website for LGPS administering authorities and employers.

The LGPC represents local authority interests in dealing with government and others on local government pension issues. It also provides an advice and information network for LGPS administering authorities. The LGA provides the secretariat service for the LGPC. The service includes:

- a library of technical guides on the LGPS and related compensation matters
- a library of guides and leaflets for employees and councillors of the LGPS for administering authorities and employers to download and personalise for their own use
- a monthly bulletin highlighting issues affecting the LGPS
- an online library of LGPS statutory guidance and other related legislation
- the upkeep of timeline regulations for the LGPS
- a national website for members of the LGPS in England and Wales
- attendance at regional pensioner officer group meetings to provide technical support
- representing the interests of LGPS administering authorities at a national level with government and other bodies, such as national employer groups, the Pensions Regulator and the Pensions Ombudsman.

The LGPC secretariat also provides a programme of pensions training for LGPS pension practitioners, LGPS employers, pension committee and local pension board members.

Local pension boards

The LGPS Regulations and the Public Service Pensions Act 2013 require that each 'scheme manager' establishes a local pension board. This requirement has been in place since 1 April 2015. For England, Wales and Scotland this means that each administering authority must establish a separate local pension board.

The local pension board has responsibility for assisting the scheme manager in the effective and efficient governance and administration of the Scheme, as well as ensuring compliance with:

- the Scheme regulations

- any other legislation relating to the governance and administration of the Scheme and any connected scheme
- any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme.

A local pension board must be made of up of equal numbers of employer and member representatives (with a minimum of four representatives) and may also include other members. Where an independent chair is appointed he/she will be classed as an 'other' member.

The method of appointing representatives and other members to a local pension board is determined by each administering authority. Information about how a particular administering authority's appointment process works can be obtained by contacting the relevant administering authority directly or by accessing their website.

Scheme Advisory Board (SAB)

Each LGPS scheme is required by law to establish a SAB – the role of which is to advise the authority responsible for making the regulations of the desirability of changes to the Scheme. SABs can also provide advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme.

England and Wales

The chair and vice-chair of the SAB are appointed by the Secretary of State.

The Board is made up of six employer and six member representatives. Members are nominated for membership by the appropriate representative body.

The chair is also able to appoint three non-voting advisory members to the Board. The appointments are made following nominations from one or more of the organisations representing scheme stakeholders, the wider pensions industry or LGPS administering authorities.

The SAB has two sub-committees:

- Cost management, benefit design and administration committee
- Investment, governance and engagement committee

The membership profile and terms of reference for each sub-committee is available to view on the Board website.

Scotland

Joint chairs are nominated respectively by local government scheme employers and the relevant trade unions from the SAB membership and formally appointed by Scottish Ministers.

The Board is made up of seven employer and seven member representatives. Members are nominated for membership by the appropriate representative body.

Northern Ireland
The Advisory Board is chaired by a senior departmental official at Grade 5 level.

The Board is made up of four employer and four member representatives. Members are nominated for membership by the appropriate representative body.

More information about each of the Boards including the terms of reference is available at:

England and Wales: http://www.lgpsboard.org/
Scotland: http://lgpsab.scot/
Northern Ireland: https://www.nilgosc.org.uk/

The responsible authority
The responsible authority is responsible for making the regulations that govern the scheme rules. For the LGPS schemes they are:

England and Wales: the Secretary of State for Housing, Communities and Local Government (MHCLG)
Scotland: the Scottish Ministers[3]
Northern Ireland: the Department for Communities

[3] SPPA provides policy advice to Scottish Ministers on public sector pension issues and is responsible for developing the regulations for Scotland's LGPS – and for determining any appeals made by its members

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Report to: **Pension Board**

Date: **9 September 2019**

By: **Head of Pensions**

Title of report: **General Update**

Purpose of report: **To provide a general update to the Pension Board on matters relating to the Board activities.**

RECOMMENDATION

The Board is recommended to note the update.

---

1. Background

1.1 This report provides an update on matters relating to the Pension Board and Committee activities.

2. Report Overview

Cash Flow Forecast and Summary

2.1 The East Sussex Pension Fund invests any surplus cash with the Fund's custodian, Northern Trust. Over the past 5 years, the East Sussex fund has been broadly cash flow 'neutral'. The projection for the fiscal year 2019/20 is that the fund will generate a surplus of £2.3m; the estimated cash flow position will be helped by employer pension contribution rates set at the last triennial valuation. The projected employer's contributions include a one-off payment of arrears/outstanding amount made to the Fund within the last quarter. Table 1 below shows the cash projection to 31 July 2019.

PENSION FUND DEALINGS WITH MEMBERS AND EMPLOYERS	**Original 2019/20 £m**	**Projected Outturn 2019/20 £m**	**Variance £m**
Employees Contributions	30.1	32.0	1.9
Employers Contributions	84.9	91.2	6.3
Deficit Recovery	20.4	18.4	(2.0)
Transfers In	6.2	6.5	0.3
TOTAL INCOME	**141.6**	**148.1**	**6.5**
Pensions Benefits Paid	(110.8)	(111.6)	(0.8)
Pensions Lump Sum Paid	(23.8)	(19.8)	4.0
Administration expenses	(1.6)	(1.6)	-
Transfers Out	(3.1)	(3.0)	0.1
TOTAL EXPENDITURE	**(139.3)**	**(136.0)**	**3.3**
SURPLUS CASH	**2.3**	**12.1**	**9.8**

3. 2019 Actuarial Valuation

3.1 The ongoing actuarial valuation update has been provided through PAT reports at this meeting. There is also a requirement within the Local Government Pension Scheme (LGPS) Regulations that there is an element of prudence built into the actuarial assumptions and that the actuary sets contributions in line with these prudent assumptions and that they are as stable as possible. The draft 2019 valuation timetable has been updated (attached as Appendix 1).

4. 2019 Employer Forum - reminder

4.1 The East Sussex Pension Fund (ESPF) Employer Forum is scheduled for 29th November 2019 at the American Express Community Stadium, Falmer.

5. Pension Board Agenda –11 November 2019

5.1 The draft agenda for the November 2019 Pension Board meeting will include the following-

- Cessation Policy (Annual Review)
- Pension Fund Policies – Discretionary Policy Statement,
- Pensions Administration Strategy Statement (Annual Review)
- Pensions Regulator Code of Practice 14 - Review and update gap analysis
- Investment Strategy Statement
- Pension Administration – reports/updates
- Update on regulatory changes
- Review of Investment Manager fee arrangements
- Funding Strategy Statement
- Review of Triennial Valuation Process
- Review of Pension Fund Risk Register
- Review Pension Administration processes and SLAs
- LGPS Pooling – ACCESS Pool Update.

