

Pension Board Agenda



To: Michael Ellsmore (Chair)
Co-optees: Richard Elliott, Teresa Fritz, Daniel Pyke, Ava Payne and David Whickman
Councillor Jerry Fitzpatrick

A meeting of the **Pension Board** which you are hereby summoned to attend, will be held on **Thursday, 16 January 2020 at 2.00 pm in F10, Town Hall, Katharine Street, Croydon CR0 1NX**

Jacqueline Harris Baker
Council Solicitor and Monitoring Officer
London Borough of Croydon
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www.croydon.gov.uk/meetings
Wednesday, 8 January 2020

Members of the public are welcome to attend this meeting.

If you require any assistance, please contact the person detailed above, on the righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at www.croydon.gov.uk/meetings

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Board.

2. Minutes of the Previous Meeting (Pages 5 - 12)

To approve the minutes of the meeting held on 17 October 2019 as an accurate record.

3. Disclosure of Interests

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. Presentation from Bob Holloway, Secretary to the LGP Scheme Advisory Board

For the members of the Board to receive a presentation from the Secretary to the LGP Scheme Advisory Board, on the work of the Board.

6. Key Performance Indicators for the Period Ended 31 October 2019 (Pages 13 - 18)

For members of the Board to receive a report on the Key Performance Indicators for the administration of the Local Government Pension Scheme for the period up to the end of 31 October 2019.

- 7. Review of Risk Register** (Pages 19 - 24)

For the members of the Board to receive the Risk Register report.
- 8. Good Governance in the LGPS - Scheme Advisory Board** (Pages 25 - 46)

For the members of the Board to receive the report on the Good Governance in the LGPS – Scheme Advisory Board.
- 9. Local Pension Board Training Plan** (Pages 47 - 50)

For the members of the Board to receive the Local Pension Board Training Plan report.
- 10. Scheme Advisory Board Responsible Investment Guidance Consultation** (Pages 51 - 54)

For the members of the Board to receive the report on the Scheme Advisory Board Responsible Investment Guidance Consultation.
- 11. The Pensions Regulator: Governance and administration risks in public service pension schemes** (Pages 55 - 80)

For the members of the Board to receive the report summarising the findings of The Pensions Regulator arising from its recent survey of the governance and administration of 10 UK Local Government Pension Scheme funds.
- 12. London CIV**

For the members of the Board to receive a verbal update on London CIV.
- 13. Property Transfer**

For the members of the Board to receive a verbal update on the Property Transfer.
- 14. Exclusion of the Press and Public**

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

PART B

Pension Board

Meeting held on Thursday, 17 October 2019 at 2.00 pm in F10, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Michael Ellsmore (Chair);
Richard Elliott, Teresa Fritz, Daniel Pyke, Ava Payne and David Whickman
Councillor Jerry Fitzpatrick

Also Present: Councillor Andrew Pelling, Nigel Cook (the Head of Pensions and Treasury),
Mary Lambe (Aon Consultant), Gill Nelson (Pensions Manager) and Victoria
Richardson (Head of HR and Finance Service Centre)

PART A

40/19 Minutes of the Previous Meeting

The minutes of the meeting held on 11 July 2019 were agreed as an accurate record.

In relation to item 39/19, the Chair noted that the invite to attend the Board's January 2020 meeting had been accepted by Robert Holloway, the Secretary of the Scheme Advisory Board. This session would be used to provide Board members with training on the role of the Local Government Pension Scheme Advisory Board and its view on the role of Pension Boards.

41/19 Disclosure of Interests

There were no disclosures of interests.

42/19 Urgent Business (if any)

There were no items of urgent business.

43/19 AON Governance Review

The Head of Pensions and Treasury introduced the item by explaining the procurement process for the Governance Review; Croydon belonged to the National Local Government Pension Scheme framework (the Framework) which was used to procure the scheme actuaries, investment advisers and lawyers. The same approach had been used to tender for the Governance Review with Aon being awarded the contract for Governance Consultancy through the Framework.

The Aon Consultant provided a presentation highlighting the key points from the Governance Review. It was explained that the review consisted of desk-based research and consultation with Pension Board and Committee members as well as officers using an effectiveness questionnaire. The work also comprised a check of progress against the recommendations made when the governance of the scheme was last reviewed in 2016 and it also incorporated a review of the governance of asset pooling. It was noted that in addition to the Governance Review there was also an independent assessment of the Fund against the Pensions Regulator Code of Practice (Code 14).

Overall governance was established to be at a good level with a number of improvements found based on the review conducted in 2016. Areas that could be improved were highlighted:

- Undertaking business planning on a three yearly basis across both the Pension Board and Committee enabling activity outside of the usual business cycle to be scheduled and undertaken. Examples included the consultation response which is expected on pooling guidance and how any changes would be implemented and work relating to outcomes from the McCloud judgement. A longer term approach to business planning would enable sufficient budget and other resources to be allocated as well as training to be planned;
- Introduce a Pension Fund Conflicts of Interest Policy, with regular training;
- Establishing a fund wide training policy covering Pension Board and Committee members in addition to relevant officers. This should be published on the scheme's website;
- Ensuring that within each policy there was clarity on the objectives of the fund, the risks, who was consulted and how it was approved. Policies should also reflect the relationship with the CIV. All policies should be published on the scheme website in order that they be made more accessible to scheme members and employers;
- Ensuring that policies achieved the stated best practice;
- Ensuring there was a system in place to monitor and record breaches of the law. There needed to be a process for reporting any breaches to both the Pension Board and Committee and to define the point at which a report needed to be made to the Regulator. Monitoring was also needed to ensure an issue wasn't developing over the longer term that would lead to a material breach. It was observed that these processes might already be in place but that evidence wasn't seen as part of the Governance Review;
- Ensuring adherence to the new guidance on the publication of the scheme Annual Report and Accounts from the Chartered Institute of Public Finance and Accountancy;
- Oversight of the risk register which was only accessible in part to the Governance Review; and
- Updating the Constitution to be consistent around the respective responsibilities of the Pension Board and Committee. This needed to ensure the scheme of delegations clearly documented and reflected arrangements with the London CIV.

In response, the Board discussed the key findings of the Governance Review:

- Conflicts of interests: it was highlighted that Croydon Council dominated as the main employer as well as being the administrator of the fund. It was noted that technically the two are the same legal entity. This made Board members nervous as there was instinctively a desire for a clear separation between the two. The Aon representative highlighted that there was no single model of best practice and that there were other authorities facing similar issues with discussions ongoing on good governance at the Scheme Advisory Board. It was recommended that conflicts should be listed to demonstrate there was understanding of the risks, providing clarity to lessen concern;
- Resourcing: sufficient resources needed to be allocated to enable the recommendations to be implemented. The Governance Review report would be presented at the Pension Committee's meeting in January 2020 with an action plan to be presented thereafter. The Board stressed the importance of addressing resourcing in the action plan; and
- Risk register: it was suggested that monitoring needed to happen to ensure employers are fulfilling their payments on a quarterly basis. The Head of Pensions and Treasury noted that reporting can be a challenge given some missed payments are genuine mistakes or disagreements as opposed to there being problems with cash flow etc.

RESOLVED: The Board AGREED to fully endorse the findings of the Governance Review and to invite the Pension Committee to develop and, importantly, fully resource an action plan to comply with the Regulator's Code of Practice.

The Board thanked Aon for all its work on the review.

44/19 Croydon Local Government Pension Scheme Administration Team Performance Report for October 2019

The report was introduced by the Head of HR and Finance Service Centre. It was noted that the processing of two death notifications had exceeded the target reflecting the difficulties that can be experienced in finding out the details of the next of kin etc. It was reported that the backlog on new starters was being cleared. The issue of annual benefit statements to members was 97% against target which was therefore confirmed as not being in material breach of the regulations. Issuing of annual benefit statements in approximately 25 – 30 cases was still being investigated.

From October 2019, any new leavers from the scheme would be processed within the legal deadline allowing the backlog to be ring-fenced. A business case had been written to procure external support to address the backlog. It was reported that the internal process was being followed and was anticipated to take several months with a likely start in January 2020 even though the Local Government Procurement Supplier list was being used.

Members expressed their desire to encourage the administering body to fast-track the procurement process given that one of the statutory KPIs was only achieving 24% against the target, and a second was achieving only 47.7%.

In discussing vacancy levels with the Pension Administrations Team, it was established that the Governance Team Manager role remained vacant with no suitable candidate having applied when advertised. As a result, the recruitment was to start again. Board members recommended the use of a specialist recruiter and the training offered by the Pensions and Lifetime Savings Association in order to encourage staff retention.

RESOLVED: The Board AGREED to recommend that all steps possible be taken to ensure the administration of the scheme is adequately resourced and meets its statutory targets. It was agreed that the Independent Chair of the Pension Board would write to the Executive Director of Resources (copying in the Cabinet Member for Finance and Resources) to communicate this recommendation.

The Board thanked officers for their report and agreed that its structure was providing the information needed.

45/19 Risk Register Review

The report was introduced by the Head of Pensions and Treasury highlighting two significant risks: 1) Brexit and 2) the London CIV.

With regard to Brexit, it was noted that the number of non-UK European citizens in the scheme was unknown as this did not have to be declared. On the London CIV it was explained that its newly appointed Chief Investment Officer had decided to leave the role after three weeks in post due to personal issues. Additionally, that the fund manager of its emerging markets fund had left and had taken the rest of the team with them and that Ares had withdrawn their CIV offering.

RESOLVED: The Board AGREED to note the report.

46/19 Scheme Advisory Board Annual Report

RESOLVED: The Board AGREED to note the report.

47/19 The Pensions Regulator: Governance and administration risks in public service pension schemes

The report was introduced by the Head of Pensions and Treasury who noted that the Pensions Regulator had published findings arising from the survey of the governance and administration of 10 UK Local Government Pension Scheme funds.

Board members noted the finding (paragraph 3.5 of the report) that it was important scheme managers recognise, and maintain, a separation between the Fund and the Local Authority.

Concern was expressed by the members of the Board regarding cyber security and scams. Further information would be provided by the Head of HR and Finance Service Centre on the checks and balances currently in place should a request be made for a pension to be cashed-in.

RESOLVED: The Board AGREED to take training on cyber security and scams at its meeting in April or July 2020. The report was noted.

48/19 Pension Committee Governance Update

The report was introduced by the Head of Pensions and Treasury who noted that the scheme's policies were each reviewed on a three year cycle and this was the case for the Governance Policy and Compliance Statement and Communication Policy Statement presented. Feedback was invited from members of the Board. In response, it was noted that:

- On page 44, those to whom the fund was accountable should additionally include employers of the fund and fund's members;
- On page 45, it was suggested that reference to the London CIV should be included in the diagram of the structure; and
- On page 47, the Terms of Reference needed to be checked and possibly updated to reflect the requirements set out by the Regulator. Any resulting change would also need to be reflected in the Constitution.

