



PENSION COMMITTEE

MONDAY, 23 SEPTEMBER 2019

10.00 AM COMMITTEE ROOM, COUNTY HALL, LEWES

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

A G E N D A

- 1 Minutes (*Pages 3 - 4*)
- 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 Summary of Discussion (*Pages 5 - 10*)
- 6 Quarterly Performance Report - Hymans Robertson (*Pages 11 - 26*)
- 7 Fund Performance - Newton (*To Be Tabled*)
- 8 Triennial Valuation Report - Hymans Robertson (*To Follow*)
- 9 Pension Fund Policies and Strategies - Statement of Investment Beliefs (*Pages 27 - 34*)
- 10 Pension Fund Policies and Strategies - Governance Compliance Statement (*Pages 35 - 54*)
- 11 Local Government Pension Scheme (LGPS) Regulatory Updates (*Pages 55 - 142*)
- 12 Pension Administration updates (*Pages 143 - 158*)
- 13 General Update and forward plan (*Pages 159 - 160*)
- 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 Environmental, Social and Governance (ESG) Position Report - Hymans Robertson
(Pages 161 - 172)
- 17 Diversified Growth Fund - Hymans Robertson (Pages 173 - 176)
- 18 Strategy Review Day Summary - Hymans Robertson (Pages 177 - 178)
- 19 Local Government Pension Scheme (LGPS) Pooling - ACCESS update (Pages 179 - 212)
- 20 Annual Benefit Statement Review (Pages 213 - 222)
- 21 Any other exempt items previously notified under agenda item 4

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13 September 2019

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PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Committee Room, County Hall, Lewes on 10 July 2019.

PRESENT Councillor Gerard Fox (Chair); Councillor Nigel Enever,
Councillor Richard Stogdon

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Aaron Sams, Democratic Services Officer

17 MINUTES

17.1 The Committee RESOLVED to agree the minutes of the meeting held on 24 June 2019

18 APOLOGIES FOR ABSENCE

18.1 Apologies were received from Councillor David Tutt and Councillor Trevor Webb.

18.2 Councillor Richard Stogdon was present as a substitute member for Councillor Simon Elford.

19 DISCLOSURE OF INTERESTS

19.1 There were no declarations of interest.

20 URGENT ITEMS

20.1 There were no urgent items.

21 INDEPENDENT AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE AND ANNUAL REPORT 2018/19

21.1 The Committee considered a report produced by the Independent Auditor (Grant Thornton –GT) to those charged with governance on the Pension Fund Annual Report 2018/19, including anticipated unqualified audit opinion on the 2018/19 Pension Fund Annual Report.

21.2 The Committee RESOLVED to:

- 1) Note the Independent Auditors (Grant Thornton – GT) report to those charged with governance on Pension Fund Annual Report 2018/19;
- 2) Approve the Pension Fund Annual Report for publication

The meeting ended at 3:17pm.

Councillor Gerard Fox (Chair)

Summary of Pension Board members' discussion

Monday 9 September 2019, 10.00am, County Hall, Lewes

Present:

Ray Martin, Chair of the Pension Board
Cllr Carmen Appich, Member of the Pension Board
Stephen Osborn, Member of the Pension Board
Lynda Walker, Member of the Pension Board
Ian Gutsell, Chief Finance Officer
Michelle King, Interim Head of Pensions
Andrew Marson, Interim Lead Pensions Manager
Danny Simpson, Principal Auditor
Harvey Winder, Democratic Services Officer

1.1. The Chair of the Pension Board noted that, due to the fact that three members of the Board had given their apologies (Diana Pogson, Cllr Doug Oliver and Niki Polermo), the meeting of the Pension Board scheduled for 10am on 9 September was inquorate and could not go ahead.

1.2. The Chair agreed to consider the reports of the Board meeting informally with officers and those members of the Pension Board present.

1.3. A summary of the discussion between members of the Pension Board and officers is set out below.

1.4. The members present thanked Ola Owolabi for his work as Head of Pensions and wished him good luck in his new role.

Attended Training Events - Members' feedback

1.5. Lynda Walker (LW) updated the members present on a training session she had attended in London. She had the opportunity whilst there to speak with the Minister for Pensions and Financial Inclusion about the proposed £95k cap on redundancy for public sector workers. She had also requested that the slides and information provided on the day was circulated to the Board.

1.6. Michelle King (MK), Interim Head of Pensions, advised that all investment managers run free training for pension board or committee members as a way of demonstrating they have good governance arrangements in place. If members would like to have specific training on specific asset classes, such as infrastructure or private equity, this can be arranged with the appropriate investment manager. Investment managers may also provide evidence of their Environmental, Social and Governance (ESG) policies and provide tours of assets that pension funds may have invested in.

1.7. Cllr Carmen Appich (CA) asked whether other councillors who are interested in understanding how LGPS investments work could receive training. Ian Gutsell (IG), Chief Finance Officer, said that officers would consider whether this would be possible.

Pension Committee Agenda

1.8. MK explained that there had been an 8-week delay in Hymans Robertson (the appointed Actuary) completing its triennial valuation. This was due to ongoing concerns with the accuracy of data held on East Sussex Pension Fund (ESPF) members. MK said she planned to provide Hymans with data that included broad, non-material assumptions about the scheme members based on national models of scheme member demographics to fill in the current gaps. She believed that this should be sufficient for the actuary to complete its valuation by the target date ahead of the Employers' Forum on 29 November.

1.9. Stephen Osborn (SO) asked whether the quality of data held by ESPF on its members was satisfactory and sufficient for the scheme administrator to fulfil its role. Andrew Marson (AM) said that Hymans had queried data submitted to them on several occasions and the Pension Admin Team (PAT) were working to reduce the number of data errors, however, the errors in the main stemmed from a number of legacy issues. MK said that she had worked for eight local authorities and legacy errors were present in all of them, so this was not an unusual situation. She said it was important to submit the data to the Actuary with the assumptions about membership included to avoid delays whilst the PAT continues the work of improving the data in the background.

1.10. LW asked what level of accuracy the data provided to the actuary would have. MK explained that the data provided would be at least 95% accurate, which is why it is felt that the actuary can make a reasonably accurate assumption about the value of the fund and what the associated contribution rates employers will need to make over the next three years will be. This was important as high contribution rates can be damaging to some of the small employers in the Fund.

1.11. LW asked what support the PAT had available to complete the task, given the Fund was healthy enough financially to be able to recruit additional staff. IG said that three staff have been recruited to the PAT to assist during this busy period of data management. AM added that the PAT had already cleaned up a lot of data, but the Fund contained a significant legacy of poor data. He said that an evaluation of the data cleanse required on Altair would be completed by October and this would help identify where to prioritise future efforts. MK added that the pension staff needed to perform the task were difficult to recruit due to the public sector pay scales compared to the current salaries paid for skilled pension administrators. LW suggested that late data fees could be levied on employers who fail to provide data on time that could then be used to fund additional resources for the PAT.

1.12. The Chair asked for confirmation whether employers would know their contribution rates by the 29 November. IG confirmed the employers would know their new contribution rates in advance of the Employers' Forum.

Pension Administration Updates

1.13. The Chair asked how employers provide data to the Fund for the Annual Benefit Statement (ABS). AM said that the majority provided it electronically on a spreadsheet, which was sometimes an output of their own payroll system. It was not always presented in a consistent manner, but the PAT can work with it. A small number of employers still send in data on paper, but this was rare. AM also explained that the PAT were looking at whether employers could supply data electronically on a monthly basis through an interface provided by Altair.

1.14. The Chair agreed that the PAT had worked hard to produce over 98% of the ABS and that a small number of employers appeared to be to blame for the failure to provide ABS to 100% of active Fund members. He commented that the question for the future was how to get them to provide more accurate data in a timely manner. The Chair observed that the Board members could perform an important role in influencing employers here and it was unfortunate that officers had not approached them earlier in the year to ask for assistance.

1.15. IG said that the Chair of the Pension Committee is keen for the fund to engage with employers more and for them to understand their responsibilities for providing timely and accurate data to the Fund and the consequences if they did not do so

1.16. The Chair noted that 90% of the late returns were from five employers and wondered whether in future more should be done to 'name and shame', but not necessarily in the first instance, those who fail to provide data, as they are not currently penalised in any way.

1.17. SO asked whether more could be done by senior officials in the employer organisations to ensure the deadlines were met. AM agreed that it would be worth exploring as it is not clear these duties around providing data on employees to the Fund were widely understood amongst those in the organisation who may be able to ensure they are prioritised. SO said he was happy to assist with ensuring the University of Brighton met the deadline. LW said that she could contact employees she knew in some of the employers, particularly the schools and colleges.

1.18. LW added that restructures in many of the employers in recent years would probably have affected their organisational knowledge of dealing with their responsibilities as Fund members.

1.19. SO suggested personal visits by the PAT to the worst offenders may also help, rather than rely on email communications.

1.20. AM said that the outstanding queries that led to the missing of the ABS target were those that could still not be resolved after PAT had tried for several months. The quality of the data submitted by the April deadline had been much poorer and the PAT had done much to improve it. SO said it would help to see details of the initial submissions from employers to know who to prioritise in future and where the issues are occurring.

1.21. Members of the Board commented that issuing 98% of ABS seemed like a pretty good result. The Chair said that the breach was classified as amber, and so it was unclear whether there was a duty to report it to the Pensions Regulator (tPR) or not. However, individual Board members could still do so even if the Board as a whole decided not to. He observed that the tPR would be unlikely to sanction the Fund, due to the small number of missed statements, as long as there was an action plan in place to issue the outstanding statements in a reasonable period. The Chair also suggested that any report to the tPR could explain that the breach was the result of employers failing to comply with the administering authority.

1.22. The Chair said that a further report in November will be provided to the Board containing the action plan for providing outstanding ABS and details of whether the 258 employees should have received an ABS; as well as whether the discrepancy between the number of Active members listed in the Funds' Statement of Accounts (23,646) and the number who were believed to be eligible for an ABS (21,574) meant that additional members had not received an ABS.

1.23. CA asked why there was a discrepancy between the two figures. MK explained that this was due to the different dates during the year that the two numbers were compiled, with the higher figure being compiled on 31 March and the ABS issued on 31 August. Not all of the 23k would have needed an ABS, as some would have been new starters who had not yet been with their employer for a year, and others would have either left or frozen their membership of the Fund between the two dates.

1.24. CA asked why an ABS is not produced for deferred members listed as 'gone away'. AM explained that this was because these were deferred members whose previous known address is known to be wrong. Sending an ABS to this address would be a breach of GDPR on the grounds of knowingly sending data to an incorrect address. He said an exercise is being conducted this month to compare the addresses of these 11,000 gone away members details with other databases that may reveal their current address. This was in addition to an ongoing process of trying to track down deferred members as they approach retirement age. He added that next year will be the final year a paper ABS is provided and over time the number of 'gone aways' would reduce as more people use the online ABS system.

1.25. The Chair clarified that there is no obligation to provide an ABS to deferred members and many pension schemes do not provide one for their deferred members, and others only do so every five years. In this sense, the Fund was offering an enhanced service to deferred members. He also believed that it was not a particular issue, as these people would seek out the ESPF once their pensions were due. Furthermore, their entitlement would only need to be adjusted for inflation and not for additional contributions.

1.26. CA asked whether many of the deferred members would have died. The Chair said it was unlikely as a deferred member's estate or family will usually get in contact, and it was much more likely these were members who have moved address and not informed PAT.

1.27. The Chair asked why there were a high number of employer estimates provided by the PAT during April and May. AM explained that these are requested in high numbers during restructures. The PAT will provide them, but it can have a knock-on effect on other services they provide.

1.28. LW asked whether there was an easier way of providing them. AM said that in the long-term employers will be able to do it online.

1.29. The Chair noted that the Guaranteed Minimum Pension (GMP) Reconciliation tolerance of a difference of £2 per week would mean the Government is allowing a discrepancy of a pension up to £104 per annum to remain which could have a value of up to £3,000 or so over the retirement of a member. AM said that this was the de facto tolerance rate in both public and private pension schemes, not just the LGPS.

Pension Fund Policies and Strategies - Governance Compliance Statement

1.30. The Board members suggested some changes to the Governance Compliance Statement, including a few grammar and spelling mistakes, as well as amending the ACCESS diagram on paragraph 31 to make it easier to understand by focussing on the ACCESS pool and not so much on outside organisations.

1.31. The Board members asked that the briefings from the bi-monthly meeting of the Fund's Treasurer and East Sussex Financial Officers Association be circulated to the Board.

1.32. The Board members also asked that, given that today's meeting was inquorate, a report to the Governance Committee should be made to reduce the quorum of the Board to three voting members including at least one employee or employer representative.

Pension Fund Policies and Strategies - Statement of Investment Beliefs

1.33. The Board members agreed that the belief relating to ESG issues seemed appropriate.

1.34. The Board members suggested for the Pension Committee to consider, in addition to a few grammar and spelling mistakes, some changes to the Statement of Investment Beliefs be made:

- Reflect under the belief "fees and costs matter" that indirect costs such as market impact can be significant and should also be considered
- Include under the belief "Passive Management has a role to play under the Fund's structure" include that for certain asset classes it is hard to find active managers who will outperform the market and that in these situations passive managers should be used.
- Add to the work programme of the Pension Committee the future meeting dates when carbon measurement report will be considered, to ensure that it is actively monitored.

Pension Fund Policies and Strategies – Communications Policy

1.35. The Board members agreed to postpone this discussion until the next meeting. They also recommended that the draft is worked on in consultation with the Chair prior to the next meeting and circulated to the Board for comment prior to the publication of the agenda.