6. Conclusion and reasons for recommendation

6.1 The Board is recommended to note the general update regarding the Pension Fund activities.

Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

East Sussex Pension Fund: 2019 Valuation draft Timetable

Month commencing	Tasks - Hymans Robertson	Tasks - East Sussex Pension Fund	Meetings - Hymans & officers (including s.151)	Committee meetings
Jul-18			HEAT demo following strategy day (done)	Strategy Day - valuation overview, HEAT and employer strategies
Aug-18				
Sep-18				Pension Board (10 Sept) and Committee (24 Sept) update
Oct-18				
Nov-18	Employers Valuation Assumptions Engagement - Forum			2018 Annual Employers Forum – 23rd November 2018
Dec-18		Initial 'Risky employers' analysis"	HEAT planning meeting - 18th December	
	Risky employers' analysis and strategy			
Jan-19	Carry out assumptions modelling e.g. AOA, salary increase etc.			
Feb-19	Employer risk profiling (for contribution rate setting purposes)	Spring clean of employer database Provide backdated cashflows for April 2016 for HEAT Discuss assumptions modelling results and confirm valuation assumptions to use Provide backdated cashflows from 1 April 2016		Pension Board and Pension Committee update
Mar-19	Agree scope of comPASS modelling (contributions & investment)			
		Submit membership data by 31 March for ComPASS modelling following conclusion of cleansing exercise - moved to 01/05		
		Submit HEAT data from May 2016 onwards		
Apr-19	Discuss risk bandings & RAG ratings for funding strategy	Submit all outstanding new employer work before the valuation	Agree implentation plan for bespoke employer investment strategies	
	Post ABS data cleansing via Data Portal (initial	Liaise with Orbis to update data after data cleansing, Liaison with employers to discuss issues with data	Review of data cleanse	

East Sussex Pension Fund: 2019 Valuation draft Timetable

Month commencing	Tasks - Hymans Robertson	Tasks - East Sussex Pension Fund	Meetings - Hymans & officers (including s.151)	Committee meetings
	anticipated start date) Discuss results of data cleanse	Continue to submit HEAT data up to March 2019	Questionnaire circulated to Risky Employers	
May-19	HEAT system goes live	Submitted membership data for ComPASS modelling following conclusion of cleansing exercise	Employer pre-valuation briefings/training (throughout month) Risky Employer Questionnaire results shared with Hymans	Committee valuation training - Joint PB/PC TBC
	Arrange meetingwith ESPF to discuss comPASS modelling			
	Issue comPASS modelling results			
Jun-19	comPASS modelling	Confirm valuation assumptions to use Receive comPASS modelling results Submit triennial valuation data to Hymans via Data Portal	Employer grouping and investment strategies using HEAT	Assumptions and bespoke employer funding and investment strategies Pension Board and Pension Committee update
Jul-19	Sign off valuation data	Respond to data queries on 2019 valuation data Review administration strategy statement & consult with employers and administration	comPASS results meeting with all officers (including s.151) 2nd July	
			Pre valuation assessment of Risky Employers	
			Strategy Day 10th July	
Aug-19	Carry out whole fund calculations			Pension Board - Administration Strategy Statement
Sep-19	Issue whole fund valuation results Discuss whole fund valuation results Carry out employer level calculations	Receive whole fund valuation results Discuss whole fund valuation results Draft administration strategy statement	Initial results meeting & FSS discussion (including s.151)	Whole fund and section 13 results LPB 9th September LPC 23rd September
Oct-19	Discuss employer results Agree funding targets for employers Agree recovery periods Confirm contribution stability mechanism	Communicate investment strategy changes to employers	Employer results meeting (including s.151)	
Nov-19	Refine employer results Prepare individual results schedules Draft FSS		Friday 29th 2019 Annual Employers Forum	Friday 29th 2019 Annual Employers Forum Employer results and draft FSS

East Sussex Pension Fund: 2019 Valuation draft Timetable

Month commencing	Tasks - Hymans Robertson	Tasks - East Sussex Pension Fund	Meetings - Hymans & officers (including s.151)	Committee meetings
Dec-19	Issue individual results schedules	Issue individual results schedules to employers Issue draft FSS for consultation to employers	Employer surgeries (throughout month)	
Jan-20	Consultation on employer contribution rates Consultation on FSS		1-to-1 employer meetings to discuss provisional rates (throughout month)	
Feb-20	Finalise employer results Update FSS post consultation	Close FSS consultation		
Mar-20	Issue final valuation report and R&A certificate	Present final FSS to Committee for sign off		Sign-off FSS and note final valuation report
Apr-20	Implement additional employer investment strategies from 1 April 2020			

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Agenda Item 11

Report to: **Pension Board**

Date: **9 September 2019**

By: **Chief Finance Officer**

Title of report: **Pension Fund Risk Register**

Purpose of report: **To consider the East Sussex Pension Fund's Risk Register**

RECOMMENDATION

The Board is recommended to consider and comment the updated Pension Fund Risk Register.

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1. Background

1.1 Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the East Sussex Pension Fund (the Fund). It is not a process for avoiding or eliminating risks. A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.

1.2 Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources, including the funding position, Local Government Pension Scheme (LGPS) Pooling, General Data Protection Regulation (GDPR), investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks.

2. Risk Register.

2.1 The updated Risk Register (Appendix 1) highlights key risks in relation to the Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. This incorporates the risk register of both the Investments Team and Pension Governance and Strategy.

3. Assessment of Risk

3.1 Risks are assessed in terms of the potential impact of the risk event should it occurs, and in terms of the likelihood of it occurring. These are then combined to produce an overall risk score. In terms of investment, the Fund has a diversified portfolio of assets to mitigate against downturns in individual markets, but market events may lead to a fluctuation in the Fund value, which demonstrates that if the markets as a whole crash, then there is little that mitigating actions can do.

3.2 The Fund's risk profile has been updated and, in addition to the current mitigation in place, further actions are planned to provide a greater level of assurance. The level of risk will be reviewed once these additional actions have been implemented.

3.3 Further risks are likely to arise from future decisions taken by the Pension Committee, ACCESS Joint Committee, and from changes in legislation and regulations. Where such new risks arise, they will be added to the risk register, assessed, and mitigation actions identified.

4. Changes to the Pension Fund Risk Register

4.1 The principles and philosophy of the strategy remain the same although the Strategy has been strengthened to support the risk analysis section. The impact and likelihood assessments now include columns covering the Post Mitigation - Change since last review; Risk Owner; and the Timescales.

4.2 The main changes to the register are the reduction of risks score from 6 to 4 within the following identified risks –

- Risk number 14: Accounting - Failure to comply with CIPFA new pension fund accounting regulations. The 2018/19 annual report final audit has been completed by Grant Thornton with a positive and unqualified ISA 260 report.
- Risk number 15: LGPS Pooling/ACCESS Pool - Asset transition costs, as there is no immediate need for the fund to incur any transition costs.
- Risks number 16: LGPS Investment Pooling - Increase in investment risk taken to access higher returns, and there are no immediate size restrictions on certain investment for the fund.
- Risk number 17: ACCESS Pool Governance – Resourcing - ACCESS Support Unit function to provide support and the ASU Director has been appointed.

4.3 A new risk (no's 18) has been added re the Sub-fund implementation, where there is a risk that an investment may not transition to the Authorised Contractual Scheme (ACS) if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure.

5. Conclusion and reasons for recommendation

5.1 Monitoring of the Risk Register is an important role for the Pension Board, and should the Board identify specific concerns requiring policy changes, then reports will be brought to the Pension Committee for approval.

IAN GUTSELL
Chief Finance Officer

Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017
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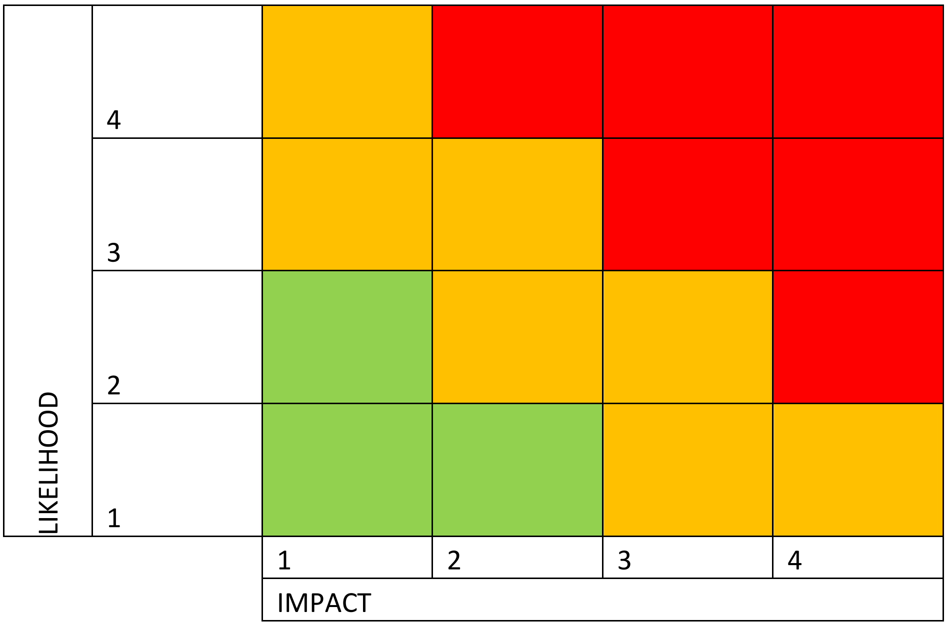
Background Documents
None