The Board expressed its concern about the number of members accessing their annual pension statement which was provided online. The Head of Pensions and Treasury agreed to share with all members the process for logging on to view this information.

RESOLVED: The Board AGREED to request that figures for the number of members accessing online their annual pension statement be added to the administration report for review.

49/19 The Local Government Pension Scheme Advisory Board Code of Transparency

The Board noted the good progress being made by the Local Government Pension Scheme Advisory Board in introducing a Code of Transparency. Members noted that they would continue to track this progress.

RESOLVED: The Board AGREED to note the report.

50/19 Local Pension Board Training Policy

The following additions were noted to the training log:

- The attendance of the Scheme Advisory Board secretary at the Board's meeting in January 2020;
- The training to be provided on cyber security/scams at the Board's meeting in either April or July 2020; and

- The one-to-one briefing provided on the Local Government Pension Scheme by the Independent Chair for Councillor Fitzpatrick when the latter joined the Panel.

51/19 Chair's update

The Independent Chair informed the Board that he had been interviewed by the Pensions Regulator as part of the investigation into the Property Asset Transfer following receipt of a complaint. This had been led by the Regulator's investigating officer.

Additionally, that Richard Elliott was standing down from his role with the Brit School but it was hoped that his expertise could be retained on the Board. This was being considered in conjunction with the provisions in the Constitution and would be resolved following the meeting.

Lastly, that a request had been made to the Director of Finance, Insurance and Risk to establish a remuneration strategy for Board members. It was noted that the duties of Board members were becoming increasingly onerous. Whilst some had the costs of their time paid by their employer, this wasn't the case for all. Determining whether or not to offer remuneration was within the gift of the administering body.

52/19 Exclusion of the Press and Public

"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

The motion was put by the Independent Chair and it was agreed by the Committee to exclude the press and public for the remainder of the meeting.

53/19 Minutes (Part B) of the Previous Meeting

The minutes (Part B) of the meeting held on 11 July 2019 were agreed as a true and accurate record with the reference to 'evaluation' in the penultimate line to be amended to read 'valuation'.

The meeting ended at 4.00 pm

Signed:

Date:

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Croydon Council

REPORT TO:	Local Pension Board 16 January 2020
SUBJECT:	Key Performance Indicators for the Period Ended 31 October 2019
LEAD OFFICER:	Vicki Richardson Head of HR & Finance Service Centre
RECOMMENDATION The Board is asked to note the Key Performance Indicators set out in this report.	

1. EXECUTIVE SUMMARY

- 1.1 This report sets out Key Performance Indicators for the administration of the Local Government Pension Scheme for the period up to the end of October 2019.

2. DETAIL

- 2.1 Good governance suggests that the performance of the administration of the Local Government Pension Scheme should be monitored. The standards by which performance can be assessed are set out in the Administration Strategy and published on the Scheme's website so as to be available for scrutiny by stakeholders, who include elected Members and other Scheme employers.
- 2.2 This report is the first to attempt to report in full to the committee on the LGPS administration using the guidance published by CIPFA (Administration in the LGPS: A Guide for Pensions Authorities). The indicators cover legal deadlines; team performance targets and case levels. For future meetings, performance trends will be included in the report.

Commentary

- 2.3 Priority is always given to the life events that most impact scheme members which are retirements and deaths. During October performance against target was strong in this area. In October 2019 particular focus was on processing outstanding new starters so whilst performance was below target the number of cases processed was high.
- 2.4 At end October there were 5,869 workflow tasks outstanding. Over 50% of these outstanding tasks relate to a historical backlog of deferred benefit cases. A business case has been written which recommends procuring services from a specialist provider to clear the backlog deferred benefit cases. This option was chosen over the alternatives as this is the most likely enabler to clearing the backlog in a reasonable timescale and gives greater control over cost. The procurement exercise, through the National LGPS Framework, is being progressed and is expected to be

completed by the Spring of 2020. In addition all new deferred benefit cases are being processed within target with the aim of ensuring that no further backlogs build up.

- 2.5 There are currently vacancies in the team for a Pensions Team Leader, two Senior Pensions Administrators, a Pensions Governance Team Manager and a Pensions Governance Officer and recruitment to these vacant posts has commenced.

3. CONSULTATION

- 3.1 Officers have previously consulted with both the Pension Committee and the Local Pension Board on the template for the key performance indicator report.

4. FINANCIAL CONSIDERATIONS

- 4.1 There are no financial considerations arising from this report.

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S. 151 Officer.

5. DATA PROTECTION IMPLICATIONS

- 5.1 Will the subject of the report involve the processing of 'personal data'?

No.

Has a data protection impact assessment (DPIA) been completed?

No. This report relates to matters relating to the Pension Fund.

Approved by: Lisa Taylor, Director of Finance, Investment and Risk, S151 Officer

CONTACT OFFICER:

Victoria Richardson - Head of HR & Finance Service Centre
ext. 62460.

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Croydon Pensions Admin Team Performance Report, October 2019

Croydon LGPS Pensions Administration Team Performance Report

October 2019

Legal Deadlines

Process	Legal Requirement	Total Number Completed	% Achieved in legal deadline
		October 2019	
Send a notification of joining the LGPS to a scheme member	Two months from the date of joining the scheme or earlier if within one month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled	432	93.75%
Inform a scheme member of their calculated benefits (refund or deferred) – backlog cases	As soon as practicable and no more than two months from the date of notification (from employer or scheme member)	72	27.78%
Inform a scheme member of their calculated benefits (refund or deferred) – new cases	As soon as practicable and no more than two months from the date of notification (from employer or scheme member)	24	100%
Notify the amount of retirement benefits	One month from the date of retirement if on or after normal pension age or two months from the date of retirement if after normal pension age	63	100%
Provide a retirement quotation on request	As soon as practicable but no more than two months from the date of request unless there has already been a request in the last 12 months	79	97.47%

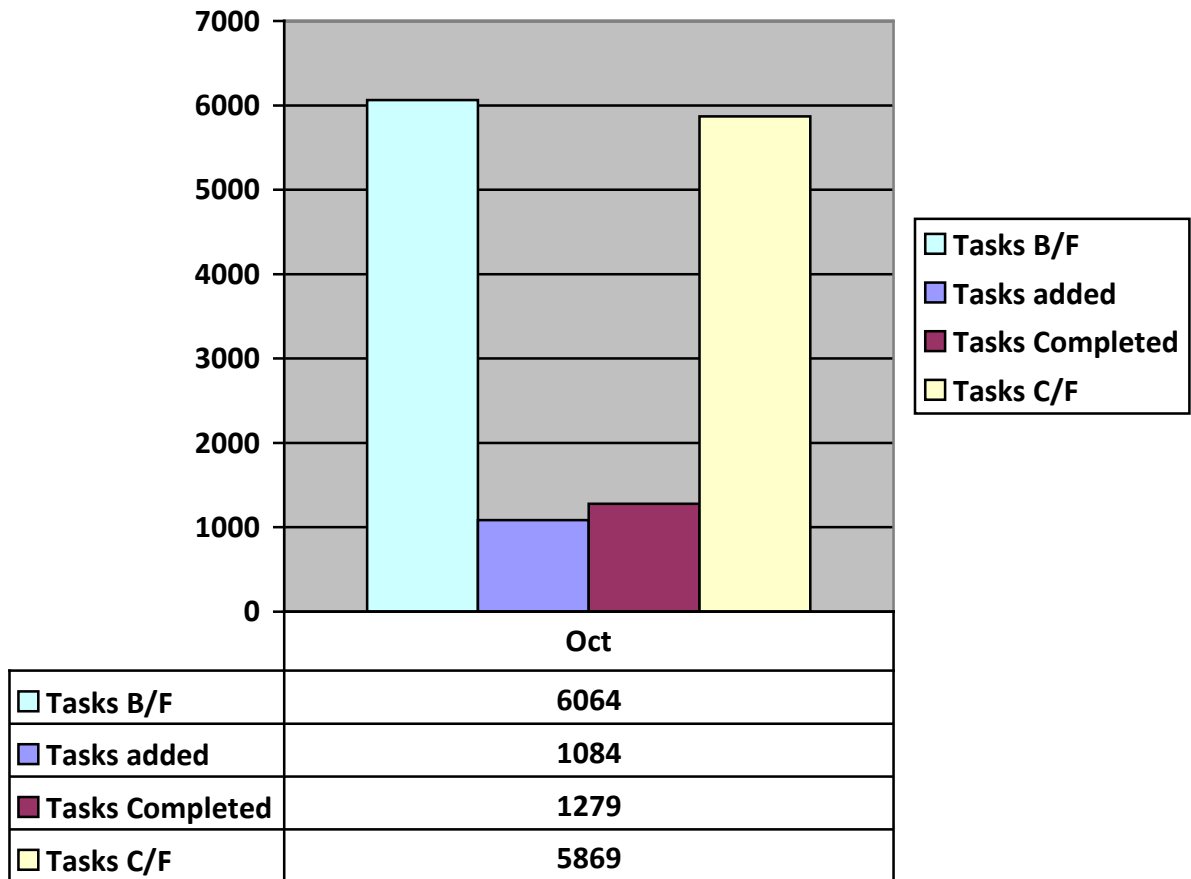
Process	Legal Requirement	Total Number Completed	% Achieved in legal deadline
		October 2019	
Calculate and notify (dependent(s) of amount of death benefits	As soon as possible but in any event no more than two months from date of becoming aware of death or from date of request from a third party (e.g. personal representative)	21	100%
Provide all active and deferred members with annual benefit statements each year	By 31 st August	16,167	99%