Local Government Pension Scheme (LGPS) Regulatory Update

1.36. Board members supported the Fund's position on adding an interim actuarial valuation of the Fund in the event that triennial valuations are made every four years. They also agreed with the comments made to the Ministry of Housing, Communities and Local Government (MHCLG) consultation on the lack of risk sharing when employers in surplus opt to leave a LGPS, and the decision to put exit credits on hold until this is resolved.

1.37. LW asked whether there has been an update on the McCloud judgement. IG said that the Government has not been allowed to appeal the judgement, so the Scheme Advisory Board, Treasury and MHCLG are in discussions about what to do next. The impact had been to delay 210 of the 400 local authorities' final accounts due to uncertainty with their potential liabilities.

General update

1.38. MK explained that it was not clear why the outturn for pension employer and employee contributions had been so much higher, or why pensions lump sums paid were so much lower. Additional detail will be provided for future meetings if this trend continues. The Chair observed that as employer and employee figures had increased at the same ratio that it was likely it was because more staff were being employed than expected.

1.39. The following changes were made to the Board's agenda:

Addition of:

- A report on the ABS breach, including discussion of how the Board wishes to monitor the next ABS process
- A report on the Draft Communications Policy

Removal of:

- Cessation Policy (annual report)
- Pension Fund Policies – Discretionary Policy Statement
- Pensions Administration Strategy Statement (Annual Review)

The merger of the Funding Strategy Statement and Review of Triennial Valuation Process

The amendment of the Review Pension Administration processes and SLAs to only include benchmarking of KPIs within the Orbis cohort of pension funds.

Pension Fund Risk register

1.40. CA asked what the new risk on sub-fund implementation meant. MK explained that this related to ongoing discussions around creating sub-funds in ACCESS and whether Northern Trust, the custodian, would be able to transfer assets to sub-funds in a frictionless manner to avoid individual LGPS incurring transaction costs.

Work programme

1.41. Board members noted the work programme.

Local Government Pension Scheme (LGPS) Pooling - ACCESS update

1.42. The Board members noted the exempt LGPS ACCESS update.

East Sussex Pension Fund

Q2 2019 Investment Monitoring Report

Paul Potter, Partner

William Marshall, Partner

Ben Fox, Associate Consultant

Mark Tighe, Investment Analyst

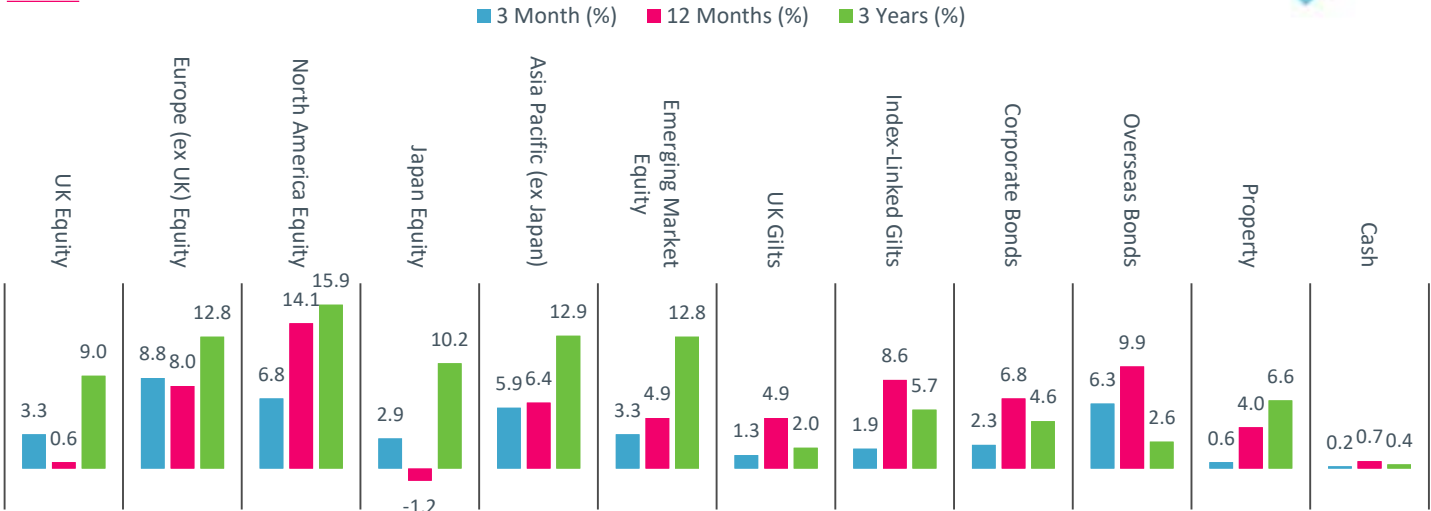
Market Background

While US GDP growth remained resilient in Q1, Q2 data suggests a large share of this growth was spurred by inventory building amid trade uncertainty. Indications in the UK also suggest that the economy might stagnate or even contract in the second quarter as stockpiling provided a temporary boost to Q1 figures. Weaker external demand has impacted the large export and manufacturing oriented portions of the Eurozone and Japanese economies. Amidst the heightened UK political uncertainty, Sterling has depreciated against the major developed currencies over the quarter, weakening by around 3.5% in trade weighted terms.

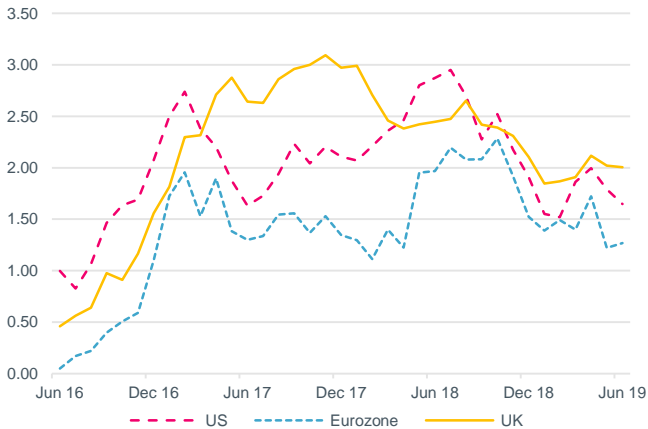
A shift in the messaging from global central banks towards looser monetary policy to support their economies, if required, has been well established. The Bank of England has been more equivocal, reluctant to commit to tightening or easing amidst the Brexit uncertainty. In the US, markets continue to price in a greater extent of interest rate cuts than the most recent Fed rate-setter's voting intentions suggest.

It was a positive quarter for financial markets with both risk seeking assets and government bonds delivering a positive return to investors. Yields on UK conventional gilts and index-linked gilts continued to fall over the quarter with the latter touching new record lows in early June.

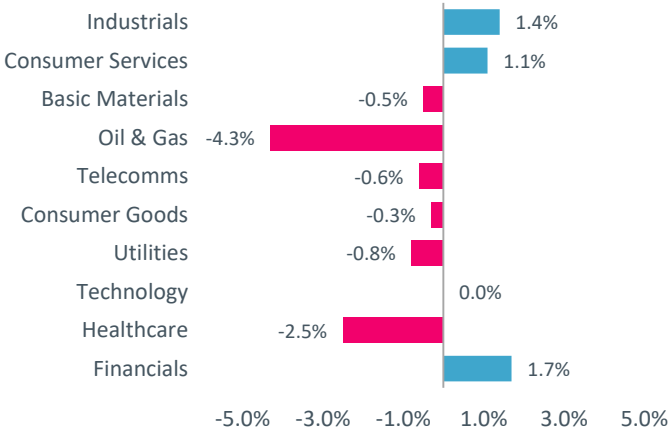
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Global equity sector returns (%) [3]



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices [3] Relative to FTSE All World Indices.

Executive Summary

- Total Fund return in line with benchmark over the quarter.
- Top contributors to relative performance:
 - Newton
 - Ruffer
 - M&G Alpha Opportunities
- Top detractors to relative performance:
 - Longview
 - UBS Climate Aware Fund

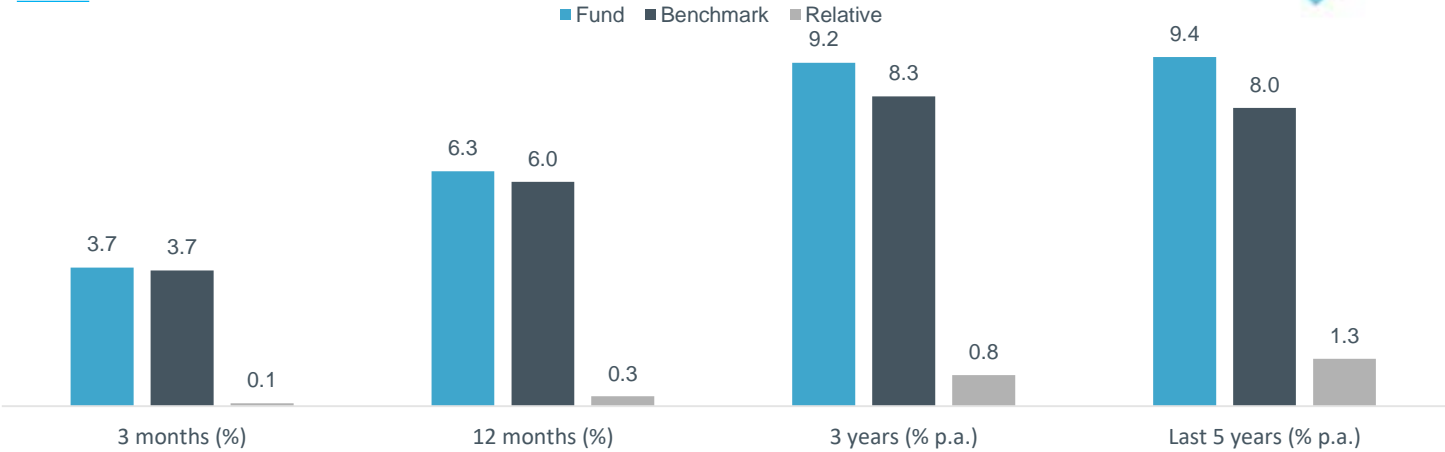
Key Actions

- Infrastructure investments expected to draw down capital over the next 3-4 years.
- Fund has committed £60m to the M&G Real Estate Debt VI Fund, which started to draw down capital during Q2.

GrIP Allocation

- Allocation to income underweight. Further drawdowns into infrastructure and real estate debt will address this over time.
- M&G Alpha Opportunities Fund also underweight at an underlying fund level.
- Protection is overweight following a fall in gilt yields and also as a result of the cash holding (1.2%). No action proposed.

Performance



Manager Rating Changes

Ruffer was downgraded from 'Preferred' to 'Positive' over the quarter. More information is provided on page 10 and in a separate paper.

GrIP Allocation

GrIP	Actual	Benchmark	Relative	Rebalancing Range
Growth	71.0%	66.5%	4.5%	60.0% - 73.0%
Income	18.4%	25.0%	-6.6%	22.0% - 28.0%
Protection	10.6%	8.5%	2.1%	7.5% - 9.5%

Key actions agreed previously

- Fund has committed £60m to the M&G Real Estate Debt VI Fund, which started to draw down capital during Q2
- Absolute return mandates due to fund draw downs into infrastructure and private debt
- Cash allocation used to meet ongoing benefit payments and will also be used as a source for meeting future infrastructure and real estate debt drawdowns
- M&G Alpha Opportunities Fund in breach of lower limit.
- Protection allocation overweight following a fall in gilt yields and also as a result of the cash holding (1.2%). No action proposed.

Asset Allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative	Rebalancing Range
	Q1 2019	Q2 2019				
UBS - Regional Equities	331.3	355.3	9.4%	8.0%	1.4%	36.0% - 44.0%
UBS - Fundamental Index	429.3	452.4	12.0%	11.5%	0.5%	
UBS - UK Equity	271.3	280.2	7.4%	7.0%	0.4%	
UBS - Climate Aware	169.7	180.2	4.8%	5.0%	-0.2%	
UBS - Global EM Equity	41.7	43.3	1.1%	1.5%	-0.4%	
Longview - Global Equity	274.9	286.0	7.6%	7.0%	0.6%	3.5% - 7.5%
Harbourvest - Private Equity	98.1	104.3	2.8%	2.8%	0.0%	
Adams Street - Private Equity	115.2	122.4	3.2%	2.8%	0.5%	
Newton - Absolute Return	422.0	440.6	11.7%	10.5%	1.2%	19.0% - 23.0%
Ruffer - Absolute Return	401.6	408.8	10.9%	10.5%	0.4%	
Total Growth	2,555.1	2,673.4	71.0%	66.5%	4.5%	60.0% - 73.0%
Schroders - Property	369.3	368.1	9.8%	10.0%	-0.2%	8.0% - 12.0%
UBS - Infrastructure	19.5	20.1	0.5%	1.0%	-0.5%	2.0% - 6.0%
Pantheon - Infrastructure	14.8	22.5	0.6%	2.0%	-1.4%	
M&G - Infrastructure	2.0	9.2	0.2%	1.0%	-0.8%	
M&G - Private Debt	0.0	18.6	0.5%	3.0%	-2.5%	1.0% - 5.0%
M&G - UK Financing Fund	0.7	0.7	0.0%	0.0%	0.0%	
M&G - Absolute Return Credit	251.3	255.6	6.8%	8.0%	-1.2%	7.0% - 9.0%
Total Income	657.6	694.8	18.4%	25.0%	-6.6%	22.0% - 28.0%
M&G - Corporate Bonds	138.4	142.4	3.8%	3.5%	0.3%	2.5% - 4.5%
UBS - Over 5 Year IL Gilt Fund	207.5	211.3	5.6%	5.0%	0.6%	4.0% - 6.0%
Cash	73.3	45.1	1.2%	0.0%	1.2%	0.0% - 2.0%
Total Protection	670.4	654.4	10.6%	8.5%	2.1%	7.5% - 9.5%
Total Fund	3,631.8	3,767.0	100.0%	100.0%		