Appendix 1

The risk scores are calculated using the risk matrix below:



For the **likelihood**, there are four possible scores:

1 HARDLY EVER	2 POSSIBLE	3 PROBABLE	4 ALMOST CERTAIN
Has never happened No more than once in ten years Extremely unlikely to ever happen	Has happened a couple of times in last 10 years Has happened in last 3 years Could happen again in next year	Has happened numerous times in last 10 years Has happened in last year Is likely to happen again in next year	Has happened often in last 10 years Has happened more than once in last year Is expected to happen again in next year

For the **impact**, there are four possible scores, considered across four areas:

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
SERVICE DELIVERY (Core business, Objectives, Targets)	Handled within normal day-today routines.	Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic project.
FINANCE (Funding streams, Financial loss, Cost)	Little loss anticipated.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Severe costs incurred. Budgetary impact on whole Council. Impact on other services. Statutory intervention triggered.
REPUTATION (Statutory duty, Publicity, Embarrassment)	Little or no publicity. Little staff comments.	Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion
PEOPLE (Loss of life, Physical injury, Emotional distress)	No injuries or discomfort.	Minor injuries or discomfort. Feelings of unease.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.	Loss of life Multiple casualties

EAST SUSSEX PENSION FUND - RISK REGISTER											
Reference	**Risk**	**Pre Mitigation**			**Risk Control / Response**	**Post Mitigation**				**Risk Owner**	**Timescales**
		Impact	**Likelihood**	**Risk Score**		**Impact**	**Likelihood**	**Risk Score**	**Change since last review**		
Pensions Administration (Orbis -Business Operations)											
1	**Pension contributions:** ● Non-collection ● Miscoding ● Non-payment If not discovered results inaccurate: ●employer FRS17/IAS19 & Valuation calculations ● final accounts ● cash flow	3	3	9	● Employer contribution monitoring ● Additional monitoring at specific times ● SAP / Altair quarterly reconciliation ● Improved employer contribution forms ● Annual year end checks ● Pensions Web ● Fines imposed for late payment andType equation here. late receipt of remittance advice.	3	2	6	↔	Interim Lead Pensions Manager	On-going
2	**Inadequate delivery of Pensions Administration by service provider** ● Members of the pension scheme not serviced ● Statutory deadlines not met ● Employers dissatisfied with service being provided + formal complaint ● Complaints by members against the administration (these can progress to the Pensions Ombudsman)	3	3	9	● Key Performance Indicators ● Internal Audit ● Reports to Pension Board / Committee ● Service Review meetings with business operations management ● Awareness of the Pension Regulator Guidance	3	2	6	↔	Interim Lead Pensions Manager	On-going
3	**Loss of key/senior staff and knowledge/ skills** ● Damaged reputation ● Inability to deliver and failure to provide efficient pensions administration service; major	3	3	9	● Diversified staff / team ● Attendance at pension officers user groups ● Procedural notes which includes new systems, section meetings / appraisals ● Succession planning	3	2	6	↔	Interim Lead Pensions Manager	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	operational • Disruption and inability to provide a high quality pension service to members. • Concentration of knowledge in a small number of officers and risk of departure of key and senior staff. • The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.				• Robust business continuity processes in place around key business processes, including a disaster recovery plan. • Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. • Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.						
4	**Paying pension benefits incorrectly** • Damaged reputation • Financial loss • Financial hardship to members	3	3	9	• Internal control through audit process • Constant monitoring / checking • In house risk logs • SAP / Altair reconciliation • Task management • Vita cleansing	3	2	6	↔	Interim Lead Pensions Manager	On-going
5	**Guaranteed Minimum Pension (GMP) reconciliation** • Financial loss • Members of pensions scheme exposed to financial loss • Legal issues • Inaccurate record keeping • Damaged reputation	3	3	9	• Awareness of Pension Regulator Guidance • Public Service Pensions Act 2013 • Internal Audit • Key performance indicators • Task Management • Reports to Pension Board and Committee	3	2	6	↔	Interim Lead Pensions Manager	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
6	**Failure to issue Annual Benefit statements 31st August** • Reputational risk and complaints • Fines and enforcement action by The Pension Regulator	3	3	9	• Project management approach • Regular contact with employers to get data. • Monthly interfacing to reduce workload at year end • Statements to employers in time to allow time for distribution to staff. • Considerations of employer take up of monthly interfaces system. Many leavers are not being notified until year-end.	3	2	6	↔	Interim Lead Pensions Manager	On-going
7	**Data Cleansing – failure to provide timely and accurate member data.** • Risk of financial loss and damage to reputation. • Incorrect employers contribution calculations • Delays to triennial actuarial valuations process.	3	3	9	• Annual data cleansing carried out by pension administration to highlight gaps; • Administration Strategy in place; • Employing authorities are contacted for outstanding/accurate information; • Regular meeting with administration services re updates, when required. • A data cleansing plan is expected to be agreed with Business Operations. • Business Operation has been given authority to recruit 3 additional FTE for an initial period of 6 months to focus on data deficiencies.	3	2	6	↔	Interim Lead Pensions Manager	TBA
Pensions Investment and Governance											