Team Performance Targets

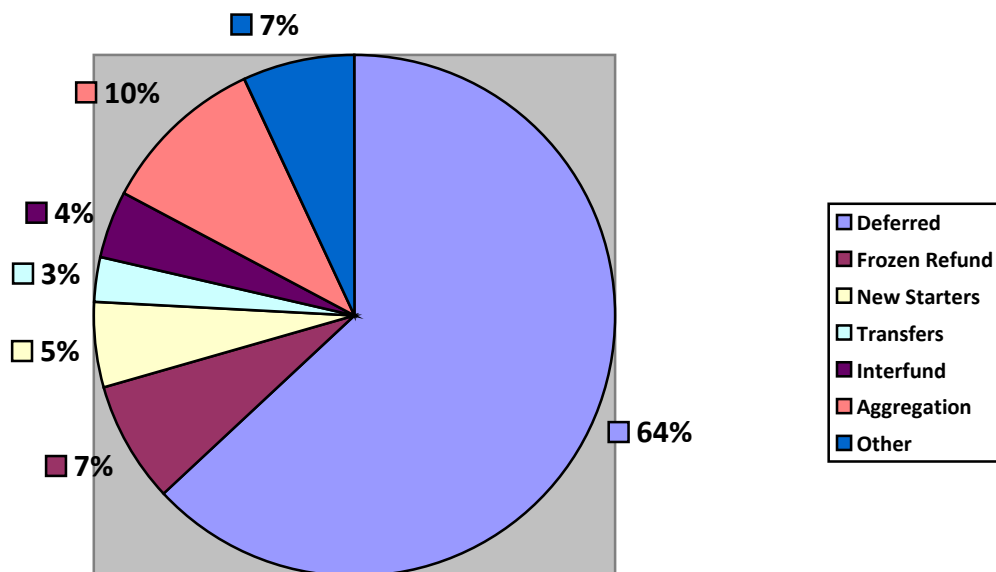
Process	Team Target	Total Number Completed	% Achieved against target	Average days to process
		October 2019		
Send a notification of joining the LGPS to a scheme member	30 days from date of notification of joining member	432	93.52%	10
Inform a scheme member of their calculated benefits (refund or deferred) – backlog cases	40 working days from date of notification (from employer or scheme member)	72	23.61%	432
Inform a scheme member of their calculated benefits (refund or deferred) – new cases	40 working days from date of notification (from employer or scheme member)	24	100%	4

Process	Team Target	Total Number Completed	% Achieved against target	Average days to process
		October 2019		
Notify the amount of retirement benefits	20 working days from date of retirement	63	100%	1
Provide a retirement quotation on request	15 working days from date of request	79	88.61%	8
Calculate and notify (dependent(s) of amount of death benefits	20 working days from receipt of all information	21	100%	3

Case levels



Outstanding Cases by Type



Croydon Council

REPORT TO:	Local Pension Board 16 January 2020
SUBJECT:	Review of Risk Register
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury

1. RECOMMENDATION

- 1.1 The Board is asked to note the contents of the Pension Fund Risk Register and to comment as appropriate.

2. EXECUTIVE SUMMARY

- 2.1 It is recommended best practice for the Pension Committee to maintain a risk register. This report presents the current register (Appendix A) for the Board's consideration.

3 DETAIL

- 3.1 Best practice recommends that a risk register is maintained by the Fund recording relevant risk scenarios, together with an assessment of their likelihood and impact and appropriate mitigations. This report discusses risks relating to governance, funding, assets and liabilities and operational matters. Appendix A details those risks considered significant enough to merit careful, consistent scrutiny.
- 3.2 The Board is invited to comment on whether it considers this list sufficiently exhaustive, whether the assessment of each risk matches its perception and on the adequacy of existing and future controls.
- 3.3 The risk register is reviewed periodically and brought back to the Board for its consideration twice each annual cycle of meetings – it was most recently reviewed in October 2019.
- 3.4 Risks are rated on a scale of 1 to 5 on the likelihood of the risk occurring and its impact if it does. This allows a range of potential scores of between 1 and 25. The register shows that there are 11 significant risks for the Fund (i.e. scored 12 or higher). The detail for these is attached as Appendix A to this report.
- 3.5 There are three material changes in this iteration of the report. The impact of the US administration on the global economy continues to be felt. At the time of drafting a serious risk of conflict in the Middle East is developing. The impact of this is being felt in oil prices, share indices and safe, flight assets. This report also reflects the potential impact of a revised Funding Strategy. Finally, as strongly advised by the Pensions Regulator this version of the register reflects the potential

for data fraud and cyber crime.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of “personal data?”

No

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Finance, Investment and Risk
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

Appendix A
Risk Register

Pensions Risk Register

Risk Scenario			Current Risk Rating			Future controls	Future risk rating		
Risk	Assigned to	Existing Controls	Impact	Likelihood	Risk factor		Impact	Likelihood	Risk Factor
Governance Risks									
If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.	Governance and Compliance Manager	Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to The Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.	3	4	12	The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk. The Government (MHCLG) have consulted on this issue and mitigations should reduce the potential impact of this risk.	3	3	9
Funding - Assets and Liabilities Risks									
The Fund's invested assets are not sufficient to meet its current or future liabilities.	Head of Pensions and Treasury	A formal actuarial valuation is carried out every three years, although the Government have consulted on changing this to every 4 years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved. The current strategy will be brought to the Committee before the end of the year.	4	3	12	Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years, although this needs to be done efficiently and in a cost effective manner. When the current valuation is completed officers will work with the Actuary to seek a cost efficient way of more frequent monitoring.	4	2	8
Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns.	Pension Fund Investment Manager	The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and officers monitor the cashflow carefully on a monthly basis. The Council is currently forward funding the Pension Fund which provides a buffer. This cash will be invested in liquid assets to mitigate this risk.	3	4	12	Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives. At present, all dividend income is reinvested but officers are monitoring cash flow requirements to ensure that this remains an efficient part of maintaining sufficient funds to meet immediate liabilities.	3	2	6
There is a current risk that academies are not paying over contributions, which involves the administering authority in incurring unnecessary costs.	Governance and Compliance Manager	The authority has retained legal advisors to mitigate this risk, possibly through legal channels. The most significant case, in terms of contributions due, is currently being considered by the Pensions Ombudsman.	3	5	15	The decision of the Ombudsman is still awaited and this is likely to be an issue requiring attention for some time.	3	5	15

Under the S.13 reporting regime, the Government Actuary's Department (GAD) form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, the Fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the Fund.	Head of Pensions and Treasury	The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years.	4	3	12	The authority is revisiting the funding position and contribution levels during the current valuation. Initial draft results from the valuation are encouraging.	4	2	8
Investment Risks									
There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories for example, equities, fixed interest, property or alternatives - which potentially leaves the Fund exposed to the possibility that a particular class of assets will underperform relative to expectation.	Pension Fund Investment Manager	The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio if it underperforms relative to expectation. Due to a re-balancing exercise carried out during 2018-2019 investments are now in accordance with the allocation strategy.	4	3	12	A new asset allocation strategy is currently being considered to take effect from 1 April 2020.	3	2	6
The London CIV is experiencing problems recruiting to key roles, including to the Chief Investment Officer vacancy. This raises a number of concerns, including: fund launches; progress on the ESG project; and expanded permissions from the FCA. This latter point relates to their ability to transition funds.	Head of Pensions and Treasury	The Fund retains the services of an external consultant to assess the efficacy of transitions. This is a backward-looking review and the Fund does not have visibility of the process when the transition is happening or when the Fund is out of the market. The fund can rely on its investment advisor to ensure ESG issues are adequately addressed. Fund launches will be carefully monitored.	4	3	12	The appointment of a new Chief Investment Officer is not likely to start until 2020/21 and until the the post will be filled by an interim.	4	4	16
Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.	Pension Fund Investment Manager	The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.	4	3	12	A new asset allocation strategy is currently being considered to take effect from 1 April 2020. Consultations with the Fund's Investment Adviser are ongoing to ensure that, so far as possible, the Fund remains conscious of these risks and is taking reasonable precautions eg recently a currency hedging exercise has been carried out.	4	3	12

<p>There is a risk that a "Hard Brexit" will result in disruption to the way that fund managers can operate and that this will have a deleterious impact on the Fund.</p>	<p>Head of Pensions and Treasury</p>	<p>The Government has rolled out a temporary permissions regime and EU27 governments are introducing mirror regimes to allow existing arrangements to continue. All the significant EU markets have introduced such regimes. However, a long-term solution to passporting has not been agreed.</p>	<p>3 4 12</p>	<p>There will be unresolved problems for a number of years due to the scale and complexity of the issue. The Fund will expect its managers to take all necessary steps to ensure they are prepared as well as possible for the developing situation.</p>	<p>3 3 9</p>
<p>There are a number of specific geopolitical risks which could affect the performance of global equities. The ones most likely to impact on the Fund are global trade tensions especially those arising from US/China competition. Others with potentially serious impact are internal US politics, Gulf tensions, and Brexit.</p>	<p>Pension Fund Investment Manager</p>	<p>Equities have performed well to the extent that the Fund was over-weight in the asset class. This has now been addressed.</p>	<p>4 3 12</p>	<p>The rebalancing has now been completed and the allocation strategy is being reviewed.</p>	<p>3 2 6</p>
<p>Operational Risks</p>					

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Croydon Council

REPORT TO:	Local Pension Board 16 January 2020
SUBJECT:	Good Governance in the LGPS – Scheme Advisory Board
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury

1. RECOMMENDATION

- 1.1 To note this report and the implications for the Committee's future work programme.

2. EXECUTIVE SUMMARY

- 2.1 This report introduces a report published by the Local Government Pension Scheme Advisory Board (SAB) detailing recommendations to improve governance in the LGPS which they wish to see implemented by the Ministry of Housing, Communities and Local Government (MHCLG) by way of statutory guidance.

3 DETAIL

- 3.1 During the second half of 2019 two working groups were set up by the Scheme Advisory Board to take forward proposals included in the Good Governance Report considered by the Board at their meeting on 8 July 2019.
- 3.2 The groups comprised a wide range of interested parties including elected members and officers of administering authorities, investment consultants and scheme actuaries and representatives of The Pensions Regulator, MHCLG, CIPFA Pensions Panel, trade unions and National Audit Office.
- 3.3 The first working group considered "Standards and Outcomes" and the second "Compliance and Improvement."
- 3.4 The report consolidating the work of the two groups is included as Appendix A.
- 3.5 Both working groups recommend that MHCLG introduces new statutory governance guidance which will supersede current and previous guidance. The recommendations made by the groups for inclusion in the guidance are included as page 12 of the Report at Appendix A. They are set out as Appendix B with a brief narrative detailing their relevance for the Croydon fund. However, it is understood that with Brexit and other matters there may be capacity issues at MHCLG preventing immediate implementation.

- 3.6 The SAB's recommendations are grouped into 6 categories: General; Conflicts of Interest; Representation; Knowledge and Understanding; Service delivery for the LGPS function; and Compliance and Improvement. Overall there are 17 specific recommendations. 5 of these recommendations are dependent on further work from other bodies, mostly by the MHCLG. A further 11 either are already established practice or else exist in a form that are subject to review of further development. It may be that the Board would wish to focus its discussion on what appear to be poorly resolved items, including:
- How the roles of the administering authority should be resolved with the pooling agenda and the function of the London CIV and other pooling vehicles;
 - The approach outlined for tackling staff recruitment and retention issues, (recommendation E6);
 - The role of the S. 151 officer.
- 3.7 The Board are invited to note this report and comment as they see fit, with a view to assisting the Scheme Manager in responding to these findings and recommendations.