Manager performance – net of fees

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth												
UBS - Regional Equities	7.3	7.2	0.0	10.1	10.0	0.1	-	-	-	6.4	6.4	0.1
UBS - Fundamental Index	5.4	5.4	0.0	6.6	6.6	0.0	-	-	-	6.4	6.4	0.0
UBS - UK Equity	3.3	3.3	0.0	0.7	0.7	0.0	-	-	-	1.2	1.2	0.0
UBS - Climate Aware	6.2	6.5	-0.3	9.7	10.3	-0.5	-	-	-	7.1	7.5	-0.4
UBS - Global EM Equity	3.6	3.7	-0.1	7.7	8.1	-0.3	-	-	-	0.5	0.6	-0.1
Longview - Global Equity	4.0	6.5	-2.4	11.0	9.0	1.9	13.9	13.2	0.6	15.1	11.9	2.8
Newton - Absolute Return	4.3	0.8	3.4	9.2	3.2	5.8	2.2	3.0	-0.7	4.4	3.0	1.4
Ruffer - Absolute Return	1.5	0.8	0.7	0.0	3.2	-3.2	2.3	3.0	-0.7	3.8	3.0	0.7
Income												
Schroders - Property	0.5	0.6	-0.1	3.1	3.4	-0.3	6.4	6.4	0.0	8.0	7.8	0.2
Protection												
M&G - Absolute Return Credit	1.8	0.9	0.8	3.2	3.7	-0.6	4.2	3.5	0.7	4.1	3.5	0.6
M&G - Corporate Bonds	2.9	2.5	0.4	8.1	7.7	0.4	5.6	4.7	0.9	7.6	7.1	0.5
UBS - Over 5 Year IL Gilt Fund	1.8	2.0	-0.2	8.9	9.0	-0.1	-	-	-	8.7	8.8	-0.1
Total	3.7	3.7	0.1	6.3	6.0	0.3	9.2	8.3	0.8			

We have estimated net returns based on each manager's expected fee levels. Total Fund performance was provided by WM until 31 March 2016, including private market returns. In Q2 2016, total Fund performance was calculated excluding private market investments. From Q3 2016 to Q3 2017 total Fund performance has been calculated using estimated valuations for private market investments. From Q4 2017 total Fund performance has been provided by Northern Trust. From Q4 2018, Northern Trust applied updated benchmarks across several of the Fund's managers, but this was not back-dated.

- Iain Stewart, who has been at Newton since 1985 and focuses on the strategic positioning of the Real return Fund, is retiring at the end of the year. We do not think this warrants a change in rating at this time. Please see the separate DGF manager note in the meeting pack for further details.
- The rating for Ruffer was changed from 'Preferred' to 'Positive' over the quarter. This reflects a tightening in our requirements for 'Preferred' status, rather than a change in approach at Ruffer. Please see the separate DGF manager note in the meeting pack for further details.

Manager ratings

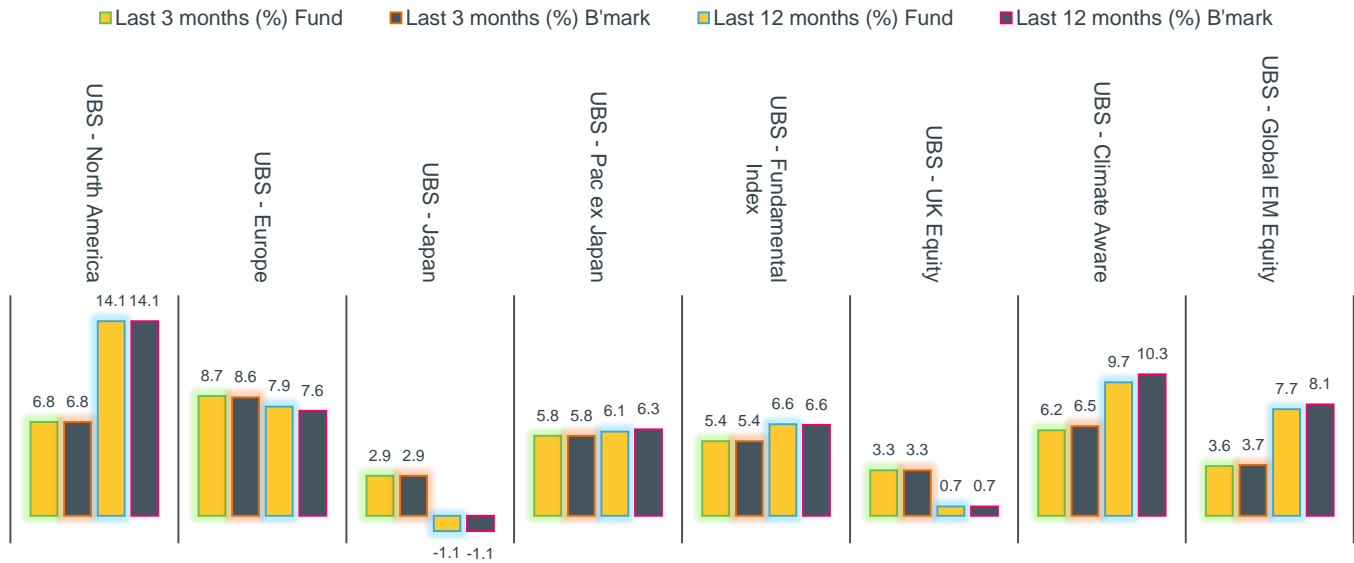
Manager	Mandate	Hymans Rating	RI Rating
UBS	Passive Equities	Preferred	Good
Longview	Active Equities	Preferred	Adequate
HarbourVest	Private Equity	Preferred	-
Adams Street	Private Equity	Preferred	-
Newton	Absolute Return	Suitable	-
Ruffer	Absolute Return	Positive	-
Schroders	Property	Positive	-
UBS	Infrastructure	Preferred	-
InfraCapital	Infrastructure	Positive	-
Pantheon	Infrastructure	Preferred	-
M&G	Alpha Opportunities	Preferred	-
M&G	Corporate Bonds	Preferred	-
UBS	Index Linked Gilts	Preferred	-

Hymans Rating System		Responsible Rating System	
Preferred	One of our highest rated strategies within this asset class.	Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Positive	We have a positive opinion on the strategy and believe it has a high possibility of reaching its objectives. But we believe there are superior strategies available.	Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Suitable	We believe the strategy is suitable for pension scheme investors from a regulatory perspective, but we have no strong view on its forward-looking prospects.	Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Negative	We have a negative outlook for the strategy relative to peers.	Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.	Not Rated	Insufficient knowledge to be able to form an opinion on.

UBS Equities

- Benchmark: Various regional indices
- Objective: Match benchmark over all time periods
- UBS have successfully tracked underlying benchmarks to date

Fund performance vs benchmark



Region/Fund	Value	Allocation	Target	Rebalancing Range
UBS - North America	171.6	13.1%	12.5%	11% - 14%
UBS - Europe	141.9	10.8%	10.5%	9.5% - 11.5%
UBS - Japan	20.1	1.5%	1.5%	1% - 2%
UBS - Pac ex Japan	21.7	1.7%	1.5%	1% - 2%
UBS - Fundamental Index	452.4	34.5%	35.0%	31.5% - 38.5%
UBS - UK Equity	280.2	21.4%	21.0%	19% - 23%
UBS - Climate Aware	180.2	13.7%	15.0%	13.5% - 16.5%
UBS - Global EM Equity	43.3	3.3%	3.0%	2.5% -3.5%
Total	1,311.4	100.0%	100.0%	

UBS Climate Aware Fund totalled £1.1bn at the end of June. The Committee has previously agreed to commit a further 5% of Fund assets (c£188m) to the Climate Aware Fund at a future date, depending upon the size of the UBS' fund. A further investment of £188m would equate to an overall holding of c34% of the fund.

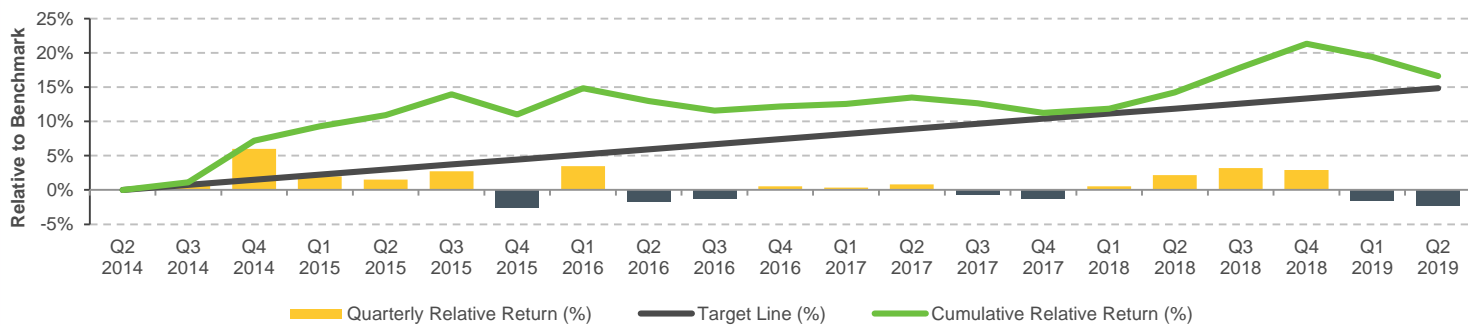
Longview Global Equities

- Benchmark: MSCI ACWI
- Objective: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods
- Performance ahead of benchmark and target over all time periods
- Performance shown gross of fees
- This Fund transferred into the Access pool on 4 February 2019. Performance data until this date is taken from Longview and after this date from Link, the Access pool operator.

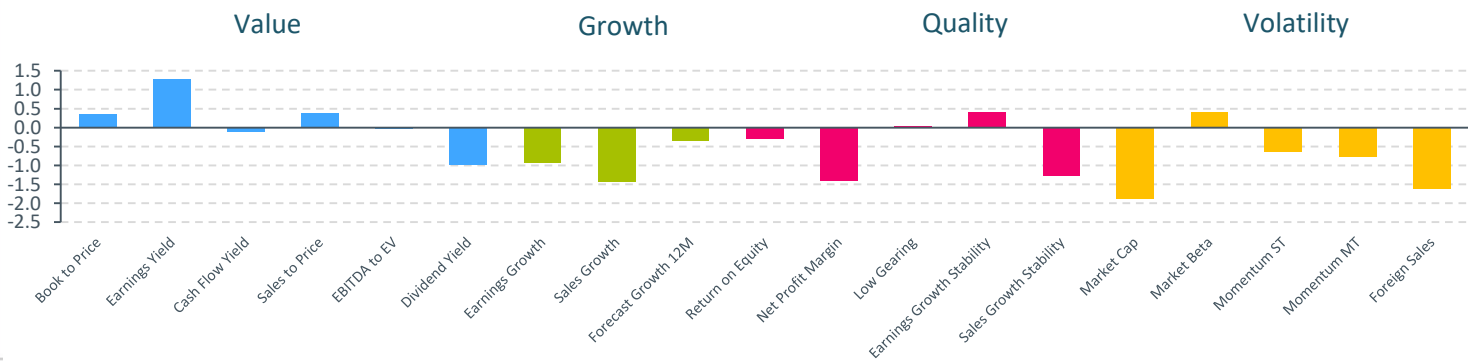
Fund performance vs benchmark

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	4.1	6.5	-2.2	7.2	-2.9
Last 12 months	11.7	9.0	2.5	12.0	-0.3
Last 3 years (p.a.)	14.5	13.2	1.2	16.2	-1.5
Last 5 years (p.a.)	16.0	12.5	3.2	15.5	0.5

Historic quarterly performance



Pooled Fund Skyline (as at 30 June 2019)



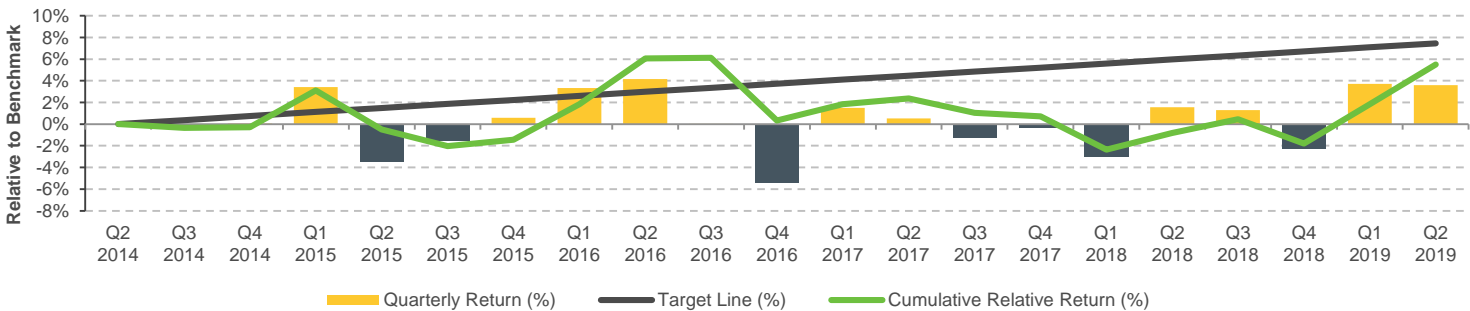
Newton Real Return Fund

- Benchmark: 3-month LIBOR + 2.5% p.a.
- Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance ahead of benchmark over all time periods but behind target over 3 and 5 years.
- Performance shown gross of fees