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation: Impact	Pre Mitigation: Likelihood	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Change since last review	Risk Owner	Timescales
8	**Required returns not met due to poor strategic allocation** ● Damaged reputation ● Increase in employer contribution ● Pay Pensions	4	2	8	● Investment Advisors ● Triennial review ● Performance monitoring ● Annual Investment Strategy Review ● Reporting to Pensions Committee and Board ● Compliance with the ISS ● Compliance with the Funding Strategy Statement	3	2	6	↔	Head of Pensions	On-going
9	**Employers unable to pay increased contributions** ● Lower funding level ● Increase in employer contributions ● Employer forced to sell assets ● Employer forced into liquidation ● Increase in investment risk taken to access higher returns	2	3	6	● Valuation ● Regular communication with Employers ● Monthly monitoring of contribution payments ● Meetings with employers where there are concerns	2	3	6	↔	Head of Pensions	On-going
10	**Cyber Security of member data - personal employment and financial data** ● ESCC may incur penalties ● Damaged reputation ● Legal issues ● Members of the pension scheme exposed to financial loss ● Members of the pension scheme exposed to identity theft ● Members of the pension scheme data lost or compromised	4	2	8	● ICT defence-in-depth approach ● Utilising firewalls, ● Email and content scanners ● Using anti-malware. ● ICT performs penetration and security tests on regular basis	3	2	6	↔	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
11	**Cyber Security of third party suppliers** ● Damaged reputation ● Financial loss ● Inability to trade ● Lower funding level ● Increase in employer contribution ● Increase in investment risk taken to access higher returns	4	2	8	● Service level agreement with termination clause ● Regular Meetings ● Regular reports SAS 70/AAF0106 ● Investment Advisors ● Global custodian	3	2	6		Head of Pensions	On-going
12	**The decision to leave the European Union results in significant economic instability and slowdown, and as a consequence lower investment returns, resulting in:** • Financial loss, and/or failure to meet return expectations. • Increased employer contribution costs. • Changes to the regulatory and legislative framework within which the Fund operates.	4	2	8	• Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller. • The long-term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time. • The Govt. is likely to ensure that much of current EU regulation is enshrined in UK law. • Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented	3	2	6		Head of Pensions	On-going
13	**2019 Triennial actuarial valuation outcome** • An increase in liabilities that is higher than the previous actuarial valuation estimate. • The level of inflation and interest rates	3	3	9	• The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. • The Committee receiving training on understanding liabilities	3	2	6		Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation: Impact	Pre Mitigation: Likelihood	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Change since last review	Risk Owner	Timescales
	assumed in the valuation may be inaccurate leading to higher than expected liabilities. • Significant rises in employer contributions due to increases in liabilities or fall in assets.				• Hymans Robertson commission to produce an Asset Liabilities Model. • Life expectancy assumptions are reviewed at each valuation. • Reviewing of the each triennial valuation assumptions and challenge actuary as required. • Funding Strategy Statement and Investment Strategy Statement updated and approved, • Actuary attendance at Pension Fund Committee to cover triennial valuation issues and expectations • The Fund holding discussions with employers through the Pension Employers Forum. Using actuary that makes significant possible assumptions and recommends appropriate recovery period and strategy;						
14	**Accounting - Failure to comply with CIPFA new pension fund accounting regulations.** • Risk of the accounts being qualified by the auditors.	3	2	6	• Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures. • Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS),	2	2	4		Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation: Impact	Pre Mitigation: Likelihood	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Change since last review	Risk Owner	Timescales
					and the ESSC Financial Regulations. • Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. • Internal Audits - carried out in line with the Pension Audit strategy. • External Audit review the Pension Fund's accounts annually						
LGPS Pooling - ACCESS Pool											
15	**Asset transition costs** • Asset transition costs are greater than forecast. • Failure to control operational risks and transaction costs during the transition process • An increase in the initial set-up costs forecast by the pooling proposal.	3	3	9	• Consultant has analysed the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios. • There may also be the opportunity to transfer securities in 'specie'. • A transition manager will be appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled.	2	2	4	↓	Head of Pensions	On-going
16	**LGPS Investment Pooling** • Lower funding level/Damaged reputation • Increase in employer contribution • Increase in investment risk taken to access higher returns • There can be size restrictions on certain investments.	3	3	9	• Engagement in ACCESS asset pool group • Reporting to Pensions Committee and Board • Engagement with third party experts (e.g. Legal and Tax)	2	2	4	↓	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation: Impact	Pre Mitigation: Likelihood	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Change since last review	Risk Owner	Timescales
17	**ACCESS Pool Governance – Resourcing** • Establishment phase resource - a substantial amount of officer resource will be required to support the project plan work-streams / tasks etc. • Increased demand on officer time could result in delays if progress is slowed due to resource constraints or increased costs if there is a requirement to outsource.	4	2	8	• ACCESS Support Unit function to provide support. • Gap analysis to be undertaken to identify officer resource requirements. • Work-streams to be allocated Officer Sub-groups to co-ordinate work. • Increasing the frequency of OWG meetings - fortnightly joint OWG / Link Steering Group meetings and fortnightly Link Project calls.	2	2	4	↓	Head of Pensions	On-going
18	**Sub-fund implementation-** There is a risk that an investment may not transition to the ACS if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure.	3	3	9	• Officers have agreed Link should be allowed a reasonable time period to resolve issues, e.g., until ending of August. The ACCESS Contracts Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe then alternative options may be considered, e.g. Funds may continue to hold the subfund outside the ACS	3	2	6	New	Head of Pensions	September 2019

<u>Risk Score Change Key –</u>

↓ = ***Reduced***

↔ = ***No Change***

↑ = ***Increased***

Agenda Item 12

Report to:	**Pension Board**
Date:	**9 September 2019**
By:	**Chief Finance Officer**
Title of report:	**Work programme**
Purpose of report:	**The report sets out the Pension Committee/Board Forward Plan 2019-20**

RECOMMENDATION – The Board is recommended to note the report.

1. Background

1.1 The Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom recommend the work programme set out formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

2. Supporting information

2.1 Appendix 1 is an updated work programme, referred to as the Pension Committee/Board Forward Plan 2019-20. It includes reports due to be considered at future meetings of the Pension Board and Pension Committee and an updated training plan, including a summary of both external and internal training events that Members can undertake during 2019/20.

Joint Pension Board and Committee Training Session

2.2 The topics to be covered are detailed within Appendix 1. Following the successful joint training session covering 'Getting ready for 2019 triennial valuations and Good Governance in the LGPS' on 28 May 2019, the next joint training session is scheduled to take place on **10 October 2019**. The session will be an **'ESG Day'** to consider/provide an update on legal requirements, industry developments, Fund managers' approaches and Fund's policies, to the UN Sustainable Development Goals, etc.

3. Conclusion and reasons for recommendation

3.1 The Board is requested to note the report.

IAN GUTSELL
Chief Finance Officer

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EAST SUSSEX PENSION FUND

PENSION COMMITTEE/BOARD FORWARD PLAN 2019-20

September 2019

Contents

Business Plan

1 Introduction

1.1 Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 75,000 individuals employed by 134 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

1.2 This Business Plan (BP) provides an overview of the Fund's key objectives for 2019/20. The key high level objectives of the fund are summarised as:

- Optimise Fund returns consistent with a prudent level of risk
- Ensure that there are sufficient resources available to meet the investment Fund's liabilities, and
- Ensure the suitability of assets in relation to the needs of the Fund.

1.3 A bespoke training strategy and plan for this administration was added to the BP after agreement by Members at the Pension Committee.

1.4 The governance of the Fund is the responsibility of the Chief Finance Officer for the East Sussex County Council, the East Sussex Pension Committee, and the Pension Board. The day to day management of the Fund is delegated to Officers with specific responsibility delegated to the Head of Pensions. He is supported in this role by the Pensions Strategy and Governance Manager, and the Pensions Investment Manager.

1.5 The Pensions Committee aims to ensure the maximising of investment returns over the long term within an acceptable level of risk. Performance is monitored by asset performance being compared with their strategic benchmarks. This includes reviewing the Fund Managers' quarterly performance reports and discussing their strategy and performance with the Fund Managers.

2. KEY DOCUMENTS TO BE CONSIDERED BY THE PENSION BOARD

2.1 There are a number of key policy and strategy documents which the Local Government Pension Scheme (LGPS) Regulations require to be kept under regular review. These are listed below:

2.2 **Annual Report**

This report sets out the Pension Fund activities for the previous financial year. The Council is required to publish the report by December of each year to accompany an audited financial statement. Within the Annual Report are the following documents: Investment Strategy Statement, Funding Strategy Statement, Governance Compliance Statement, Communications Policy and Pension Fund accounts.

2.3 **Funding Strategy Statement**

This sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term, including the maintenance, as far as possible, of stable levels of employer contributions. It also identifies the key risks and controls facing the Fund and includes details of employer contribution rates following the Fund's triennial valuation.

2.4 **Investment Strategy Statement (ISS)**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 were published and came into force on 1 November 2016. This requires the administering authority to have in place an Investment Strategy Statement (ISS).

Authorities are required to prepare and maintain an ISS which documents how the investment strategy for the Fund is determined and implemented. The ISS is required to cover a number of areas, specifically:

- The requirement to invest money across a wide range of investments.
- An assessment of the suitability of particular investments and investment types.
- The maximum percentage authorities deem should be allocated to different asset classes or types of investment, although limits on allocations to any asset class are not prescribed as is currently the case under the 2009 Regulations.
- The authority's attitude to risk, including the measurement and management of risk.
- The authority's approach to investment pooling.
- The authority's policy on social, environmental and corporate governance considerations.
- The authority's policy with regard to stewardship of assets, including the exercise of voting rights

The East Sussex Pension Committee has drawn up the ISS to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the accompanying Guidance on Preparing and Maintaining an Investment Strategy Statement. The Fund consulted its Actuary and Independent Financial Adviser in preparing this statement.