4. DATA PROTECTION IMPLICATIONS

- 4.1 Will the subject of the Report involve the processing of "personal data?"

No

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BACKGROUND DOCUMENTS:

None.

APPENDICES

Appendix A – Good Governance in the LGPS: Scheme Advisory Board, Hymans Robertson, November 2019

Appendix B – Scheme Advisory Board recommendations

APPENDIX B

SCHEME ADVISORY BOARD RECOMMENDATIONS	CROYDON COMPLIANCE
<p>A General</p> <p>A1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance")</p> <p>A2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").</p> <p>A3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.</p>	<p>Dependent on MHCLG issuing guidance</p> <p>To be decided when statutory guidance published.</p> <p>Statement in accordance with current guidance was agreed by the Committee on 17 September 2019. As all Committee reports are signed off by the S151 officer the Fund is effectively already compliant.</p>
<p>B Conflicts of interest</p> <p>B1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.</p> <p>B2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.</p>	<p>The current policy relies on the Council's Conflicts of Interest Policy. It will be reviewed in the light of its relevance to specific Pension Fund issues.</p> <p>Not a requirement for the Fund until guidance published.</p>

<p>C Representation</p> <p>C1 Each fund manager must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party..</p>	<p>This is set out in the Council's Constitution.</p>
<p>D Knowledge and understanding</p> <p>D1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.</p> <p>D2 Introduce a requirement for S151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding</p> <p>D3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.</p> <p>D4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for S151 officers and to consider including LGPS training within their training qualification syllabus</p>	<p>A training programme has been developed to address the needs of both the Committee and the Board as well as officers.</p> <p>This requirement is implicit in the role of the S151 officer as it is currently understood.</p> <p>A training policy has been adopted by the Pension Board and training logs are maintained for members of both the Board and the Committee.</p> <p>Not a requirement for the Fund. It will feature in the work programme of CIPFA's Pensions Panel.</p>

<p>E Service delivery for the LGPS function</p> <p>E1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.</p> <p>E2 Each administering authority must publish an administration strategy.</p> <p>E3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.</p> <p>E4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.</p> <p>E5 Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.</p>	<p>The Council's Constitution features the Scheme of Delegation as applicable to the Pension Fund. Matters relating to the Fund are in flux as the role of the London CIV evolves. The contribution of the Fund's advisers will also need to be recognised.</p> <p>The Fund's Administration Strategy was most recently approved by the Committee on 20 June 2017.</p> <p>Key Performance Indicators, as described by the Guidance, are produced and reported to the Committee and the Board</p> <p>The Committee and the Board both maintain dynamic business plans. By challenging and scrutinising these documents the Council can be assured of the adequacy of resources made available.</p> <p>Staffing issues present a challenge to authorities across London and the South East. Short-term options such as market supplements have proved to be ineffectual, serving only to inflate costs. The long-term solutions must be to develop staff skills in house.</p>
<p>F Compliance and improvement</p> <p>F1 Each administering authority must undergo a biennial independent Governance Review and, if applicable, produced the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.</p> <p>F2 LGA to consider establishing a peer review process for LGPS funds.</p>	<p>This is already factored into the work programme of the Pension Board. This process began in 2016 and is in the second biennial cycle.</p> <p>Awaiting further developments</p>

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A full-page photograph of a forest floor. The ground is densely covered with small, purple-blue flowers, likely bluebells, which are in bloom. Tall, slender tree trunks rise from the forest floor, their leaves forming a thick canopy above. Sunlight filters through the leaves, creating a dappled light effect on the flowers and the forest floor.

Good governance in the LGPS

Phase II report from Working Groups to SAB

November 2019

Process

Following on from the presentation of the Good Governance Report to the SAB on 8 July 2019, the Board agreed to constitute two working groups to take forward the proposals included in the report. Hymans Robertson were appointed to assist the working groups in this next phase of the good governance project.

The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wishes to see achieved by funds under the proposed approach, and how these outcomes should be evidenced.

The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

This report has been prepared for the SAB by both working groups and includes detailed implementation proposals for their workstream including a list of the changes required to guidance to implement this framework.

Thanks to contributors

Thank you to the following who contributed to the working groups and this report.

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Terminology

Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended:

Administering authority refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example “Each administering authority must publish an annual report.”

Committee. A committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example “The pensions committee should have a role in developing the business plan.”

Host authority refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example “Delivery of the LGPS function must be constant with the constitution of the host authority.”

The fund carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example “Taking this course of action will improve the fund's administration”.

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years.”

Workstream 1: Standards and outcomes

Proposals and background

A. General

1. It is envisaged that all the proposals made in this document will be enacted via the introduction of new statutory governance guidance which will supersede current and previous guidance, although it will contain elements of existing legislation and guidance where appropriate. This guidance would be issued on behalf of MHCLG, although MHCLG may seek assistance on drafting the guidance.
2. In order to improve the accountability for fund governance, it is proposed that each administering authority must have a single named officer who is responsible for the delivery of the pension function. (“the LGPS senior officer”). This may be the S151 officer, assuming they have the capacity, LGPS knowledge and internal assurance framework to assume that role. Alternatively, the LGPS senior officer role may be undertaken by another officer who has the remit of delivering the LGPS function in its entirety and who is likewise suitably qualified and experienced and has the capacity to assume this role. This should be a person close enough to the running of the fund that they have sight of all aspects of the fund’s business. The role of the responsible person should be assigned through the host authority’s scheme of delegation and constitution. If the person who undertakes this key role within the host authority changes it may be necessary for the role of the responsible person to be reviewed.
3. In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority’s s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).

A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).

A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.



B. Conflicts of interest

1. Administering authorities must evidence that conflicts, and in particular, potential and perceived conflicts, as well as actual conflicts are being identified, monitored and managed. Some administering authorities currently only follow the conflicts of interest requirements of the host authority which are typically focused on the elected member register of interest and code of conduct. The Guidance should require all administering authorities to publish a specific LGPS conflicts of interest policy and should stipulate the areas that the policy should address. In addition to registering interests, this will include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS as listed:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations.
- Contribution setting for the AA and other employers.
- Cross charging for services or shared resourcing between the AA and the fund
- Dual role of the AA as an owner and client of a pool
- Local investment decisions
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or finance cabinet should be disclosed.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining clear records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded.
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.
- In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

Each fund should be required to make public its conflicts of interest policy.

2. During the Phase I survey a number of respondents said that it would be very helpful to define the extent of fiduciary duties in respect of the individuals, committees and boards involved in LGPS governance. The SAB working group came to the conclusion that that while clarification on the fiduciary question is desirable, the complex legal considerations mean that this is beyond the scope of this project. The Group is aware that the SAB has separately undertaken to collate various references to fiduciary duties and public law principles and provide a guide which illustrates how these might be applied to the LGPS. It would be helpful for The Guidance to make reference to the SAB's findings in this area.

B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.

B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.

C. Representation

1. The initial phase of the Good Governance review highlighted that many pension committees now have non-administering authority employer and scheme member representatives although local practice varies as to whether these members have a vote. Primary legislation in the form of the Local Government Act 1972 allows local authorities wide discretion over committee appointments and delegations and this issue ultimately remains one of local democracy.

The Guidance should require that all administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

Best practice would suggest that scheme member representation in some form is a desirable goal for administering authorities. In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.



D. Skills and training

1. The Good Governance Review noted the need for enhanced levels of training for key LGPS individuals. While there exists a statutory duty on members of local pension boards to maintain an appropriate level of knowledge and understanding to carry out their role effectively, no such statutory duty applies to those sitting on s101 committees.

The Guidance should mandate a similar knowledge and understanding requirement for those carrying out a delegated decision-making role on s101 committees as well as officers involved in the fund. At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

Training should be delivered as part of a supportive environment and committee and board members will not be required to undertake tests, although it is recognised that best practice would include assessments or other means to identify gaps in knowledge.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to Committee and senior officers within the context of an appropriate LGPS specific framework, for example the CIPFA knowledge and skills Code of Practice and Framework (currently being updated). As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

Training records must be maintained.

2. There should be an LGPS training requirement for s151 officers (or those aspiring to the role) as part of their CPD. An appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority. This should be specified and administered by an appropriate professional body.

D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.

D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.

D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

E. Service delivery for the LGPS function

The Good Governance Review proposed that LGPS funds should be able to evidence that their administration and other resource (quantity and competency) is sufficient to meet regulatory requirements and that their budget is appropriate to deliver this. In this context administration refers to all of the tasks and processes required to deliver the Scheme and is not limited to the calculation and payment of benefits. This definition encompasses a funds accountancy function, investment support, employer liaison, systems, communications etc.

1. Clarity around roles, responsibilities and decision making are central to good delivery of the LGPS function. The Guidance should require funds to document roles and responsibilities and develop, maintain and publish a “roles and responsibilities matrix” which sets out who within the organisation is responsible for final sign off, implementation, oversight and recommending the key decisions that the fund is required to make.

The “roles and responsibilities matrix” should reflect the host authority’s scheme of delegation and constitution and be supported by a clearly documented management structure.

2. The Guidance should require that each administering authority must develop, maintain and publish an administration strategy which sets out its approach to the matters mentioned in regulation 59 (2) of the LGPS Regulations 2013 and the Guidance. We recommend that the Board ask that this proposal to be implemented by MHCLG within the LGPS Regulations at their earliest opportunity.

3. A series of some 10 to 15 key indicators or measures of standards of LGPS service delivery to members and employers should be agreed. These indicators should be drawn wherever possible from current reporting structures. All administering authorities must be required to report against these as part of their governance compliance statement.

It is acknowledged that there are inherent difficulties in drawing conclusions when comparisons are not always on a true like for like basis but it is preferable to introduce measures now and seek to improve the measurement approach over time.

4. Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund’s budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund’s officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund’s business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year’s budget by an inflationary measure or specify an “available” budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund’s business plan but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority’s scheme of delegation and constitution.





E. Service delivery for the LGPS function (continued)

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard. If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

5. Each Administering Authority has a duty to ensure that its pensions function is staffed such as to enable it to deliver an effective pensions service to the all fund employers and members. It is therefore important that the recruitment and retention practices applied to the pensions function facilitate this. For example, the use of market supplements may be necessary to recruit/retain both investment and pensions administration staff. Further, given that the pension fund budget is set and managed separately from the expenditure of the host authority, the impact of general council staffing policies such as recruitment freezes should not be applied to the pension fund by default.

E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.

E.2 Each administering authority must publish an administration strategy.

E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.

E.5 Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.