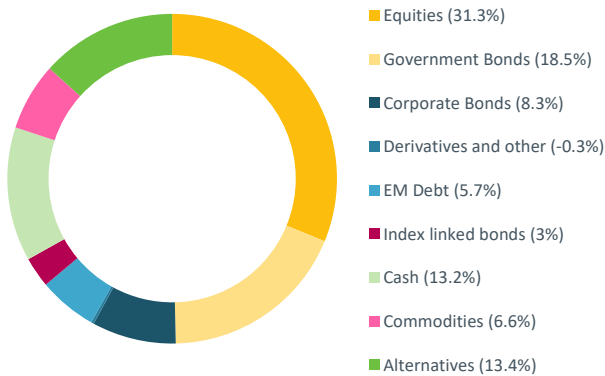
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	4.4	0.8	3.6	1.2	3.2
Last 12 months	9.8	3.2	6.3	4.7	4.8
Last 3 years (p.a.)	2.8	3.0	-0.2	4.5	-1.6
Last 5 years (p.a.)	4.1	3.0	1.1	4.5	-0.4

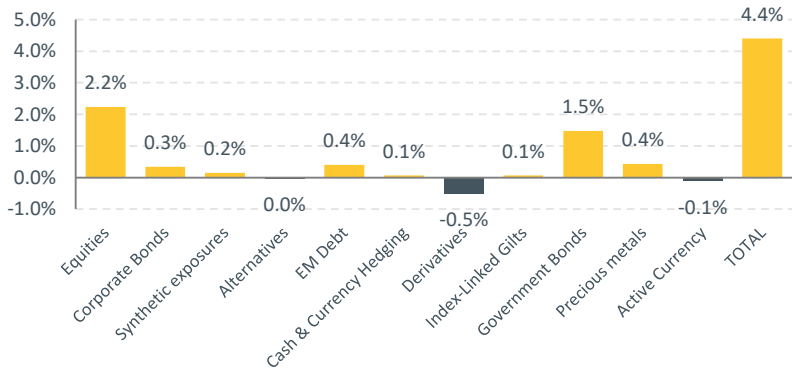
Historic Quarterly Performance



Asset Allocation



Performance Attribution



Ruffer Absolute Return Fund

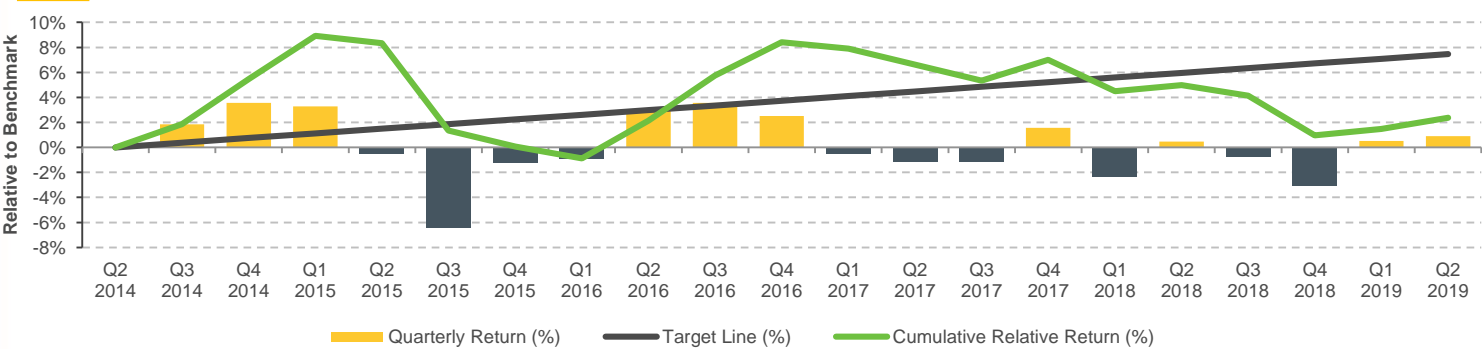
- Benchmark: 3-month LIBOR + 2.5%
- Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance ahead of benchmark over longer time periods, but behind target
- Performance shown gross of fees

- Gold was the strongest contributor over the quarter
- Equities contributed positively, though the large allocation to Japan meant the fund's equity allocation lagged wider equity markets
- The multi-strategy and option strategies detracted from performance. These are protection strategies designed to contribute positively when markets fall, but can detract when markets rally.

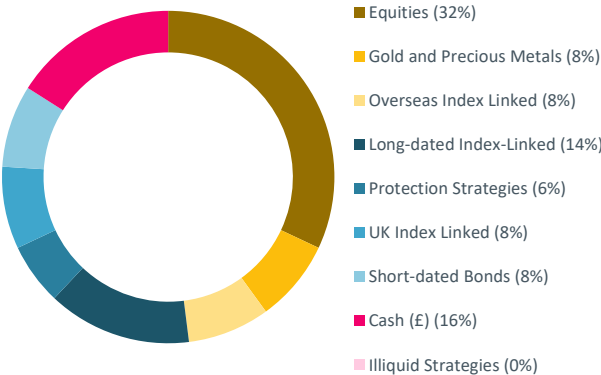
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	1.7	0.8	0.9	1.2	0.5
Last 12 months	0.8	3.2	-2.4	4.7	-3.8
Last 3 years (p.a.)	3.1	3.0	0.1	4.5	-1.3
Last 5 years (p.a.)	3.5	3.0	0.5	4.5	-1.0

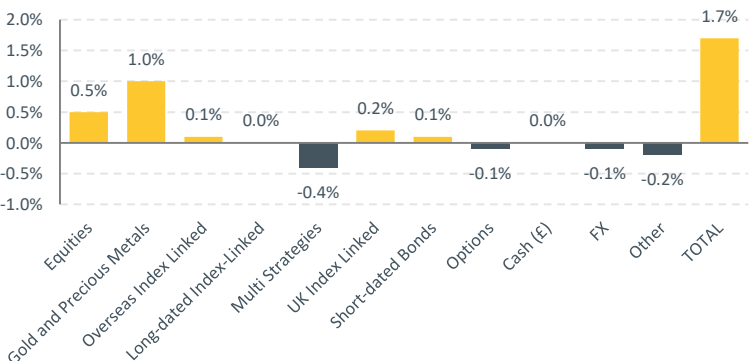
Historic Quarterly Performance



Asset Allocation



Performance Attribution



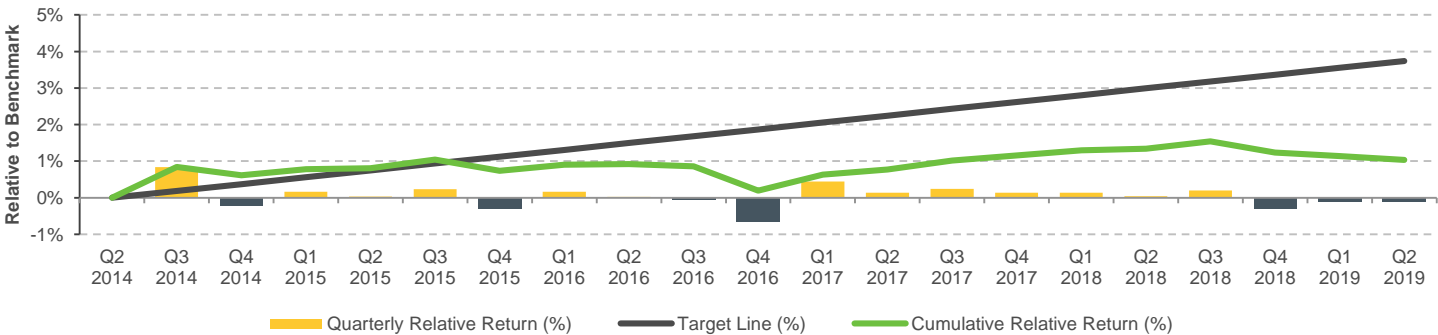
Schroders Property

- Benchmark: IPD All Balanced Funds
- Objective: Outperform benchmark by 0.75% p.a. (net) over rolling 3 years
- Performance ahead of benchmark over longer time periods, but behind target over all time periods
- Performance shown net of fees
- Strongest underlying fund performers over the quarter:
 - Industrial Property Investment Fund
 - UNITE Student Accom Fund
 - Metro Property Unit Trust
- Weakest underlying fund performers over the quarter:
 - UK Retail Warehouse Fund
 - Standard Life Pooled Pension Property Fund
 - Hercules Unit Trust

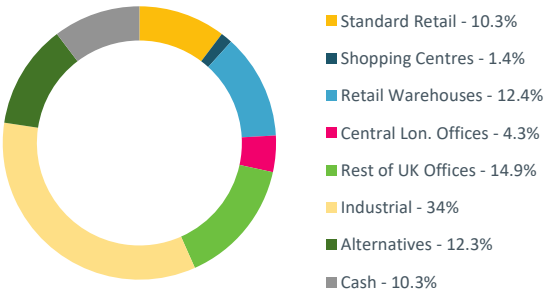
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	0.5	0.6	-0.1	0.8	-0.3
Last 12 months	3.1	3.4	-0.3	4.2	-1.0
Last 3 years (p.a.)	6.4	6.4	0.0	7.1	-0.7
Last 5 years (p.a.)	8.5	8.3	0.2	9.1	-0.5

Historic Quarterly Performance



Sector Allocation



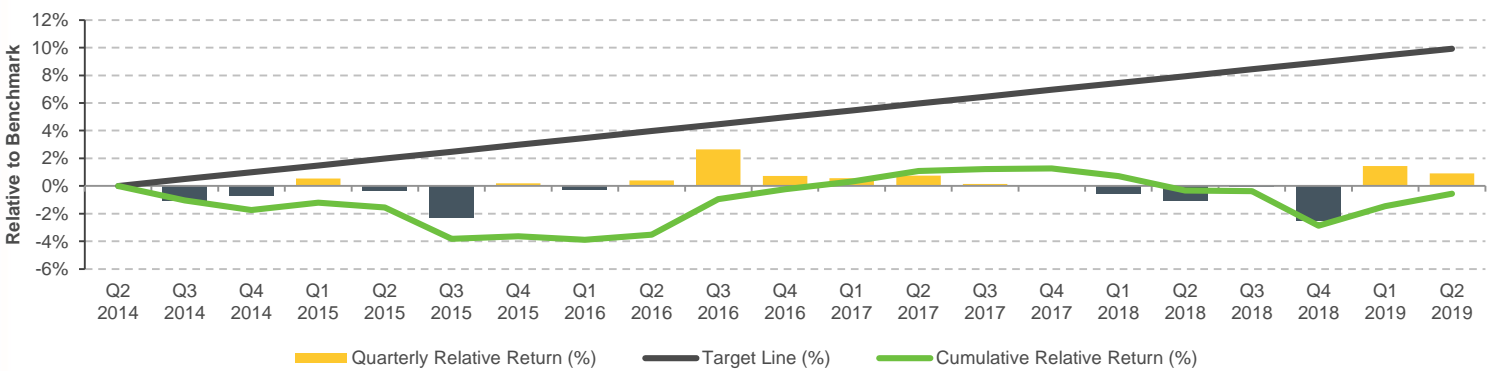
M&G Alpha Opportunities

- Benchmark: 3 Month Libor + 3%
- Objective: 3 Month Libor + 5% (gross)
- Credit spreads narrowed over the quarter as riskier asset classes continued to rally
- Performance shown gross of fees
- Corporate bonds were the top contributor to performance over the quarter, particularly industrial and financial issuers.
- Most of the fund has an underlying credit quality of investment grade (c68%)

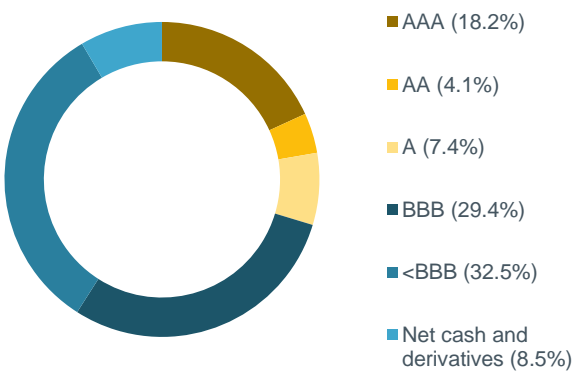
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	1.8	0.9	0.9	1.4	0.4
Last 12 months	3.5	3.7	-0.2	5.7	-2.1
Last 3 years (p.a.)	4.5	3.5	1.0	5.5	-0.9
Last 5 years (p.a.)	3.4	3.5	-0.1	5.5	-2.0