The ISS is subject to periodic review at least every three years and more frequently if there are any developments that impact significantly on the suitability of the ISS currently in place. Investment performance is monitored by the Committee on a quarterly basis and may be used to check whether actual results are in-line with those expected under the ISS.

2.5 **Communications Policy**

This details how the Fund provides information and publicity about the Pension scheme to its existing members and their employers and methods of promoting the Pension scheme to prospective members and their employers. It also identifies the format, frequency and method of distributing such information or publicity.

2.6 **Governance Compliance Statement**
This is a written statement setting out the administering authority's compliance with good practice governance principles. These principles are grouped within eight categories and are listed within the statement. The Fund's compliance against each of these principles is also detailed, including evidence of compliance and, if appropriate, reasons if there is not full compliance.

2.7 **Valuation Reports**
The Fund's actuary reviews and amends employer contribution rates every 3 years. The last actuarial valuation was based on Fund membership as at 31 March 2016.

2.8 **Administration Strategy**
Sets out standards and guidelines agreed between employers and ESCC to make sure the LGPS runs smoothly. The strategy is reviewed every 12 months and employers are informed of any revisions, which they can also comment on.

2.9 **Employers' Discretions Policy**
Regulations allow the County Council as the administering authority to choose how or whether to apply certain discretions for administering the scheme and the Pension Fund.

2.10 **Myners Compliance Statement**
Sets out the extent to which the fund complies with best practice principles.

1. PENSION COMMITTEE – FORWARD/BUSINESS PLAN

Descriptions	Meeting Dates					
	Monday 24 June 2019	Wednesday 10 July 2019	Monday 23 September 2019	Monday 25 November 2019	Monday 16 March 2020	Monday 22 June 2020
Chair - Introductory Matters						
Welcome/Apologies, Disclosure of interests, Minutes of Previous Meeting,	Y	*Pension Fund Annual Investment Strategy Day*	Y	Y	Y	Y
Urgent business	Y		Y	Y	Y	Y
Pension Board Minutes	Y		Y	Y	Y	Y
Investment Consultant/Managers						
Quarterly Performance Report - Hymans Robertson	Y		Y	Y	Y	Y
Fund Performance – Fund Manager Presentation	Y		Y	Y	Y	Y
Pension Fund Key Policy Documents - Approval						
Cessation Policy (Annually)				Y	Y	Y
Pension Fund Policies – Discretionary Policy Statement,				Y		
Governance Compliance Statement (Annually)			Y			
Pensions Administration Strategy Statement (Annually)				Y		Y
Investment Strategy Statement			Y			
UK Stewardship Code Compliance (Annually)					Y	
Pension Fund Risk Register	Y		Y	Y	Y	Y
Communications Policy Statement			Y			
Funding Strategy Statement					Y	
Responsible Investment Statement				Y		
Customer Engagement Strategy			Y			
MiFID II annual review				Y		

Descriptions	Meeting Dates					
	Monday 24 June 2019	Wednesday 10 July 2019	Monday 23 September 2019	Monday 25 November 2019	Monday 16 March 2020	Monday 22 June 2020
Internal Audit - Pension Fund Strategy	Y					Y
Performance & Reporting						
Pension Fund Administration Service Quality of Service Report			Y		Y	
Data quality -update on data cleansing	Y		Y	Y	Y	Y
Draft Pension Fund Annual Report and Accounts	Y		Y			Y
GT - Auditor's Report under current International Auditing Standards.			Y			
Draft Response to the LGPS Consultations (when required)						
Internal Audit reports	Y			Y		Y
GMP reconciliation process	Y		Y	Y	Y	Y
CEM Report and other Fund benchmarking results	Y				Y	Y
Annual report of Pension Board activities					Y	
Breaches reported to Pension Fund Committee since last meeting	Y		Y	Y	Y	Y
2019 Annual Benefit Statement Exercise – update	Y		Y			Y
Arrangements for the pension administration service/SLA	Y					Y
Administration system procurement plan/update	Y		Y			Y
Pensions Scheme Advisory Board - Good Governance Consul.	Y					Y
Work Plan for next financial year	Y		Y	Y	Y	Y
Progress on workplan	Y		Y	Y	Y	Y
Annual Review of Member Training Records					Y	
Update on regulatory changes	Y		Y	Y	Y	Y
Administration Transformation Plan and progress updates			Y	Y	Y	Y
Pension Employers- Update (Part 2 Exempt Paper)	Y		Y	Y	Y	Y
Triennial Valuation Process/Outcome	Y		Y	Y	Y	Y

Descriptions	Meeting Dates					
	Monday 24 June 2019	Wednesday 10 July 2019	Monday 23 September 2019	Monday 25 November 2019	Monday 16 March 2020	Monday 22 June 2020
Financial Monitoring						
Annual Pension Fund Budget approval					Y	
Monitoring of the pension fund budget	Y		Y	Y	Y	Y
Pension Fund Cashflow/Contributions monitoring	Y		Y	Y	Y	Y
ACCESS LGPS Pooling (PART 2 - Exempt)						
High level scrutiny of ACCESS Pool (annually)					Y	
ACCESS Pool - update	Y		Y	Y	Y	Y
Advance Work Plan - Triennial review 2020/21 2021/22 Beyond	**2020/21**		**2021/22**	**2022/23**	**2023/24**	**2024/25**
Funding Strategy Statement				Y		
Actuarial Report	Y					Y
Communications Policy Statement				Y		
Monitor employer and administrating authority discretions						
Actuarial Valuation	Y			Y		Y
Investment Strategy Statement				Y		
Pensions Administration Statement						

2. PENSION BOARD – FORWARD/BUSINESS PLAN

East Sussex Pensions Board - Work Programme 2019/20					
Descrptions	**Meeting Dates**				
	Monday 17 June 2019	**Monday 9 September 2019**	**Monday 11 November 2019**	**Monday 2 March 2020**	**Monday 8 June 2020**
Introductory Matters					
Welcome/Apologies, Disclosure of interests, Minutes of Previous Meeting,	Y	Y	Y	Y	Y
Urgent business	Y	Y	Y	Y	Y
Pension Fund Committee Reports (previous meeting notes, etc.)	Y	Y	Y	Y	Y
Pension Board update for the Committee	Y	Y	Y	Y	Y
Board Governance					
Chair's report on the appraisal of the Pension Board and terms of reference		Y		Y	
Feedback from Board members on attendance at training events and Conferences	Y	Y	Y	Y	Y
Terms of reference for Board (Annual Review)				Y	
Annual report of Pension Board activities				Y	
Progress on workplan	Y	Y	Y	Y	Y
Annual Review of Member Training Records (incl. TpR Toolkit)				Y	
Key Policies and Strategy					
Cessation Policy (Annual Review)			Y		Y
Pension Fund Policies – Discretionary Policy Statement,			Y		
Governance Compliance Statement (Annual Review)		Y			
Pensions Administration Strategy Statement (Annual Review)			Y		Y
Investment Strategy Statement		Y			
UK Stewardship Code Compliance (Annual Review)	Y				Y
Communications Policy Statement		Y			

East Sussex Pensions Board - Work Programme 2019/20					
Descrptions	**Meeting Dates**				
	Monday 17 June 2019	**Monday 9 September 2019**	**Monday 11 November 2019**	**Monday 2 March 2020**	**Monday 8 June 2020**
Funding Strategy Statement				Y	
Responsible Investment Statement		Y			
Work Plan for next financial year	Y	Y	Y	Y	Y
Administration					
Administration Performance Report (Annual Review)			Y		
Monitoring of KPIs for administration, complaints, etc.	Y	Y	Y	Y	Y
Pension Fund Administration Service Quality of Service Report		Y		Y	
Data quality -update on data cleansing	Y	Y	Y	Y	
Review GMP reconciliation process	Y	Y	Y	Y	
Customer Engagement Strategy		Y			
Annual Benefit Statement Exercise – update	Y	Y			Y
Arrangements for the pension administration service/SLA	Y				Y
Administration system procurement plan/update	Y	Y			Y
Administration Transformation Plan and progress updates			Y	Y	Y
Pensions Administration Performance/Update Report	Y	Y	Y	Y	Y
Annual review of Pension Data Security and Business Recovery				Y	
Communications					
Scrutiny of all annual documents and processes including communications to employers and members, to include:					
Formal reports and internal/external reports		Y			
Assistance with communication to employers and members as arising out of regulations and current issues.		Y			