Workstream 2: Compliance and improvement

F. Compliance and improvement

One of the key features of the original Good Governance Review was the view that in order to ensure required standards are adhered to consistently there needs to be regular independent review of administering authorities governance arrangements.

1. The new MHCLG guidance should set out a process for an Independent Governance Review, to include the features set out below.
 - a. It will be mandatory for each Fund to commission an Independent Governance Review (“IGR”) which will audit the fund’s Governance Compliance Statement and review compliance with the requirement of the new statutory guidance.
 - b. There should be a standardised framework and process for IGRs which covers all areas set out in new MHCLG guidance.
 - c. It is critical that the IGR should be conducted by appropriate persons who:
 - properly understand the LGPS;
 - are sufficiently at arm’s length from the administering authority’s pensions function, that is, they do not have an existing contractual relationship with the administering authority which conflicts with their ability to carry out a properly independent and objective assessment of governance standards and compliance with new statutory requirements; and
 - are in some way “accredited” to ensure consistent standards of review.
 - d. To ensure consistent standards from those conducting IGRs, a procurement framework should be put in place which sets out the standard requirements, standard reporting and standard fee for an LGPS IGR. Ideally this should be in place for 2020/21.
 - e. Suppliers who can demonstrate they are suitably qualified and knowledgeable may be appointed to the framework, from which any LGPS Funds may appoint an external supplier.
 - f. Alternatively, administering authorities may choose to have their IGR review carried out by their own internal audit or another appropriate party to the same standards as the framework.
 - g. Each administering authority should have an IGR completed biennially, by a date which will be notified by the SAB.
 - h. The SAB may direct, as a result of concerns about the governance of a fund (or for another reason), that an administering authority must have an IGR completed outside of the two-year cycle.
 - i. The IGR will report findings to the body and/or individual with delegated responsibility for delivery of the LGPS as set out in the roles and responsibilities matrix and to the local pension board.
 - j. The administering authority must develop an improvement plan to address any issues raised in the IGR.
 - k. The report from the IGR and improvement plan must be published and also be submitted to SAB and relevant SAB sub-committees.
 - l. SAB will put in place a panel of independent experts to scrutinise the IGR reports, looking for outliers and areas of concern. The panel of experts will be drawn from LGPS stakeholders to include the s151 community and other parties as appropriate.
 - m. The SAB panel may enter into discussions with funds where the panel find the IGR report or agreed improvement plan or progress against a previous improvement plan are considered to be unsatisfactory. Additionally, they may refer the unsatisfactory IGR to TPR or further escalate to MHCLG.
 - n. Failure to submit an IGR report by the required date will result in automatic referral.
 - o. A dry run is recommended in parallel with the timeline for drafting the required Guidance.
 - p. Nothing in this process overrides an individual’s responsibility to report breaches of the law under the Pensions Act 2004 or any other professional or legal whistleblowing obligations.





F. Compliance and improvement (continued)

2. LGA run a peer challenge process for some areas of local government. It is a process commissioned by a council and involves a small team of local government officers and councillors spending time at the council as peers to provide challenge and share learning. It is suggested that a similar peer challenge process is established for the LGPS.

F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

IGR reports to be assessed by a SAB panel of experts.

F.2 LGA to consider establishing a peer review process for LGPS Funds.

Summary of the compliance and improvement process

Annually, each administering authority to produce a governance compliance statement signed by the senior LGPS officer and S151 which demonstrates compliance with LGPS requirements.

Biennially, each administering authority to commission an Independent Governance Review (IGR).

IGR reports to senior LGPS officer, pensions committee and pensions board.

IGR report goes to a SAB panel of experts for assessment. Panel could request further details of improvement plans, make recommendations or report to TPR & MHCLG


Next steps

The Working Group recommends that SAB and MHCLG accept the recommendations in this report and initiate phase III of the project.

Phase III should contain the following elements:

1. MHCLG to draft the required changes to the Guidance.
2. SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.
3. SAB to establish the 10-15 KPIs referred to within proposal E.3.
4. It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund's position on all areas of governance and compliance. Where a fund is non-compliant in a certain area the statement should provide information within and accompanying improvement plan about the steps being taken in order to address non-compliance. SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.



A full-page photograph of a forest. The foreground is filled with a dense carpet of small, purple flowers, likely bluebells, growing among green grass. The forest floor is covered in these flowers, extending into the distance. Tall, slender tree trunks are scattered throughout the scene, some in the foreground and others further back. The upper half of the image is filled with a thick canopy of green leaves, with sunlight filtering through in dappled patterns. The overall atmosphere is peaceful and natural.

Appendix A

Summary of recommendations

Area	Proposal
A. General	A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.
B. Conflicts of interest	B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.
	B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.
C. Representation	C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.
D. Knowledge and understanding	D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
	D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.
E. Service delivery for the LGPS function	E.1 Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.
	E.2 Each administering authority must publish an administration strategy.
	E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
	E.5 Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.
F. Compliance and improvement	F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

Croydon Council

REPORT TO:	Local Pension Board 16 January 2020
SUBJECT:	Local Pension Board Training Plan
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
1. RECOMMENDATION 1. That the Pension Board: 1.1 Note the training programme delivered to the Board to date; 1.2 Note the future training plan proposed; and 1.3 Make further suggestions as they see fit for reference to the Scheme Manager.	

2. EXECUTIVE SUMMARY

- 2.1 This report advises the Board of training undertaken since the Board was established and invites Board members to consider a future training plan and to make further suggestions for the Scheme Manager as they see fit.

3 DETAIL

- 3.1 At their meeting on 17 October 2019 the Board noted the updated training policy with additions in respect of future training requirements and the one-to-one briefing provided by the Chair for new Board Members.
- 3.2 As the Board are aware, to comply with the regulatory requirements of the Pensions Regulator, Board Members are required to have the relevant experience and knowledge relating to the Local Government Pension Scheme. In order to do this they must undertake training to maintain their knowledge and understanding of the LGPS and pensions in general.
- 3.3 The requirement for Knowledge and Skills is set out in the Pensions Board Terms of Reference and are reproduced below:

12. Knowledge and Skills

12.1. Employer and Member Representatives (including substitutes) of the LPB must be conversant with –

a. The legislation, Scheme Regulations and associated guidance of the LGPS;

b. Any document recording policy about the administration of the LGPS (which is for the time being adopted by the Fund).

12.2. All members of the LPB must have a working knowledge and understanding of –

- a. The law relating to pensions, and*
- b. Any other matters which are prescribed in Scheme Regulations.*

12.3. It is for the Scheme Manager to be satisfied that those seeking to be appointed have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the LPB.

12.4. In line with the duties under their role, the LPB members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date on anything that would fall within the remit of their role. LPB members are therefore required to maintain a written record of all relevant training and development (whether internal or external) they have undertaken. In the event that LPB members wish to attend an external course/training event prior approval must be sought from the Scheme Manager. All information in relation to training and development of all LPB members shall be made available to the Board as part of the Board Review Process. In addition, the Scheme Manager may, at any time request to inspect such records upon providing the relevant member with a written request which must be adhered to within 7 days of receipt of such a request.

12.5. All LPB members will undertake an annual personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses as well as mandatory training that the Board or Scheme Manager considers is required to ensure the Board operates as effectively as possible. LPB members will comply with the Scheme Manager's training policy, details of which are found in the separate document titled "Local Pension Board Training Policy".

- 3.4 This report provides the Board with a summary of the training undertaken since the Board was established.

April 2015 to March 2016

10 June 2015 Initial Hymans Robertson Training - an introduction to the Board.
8 October 2015 Asset Allocation
October to December 2015 LGE Fundamentals Course, (3 days)
7 January 2016 Benefits Structure

April 2016 to March 2017

21 April 2016 Work of the LAPFF
16-19 May 2016 PLSA 3 days conference
7 June 2016 Actuarial Valuation
29 June 2016 Local Pension Board Conference (CIPFA)
28 September 2016 Introduction to LGPS (CIPFA)
18 October 2016 Actuarial Valuation
October to December 2016 LGE Fundamentals Course (3 days)
1 December 2016 Actuarial Valuation
25 January 2017 CIPFA Actuarial Summit
22 February 2017 Seminar on History of Financial Markets
27 February 2017 Barnett Waddingham/CIPFA Conference
1-3 March 2017 LGC Investment Seminar

April 2017 to March 2018

October to December 2017 LGE Fundamentals Course (3 days)

April 2018 to March 2019

Pension Regulator's Trustee Toolkit Modules

27 June 2018 Barnett Waddingham / CIPFA Pension Boards Annual event

29-30 June 2018 LGPS Trustees Conference

17/18 September 2018 In-house training on Pension Investment

15 October 2018 CIPFA seminar

October to December 2018 LGE Fundamentals Course (3 days)

One to one briefing

April 2019 to date

Pension Regulator's Trustee Toolkit Modules

January 2020 Scheme Advisory Board Secretary on the role of the SAB

Actuarial valuation

One to one briefing for new Board members

Long term developments

October to December 2019 LGE Fundamentals Course (3 days)

FUTURE

- 3.5 Training for the Board during 2020/21 will continue to focus on gaps in knowledge and new developments within the context of the CIPFA Knowledge and Skills Framework:
- Pensions legislation and governance context;
 - Pensions accounting and auditing standards;
 - Financial services procurement and relationship management;
 - Investment performance and risk management;
 - Financial markets and products;
 - Actuarial methods, standards and practices; and
 - Pensions administration.
- 3.6 The following items are planned for future Board agendas:
- 20 February 2020 Barnett Waddingham/CIPFA Pension Boards Annual event
April 2020 Cyber security / scams
October to December 2020 LGE Fundamentals Course (3 days).
- 3.7 This summary shows only the training that has been arranged or facilitated for the Board. Throughout this period members of the Board have attended a number of conferences and seminars that have been organised to support Pension Boards and members have attended events in their other capacities, all of which is captured by their individual personal training logs.
- 3.8 Although it seems apparent from the analysis above that the training landscape adequately provides coverage for legislation and regulation and agenda items ensure the Board is well-briefed regarding changes to this regulatory

framework, there is an apparent gap relating to the administration of the Scheme. This may prove challenging due to the overall complexity of the LGPS benefits structure and the number of different schemes running concurrently. The Board may wish to consider how best to address this point.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of “personal data?”

No

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Finance, Investment and Risk, Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

Croydon Council

REPORT TO:	Local Pension Board 16 January 2020
SUBJECT:	Scheme Advisory Board - Responsible Investment Guidance Consultation
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
1. RECOMMENDATION 1.1 To note this report.	