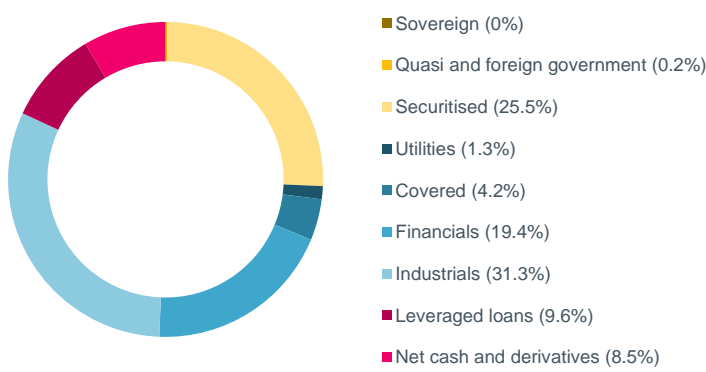
Historic Quarterly Performance



Credit Ratings



Sector Allocation



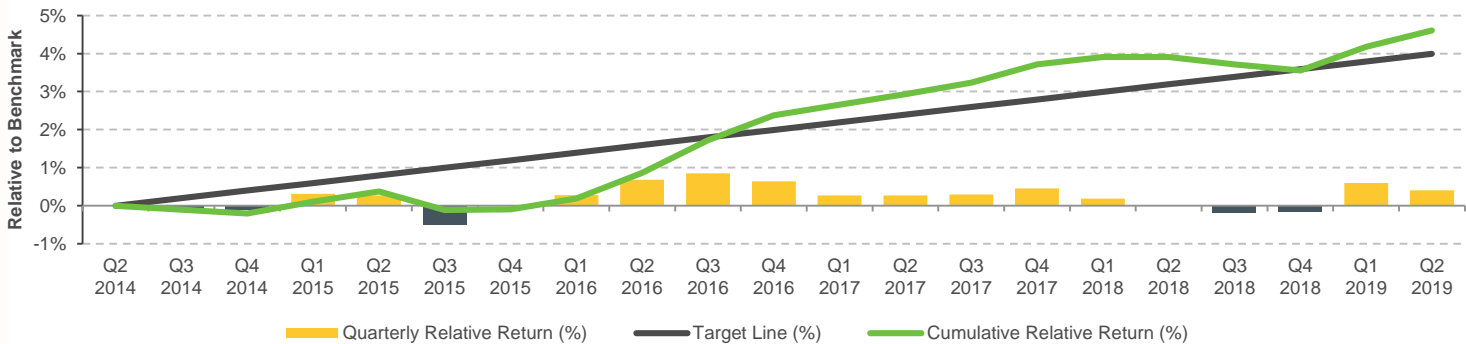
M&G Corporate Bonds

- Benchmark:
 - 50% iBoxx Non-Gilts Over 15Y
 - 50% iBoxx Non-Gilts
- Objective: Outperform benchmark by 0.8% p.a. (gross)
- Performance shown gross of fees
- Performance ahead of benchmark and in line with target over 5 years

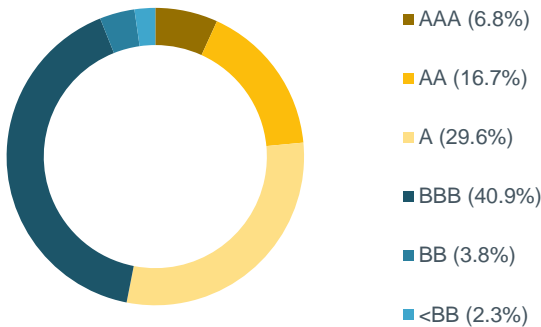
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	3.3	2.5	0.8	2.7	0.6
Last 12 months	8.4	7.7	0.7	8.5	-0.1
Last 3 years (p.a.)	6.0	4.7	1.2	5.5	0.4
Last 5 years (p.a.)	7.7	6.8	0.9	7.6	0.1

Historic Quarterly Performance



Credit rating



Credit rating allocation relative to benchmark



- M&G mandate has a marginally lower average credit quality than the benchmark

UBS Index-Linked Gilts

- Benchmark: FTSE Index-Linked Gilts Over 5 Years
- Objective: Match benchmark
- Performance broadly matched benchmark since inception
- Real yields fell further over the quarter and remain at historically low levels.

Fund performance vs benchmark/target

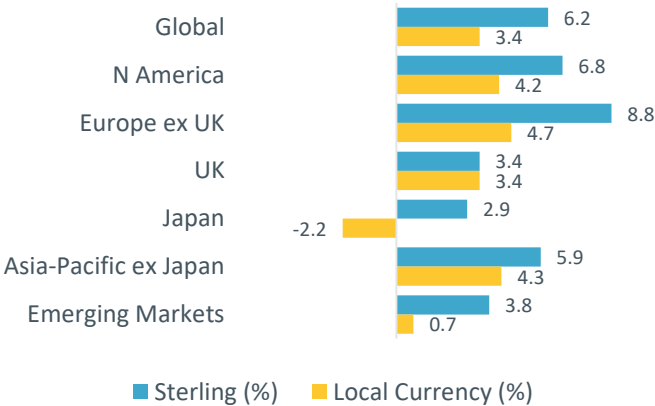


Global credit markets largely ignored the escalation in US-China trade tensions and the potential negative implications for growth as spreads continued to narrow over the quarter. The picture was more mixed across sub investment grade credit markets with European high yield experiencing the greatest tightening in spreads across corporate credit markets.

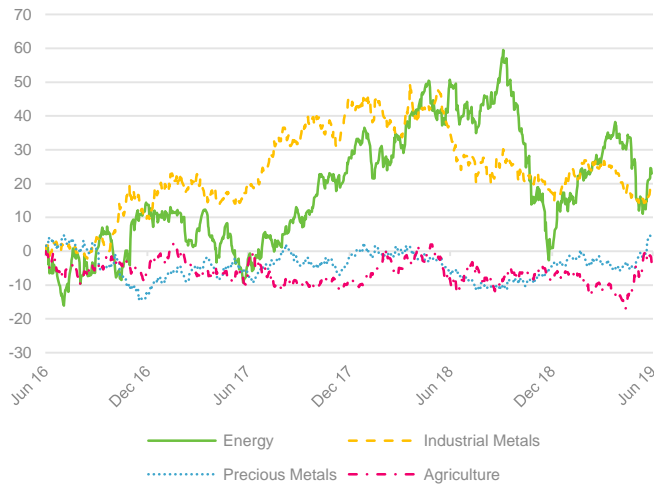
The equity market momentum of the first quarter of 2019 continued in Q2. After a brief pull-back in May, equity markets recovered in June and the US market reached another all-time high. The equity rally was broad-based, with most major equity regions producing strong returns. European (ex UK) equities were the best performing region in local currency terms as financials posted strong returns, while Japanese and Emerging Market equities lagged global indices. Japanese equities have been hindered by the strength of the yen, while Emerging Market equities suffered from their exposure to global trade.

In the two months to the end of May, UK property produced total returns of 0.5%, with the return from income more than offsetting a fall of 0.4% in the capital growth index. Rental growth has been flat over the period.

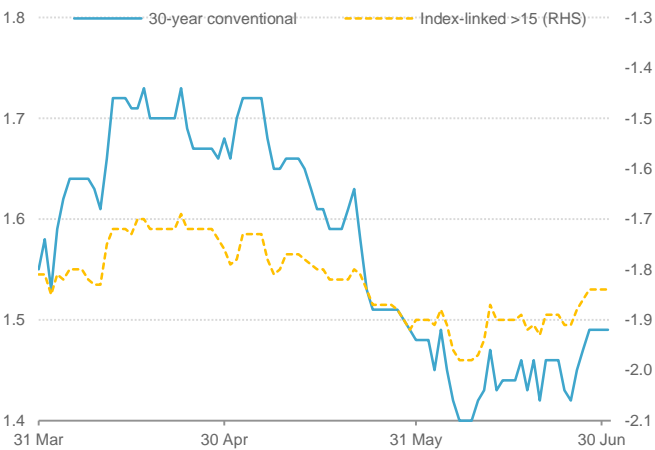
Regional equity returns ^[1]



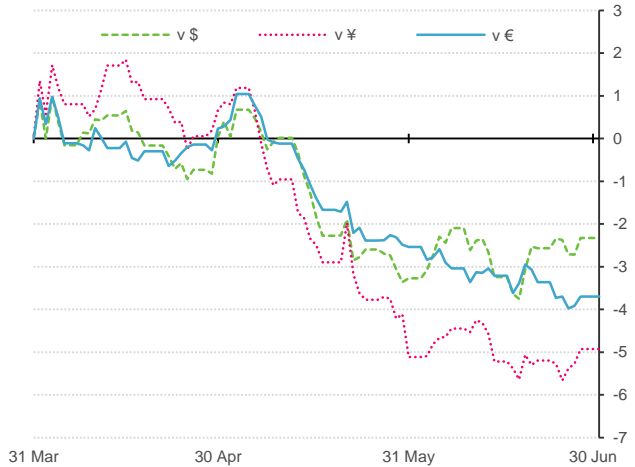
Commodity Prices



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



This table sets out the benchmark and target for each mandate in which the Fund invests

Manager Benchmarks and Targets

Mandate	Benchmark	Target
UBS UK Equity	FTSE All-Share Index	FTSE All-Share Index
UBS North America	FTSE All World North America Index	FTSE All World North America Index
UBS European ex UK	FTSE All World Developed Europe ex-UK Index	FTSE All World Developed Europe ex-UK Index
UBS Japan	FTSE All World Japan Index	FTSE All World Japan Index
UBS Pacific ex Japan	FTSE All World Developed Asia Pacific ex-Japan Index	FTSE All World Developed Asia Pacific ex-Japan Index
UBS Emerging Markets	FTSE Emerging Index	FTSE Emerging Index
UBS Fundamental Indexation	FTSE RAFI All-World 3000	FTSE RAFI All-World 3000
UBS Climate Aware	FTSE Developed Index	FTSE Developed Index
Longview Equities	MSCI ACWI	MSCI ACWI + 3% p.a. (gross)
HarbourVest	MSCI All World + 1.5%	MSCI All World + 3% (gross)
Adams Street	MSCI All World + 1.5%	MSCI All World + 3% (gross)
Newton	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Ruffer	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Schroders Property	IPD All Balanced Index	IPD All Balanced Index +0.75% p.a. (net)
UBS Infrastructure	CPI + 2%	CPI + 3%
Infracapital Infrastructure	CPI + 2%	CPI + 3%
Pantheon Infrastructure	CPI + 2%	CPI + 3%
M&G RED VI	LIBOR + 4%	LIBOR + 5%
M&G Corporate Bonds	50% - iBoxx £ Non-Gilts Over 15 Year Index 50% - iBoxx £ Non-Gilts Index	Composite benchmark + 0.75% p.a. (net)
M&G Alpha Opportunities Fund	LIBOR + 3%	LIBOR + 5%
UBS Index-Linked Gilts	FTSE Gilt British Govt Index Linked Over 5 Year Index	FTSE Gilt British Govt Index Linked Over 5 Year Index

Report to: Pension Committee
Date: 23 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

RECOMMENDATION

The Committee is recommended to agree the revised Statement of Investment Beliefs

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 included short and long term approaches to mitigate climate change risks and a review of the East Sussex Pension Fund (the Fund's) investment beliefs.

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 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 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 and 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 The Committee is recommended to agree the revised Statement of Investment Beliefs.

IAN GUTSELL

Chief Finance Officer

Contact Officer: Michelle King, Interim Head of Pensions

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Email: Michelle.King@eastsussex.gov.uk

Item 9



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 as well as risks and at all times the Committee need to balance these 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 they have made. Where the Committee has determined through this engagement with the active manager that the risks posed by holding stocks outweighs 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 indices by the Committee is very important, as it continues to explore the potential for using low carbon indices.

DRAFT

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Report to: Pension Committee

Date: 23 September 2019

By: Chief Finance Officer

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

Purpose of report: To agree a revised East Sussex Pension Fund (ESPF) Governance Policy Statement.

RECOMMENDATION –

The Pension Committee is recommended to agree the updated Governance Policy Statement

1. Background

1.1 The 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 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 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 Committee is requested to agree 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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Item 9a

EAST SUSSEX PENSION FUND

GOVERNANCE POLICY STATEMENT

September 2019

Contents

Governance Policy Statement	Page 3
Delegation of Functions	Page 7
Terms of Reference and Decision Making	Page 9
Pension Committee terms of reference	Page 12
Pension Board terms of reference	Page 13

Governance Policy Statement

Introduction

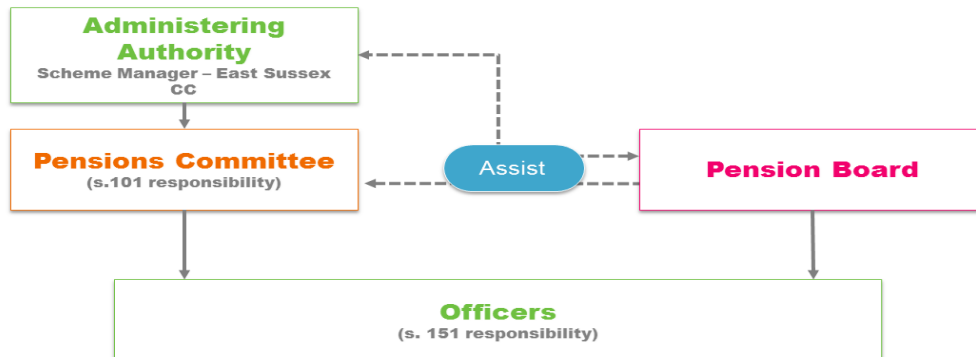
1. This is the Governance Policy Statement of the East Sussex Pension Fund, which is managed by East Sussex County Council, the Administering Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund. All Local Government Pension Scheme (LGPS) Funds in England and Wales are 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 on 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 Committee.

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 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 and Pension Board.

