

The 14th Annual LGPS Trustees' Conference

“Brave New World”

29-30 June 2017

**Bournemouth Highcliff Marriott
Hotel**

Organised by the Local Government Pensions Committee



The 14th Annual LGPS Trustees' Conference

“Brave New World”

Day 1 - Thursday 29 June 2017

12:30	Registration & Buffet lunch
13:50	Chair's Welcome Denise Le Gal
14:00	Keynote Address Roger Phillips
14:30	ESG and RI Agenda Alan MacDougall
15:00	Refreshment break
15:30	Pooling Update Jill Davys
16:00	Legal Update Gary Delderfield
16:30	Apples with Apples Bob Holloway
17:10	Chair's closing remarks Denise Le Gal
19:00	Drinks Reception
20:00	Private Conference Dinner
21:30	After-Dinner Speaker

*Programme and speakers may be
Subject to change without prior notice*



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“Brave New World”

Day 2 - Friday 30 June 2017

- 09:30 **Chair's Welcome**
Denise Le Gal
- 09:35 **Deficits Down?**
Leanne Johnston
- 10:00 **Are PSPs Affordable?**
John Bayliss
- 10:25 **Panel Session**
4 speaker panel (Alison Murray, Douglas Green, Annemarie Allen & Glyn Jenkins)
- 10:45 Refreshment break
- 11:15 **National Procurement**
Nigel Keogh
- 11:50 **Investment Spotlight**
Atul Shinh
- 12:25 **Chair's closing remarks**
Denise Le Gal
- 12:30 Buffet lunch

Our Sponsors:



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The Local Government Pensions Committee presents:

14th Annual LGPS Trustees Conference

“Brave New World”

Bournemouth, 29-30 June 2017

Chair's Welcome

Denise Le Gal

(Chair, Local Government Pensions Committee)

Local Government Pensions

SAB

England and Wales

Local Government Pensions Scheme Advisory Board
Cllr Roger Phillips - Chairman

Scheme Advisory Board Update

LGPS Trustees' Conference
29-30 June 2017

I will cover.....

- Scheme Advisory Board
- LGPS Annual Report 2016
- Scheme Advisory Board surveys
- 2016 valuation results
- Tier 3 employers
- Cost transparency
- Impact of Brexit and minority government

Scheme Advisory Board

- Fourth year of operation (including shadow form)
- Challenging financial environment
- Board advises the Minister
- Two committees (Cost Management and Investment)
- Deficits working group
- Working to improve perception and profile of the Scheme in the face of hostile press
- Leading the way on Cost transparency

LGPS... it's big

Local Government Pensions

SAB

England and Wales

Source: INVESTMENT&PENSIONS EUROPE 2016

Top 10 Europe Sponsor/entity	Country	AUM 2016 (€'bs)	AUM 2016 (£bs)
1 Norway Government Pension Fund Global	Norway		814 €
2 Stichting Pensioenfonds ABP	Netherlands		£651
3 LGPS England and Wales	UK		380 €
4 Pensioenfonds Zorg en Welzijn (PFZW)	Netherlands	270 €	£304
5 Arbejdsmarkedets Tillægspension (ATP)	Denmark	184 €	£147
6 Alecta Pensionsförsäkring Sweden	Sweden	108 €	£86
7 Universities Superannuation Scheme Ltd.	UK	80 €	£64
8 Pensioenfonds Metaal en Techniek (PMT)	Netherlands	68 €	£54
9 Lloyds Banking Group	UK	68 €	£54
10 Bayerische Versorgungskammer (BVK)	Germany	66 €	£53
40 LGPS Scotland		32 €	£26
178 NILGOSC		8 €	£6
Top 10 UK			
1 LGPS England and Wales		270 €	£216
2 Universities Superannuation Scheme Ltd.		68 €	£54
3 Lloyds Banking Group		68 €	£54
4 Pension Protection Fund (PPF)		54 €	£43
5 Electricity Supply Pension Scheme (ESPS)		48 €	£38
6 Royal Bank of Scotland Group (RBS)		42 €	£34
7 HSBC Bank (UK) Ltd.		39 €	£31
8 Barclays Bank plc		36 €	£29
9 British Airways plc		32 €	£26
10 LGPS Scotland		32 €	£26
43 NILGOSC		8 €	£6

LGPS Annual Report 2016

Membership

- The total membership of the LGPS grew by 134,000 (2.5%) to 5.3m members in 2016 from 5.2m in 2015.
- The total number of LGPS employers continued to rise in 2016 to over 14,000 as compared with 11,000 for 2015.