2. EXECUTIVE SUMMARY

- 2.1 This report discusses “Responsible Investment Guidance Draft Part 1” published by the Scheme Advisory Board for consultation in November 2019. The full draft can be found here - <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagement-report>

3 DETAIL

- 3.1 At the meeting of the LGPS Scheme Advisory Board (the SAB) on 6 November 2019, approval was given for the first part of guidance on responsible investment (RI) to be published for consultation ending on 11th January 2020. The stated aim of this guidance is to *“help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG [Environmental, Social and Governance] policies as part of investment strategy statements.”* The SAB comments that there is no intention to prescribe the extent to which ESG policies must be adopted as this must remain a matter for local consideration and agreement in accordance with Ministry of Housing, Communities and Local Government statutory guidance.
- 3.2 The Board also agreed that work should commence on drafting part two of the guidance, the aim of which is to *“provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy.”*
- 3.3 As part of the consultation on Part One of the guidance, consultees were invited to submit details of case studies that evidence the successful adoption of ESG policies, in particular, those focused on the risks associated with climate change. Consultees are also invited to suggest other matters that should be included in the part two guidance.

- 3.4 The latest version of the Fund's Investment Strategy Statement was approved by the Pension Committee on 18 September 2018 and includes the following paragraphs on ESG considerations:

Environmental, Social and Corporate Governance (ESG)

6.1 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

6.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

6.3 The Fund will only invest in investments with a strong environmental, social and governance policy that includes no tobacco investments. The Fund will disinvest from existing fossil fuel investments in a prudent and sensible way that reflects the fiduciary responsibility due to stakeholders. Furthermore, where this is consistent with the agreed investment strategy, the Fund will invest in assets that positively address these issues. Examples of this approach include investing in renewable energy projects, screening out regional markets where there might be issues with modern slavery, and looking to explore opportunities to contribute to and invest in the Borough.

6.4 The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

6.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

6.6 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.7 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

6.8 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

3.5 The Fund has been conscious of ESG considerations for many years and took the decision to disinvest in tobacco stocks over 20 years ago. It has always been conscious of the evolution of opinion on the part such matters can play in asset allocation policy. The Fund's policy has always been set in accordance with appropriate professional advice, and the then current legal interpretations and guidance and that remains the case to date.

3.6 The Board are invited to note this report.

4. DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the Report involve the processing of "personal data?"

No

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Finance, Investment and Risk, Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

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Croydon Council

REPORT TO:	Local Pension Board 16 January 2020
SUBJECT:	The Pensions Regulator: Governance and administration risks in public service pension schemes
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury

1. RECOMMENDATION

- 1.1 To note this report.

2. EXECUTIVE SUMMARY

- 2.1 This report summarises the findings of The Pensions Regulator arising from its recent survey of the governance and administration of 10 UK Local Government Pension Scheme funds. The full report is attached as Appendix A. Appendix B details the recommendations of the report.

3. DETAIL

- 3.1 On 19 September 2019 The Pensions Regulator published its report on the findings of their survey of the governance and administration of 10 UK Local Government Pension Scheme funds.
- 3.2 The Scheme Advisory Board made the following statement:

*The Pensions Regulator has ... published its report into the **governance and administration risks in public service pension schemes** including the 10 UK local government funds who were engaged with between October 2018 and July 2019. The report summarises the key findings against the Regulator's Code of Practice 14 both in terms of exceeding and falling short of required standards and will be discussed in detail when SAB next meets on the 6th November 2019. In commenting on the report, Chair of the Board, Councillor Roger Phillips said "This key area of work ties in closely in with the Board's own Good Governance project. In identifying examples of best practice as well as areas for further improvement the report will undoubtedly be of great assistance to LGPS funds in seeking to enhance their own governance and administration arrangements."*

3.3 The Scheme Advisory Board's own report is currently being produced but the work completed to date and the statement above make it clear that the Regulator and the Advisory Board are thinking along similar lines and it may be useful for the Croydon Board to consider the issues raised at this stage.

3.4 The format of the Report is as follows:

- Glossary of terms – NB so far as the Local Government Pension Scheme is concerned the “Scheme manager” is the Administering Authority which, in the case of the Croydon Fund, is the Council.
- Executive summary – this is reproduced in full in paragraph 3.5 below.
- Key findings and associated case studies – the findings have come from engagement with the 10 funds but both they and the recommendations are likely to have general applicability; Appendix B lists the recommendations.
- Conclusion – this is reproduced in full in paragraph 3.6 below

3.5 The Executive summary of the report is as follows:

Overall we found a number of common areas, some requiring improvement but others demonstrating good practice relating to the various risk areas we investigated. The key improvement areas are summarised below. These findings align with the findings from our annual public service governance and administration survey.

Key person risk: *While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.*

Pension boards: *Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.*

Fraud / scams: *We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.*

Employers: *We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing but also related to different philosophies related to taking security over assets.*

3.6 The Conclusion of the Report is as follows:

We've outlined some areas of good practice in this report, and also some areas where we remain concerned and expect scheme managers to improve where appropriate. Overall, we noted:

- Not all funds are the same and there is a variety of equally valid approaches to mitigating risk used across funds in the LGPS.*
- It is important that scheme managers recognise, and maintain, a separation between the fund and Local Authority to avoid an over-reliance on the Local Authority's policies and procedures. When establishing its own policies and procedures a scheme manager should be able to seek assistance from the pension board, meaning steps should also be taken to ensure the pension board is able to fulfil its role. Where this is not possible, scheme managers should feed into creating Local Authority policies to make sure they are fit for purpose.*
- There are clear benefits to the operation of the fund where there is an engaged s.151 officer who is directly involved.*
- Good quality data and record-keeping standards underpin all aspects of successfully running a fund and these areas should be treated as a priority in order to drive good outcomes.*
- Scheme managers that have developed and implemented a robust pension administration strategy have found them useful. While not a legal requirement, scheme managers should consider whether this type of document will be useful and look to introduce them where this is the case.*
- A common risk is the unexpected departure of key members of the scheme manager's staff. Succession planning and clearly recorded processes help mitigate this risk.*
- Measuring governance and administration is challenging and requires more than just an analysis of raw figures. Scheme managers should therefore put in place appropriate reporting measures that they believe capture both quantitative and qualitative assessments. This approach should be tailored to the specific circumstances of their fund.*
- Scheme managers should take a holistic approach when considering the governance and administration risks to their fund. Most risks are connected to each other and a scheme manager should understand how a risk materialising will impact on other areas of governance and administration.*
- Risks to funds are constantly changing and evolving. For example, the methods used by scammers change over time. Scheme*

managers should be alert to the changing nature of risks and adapt their approaches accordingly.

- *Many scheme managers have a clear understanding of how their funds operate and want to provide the best experience for savers. Where scheme managers liaise with each other to discuss common challenges and solutions to them, whether at formal events or through ad hoc engagement, often leads to improved governance standards. We encourage such action.*

3.7 Appendix B details the recommendations of the Report.

3.8 The Board are invited to note this report and comment as they see fit.

CONTACT OFFICER: Nigel Cook, Head of Pensions Investment and Treasury, Finance, Investment and Risk Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

APPENDICES

Appendix A – Governance and administration risks in public service pension schemes: an engagement report: The Pensions Regulator

Appendix B – Recommendations of Report

APPENDIX B

THE PENSIONS REGULATOR RECOMMENDATIONS
<p>Record-keeping</p> <ul style="list-style-type: none">• Scheme managers should be aware of how the member data they hold is measured. Data quality needs regular review. A robust data improvement plan should be implemented as appropriate.• The quality of member data should be understood by the Scheme Manager and Pension Board. It should be recorded and tracked to ensure common and scheme specific data is of good quality. An action plan should be implemented to address any poor data found.• Although not a legal requirement, a Pension Administration Strategy could be implemented clearly setting out responsibilities and consequences of not complying with duties to the fund. The Pension Board should review the Strategy and ensure it will stand up to challenges from employers.
<p>Internal controls</p> <ul style="list-style-type: none">• A risk register should be in place and cover all potential risk areas. It should be regularly reviewed by the pension board.• The scheme manager should take a holistic view to risks and understand how they are connected.• The pension board should have good oversight of the risks and review these at each pension board meeting.• Internal controls and processes should be recorded, avoiding an over reliance on a single person's knowledge levels.• The scheme manager should ensure all processes are documented and reviewed on a regular basis.• Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate.

Administrators

- Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as appropriate should agreed standards not be met.
- Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate. This mitigates risks in handing over to a new administrator.
- It is helpful for the administrator to attend and present to pension board meetings as pension board members can use their knowledge and understanding to effectively challenge reports being provided.
- Scheme managers should hold regular meetings with their service providers to monitor performance.

Member communication

- Information sent to members should be clear, precise and free from jargon.
- There should be senior oversight of communications sent to members and prospective members.
- It is often helpful for scheme managers to measure the effectiveness of their communication with savers, e.g. measuring website traffic and running surveys.

Internal Dispute Resolution Procedure (IDRP)

- There should be a clear internal policy on how to handle complaints, including escalation to suitable senior members of staff.

- People entitled to use the IDRP should be given clear information about how it operates.
- This information should be easily available, e.g. on the fund website.
- The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house.
- Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.

Governance and administration of public service pension schemes

- The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance.
- Individual pension board member training and training needs should be assessed and clearly recorded.
- The pension board should meet an appropriate number of times a year, at least quarterly.
- Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager.
- Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.
- Regular contact between the scheme manager and chair of the pension board is helpful. An open and auditable dialogue outside of formal meetings can help improve the governance and administration of the fund.

- The chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency.
- Pension board members should be fully engaged and challenge parties where appropriate.

Employers and contributions

- Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions. Red, Amber, Green reporting often provides extra focus.
- Employer solvency should be considered on an ongoing basis and not just at the time of each valuation.
- Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier.
- Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations.
- Scheme managers should develop an understanding of the risk and benefits of a range of security types, such as charges, bonds and guarantees.
- Scheme managers should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security.
- Scheme managers should understand which employers have not provided any security for unpaid contributions and consider what appropriate steps can be taken to secure fund assets.
- Where security is in place, Scheme Managers should have a policy on when the security should be triggered.

Cyber security

- Scheme managers and pension boards should understand the risk posed to data and assets held by the fund so steps can be taken to mitigate the risks. This should be reflected in the risk register.
- Regular, independent, penetration testing should be carried out. Scheme managers should consider physical security as well as protection against remote attacks.
- Where cyber security is maintained by the Local Authority rather than the scheme manager, the scheme manager should understand the procedure and ensure the fund's requirements are met.
- Scheme managers should be aware of the cyber security processes used by third party providers, such as the administrator or custodian, that handle fund assets or data.

Internal fraud and false claims

- Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud.
- A clearly auditable process should be in place for the authorising of payments. Ideally, this would require more than one person to provide authority to make the payment.
- A scheme manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver.
- Where a fraud is detected in the scheme manager's fund, or another one, they should take steps to stop the fraud and analyse causes to prevent a reoccurrence.