10. The Pension Fund Committee receives and reviews quarterly reports from all its Investment Fund Managers and the independent Investment Adviser, Hymans Robertson. The Committee is also advised by an additional Independent Advisor. In addition, the Committee and Board is advised by the County Council's Chief Finance Officer (in their capacity as the Council's designated Treasurer). The Committee and 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 it 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

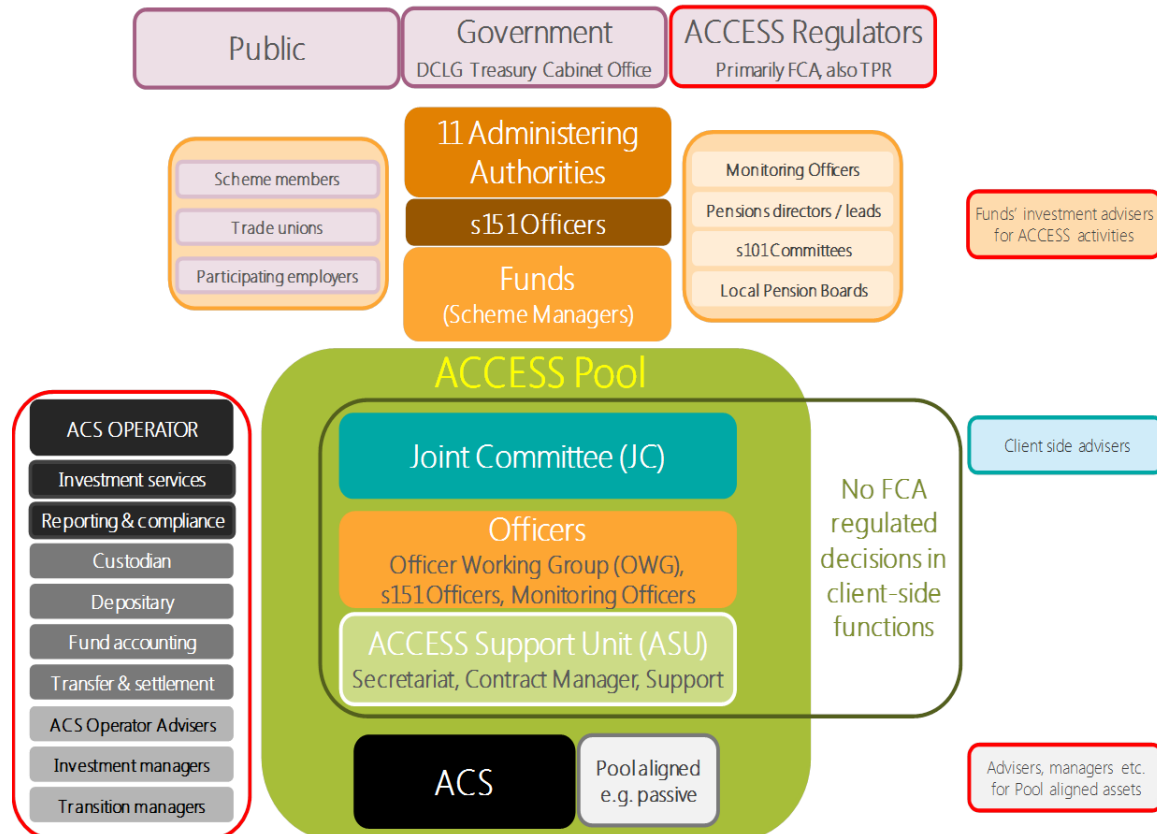
24. ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities, which are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with 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.

East Sussex Pension Fund

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 Administering 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.

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.

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 Committee

Date: 23 September 2019

By: Chief Finance Officer

Title of report: Local Government Pension Scheme (LGPS) Regulatory Updates

Purpose of report: To provide the Committee with an update on the current regulatory environment, and consultations that could impact the Local Government Pension Scheme (LGPS).

RECOMMENDATION

The Committee is recommended to note the report.

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;
- 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/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 proposes 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 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 follow -

- 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 are 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 when it meets in November. Any proposals agreed by the Board would be subject to a full stakeholder consultation before being put to MHCLG.

3. TPR Public service governance and administration survey 2018.

3.1 The 2018 Annual Governance and Administration Survey for public service pension schemes has been published (Appendix) 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 Committee recently considered the Ministry of Housing, Communities and Local Government (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 Local Government Pension Scheme (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 ESPF 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 GAD 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 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 (CMA) 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 Competition and Markets Authority (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, the Pensions Regulator 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 Committee on how to choose an investment model, how to set objectives for those providing investment advices 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/Committee will need to establish objectives for consultants by no later than 10 December 2019. To support this, Hyman's will be contacting/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 has produced in response to a request from the Local Government Pension Committee (LGPC). The purpose of the document is to explain the relationship between the different bodies that make up the Local Government Pension Scheme (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 Committee is recommended to note the report.

IAN GUTSELL
Chief Finance Officer

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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

Executive summary1

1. Introduction.....3

2. Process.....4

3. Survey results.....6

4. Survey themes.....9

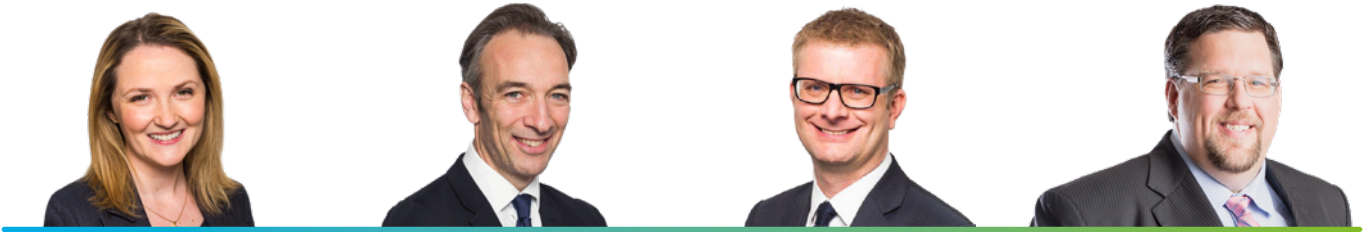
5. Examples of best practice13

6. Proposals14

Appendix A: Scheme Advisory Board Good Governance Survey..... 22

Appendix B: Abbreviations 29

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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.



Governance in the LGPS is evolving to accommodate developments in the last decade...

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 87¹ 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**).

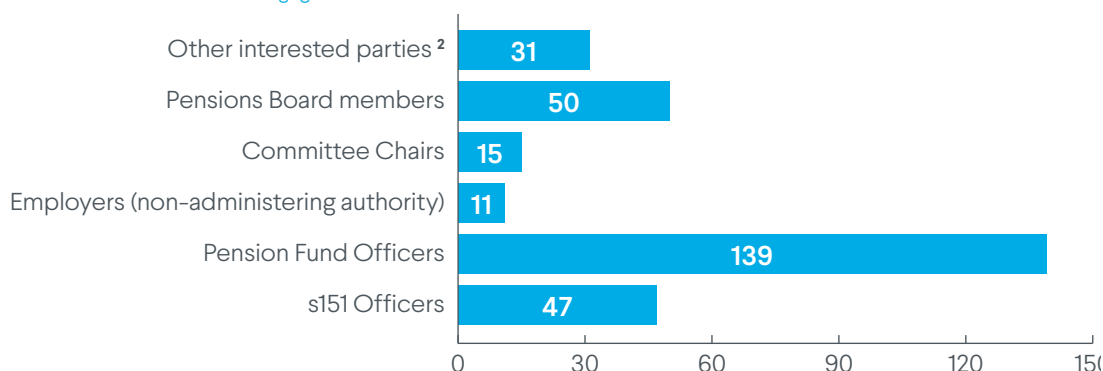
We engaged with a wide variety of stakeholders as set out in **Chart 1** below.

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	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.



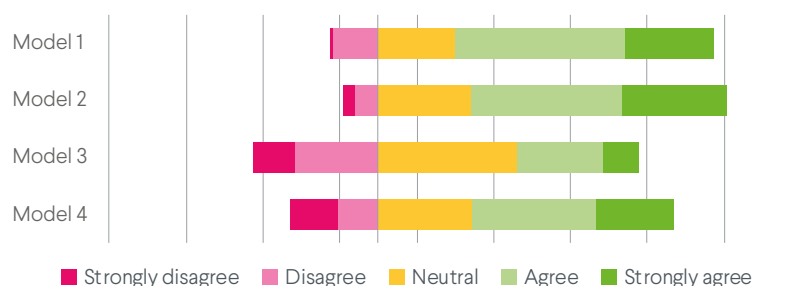
2. Survey results (continued)

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.

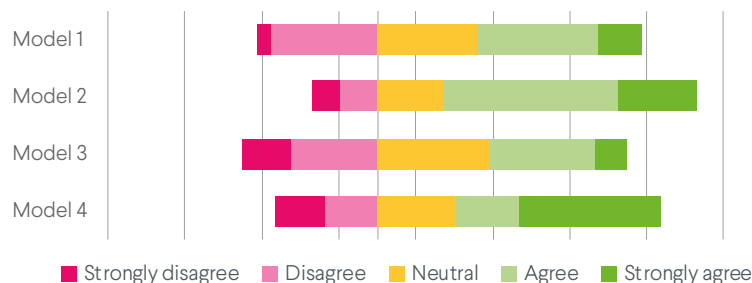
Comments on survey responses

- 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.

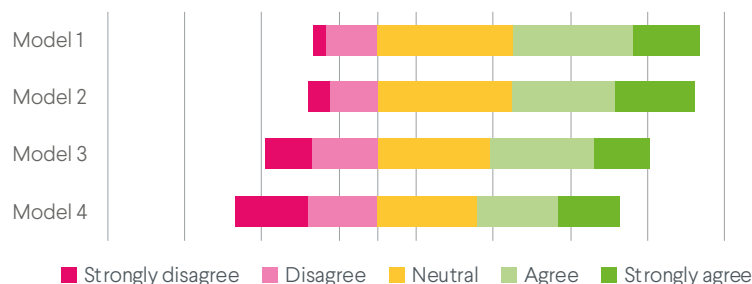
The model enables funds to meet the required standards



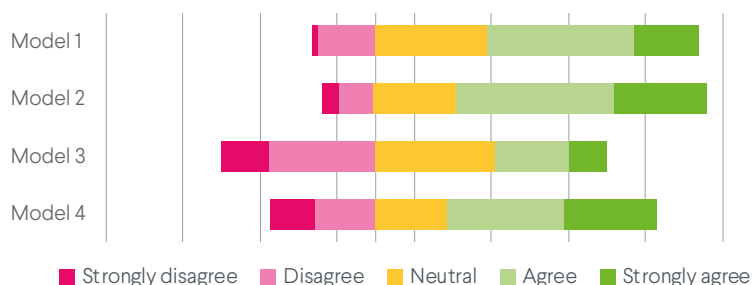
The model minimises conflicts between the pension function and the host local authority



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

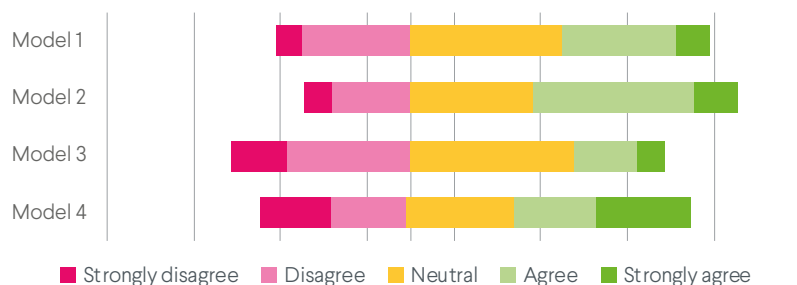


The model delivers clarity of accountability and responsibility for each relevant role

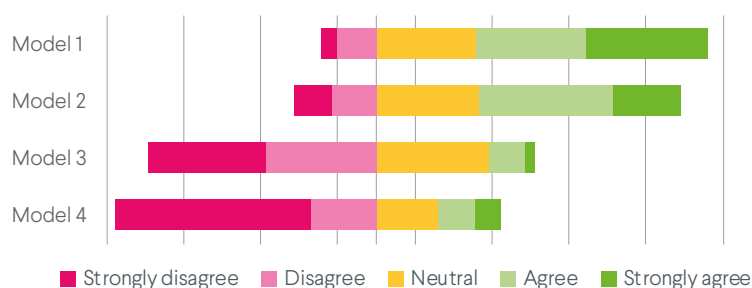


2. Survey results (continued)

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



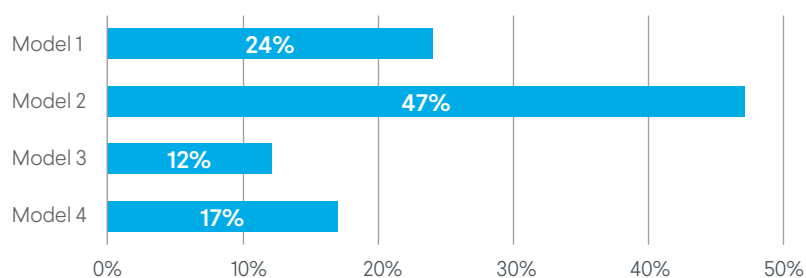
The cost of implementing and running the model is likely to be worthwhile versus benefits delivered



Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.

PLSA

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



Additional survey data

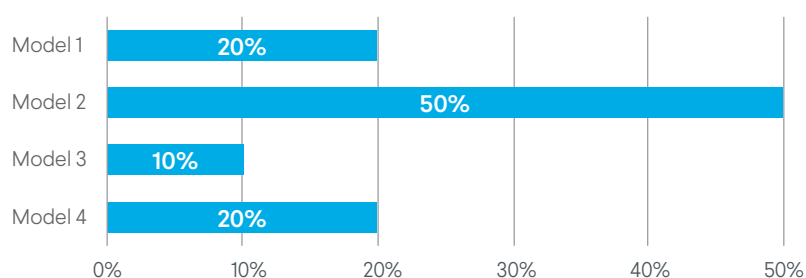
In addition to the online survey, we asked attendees at our PLSA session and other events a set of questions on their preferences.

Around 70% of respondents favoured Models 1 or 2.