East Sussex Pensions Board - Work Programme 2019/20					
Descrptions	**Meeting Dates**				
	Monday 17 June 2019	**Monday 9 September 2019**	**Monday 11 November 2019**	**Monday 2 March 2020**	**Monday 8 June 2020**
Results of regulator survey		Y			
Annual review of Pension Board activities/effectiveness				Y	
Fund Governance					
Draft Response to the LGPS Consultations (when required)					
Quarterly Internal Dispute Resolution Procedure (IDRP) Review				Y	
Pensions Regulator Code of Practice 14 - Review and update gap analysis			Y		
Pension Regulators KPI's			Y		
Breaches reported to Pension Board since last meeting	Y	Y	Y	Y	Y
Pensions Scheme Advisory Board - Good Governance Consul.	Y				Y
Update on regulatory changes	Y	Y	Y	Y	Y
Review of Investment Manager fee arrangements			Y		
Review of Triennial Valuation Process	Y	Y	Y	Y	
Review of Pension Fund Risk Register	Y	Y	Y	Y	Y
MiFID II annual review			Y		
Review Internal Audit - Pension Fund Strategy	Y				Y
Review CEM Report and other Fund benchmarking results	Y				Y
Review Pension Administration processes and SLAs		Y		Y	
Annual Pension Fund Budget				Y	
Monitoring/review the pension fund budget	Y	Y	Y	Y	Y
Pension Fund Cashflow/Contributions monitoring	Y	Y	Y	Y	Y
Funding Strategy Statement			Y		

East Sussex Pensions Board - Work Programme 2019/20					
Descrptions	**Meeting Dates**				
	Monday 17 June 2019	**Monday 9 September 2019**	**Monday 11 November 2019**	**Monday 2 March 2020**	**Monday 8 June 2020**
Actuarial Report	Y				Y
Communications Policy Statement			Y		
Monitor employer and administrating authority discretions					
Actuarial Valuation	Y		Y		Y
Investment Strategy Statement			Y		
Pensions Administration Statement				2023/24	
Finance & Audit					
Draft Pension Fund Annual Report and Accounts	Y				Y
GT Auditor's Report under current International Auditing Standards.		Y			
Internal Audit reports	Y		Y		Y
LGPS Pooling					
High level scrutiny of ACCESS Pool (annual review)				Y	
ACCESS Pool - update	Y	Y	Y	Y	Y

East Sussex Pension Fund (ESPF)

Pension Board and Committee Training Strategy

1. Introduction - Target audience

1.1 Pensions Committee:

East Sussex County Council (Scheme Manager) operates a Pensions Committee (the “Pensions Committee”) for the purposes of facilitating the administration of the East Sussex Pension Fund, i.e. the Local Government Pension Scheme that it administers. Members of the Pensions Committee owe an independent fiduciary duty to the members and employer bodies in the Funds and the taxpayer. Such members are therefore required to carry out appropriate levels of training to ensure they have the requisite knowledge and understanding to properly perform their role.

1.2 Pension Board:

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role. This strategy sets out the requirements and practicalities for the training of members of both the Pensions Committee and the Pension Board. It also provides some further detail in relation to the attendance requirements for members of the Pension Board and in relation to the reimbursement of expenses.

The East Sussex Pension Funds’ objectives relating to knowledge and skills should be to:

- Ensure the pension fund is managed and its services delivered by Officers who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to its stakeholders for decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives:-

1.3 The East Sussex Pension Fund’s Pension Committee require an understanding of:

- Their responsibilities in exercising their delegated decision making power on behalf of East Sussex County Council as the Administering Authority of the East Sussex Pension Fund;
- The fundamental requirements relating to pension fund investments;
- The operation and administration of the pension fund;

- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the Fund.

1.4 East Sussex Pension Fund's Local Pension Board members must be conversant with-

- The LGPS Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund

And have knowledge and understanding of:

- The law relating to pensions; and
- Such other matters as may be prescribed

To achieve these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skills set within that Framework. Attention will also be given to any guidance issued by the Scheme Advisory board, the Pensions Regulator and guidance issued by the Secretary of State. Ideally, targeted training will also be provided that is timely and directly relevant to the Committee's and Board's activities as set out in the Fund's business plan.

Board members will receive induction training to cover the role of the East Sussex Pension Fund, Pension Board and understand the duties and obligations for East Sussex County Council as the Administering Authority, including funding and investment matters.

Also those with decision making responsibility in relation to LGPS pension matters and Board members will also:

- Have their knowledge assessed;
- Receive appropriate training to fill any knowledge gaps identified; and
- Seek to maintain their knowledge.

1.5 The Knowledge and Skills Framework

In an attempt to determine what constitutes the right skill set for a public sector pension finance professional the Chartered Institute of Public Finance and Accounting (CIPFA) has developed a technical knowledge and skills framework. This is intended as a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs, and an assessment tool for individuals to measure their progress and plan their development.

The framework is designed so that elected members and officers can tailor it to their own particular circumstances. In total, there are six main areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pension finance or for Members responsible for the management of the Fund. These are summarised below –

1. Pension Legislation & Governance Context
2. Pensions Accounting & Auditing Standards
3. Financial Services Procurement & Relationship Management
4. Investment Performance & Risk Management
5. Financial Markets & Products Knowledge
6. Actuarial Methods, Standards & Practices

1.6 Scheme Employers now have a greater need –

- Of being kept up to date of their increased responsibilities as a result the introduction of the CARE Scheme in the LGPS and the timeliness of providing data and scheme member information
- Of appreciating some of the determinations being made by the Pensions Ombudsman that impact directly on their decisions concerning ill-health retirement cases
- To be aware of the importance of having written discretion policies in place
- Of their representation role on the East Sussex Pension Board.

1.7 Application of the training strategy

This Training Strategy will set out how ESCC will provide training to representatives with a role on the Pension Committee, Pension Board members and Employers. Officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

1.8 Purpose of training

The purpose of training is to:

- Equip members with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Ensure individuals understand their obligation to act, and to be seen to act with integrity;
- Ensure that members are appropriately skilled to support the fund in achieving its objectives.

1.9 Summary

Officers will work in partnership with members to deliver a training strategy that will:

- Assist in meeting the East Sussex Pension Fund objectives;
- Support the East Sussex Pension Fund's business plans;
- Assist members in achieving delivery of effective governance and management;
- Equip members with appropriate knowledge and skills;
- Promote ongoing development of the decision makers within the East Sussex Pension Fund;
- Demonstrate compliance with the CIPFA Knowledge and Skills Framework;
- Demonstrate compliance with statutory requirements and associated guidance

2. Delivery of Training

2.1 Training plans

To be effective, training must be recognised as a continual process and centred on 3 key points

- The individual
- The general pensions environment
- Coping with change and hot topics

The basis of good training for a Fund is to have in place a training plan complemented by a training strategy or policy.

The training strategy supported by the plan will set out how, what and when training will be carried out.

Officer's will with members conduct reviews of training, learning and development processes and identify gaps versus best practice.

2.2 Training resources

Public bodies such as the Local Government Association (LGA) and Actuarial, Benefit Consultants and Investment Consultants have been carrying out training sessions for LGPS Funds for many years. This means there is a vast readily available library of material to cover many different topics and subjects and the appropriate expert to deliver it.