Cash flow

- The Scheme remained in a positive cash-flow position in 2016, including investment income.

Investments

- The total assets of the LGPS remained at £217bn (change of 0.0%) during 2016.
- The net investment return on these assets (after fees) as at 31 March 2015 was +0.1% compared with +12.1% in 2015. The 2016 figure reflecting less favourable financial market conditions than in 2015.
- LGPS assets were invested in pooled investment vehicles (43.6%), public equities (34.6%), fixed interest/index linked (7.6%), property (7.0%), other asset classes (6.5%).

Scheme Advisory Board Surveys

50/50

- Cost factor in SAB's cost management process
- Initial assumption – 10% earning less than £21k will opt in
- Anecdotal evidence suggested much lower rate
- Lower rate = Greater cost for SAB process
- Survey launched in April 2017 – over 7,000 responses
- Aim is to assess likely cost pressure on SAB process
- 3% of respondents have opted into 50/50
- 63% of those opting out of the scheme were unaware of 50/50
- Survey lasts until end of July

Scheme Advisory Board Surveys

Local Pension Boards

- Aim is to assess effectiveness and compliance of local boards
- Launched in May 2017 – Closing date end of July
- To be completed by –
 - Chairs of pension/investment committees
 - Chairs of local pension boards
 - Officers and other scheme stakeholders
- Report to SAB in October 2017
- Recommendations to DCLG Ministers?

<http://www.lgpsboard.org/survey.php>

2016 Valuation Results (£bn)



2016 Valuation Results (£bn)

	2013	2016	Change
Assets	180.5	216.4	35.9
Liabilities	227.3	253.6	26.3
Funding ratio	79.4%	85.3%	5.9%
Primary contribution rate	16.6%	17.2%	0.6%

Academies



- DfE/DCLG guidance published
[Arrangements for academies - Information pages for schools, academy trusts and pension funds](#)
- PwC report published
[LGPS Advisory Board Options for Academies 20170525.pdf](#)
- GAD collating data from 2016 valuations for all academies
- Objectives agreed at June Board meeting
- Next steps/Format of options work to be agreed

Tier 3 Employers

- Those with no tax raising powers or guarantee
- Identify extent of risk to local authority funds
- Separate exercise for academies
- Two concurrent phases of work -
 - Collating data via specification agreed with fund actuaries
 - Identification of issues – bids for work invited
- SAB to assess risk to funds and consider next steps
- See www.lgpsboard.org for more details

Cost Transparency

- Formally announced at PLSA conference 2017
- The Code is voluntary; asset managers who sign up will demonstrate commitment to transparent reporting of cost
- Signatories can insist on non disclosure agreements
- Six managers signed up to date, representing over 20% of assets
- Similar template to cover alternative asset classes being developed
- Board will procure a third party to check compliance and potentially provide aggregation and analysis services for funds and pools (not benchmarking)



Cost Transparency



Impact of Brexit and Minority Government

- Parliamentary time devoted extensively to Brexit
- Legal resources at DCLG also Brexit led
- Forget any new primary legislation
- But LGPS regulations are secondary legislation under the negative resolution arrangement
- Under a minority government, contentious legislation may be abandoned
- LGPS regulatory changes likely to be hard fought
- Early meeting with DCLG Minister to discuss the way forward

Thank you

Questions?

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disclaimer

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The LGPS, Responsible Investment & Pooling:

How will it work?