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

Webinar

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



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: <ul style="list-style-type: none"> 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.	<p>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.</p> <p>Further, we do not believe it is appropriate to impose a 'one size fits all' approach.</p>	<ul style="list-style-type: none"> i. SAB should consult on: <ul style="list-style-type: none"> • 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	<p>Critical features of the ‘outcomes-based’ model</p> <p>to include:</p> <ol style="list-style-type: none"> Robust conflict management. Assurance on sufficiency of administration 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. 	<p>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.</p> <p>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).</p>	<p>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).</p>
2a	<p>Robust conflict management.</p> <p>Administering authorities should be able to decide locally how they will evidence this requirement including for example:</p> <ul style="list-style-type: none"> 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. 	<p>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.</p> <p>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.</p>	<p>SAB should consider making this a mandatory feature of any ‘outcomes-based’ governance model.</p>



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

	Proposal	Why	Suggested actions
2b	<p>Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.</p> <p>This will require a transparent approach to setting and managing budgets.</p> <p>Administering authorities should be able to decide locally how they will evidence this requirement including for example:</p> <ul style="list-style-type: none"> • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. <p>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.</p>	<p>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.</p> <p>At the same time, there is increased scrutiny from TPR and risk of fines and other regulator interventions.</p> <p>It is critical that pension administration teams are sufficiently well resourced with competent personnel and appropriate administration systems.</p> <p>This aim must be supported by transparent processes for setting appropriate budgets.</p> <p>Pensions administration is a specialist role and, at the current time, it is difficult to attract and retain staff.</p> <p>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.</p>	<p>SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.</p>
2c	<p>Explain policy on employer and member engagement and representation in governance.</p> <p>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.</p>	<p>Most administering authorities have non-administering authority employer and scheme member representatives.</p> <p>Non-administering authority employers are often chosen to represent certain employer constituencies (e.g. academies, FE, charities and housing associations).</p> <p>In some cases, scheme member representatives have voting rights.</p> <p>»</p>	<p>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).</p>



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

	Proposal	Why	Suggested actions
		<p>Many survey respondents support greater encouragement to include scheme member reps on s101 committees.</p> <p>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.</p>	
2d	<p>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.</p> <p>Guidance should not prescribe the approach but could set out acceptable methods which may include:</p> <ul style="list-style-type: none"> i. Internal or external audit assessment; ii. Scrutiny by LPBs; iii. A peer review process. 	<p>It is important that any 'outcomes-based' approach is policed.</p> <p>Self-assessment is insufficient. Independent review is required for a more objective assessment.</p> <p>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.</p>	<p>SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.</p>



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

	Proposal	Why	Suggested actions
3	<p>Enhanced training requirements for s151s and s101 committee members. This is to include all s151 officers, not just those currently with administering authority responsibilities.</p>	<p>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.</p> <p>s101 committees: Currently the training requirements for Local Pension Board members (which are statutory) are more onerous than those for s101 committee members. Survey respondents felt this inconsistency was unacceptable and that s101 training should be on a par with LPB requirements.</p>	<ol style="list-style-type: none"> CIPFA to develop a CPD module for s151 practitioners in the LGPS. SAB / MHCLG statutory guidance to require training for s101s to be on a par with members of Local Pension Boards.
4	<p>Update relevant guidance and provide better sign-posting.</p> <p>It would also be helpful to provide greater clarity to officers and elected members on their statutory and fiduciary obligations.</p> <p>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)</p>	<p>The main guidance relevant to governance includes:</p> <ol style="list-style-type: none"> CIPFA guidance for s151s in respect of LGPS responsibilities (2014); and CLG's statutory guidance on governance of governance compliance statements (2008). <p>Both pre-date PSPA 2013, involvement of TPR in LGPS governance and investment pooling.</p> <p>Both must be updated.</p>	<ol style="list-style-type: none"> CIPFA to review and update guidance for s151s in respect of LGPS governance. 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. SAB should consider commissioning legal input to give greater clarity on statutory and fiduciary responsibilities of s151 officers and s101 elected members. SAB or MHCLG should provide greater clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice.)

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

	Proposal	Reason for non-recommendation
1	Separate s151 for pension fund.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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 from administering authority/council.
4	Mandating extension of audit to include an opinion on suitability of LGPS governance arrangements.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • s151 has statutory responsibility.
6	Merger of funds to facilitate different governance models.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • Existing guidance is out of date.
3	Commission legal work to provide greater clarity on statutory versus fiduciary obligations (s151 and s101 committee members).	<ul style="list-style-type: none"> • Statutory responsibilities take precedence. • Currently unclear.
4	SAB to consider a 'Good Administration' review.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<p>State method e.g.</p> <ul style="list-style-type: none"> Internal or external audit assessment; or Scrutiny by Local Pension Board; or External expert / consultant; or Peer review process. <p>Describe scope and approach e.g.</p> <ul style="list-style-type: none"> 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 through 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 policies 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.

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



Public service governance and administration survey 2018

Commentary on results

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.

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Public service governance and administration survey 2018 Commentary on results

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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 employer's 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 may make 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

Contact Officer:

Ola Owolabi, Head of Pensions, 01273 482017

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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

Contents

Introduction	page 3
Who is this consultation for?	page 3
Impact assessment	page 3
Responding to the consultation	page 4
Closing date	page 4
Government consultation principles	page 4
Background	page 5
Consultation	page 7
Appendix: Consultation questions and response form	page 11

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 2019² ('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 report³ 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.

1. A guide to tendering for fiduciary management continued...



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

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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

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Scheme Advisory Board

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

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.

Scheme Advisory Board

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

Scheme Advisory Board

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.

Scheme Advisory Board

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.

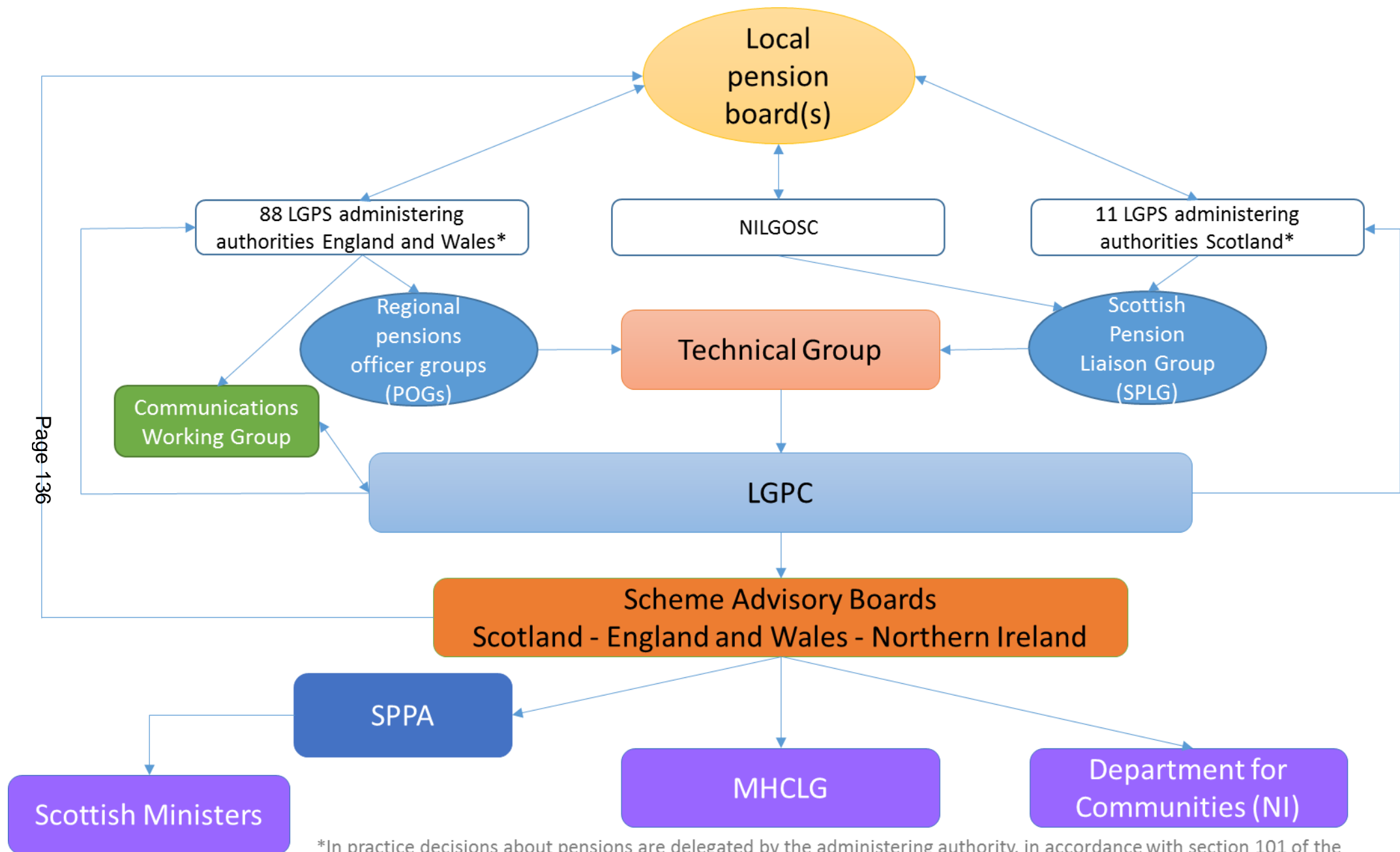
Where the administering authority is also the local authority (as is the case for the majority of administering authorities) it is not possible for certain decisions about pension allowances or the amount of pension to be paid to employees to be an executive decision. This means in practice that decisions 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 to 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 (SPPA¹)
- 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 authority² 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 Ministers³

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 Committee

Date: 23 September 2019

By: Chief Operating Officer

Title of report: Pension Administration updates

Purpose of report: To provide a general update on matters relating to Pensions Administration activities.

RECOMMENDATION – The Committee is recommended to note the report

1. Background

1.1 East Sussex County Council (ESCC) is the Administering Authority for the Local Government Pension Scheme (LGPS) on behalf of the employers participating in the LGPS through the East Sussex Pension Fund (the “Fund”). The LGPS is governed by statutory regulations.

1.2 The Pensions Administration Team (PAT) based within Orbis Business Services carries out the operational, day-to-day tasks on behalf of the members and employers of the ESPF and for the Administering Authority. They also lead on topical administration activities, projects and improvements that may have an impact on members of the LGPS. There are currently four key projects that are being overseen by the PAT and are part of the pension’s legislative requirements.

1.3 This report provides an update on four key projects, outlined below, and which were presented to and reviewed by the Pension Board on 9 September 2019. These projects are:

- Annual Benefits Statement (ABS) Exercise
- Membership Data Cleanse / Triennial Valuation
- GMP (Guaranteed Minimum Pension) Reconciliation
- Administration System Review.

2. Annual Benefit Statements (ABS) – update

2.1. The ABS process is carried out annually and its purpose is to actively manage and monitor all employers associated with the ESCC fund. The employers are required to submit their end of year pay information by the set deadline of 30 April 2019 as part of the LGPS. As part of the end of year process, the ABS to all active and deferred members is to be produced by the regulatory deadline of 31st August 2019.

2.2. The majority of Fund employers provided good data in a timely manner. However, a number of Fund employers failed in their obligation to provide timely, accurate and complete information on their employee pay data, which is critical to the completion of the ABS process. Engagement by PAT and Fund Officers with contacts at the employers has been pro-active, supportive, extensive and frequent in order to maximize the receipt of information and clarification of queries.

2.3. Late production of ABS, or production on known out of date information, is a regulatory breach. PAT and Fund Officers worked closely on trying to close out as many of the remaining queries as they could. For those queries not resolved by the employers, Officers decided to not produce ABS on out of date information. The final position on ABS production by 31st August 2019 is attached as Appendix 1. Fund Officers are currently discussing next steps and assessing whether the breach is reportable.

2.4. An incorrect contact reference on the ABS (which should have been corrected in the 2017/18 exercise) was also identified after the main production runs had been completed. The reference was updated and the PAT went above and beyond in order to reproduce and publish the ABS before the 31st August deadline.

2.5. Alongside the ABS production, improvements were made to increase member and employer engagement, and reduce the volume of enquiries, including:

- A promotional and explanatory video.
- Promotional posters for employer offices.
- Improvements to the ESPF website and FAQs.

2.6 Further details of the ABS is subject to a separate report that contains exempt information and appears later on the agenda.

3. Membership Data Cleanse / Triennial Valuation

3.1. Updates were provided during the June meeting regarding the ongoing data cleanse project to address current guidance from the Pensions Regulator (TPR) on data management and to ensure a best practice approach to completing the triennial valuation final submission.

3.2. The PAT worked closely with the Actuary and Fund Officers to reduce the number of critical errors and influential warning errors. As agreed, final data was loaded into the actuary portal on 28th June as planned, however a review by Hymans dated 18th July recommended further investigations and provided assumptions to remove remaining critical errors on the extracted data. PAT re-planned and re-prioritised existing work and in order to carry out the new requirement for work urgently in support of the valuation exercise and with the additional benefit of further data cleansing on Altair between 28th June and 8th August, the number of critical errors was reduced to zero. PAT produced a comprehensive audit trail of changes made to the extracted data and subsequently consolidated all of those changes into a summary in order to support Hymans in their next stage of valuation work. Please see Appendix 2 for more detail.

4. Guaranteed Minimum Pension (GMP)

4.1. As reported in the last meeting, Mercer, previously known as JLT, were contracted to manage the GMP reconciliation and liaise with HMRC to achieve an agreed position on membership and GMP amounts. Progress has continued well with the majority of queries matched, and progress to date is laid out in Appendix 3, along with the actions to take place over the next quarter by Mercer.

4.2. The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be incorrectly amended. This can result in underpayments and overpayments, at a member specific level. Stage 3 of the GMP Reconciliation Project, i.e., Rectification will amend LGPS pensions in line with the reconciled Stage 2 GMP information. This stage will also involve a significant member communication exercise from November to explain the changes taking place.

4.3. Please see Appendix 3 for more detail.

5. System Review

5.1. The contract with Heywood for the pension administration system is ending in 2021. In view of this, a timetable for procuring a new system has been prepared and the Project Manager has started the system review of the market by gathering information on the available pension administration systems. This includes holding workshops with ESPF stakeholders during June to ensure the system in use for the Pension Administration service continues to meet the necessary requirements for all members within the partnership. A consolidated report on the series of workshops will be produced for the November meeting of the Pension Board.