2.3 Appropriate Training

As mentioned in 2.1 above it is best practice for a Fund to have in place a training strategy and training plan. This will help identify the Fund's objectives and indicate what information should be contained in the training material and presentation. For example, if the East Sussex Pension Fund records its aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skill set within the Framework, the content of training will meet the requirements of the KSF. This is particularly important if the East Sussex Pension Fund is monitoring the knowledge levels of Committee members of Board members, in which case the training must cover any measurement assessment being applied by the Fund in the monitoring knowledge levels.

2.4 Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment if it does not adapt for a particular purpose, there is a change in pension's law or new responsibilities are required of board members. Learning programmes will therefore include some flexibility so they can deliver the appropriate level of detail required.

2.5 E-Learning

The Pensions Regulator has available an online e-learning programme for those involved in running public service pension schemes. This learning programme is aimed at all public service schemes and whilst participation is to be encouraged, taking this course alone is very unlikely to meet with knowledge and understanding requirements of LGPS local pension board members.

3. Training deliverables

3.1 Suitable Events

It is anticipated that at least 1 day's annual training will be arranged and provided by officers to address specific training requirements to meet the Committee's forward business plan, all members will be encouraged to attend this event.

A number of specialist courses are run by bodies such as the Local Government Employers and existing fund manager partners, officers can provide details of these courses. There are a number of suitable conferences run annually, officers will inform members of these conferences as details become available. Of particular relevance are the National Association of Pension Funds (NAPF) Local Authority Conference, usually held in May, the LGC Local Authority Conference, usually held in September, and the Local Authority Pension Fund Forum (LAPFF) annual conference, usually held in December.

3.2 Training methods

There are a number of methods and materials available to help officers prepare and equip members to perform their respective roles. Consideration will be given to various training resources available in delivering training to members of Committee, Board, and officers in order to achieve efficiencies. These may include but are not restricted to:-

For Pension Committee and Pension Board Members	For Officers
• On site or off site • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • Internally developed training days • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Shared training with other Funds or Frameworks • Regular updates from officers and/or advisors • A formal presentation	• Desktop/work based training • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • A workshop with participation • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Training for qualifications from recognised professional bodies (e.g. CIPFA, ACCA, etc.) • Internally developed sessions • Shared training with other Funds or Framework

3.3 Training material

Officers will discuss with members the material they think is most appropriate for the training. Officers can provide hand outs and other associated material.

4. Monitoring and Reporting

Each member of the Pensions Committee and Pension Board will inform the Scheme Manager of relevant training attended from time to time. A report will be submitted to the Pensions Committee annually highlighting the training and attendance of each member of the Pensions Committee and Pension Board.

Where the Scheme Manager has a concern that a member of the Pension Board is not complying with the requisite training or attendance requirements it may serve a notice on the Pension Board, requiring the Pension Board to take necessary action. The Pension Board shall be given reasonable opportunity to review the circumstances and, where appropriate, liaise with the Scheme Manager with a view to demonstrating that such member will be able to continue to properly perform the functions required of a member of the Pension Board.

This training strategy will be reviewed on an ongoing basis by the Scheme Manager, taking account of the result from any training needs evaluations and any emerging issues. The Committee/Board will be updated with evens and training opportunities as and when they become available and relevant to on-going pension governance

5. Risk

5.1 Risk Management

The compliance and delivery of a training strategy is a risk in the event of-

- Frequent changes in membership of the Pension Committee or Pension Board
- Poor individual commitment
- Resources not being available
- Poor standards of training
- Inappropriate training plans

These risks will be monitored within the scope of the training strategy to be reported where appropriate.

6. Budget

6.1 Cost

A training budget will be agreed and costs fully scoped.

6.2 Reimbursement of expenses

All direct costs and associated reasonable expenses for attendance of external courses and conferences will be met by the fund.

All reasonable expenses properly incurred by members of the Pensions Committee, and the Pension Board necessary for the performance of their roles will be met by the Funds, provided that the Scheme Manager's prior approval is sought before incurring any such expenses (other than routine costs associated with travelling to and from Pensions Board/Committee meetings) and appropriate receipts are sent to the Scheme Manager evidencing the expenses being claimed for.

7. Pensions Regulator Training Toolkit

The Pensions Regulator has provided an on-line training resource to assist those involved with the public sector pension schemes. This is accessed via a "Trustee Toolkit" link on its website.

It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes. Each module provides an option to complete an interactive tutorial online and an assessment to test knowledge. The modules are:

- Conflicts of interest
- Managing risk and internal controls
- Maintaining accurate member data
- Maintaining member contributions
- Providing information to members and others
- Resolving internal disputes
- Reporting breaches of the law.

The Regulator suggests that each module's tutorial should take no more than 30 minutes to complete. The modules will assist with meeting the minimum knowledge and understanding requirements in relation to the contents of the Code of Practice, but would not meet the knowledge and skills requirements in other areas such as Scheme regulations, the Fund's specific policies and the more general pension's legislation. Therefore, this toolkit should be used to supplement the existing training plans.

Proposed Members Training Plan for 2019-2020

The proposed Training Plan for East Sussex Pension Fund Committee/Board Members incorporate the ideas, themes and preferences identified in the Self Assessment of Training Needs along with upcoming areas where the Board/Committee will require additional knowledge. The Plan aims to give an indication of the delivery method and target completion date for each area. On approval, officers will start to implement this programme, consulting with Members as appropriate concerning their availability regarding appropriate delivery methods.

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**One-to-One Briefing with an officer**	**Members' Briefing Notes**	**Short Seminars (before Committee meeting)**	**Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (e.g. Webcasts, Videos)**	**KSF area (s)**	**COMPLETION TARGET DATE**
GENERAL TRAINING								
General overview of LGPS - Induction • Member's Role	✔						**1**	Completed
Members individual needs on specific areas arising during the year • Advisory Board e-learning	✔	✔			✔	✔ ✔	**1,3,4**	As required – notify Head of Accounts and Pensions
Pre- committee meeting/agendas • Specific investment Topics • Services and providers • Procurement process for services provided externally • Performance measurement • Accounts and audit		✔ ✔ ✔ ✔ ✔	✔ ✔ ✔ ✔ ✔				**2,3,4,5**	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**One-to-One Briefing with an officer**	**Members' Briefing Notes**	**Short Seminars (before Committee meeting)**	**Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (e.g. Webcasts, Videos)**	**KSF area (s)**	**COMPLETION TARGET DATE**
regulations • Role of internal and external audit • Fund responsibilities/ policy • Pension Discretions • Safeguarding the Fund's Assets		✔ ✔ ✔ ✔ ✔ ✔	✔ ✔ ✔ ✔ ✔ ✔					
Pension Fund Forum • Valuation Process • Knowledge of the valuation process and the need for a funding strategy • Implications for employers of ill health and outsourcing decisions • Importance of monitoring asset returns relative to liabilities				✔			**1,4,6**	
SPECIFIC ISSUES IDENTIFIED FROM MEMBERS SELF ASSESSMENTS								

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**One-to-One Briefing with an officer**	**Members' Briefing Notes**	**Short Seminars (before Committee meeting)**	**Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (e.g. Webcasts, Videos)**	**KSF area (s)**	**COMPLETION TARGET DATE**
General Pension Framework • LGPS discretions & policies • Implications of the Hutton Review		✔	✔	✔	✔		**1,6**	
Pensions Legislation & Governance: • Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme • Review of Myners principles and associated CIPFA & SOLACE guidance		✔ ✔		✔ ✔			**1,2,**	
Pension Accounting & Auditing standards: • Accounts & Audit regulations and the legislative requirements			✔				**1,2**	
Financial Services procurement: • Current public procurement policy & procedures • UK & EU procurement				✔ ✔			**3,5,6**	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
legislation								
Investment Performance & Risk Management: • Monitoring asset returns relative to liabilities • Myners principles of performance management • Setting targets for committee and how to report against them				✔ ✔ ✔	✔		3,5,6	Invite to be circulated to when relevant
Financial markets & products knowledge: • Refresh the importance of setting investment strategy • Limits placed by regulation on investment activities in the LGPS • Understanding of the operations of the fixed income manager • Understanding of Alternative asset classes			✔	✔ ✔	✔		4 1 4 4,5,6	