- When paper records are being used they should be held securely to prevent the risk of loss or mis-appropriation.

Responsible Investment in the Local Government Pension Scheme

A Guide to the duties of Investment Decision Makers in LGPS Administering authorities

Introduction

Part 1 – Definitions

1A – What is Responsible Investment?

1B – What are ESG factors?

1C – What about climate change?

1D – Financially material factors

1E – Non-financial factors

1F - Stewardship

Part 2 – Statutory duties and responsibilities of administering authorities

2A – The regulations

2B - Statutory guidance

2C – What an administering authority must do

2D – What an administering authority should do

2E – What an administering may do

Part 3 – Non-statutory duties and responsibilities of investment decision makers

3A – Duties to local tax payers

3B – Duties to scheme employers and scheme members

3C – Elected member code of conduct

Part 4 – Recent developments in trust based pensions

Appendix 1 – Responsible investment considerations

Appendix 2 – Responsible investment sources

Appendix 3 – Bibliography of regulations and guidance

Introduction and purpose

1. This guidance has been prepared by the Local Government Scheme Advisory Board (SAB) in England and Wales to assist administering authorities and in particular those individuals delegated to make investment decisions on behalf of the authority. It sets out their duties with regard to developing and maintaining responsible investment (RI) policies according to the relevant scheme regulations, statutory guidance and public law and references developments to private sector pensions legislation in this area.
2. The guidance is further to and should be read in conjunction with the Ministry of Housing, Communities and Local Government's (MHCLG) revised *Guidance on Preparing and Maintaining an Investment Strategy Statement* published in July 2017.
3. This guidance is based on the extant LGPS investment regulations 2016 and associated statutory guidance together with our understanding of related legislation. It does not anticipate or include any work undertaken by the SAB in conjunction with scheme stakeholders to explore the scope for recommending changes to MHCLG to amend the scheme's RI requirements to reflect recent changes made to the regulatory framework applying to schemes based on trust law. If changes to regulations and statutory guidance are made, this guidance will be updated to reflect them and will then be regularly reviewed to ensure that it remains timely and relevant
4. This guidance is intended to be permissive in that it does not seek to provide operational direction but rather seeks to clarify the parameters within which decisions can be made and policies formulated with regard to the integration of ESG considerations into the overall investment strategy of the authority. It is recognised that there will be variation between different administering authorities in terms of their approach to RI and no one guidance document could successfully cover all local situations..
5. The guidance is intended to assist investment decision makers, irrespective of their investment beliefs. In doing so it is recognised that different administering authorities will be at different stages of the RI journey as shown in the "Spectrum of Capital" below :-

The spectrum of capital



* This integration of sustainable practices across an organisation's core business may also be termed Corporate Social Responsibility (CSR), although many organisations have a separate (often philanthropic) CSR 'carve-out' that is distinct from their approach to sustainability
Source: G8 Social Impact Investment Taskforce, Asset Allocation Working Group (2014)

6. The guidance is intended to empower and equip administering authorities and those delegated to make investment decisions on behalf of the authority to meet their obligations in line with the Regulations and statutory guidance. It also sets out our understanding of the relevant fiduciary, general public law and code of conduct duties when making investment decisions based on extant case law and QC opinion.

7. The guidance is also relevant to local pension boards in the context of their statutory duty to assist their administering authority in complying with the policies set out in their Investment Strategy Statement (ISS) and that the ISS has been completed in accordance with MHCLG's statutory guidance on preparing and maintaining an ISS.

8. The guidance will be formally reviewed by the SAB, at least on an annual basis, after consultation with the Cross Pool Collaboration Group Responsible Investment Subcommittee and other key stakeholders.

Part 1 – Definitions

1A. What is Responsible Investment?

9. According to the PRI (Principles for Responsible Investment) established by the United Nations in 2006, responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long term returns.

There are six defined “principles” that signatories to PRI agree to:-

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be active owners and incorporate ESG issues into ownership policies and practices
- Seek appropriate disclosure on ESG issues by the entities in which they invest
- Promote acceptance and implementation of the Principles within the investment industry
- Work together to enhance effectiveness in implementing the Principles
- Report on activities and progress towards implementing the Principles

Further details about PRI's approach to responsible investment can be found at <https://www.unpri.org/pri/what-is-responsible-investment>

1B. What are ESG factors?

10. These are many and varied but according to PRI these typically include:-

Environmental

- Climate change, including physical risk and transition risk
- Resource depletion, including water
- Waste and pollution
- Deforestation

Social

- Working conditions, including slavery and child labour
- Local communities, including indigenous communities
- Conflict
- Health and safety
- Employee relations and diversity

Governance

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

11. More examples of ESG factors are given at Appendix 1.

1C. What about climate risk?

12. Authorities will be aware of the growing concerns around the financial risks associated with climate change with particular emphasis both on the risks that are associated with climate change on the sustainability of companies in which pension funds invest and the role of pension funds could play in achieving a net zero carbon economy. In response to such concerns DWP have announced that from October 2019, private sector pension trustees will be required as part of their Statement of Investment Principles to publish their policy on ESG considerations, including the financially material risks associated with climate change.

1D. Financially Material Factors

13. Although statutory guidance refers to financial and non-financial factors it does not define them. Therefore, the definitions in this section are drawn from the private sector pensions world.

14. In their 2014 report, the Law Commission made clear that private sector pension trustees' fiduciary duty is to take account of financially material considerations, whatever their source. Where ESG considerations are financially material, decision makers should take account of them. The Law Commission went on to say that this applies in exactly the same way as other risks in pension scheme investment, for example, interest rate risk, liquidity risk, market risk, political and counter party risk.

15. More recently, the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 (the 2018 Regulations) that will apply to private sector pension trustees with effect from October 2019 defines financially material considerations as including, but not limited to, environmental, social and governance considerations, including climate change.

1E. Non-Financial Factors

16. Investment decisions will often have a mixture of motivations and therefore a clear non-financial motivation may be difficult to identify. However, for the purpose of this guidance non-financial factors are those which influence investment decisions and are primarily motivated by considerations other than financial. This is taken to mean any decision to disinvest or invest for which the primary motivation excludes consideration of the potential financial outcome. For example, withdrawing from tobacco investments purely on the basis of public health considerations or investing in a local social enterprise purely to achieve societal benefits.

17. Assessing whether a non-financial decision would have a significant financial detriment to the fund will always be a question of fact and degree. Divesting from a sector which makes up of 15% of a fund is likely to represent financial detriment whereas a portfolio of 3% may not.

18. According to the Law Commission, when making an investment decision based on a non-financial consideration, private sector trustees have a duty to ensure that the decision would not involve a risk of significant financial detriment to the fund and that it would be reasonable to assume that the scheme members agree with that decision. A similar provision may be found in LGPS statutory guidance.

1F Asset Stewardship

19. The 2012 UK Stewardship Code defines stewardship as the promotion of long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole. The UK Stewardship Code is recognised as an effective standard for asset owners and asset managers to comply with and demonstrate best practice in discharging their stewardship responsibilities

Part 2. - Statutory Duties and Responsibilities of administering authorities

20. The duties of administering authorities are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

21. Administering authorities are also required by the Regulations to comply with statutory guidance published by MHCLG in July 2017 in preparing and maintaining their Investment Strategy Statement (ISS). Under that guidance, administering authorities are required to set out their policies in a number of key areas including responsible investment, risk, pooling, diversification and asset allocation.

2A – The Regulations

22. Regulation 7 of the Regulations requires that

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

The Regulations do not define ‘investment’ beyond clarifying in Regulation 3 a number of items that are included in that term.

(a) a contract entered into in the course of dealing in financial futures, traded options or derivatives;

(b) a contribution to a limited partnership in an unquoted securities investment;

(c) a contract of insurance if it is a contract of a relevant class, and is entered into with a person within paragraph (2) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act(7).

Accordingly, investment is assumed to have the commonly understood meaning as set out in the Oxford English Dictionary:

The use of money or capital to purchase an asset or assets (such as property, stocks, bonds, etc.), in the expectation of earning income or profit over time.

23. The Regulations contains the following provisions that relate to RI and which requires policies to be established in accordance with statutory guidance:

“7.— (1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

(2) The authority’s investment strategy must include— (a) a requirement to invest fund money in a wide variety of investments;

(b) the authority’s assessment of the suitability of particular investments and types of investments;

(c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;

(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

2B – Statutory Guidance

24. An LGPS administering authority with the assistance of their local pension board, will be principally concerned with ensuring that it meets the legislative requirements of the Regulations (detailed above) and associated statutory guidance published.

25. For the avoidance of doubt under the Regulations, as detailed above, an authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. It should be noted that this is a sterner test than “have regard to” on which most statutory guidance is based. In the matter of responsible investment, an authority must publish its policies on how ESG considerations are taken into account in the selection, non-selection and realisation of investments and the exercise of the rights, including the voting rights, attaching to investments.

26. To accompany the Regulations, MHCLG published revised statutory guidance in July 2017. The extant statutory guidance entitled ‘Preparing and maintaining an investment strategy statement’ expands upon earlier guidance, specifically on the regulations that relate to RI.

27. The guidance states that administering authorities will be expected to make their investment decisions within a ‘prudential framework’ with less central prescription. It goes on to describe a prudent approach to investment as a duty to discharge statutory responsibilities with care, skill, prudence and diligence.

28. In establishing RI policies, the statutory guidance differentiates between things that an authority must do, should do, and may do. The matters shown below that must be done under statutory guidance represents the minimum statutory requirement that authorities must comply with. Where the statutory guidance points to things that should be done, there is a clear expectation that where appropriate, these ought to be done unless the reasons for not doing so can be objectively justified.

2C - An administering authority must;

- Take proper advice when formulating their investment strategy
- Explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments

- Must give reasons for not adopting a policy of exercising rights, including voting rights, attaching to investments

2D - An administering authority should;

- Explain the extent to which the views of their local pension board and other interested parties whom they consider may have an interest will be taken into account when making an investment decision based on non-financial factors
- Explain their approach to social investments
- Where appropriate, explain their policy on stewardship with reference to the Stewardship Code
- Strongly encourage their fund managers, if any, to vote their company shares in line with their policy under regulation 7(2)(f) (of the 2016 Regulations)
- Publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations

2E -An administering authority may;

- Wish to appoint independently a voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority”

2F Pooling guidance and RI

31. In ‘Investment Reform Criteria and Guidance’ published by DCLG in November 2015, the section ‘strong governance and decision making’ (page 6) requires that authorities should;

- Explain how they will act as responsible long term investors through their pool including how the pool will determine and enact stewardship responsibilities

32. The section ‘Responsible investment and effective stewardship’ (page 17) include provisions that authorities;

- Will want to consider the findings of the Kay review including what governance procedures and mechanisms will be needed to facilitate long term responsible investing and stewardship through the pool
- Will need to determine how their individual investment policies will be reflected in the pool
- Should consider how pooling could facilitate implementation of their ESG policy, for example by sharing best practice, collaborating on social investments to reduce costs or diversify risk, or using scale to improve capability in this area

33. Further guidance on pooling including provisions on responsible investment have been published as a first draft but are subject to further drafting and consultation and therefore have not been included at this time.