5.2. The Pensions Administration Service is moving forward with a digital transformation that will see an increase in the use of self-service for members and employers, plus more efficient processes within the administration service. Please see Appendix 4 for more detail.

6. Key Performance Indicators

6.1 The performance in the period May to July has been very good. There has been no overdue cases' resulting in member disadvantage.

7. Staffing Update

7.1 Two members of the team have been successful in being promoted into vacant positions. Recruitment is underway to backfill the positions they have vacated. Two experienced temporary members of staff are being used to cover vacancies. Two members of staff are currently on long term sickness absence.

7.2 The PAT leadership team are developing a training plan to increase the level of professional qualifications through PMI and CIPP. This investment in the development of the workforce, will improve retention, develop skills and knowledge, increase resilience and ultimately provide an improved service to members and employers.

8. Reporting Breaches Log

8.1 The Fund maintains a log of all breaches of the law as applicable to the management and administration of the Fund. It is necessary that all incidents of breaches identified are recorded in the Fund's breaches log, and the log will be reviewed on an on-going basis to determine any trends in the breaches log that might indicate any serious failings or fraudulent behaviour on an ongoing basis.

Kevin Foster
Chief Operating Officer

Contact Officer: Andrew Marson
Telephone Number: 07540 862426
Email: andrew.marson@surreycc.gov.uk

End of Year & Annual Benefit Statements

Highlight Report – EOY & Annual Benefit Statements – Project Phase: In close down

Date of Report:	2 nd September 2019	Upcoming Milestones		
Project Lead	Tom Lewis	Item	Due (* = estimated)	Status
Prepared by:	Andrew Marson	First active and Councillor run Deferred statements sent for distribution Members comms for Actives Final ABS run and reconciliation	End of June	Complete
Project RAG Status	Amber		7 th Aug	Complete
Project Scope			12 th August	Complete
To actively manage and monitor all employers associated with ESPF to submit their organisations end of year pay information by the set deadline of 30 th April 2019 as part of the LGPS. As part of the end of year process, the Annual Benefit Statements are to be produced by the regulatory deadline of 31 st August 2019.			30 th August	Complete

Project Summary

Scheme	Total Active Records	Records with a 2019 ABS	Records Missing a 2019 ABS	Records with an Estimated Pay Statement	Total Deferred Records	Deferred ABS printed and distributed	ABS not produced due to "gone away"
East Sussex Pension Fund	21,574	21,316 (98.8%)	258 (1.2%)	0 (zero)	31,716	20,712 (65.3%)	11,004 (34.7%)

The accounts published figures of Actives at 23,646 and Deferred at 30,916. At time of submission, the PAT are bridging the membership movement between the two sets of figures.

As a result of the Call Credit tracing exercise done some time ago, and before the introduction of GDPR, a decision was made to mark deferred member records where the Call Credit traced address was different to the address held on system. This appears to be a prudent action as there would have been risk of sending ABS to (potentially) out of date addresses. This significantly increased the gone away population from the previously reported figure of 7,200 in 2018.

This month we will be commencing the tracing exercise we discussed earlier this year in order to baseline our deferred address status and an input into our Data Improvement Plan discussions.

Key Risks & Issues

Item	RAG	Detail	Action/Update
Unresolved queries by employers		As per the schedule above, there are employers who have not yet returned the answers to queries. Fund Officers are assessing next steps on resolution and regulatory breach.	Engagement between PAT, Fund Officers and employers has been extensive, pro-active, and frequent in order to try and resolve as many queries as possible in time for ABS.

Data Cleansing

Highlight Report – Data Cleanse – Project Phase: In close down

Date of Report:	9 th August 2019	Upcoming Milestones		
Project Lead	Tom Lewis	Item	Due (* = estimated)	Status
Prepared by:	Andrew Marson	Compass modelling	30 th April	Complete
Project RAG Status	Amber	End of year data checking / processing (completed returns)	7 th June	Complete
Project Scope		Resume data cleansing for all remaining errors	3 rd June	Complete
With the valuation taking place in July 2019 this project is to clean fund data held in the administration system, Altair, to ensure the contribution rates for the next 3 – 4 years can be set with the highest level of accuracy.		Final data load for Hymans	28 th June	Complete
		Supplemental data load for Hymans and audit trail of changes	8 th Aug	Complete
		Summary of changes to support Hymans	16 th August	Complete

Project Summary

The data cleanse work on Altair has been submitted for the purposes of valuation. The data cleansing was continuous up until the supplemental load on 8th August 2019 for the purposes of valuation. The errors relating mostly to employer queries and submissions that the Admin Team were in a position to clear down were done so.

As directed by Hymans, PAT carried out further changes to the extracted data to treat remaining errors and reduce warnings using assumptions. PAT and

Fund Officers worked collaboratively with Hymans to achieve this. A full audit trail of changes was delivered to Hymans on 9th August. A further summary and narrative description was produced to help Hymans on 16th August.

It is recommended that a joint approach should be explored between the Fund Officers and PAT to plan how and what areas of data could be incorporated into the data improvement plan.

Key Risks & Issues

Item	RAG	Detail	Action/Update

GMP Current Position

Highlight Report – GMP – Project Phase: In delivery

Date of Report:	9 th August 2019	Upcoming Milestones		
Project Lead	Amy Wallace	Item	Due (* = estimated)	Status
Prepared by:	Andrew Marson	JLT & Fund workshop	30 th May	Complete
Project RAG Status	Green			
Project Scope		Define reconciliation process	Oct / Nov	On schedule
This project seeks to complete a GMP Reconciliation between the data held by the ESCC Fund and HMRC records from the point ITM (phase 1 contracted supplier) completed the initial bulk analysis and raised queries with HMRC. Phase 2 work will include Data gathering, member reconciliation and rectification work to be undertaken by the contracted supplier Mercer up until 100% completion.		Member rectification on admin system	Nov / Dec	On schedule
		Communicate with affected members	Nov / Dec	On schedule

Project Summary

The guaranteed minimum pension reconciliation work has been in the delivery phase since September 2018 after it was contracted out to a chosen supplier, Mercer. This supplier has taken on 100% of the work with a designated team based both in the UK and India, with only minimal support required from the administration team should information be unavailable on the administration system, Altair.

Progress continues to be good :

- 99.25% of membership is now matched. 63,557 queries were resolved to achieve this.
- 99.14% of GMP values are now matched. 60,459 queries were resolved to achieve this.
- 5,206 queries are remaining for review (not including any outstanding HMRC responses).

The next actions to take place for Mercer include:

- Continue to review the outstanding cases that require manual review (5,206 cases)
- Review final HMRC responses
- Completion / Finalise data gathering phase
- Rectification commences

The communication between the PAT and Mercer sees weekly conversations at project level, fortnightly reports on movement analysis and, a monthly steering group meeting with the service management team, to ensure the work remains on track for completion. It is anticipated the liability amounts for ESPF will be provided by Mercer in October/November time.

Key Risks & Issues

Item	RAG	Detail	Action/Update

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System Review

Highlight Report – System Review – Project Phase: In discovery

Date of Report:	2 nd August 2019	Upcoming Milestones		
Project Lead	Mark Spiller	Item	Due (* = estimated)	Status
Prepared by:	Andrew Marson	ESCC Fund workshop	13 th June	Complete
Project RAG Status	Green			
Project Scope		End of BA discovery	12 th July	Complete
Review the market and the available pension administration systems to ensure the system in use for the Orbis Pension Administration service continues to meet the necessary requirements for all members within the partnership.		Formation of the initial project board	1 st Sep	On schedule
		Finalisation of Business Case.	24 nd Sep	On schedule

Project Summary

The BA has produced a number of key documents including an outline draft business case and a non-functional / functional specification, which will be used as part of a potential tendering process. This document has been produced following working shops with all funds and internal staff. With extensive root to market research.

Work now begins of forming the project board and finalising the Business Case. Whichever path is chosen, the admin service is aiming to move forward with a digital transformation that will see an increase in the use of member self-service for members and employers plus, more efficient processes within the administration service.

Engagement with Surrey Procurement in order to follow due governance process and inclusion on forward planning for Cabinet is happening to plan.

Key Risks & Issues

Item	RAG	Detail	Action/Update

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East Sussex Pensions Administration - Key Performance Indicators 2019

	Activity	Measure	Impact	Target	Feb-19		Mar-19		Apr-19		May-19		Jun-19		Jul-19	
	Scheme members	Pensioners, Active & Deferred			75502		75866		76247		76287		75647		75761	
	New starters set up				434		410		547		225		424		372	
					Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	95%	12	100%	8	100%	9	100%	17	100%	9	100%	5	100%
1b	Award dependent benefits (Death Grants)	within 5 days	H	95%	7	100%	10	100%	7	72%	8	100%	6	100%	7	100%
2a	Retirement notification acknowledged, recorded and documentation sent	within 5 days	M	95%	121	98%	125	98%	100	94%	97	97%	86	98%	103	97%
2b	Payment of lump sum made	within 5 days	H	95%	93	100%	89	99%	131	100%	119	95%	94	100%	106	100%
3	Calculation of spouses benefits	within 5 days	M	90%	20	100%	15	100%	12	100%	15	100%	16	100%	15	100%
4a	Transfers In - Quote (Values)	within 10 days	L	90%	56	98%	50	100%	27	93%	28	100%	30	100%	39	100%
4b	Transfers In - Payments	within 10 days	L	90%	15	86%	23	91%	28	100%	10	100%	19	100%	18	100%
5a	Transfers Out - Quote	within 25 days	L	90%	48	98%	32	97%	21	95%	26	100%	27	97%	23	91%
5b	Transfers Out - Payments	within 25 days	L	90%	25	92%	7	100%	5	100%	11	100%	9	90%	9	100%
6a	Employer estimates provided	within 7 days	M	95%	22	96%	21	95%	41	83%	31	81%	32	97%	23	96%
6b	Employee projections provided	within 10 days	L	95%	39	95%	60	97%	50	98%	64	97%	35	91%	34	91%
7	Refunds	within 10 days	L	95%	40	100%	76	100%	35	100%	30	97%	45	96%	37	100%
8	Deferred benefit notifications	within 25 days	L	95%	193	98%	282	100%	164	99%	147	100%	197	100%	171	98%
	TOTAL TASKS COMPLETED				691		798		630		603		605		590	
9	Complaints received- Admin Complaints received- Regulatory					0				2		1		0		
10	Employer survey satisfaction	Overall satisfaction (V Satisfied/satisfied)		90%												
11	scheme member satisfaction rating (from 1 Click email feedback)				34	95%	30	90%	46	79%	26	85%				
12	Retiring Member survey satisfaction	Overall satisfaction (Excellent/good)		90%												
13	Compliments received					2				1		1		2		

OVERDUE CASES RED-AMBER		FEB	MAR	APR	MAY
2a	Retirement notification acknowledged, recorded and documentation sent			6 Cases Overdue by avge of 1.5 days. Longest overdue by 4 days	

1b	Award dependent benefits (Death Grants)
2b	Payment of lump sum made
4a	Transfers In - Quote (Values)
4b	Transfers In - Payments
5b	Transfers Out - Payments
6a	Employer estimates provided
6b	Employee projections provided

2 Cases
Overdue
by avge of
1.5 days.
Longest
overdue
by 2 days

2 Cases
Overdue
by avge of
1.5 days.
Longest
overdue
by 2 days

2 Cases
Overdue
by avge of
10 days.
Longest
overdue
by 10
days

7 Cases
Overdue
by avge of
2 days.
Longest
overdue
by 5 days

6 cases over due, max days 4 days, average 2

3 cases overdue. Average of 6 days

7 cases overdue. Reply due not being utilised. 4 with sufficient narrative. 3 without.

Report to: **Pension Committee**

Date: **23 September 2019**

By: **Interim Head of Pensions**

Title of report: **General Update and forward plan**

Purpose of report: **To provide a general update to the Pension Committee on matters relating to the Committee activities**

RECOMMENDATION – The Committee is recommended to note the report.

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 Employer Forum - reminder

3.1 The East Sussex Pension Fund (ESPF) Employer Forum is scheduled for 29th November 2019 at the American Express Community Stadium, Falmer.

4. Forward Plan

4.1 The draft agendas for the November 2019 Pension Board and Pension Committee, and relevant sections of joint training, as extracted from the Forward Plan, is included below to assist Members with Fund Governance arrangements.

5 Pension Board Agenda – 11 November 2019

5.1 The draft agenda for the November 2019 Pension Board meeting will include the following-

- 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 and Breaches Log
- Pension Administration Performance Benchmarking
- Annual Benefit Statement Reconciliation Review
- New Pension Administration Service Level Agreement
- LGPS Pooling – ACCESS Pool Update

6. Pension Committee Agenda – 25 November 2019

6.1 The draft agenda for the November 2019 Pension Board meeting will include the following-

- Investment Strategy Statement
- Pension Administration Report & ABS Reconciliation
- Update on regulatory changes
- Funding Strategy Statement
- Review of Triennial Valuation Process and Outcome
- Annual Benefit Statement Reconciliation Review
- Pension Employers (Exempt item)
- LGPS Pooling – ACCESS Pool Update
- MIFID II Annual Review

7. Committee Training

7.1. Joint Pension Board and Committee Training Session

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 and UN Sustainable Development Goals.

7.2 The Fund held a Strategy Day in July 2019 to review its approach to strategy and funding; the structure of the Funds’ portfolio and ESG considerations; the impact of ACCESS pooling on the funds governance framework and the relative value of equity markets and regional discrepancies. No decisions were taken in relation to the strategy day however a report summarising the discussion is included as an exempt report of this agenda.

8. Conclusion and reasons for recommendation

8.1 The Board is requested to note the general update regarding the Pension Fund activities.

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