TRAINING NEED	PROPOSED DELIVERY METHODS: One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
Pension Administration - • Shared service		✔	✔	✔			**2,6**	
Actuarial methods, standards and practices: • Considerations in relation to outsourcings and bulk transfers • Triennial Valuation refresher		✔ ✔					**1** **6**	
CHAIRMAN TRAINING								
• Fund Benchmarking • Stakeholder feedback • Appreciation of changes to scheme rules	✔ ✔				✔		2 4 1,5	
EXTERNAL SEMINARS AND CONFERENCES								
NAPF Local Govt Conference • Refresher training • Keeping abreast of current development					✔ ✔		**1,3,4,5**	
LGC Investment Conference					✔		**1,2,3,4,5,6**	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
• Fund Manager events and networking					✔			

Key

The six areas covered within the CIPFA Knowledge and Skills Framework (KSF):

1. Pension Legislation & Governance Context **KSF1**
2. Pensions Accounting & Auditing Standards **KSF2**
3. Financial Services Procurement & Relationship Management **KSF3**
4. Investment Performance & Risk Management **KSF4**
5. Financial Markets & Products Knowledge **KSF5**
6. Actuarial Methods, Standards & Practices **KSF6**

EAST SUSSEX PENSION BOARD – TRAINING LOG

Member/Representative Name: …………………………………………………………………..

Subject/Description of training	Date completed	Suggested Further Action?
Benefit Structure		
Joining		
Contributions		
Benefits		
Transfers		
Retirement		
Increasing benefits		
Code of Practice		
About the code		
Governing your scheme		
Risk		
Administration		
Resolving issues		
LGPS – Legislative and Governance context		
A recap on who does what in the LGPS focusing on the roles of;		
The administering authority		
The employers		
The Committee		
The LPB		

Member/Representative Name: …………………………………………………………………..

Subject/Description of training	**Date completed**	**Suggested Further Action?**
S151 officer		
Conflicts of Interest and Reporting Requirements		
Consideration of the Committee and Pension Board's responsibilities in the areas of;		
Conflicts of interest		
Reporting breaches of the law		
2016 Triennial Valuation refresher		
Funding principles and preparing for the 2019 valuation;	25 September 2019	
Valuation basics		
Role of the PC & LPB	25 September 2019	
Purpose of the valuation / Funding Strategy Statement		
Whole fund and employer results		
Contribution stability / Like for like results		
Funding strategy		
Employer risk / Employer specific funding objectives		
Markets (asset returns and yields)		
Longevity experience		
TPR's Public Sector Online Toolkit (7 modules)		
Conflicts of Interest		**20 March 2019**
Managing Risk and Internal Control		
Maintaining Accurate Records		

Member/Representative Name: ………………………………………………………………..		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Maintaining Member Contributions		
Providing Information to Members and Others		
Resolving Internal Disputes		
Reporting Breaches of the Law		
TPR Code of Practice no. 14		
Governing Your Scheme		
Managing Risks		
Administration		
Resolving Issues		
Pensions Legislation		
The Legislative Framework for Pensions in the UK		
LGPS Regulations and Statutory Guidance		
LGPS Discretions		
Other Legislation		

Member/Representative Name: ………………………………………………………………………		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Pensions Governance		
Understanding National and Local Governance Structure		
Knowledge of Pension Fund Stakeholders	25 September 2019	
Good Governance in the LGPS	25 September 2019	Presenter from LGA

Member/Representative Name: …………………………………………………………………..

Subject/Description of training	Date completed	Suggested Further Action?
Knowledge of Pension Fund Stakeholder Consultation and Communication		
Governance Policies		
Pension Administration		
Understanding Best Practice		
Interaction with HMRC		
Additional Voluntary Contributions		
The Role of the Scheme Employer		
Stewardship Report		
Pensions Accounting and Auditing Standards		
Understanding the Accounts and Audit Regulations		
The Role of Internal and External Audit		
Third Party Contracts		
Investment Performance and Risk Management		
Monitoring Assets and Assessing Long-Term Risk		
Myners Principles of Performance Management		
Awareness of Support Services		
Understanding Risk and Return of Fund Assets		
Understanding the Financial Markets		
LGPS (Management and Investment of Funds) Regulations		
Procurement and Relationship Management		

Member/Representative Name: ………………………………………………………………..

Subject/Description of training	Date completed	Suggested Further Action?
Public Procurement Policy and Procedures		
Brief Overview of UK and EU Procurement Legislation		
How the Pension Fund Monitors and Manages its Outsourced Providers		
Additional Training		
LGPS discretions & policies		
Safeguarding the Fund’s Assets		
Developing Investment Strategies Statement		
Role of the Global Custodian – Northern Trust		
Pensions legislative & Governance		
Environmental, Social and Governance (ESG)		
The role of the Board/Committee within the ACCESS LGPS Pool;		
Updates from the Pension Fund Regulator.		
ACCESS Pool Governance - Pension Committee/Board Roles		
Pantheon Global Infrastructure		
Responsible Investment under the LGPS Pooling Agenda.		
Sustainable Investing/ESG		
Merits and Dangers of Index Funds		
ACCESS Pool Governance/Sub-fund structure		
ACCESS Pool – Operator (Link)		

AVAILABLE TRAINING AND CONFERENCES 2019 – 2020

Date	Conference/Event	Run By	Delegates/Cost
October 10	27th Annual Property & Infrastructure Investment Strategies for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
November 7	Current Investment Issues for Pension Funds	SPS Conferences - Le Meridien Piccadilly London	Free
November 14	ESG & Topical Investment Issues for Local Authority Pension Investors	SPS Conferences - Le Meridien Piccadilly London	Free
December 5	Private Equity (& Debt) Investors' Annual Seminar	SPS Conferences - Le Meridien Piccadilly London	Free
	Investment Summit	Local Government Chronicle (LGC)	TBC
	Annual Local Government Pension Investment Forum	Informal	TBC
	Local Authority Forum	Pension and Lifetime Savings Association (PLSA)	Free
	LAPFF Annual Conference	Local Authority Pension Fund Forum (LAPFF)	Free
	LAPFF AGM And Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
On-Line Training			
www.thepensionsregulator.gov.uk	Pension Education Portal	Pensions Regulator	Free on-line
http://www.lgpsregs.org/	LGPS Regulations and Guidance	LGPS Regulations and Guidance	Free on-line

Date	Conference/Event	Run By	Delegates/Cost
http://www.lgps2014.org/	LGPS 2014 members website	LGPS 2014 website	Free on-line
www.local.gov.uk	LGA website	Local Government Association	Free on-line

Joint Pension Committee and Pension Board Training Session
Members Training - Forward Plan

JOINT PENSION COMMITTEE AND PENSION BOARD - FORWARD PLAN					
Date	**28 May 2019**	**25 September 2019**	**10 October 2018**	**23 January 2019**	**xx April 2019**
Topics	• Getting ready for 2019 triennial valuations • Good Governance in the LGPS	• Pension Fund Governance; • ACCESS Pool Governance/Sub-fund structure • Environmental, Social and Governance (ESG).	***'ESG Day'*** • Consider update on legal requirements, industry developments, Fund managers' approaches and Fund's policies, • UN Sustainable Development Goals, etc.	• Investment Performance and Risk Management • Pension Fund Governance; • Environmental, Social and Governance (ESG).	• Updates from the Pension Fund Regulator. • Fund Assets - Carbon Footprint Measurement;

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Appendix 1

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