Part 3 - Non-statutory duties of investment decision makers

34. Those tasked with making investment decisions on behalf of the administering authority will, in the main, be elected members of that authority. As well as acting within the statutory duties as set out above, decision makers must also act in accordance with a range of non-statutory duties deriving from public law.

35. Unlike private sector trustee who have a clear fiduciary duty to act in the best interests of scheme beneficiaries the position of LGPS investment decision makers is not so easily defined.

3A Duty to local tax payers

36. As set out in CIPFA guidance 'Role of the CFO in the LGPS' there is a fiduciary duty owed by elected members to local tax payers which stems from *Roberts v Hopwood* (1925). This case upheld sanctions against elected members who had chosen to raise the minimum wage for their lowest paid employees (women) and in doing so had been found to have not taken sufficient account of the interests of local tax payers. In his judgement Lord Atkinson defined the failure of the elected members in their duty as;

'..they put aside all these aids to the ascertainment of what was just and reasonable remuneration to give for the services rendered to them, and allowed themselves to be guided in preference by some eccentric principles of socialistic philanthropy, or by a feminist ambition to secure equality of the sexes in the matter of wages in the world of labour.'

He went on to state that;

'A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than the members of that body, owes a duty to those latter persons to conduct that administration in a fairly businesslike manner with reasonable care, skill and caution, and a due and alert regard to the interests of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of the property of others.'

And that;

Acts done 'in flagrant violation' of the duty should be held to have been done 'contrary to law' within the meaning of the governing statute.

37. Such a duty was also referenced in *Bromley v GLC* 1981 as the fiduciary duty owed to all rate payers and council tax payers.

38. CIPFA guidance also references a duty to local taxpayers applying to officers and cites *Attorney General v De Winton* (1906) where it was established that the

Treasurer is not just a servant of the authority but has a fiduciary duty to local taxpayers.

3B Duty to scheme employers and scheme members

39. In his legal opinion for the SAB dated 25 March 2014 Nigel Griffin QC concluded that those making investment decisions on behalf of the administering authority; *'...owe fiduciary duties both to the scheme employers and to the scheme members...'* and cites *White v Jones 1995* which held that *fiduciary duties exists 'where one person administers thefinancial affairs of another'*.

40. However he importantly caveats this statement as follows

'I rather doubt that the existence of fiduciary duties will in this context make very much difference to what the position would be if analysed simply in terms of the obligations imposed upon administering authority as a matter of public law - notably, the normal Wednesbury type obligations'

This view derives from (amongst others) Charles Terence Estates v Cornwall Council 2013 where the court acknowledged that local authorities owe a fiduciary duty but nevertheless treated the content of that duty as indistinguishable from Wednesbury.

41. He goes on to define the Wednesbury obligations and therefore the duty to employers and scheme members as *the requirement 'to exercise discretionary powers rationally, for a proper purpose and by reference only to legally relevant considerations'*

42. There appears to be a clear distinction between the fiduciary duty of private sector pension trustees to always act in the best interests of scheme beneficiaries and the public law duties applying to LGPS investment decision makers to;

'conduct ... administration in a fairly businesslike manner with reasonable care, skill and caution, and a due and alert regard to the interests of those contributors who are not members of the body'

And;

'exercise discretionary powers rationally, for a proper purpose and by reference only to legally relevant considerations'

3C – Elected member code of conduct

43. Councillors are required to adhere to their council's agreed code of conduct for elected members. Each council adopts its own code, but it must be based on the Committee on Standards in Public Life's seven principles of public life (see below). These were developed by the Nolan Committee, which looked at how to improve ethical standards in public life, and are often referred to as the 'Nolan principles'. All public office holders are both servants of the public and stewards of public resources.

44. The principles also apply to everyone in other sectors delivering public services. All councils are required to promote and maintain high standards of conduct by

councillors, but individual councillors must also take responsibility. Holders of public office should uphold the following seven principles:

Selflessness

Holders of public office should act solely in terms of the public interest.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family or their friends. They must declare and resolve any interests and relationships.

Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for doing so.

Honesty

Holders of public office should be truthful.

Leadership

Holders of public office should exhibit these principles in their own behaviour.

They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Part 4 – Recent developments in trust based pensions

45. Historically, the LGPS in England and Wales has adopted pension legislation that has been introduced specifically for schemes based on trust law. The following information is provided as a guide to possible developments in LGPS regulation and/or guidance but at the time of publication none of the following applies to the LGPS.

46. To meet the RI challenge, the government has adopted a number of legislative measures but only in relation to those responsible for making investment decisions in trust based schemes (not LGPS). As from October 2019, trustees will be required to include in their Statement of Investment Principles new regulatory requirements including:

- How financially material factors (including, but not limited to, ESG considerations, including climate change, over the time horizon of the scheme, are taken into account in the selection, retention and realisation of investments,
- The extent, if at all, that non-financial factors, for example, members' ethical views, are taken into account, and
- Engagement and voting activities in respect of investments, including stewardship.

47. By October 2020, trustees will be further required to include in their Statement of Investment Principles:

- Their arrangements with asset managers including how they incentivise their appointed investment managers to align investment strategy with their policies and to make investment decisions based on long term performance, and
- A form of implementation statement on their engagement and voting practices

48. Trustees will also be required to publish on a publicly available website both their Statement of Investment Principles and Implementation Statements. To assist trustees comply with the new regulatory requirements, the PLSA has published a made simple guide a copy of which can be found at

<https://www.plsa.co.uk/Portals/0/Documents/Made-Simple-Guides/2019/ESG-Made-Simple-2019.pdf>

Appendix 1 – Example RI issues

NB: this is not intended to be read as an exhaustive list, nor as a prescriptive list.

Environmental	Social	Governance	Other/ sector specific
<ul style="list-style-type: none"> • Climate change <ul style="list-style-type: none"> ◦ Fossil fuel exposure ◦ Carbon emissions ◦ Adaptation risks • Resource & energy management <ul style="list-style-type: none"> ◦ Storage ◦ Fuel source ◦ Water ◦ Waste ◦ Mineral use ◦ Efficiency • Planning/ permitting/ operational controls 	<ul style="list-style-type: none"> • Human/ labour rights <ul style="list-style-type: none"> ◦ Supply chain (UK Human Slavery Act/ ◦ Child labour ◦ Human capital management • Employment standards • Employee representation • Health and safety • Community relations 	<ul style="list-style-type: none"> • Alignment (long term) • Board independence • Executive remuneration • Board composition and effectiveness (conduct and culture) • risk management • Tax transparency/ Fair tax • Auditing & accounts (Reliable accounts/ auditor rotation) • Diversity / equality (board, company-wide) • Succession planning • Disclosure/ transparency e.g. Integrated reporting/FSB TFCD • Shareholder protection & rights e.g. say on pay 	<ul style="list-style-type: none"> • Business strategy & risk management • Political change • Operating in controversial or challenging locations • Cyber security • Disruptive technology • Nutrition • Access to products (medicine/ finance) • Bribery & corruption • Site security/ terrorism

Appendix 2: Useful responsible investment sources

Memberships of the following organisations might be considered by an administering authority, as part of the responsible investment strategy.

- British Venture Capital Association (BVCA)
- Focusing Capital on the Long Term (FCLT)
- Global Real Estate Sustainability Benchmark (GRESB)
- International Corporate Governance Network (ICGN)
- Investment Association
- Institutional Investors Group on Climate Change (IIGCC)
- Local Authority Pension Fund Forum (LAPFF)
- Pensions and Lifetime Savings Association (PLSA) (formerly National Association of Pension Funds)
- Principles for Responsible Investment (PRI)
- Transition Pathway Initiative (TPI)
- UK Sustainable Investment Forum (UKSIF)
- CDP (formerly the Carbon Disclosure Project)

Further RI Resources

INTRODUCTORY MATERIAL

- PRI's Building the Capacity of Investment Actors to use Environmental, Social, and Governance (ESG) Information
- PRI: Understanding the impact of your investments
- PRI: How asset owners can drive responsible investment
- PLSA: ESG Made Simple Guide
- RIA: Guide to Responsible Investment
- CERES: Blueprint for Sustainable Investing
- Sustainable Returns for Pensions and Society: Responsible Investment and Ownership
- USSIF: The Impact of Sustainable and Responsible Investment
- Willis Towers Watson: Sustainable investing – we need a bigger boat.
- World Economic Forum: Accelerating the Transition towards Sustainable Investing

- World Economic Forum: Global Risks Report 2015PRI: Investment Practices, Asset Owner Insight
- NAPF: Responsible Investment Guidance for Pension Funds
- EUROSIF: Corporate Pension Fund & Sustainable Investment Study
- EUROSIF: Primer for Responsible Investment Management of Endowments (PRIME Toolkit)
- UN Framework Convention on Climate Change
- UN Guiding Principles on Business and Human Rights
- PLSA Guide to Responsible Investment Reporting in Public Equity

ASSET-CLASS-SPECIFIC GUIDANCE

- PRI: A practical guide to ESG integration for equity investing
- PRI: Integrated analysis: How investors are addressing ESG factors in fundamental equity valuation
- PRI: Fixed income investor guide
- PRI: Corporate bonds: Spotlight on ESG risks
- PRI: Responsible investment and hedge funds
- PRI: Responsible investment in private equity: A guide for limited partners
- PRI: Limited partners' responsible investment due diligence questionnaire
- PRI: Responsible investment in infrastructure
- UNEP FI: Implementing responsible property investment strategies
- INCR, IGCC, IIGCC, PRI, UNEP FI and RICS: Sustainable real estate investment, implementing the Paris Climate Agreement: An action framework

PROCUREMENT FRAMEWORK

- National LGPS Stewardship Services Framework

Appendix 3: Bibliography of regulations and guidance

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479562/draft_LGPS_Investment_Regulations_2016.pdf

Guidance on Preparing and Maintaining an Investment Strategy Statement, July 2017 (Department for Local Government and Communities)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/553342/LGPS_Guidance_on_Preparing_and_Maintaining_an_Investment_Strategy_Statement.pdf

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