The voice of responsible shareowners

Introduction

Presentation to: The Local Government Pensions Committee

Presentation from:

Alan MacDougall, Managing Director
PIRC Ltd

Regulated by the Financial Conduct Authority

PIRC

The LGPS RI & Pooling

Introduction

Agenda

-
- RI Milestones
 - The Regulations
 - RI and Risk Appetite
 - RI and the Investment Process
 - Resources
 - Future challenges

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The LGPS RI & Pooling

RI Milestones

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The LGPS RI & Pooling

RI Milestones

What LGPS funds did 1

-
- **The Environmental Investor Code 1990:** ‘We call on companies to make a commitment to environmental excellence; regular monitoring of environmental impacts; establish procedures for incremental improvements; be legal; report regularly to shareholders.’
 - **Yorkshire Water 1991:** Nascent ‘LAPFF’ support an independent director.
 - **‘Fat cat pay’, British Gas 1995:** Local authorities mount shareholder resolution at the company AGM.
 - **Shell & Brent Spar 1997:** Controversial disposal of an old outdated oil rig; environmental degradation of indigenous people’s land in Nigeria through reckless mismanagement of oil spills and pipelines. Shareholder proposal from LGPS funds & allies require new environmental and social policies.
 - **LGPS funds advocate for shareholder vote on Executive Pay 1999:** Legislation in 2002 for non-binding vote on executive pay.
 - **Political Donations 2000:** New regulations require companies to submit political donations to a shareholder vote representing the culmination of a ten year campaign by LAPFF.
-

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The LGPS RI & Pooling

RI Milestones

What LGPS funds did 2

- **LGPS Funds Active on the Micro-Agenda 2002-08:** Contract lengths in the FTSE 100; investor statement on Burma; investment impact of climate change; supply chain labour standards; promoting equal pay for women.
- **LAPFF Trustee Guide on Asset Managers' Engagement 2006:** Guide on trustee role in holding managers to account for stewardship practices.
- **LAPFF Reviews Audit Committee Practices 2007:** Poor reporting; weak leadership and conflicts over non-audit work challenged in unique survey.
- **First Group USA Employees Dispute 2008:** LAPFF leads resolution at the company over union recognition and advocates successful appointment of independent arbiter.
- **Marks and Spencer Chairman 2009:** Controversial appointment of combined Chair and CEO breaches Code; LAPFF shareholder proposal at 2009 AGM achieved 38% support. Roles split in 2010.
- **LAPFF Tackles IFRS Failures on Bank Liabilities 2011:** BofE evidence unveils discrepancies of IFRS standards verses True & Fair view of accounts.

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The LGPS RI & Pooling

RI & the LGPS

Regulations & Guidance

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The LGPS RI & Pooling

RI & Regulations

Responsibilities

- **Funds retain full fiduciary responsibility, pools must be accountable to funds:** must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.
- **Managing ESG investment considerations:** To consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.
- **Certain Investment Strategies 'Inappropriate':** ... using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.
- **Wider remit on integrated reporting policies:** May also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

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The LGPS RI & Pooling

RI & Regulations

Responsibilities 2

- **Funds may pursue 'Social Investments'**: Investments that deliver social impact as well as a financial return.
- **Managing social impact and social return**: In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.
- **Challenges**: Pooled investments means challenge to fund level policies on proxy voting; split fund voting will be the new demand. Heightened monitoring of asset manager ESG competence and capability and client responsiveness. Support for shareholder resolutions requires organised AM processes to reflect client wishes. Director nominations likewise.

RI & Regulations

Responsibilities 3

– The importance of the ‘narrative’:

Long term investment interests – high standards of governance and RI – poor governance impacts Shareholder Value – Stewardship for long term success of companies – effective monitoring on the ‘full agenda’ – Engagement can identify problems – hand in hand with proxy voting – enables long term shareholders to exert positive influence - promote strong governance, manage risk, increase accountability and drive improvements on ESG - encourage best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers - Administering authorities should become Signatories to the Stewardship Code – Now: Regulation 7(2)(f) requires every administering authority to formulate a policy that increases awareness and promote engagement to reflect their stewardship responsibilities.

RI Approaches

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The LGPS RI & Pooling

RI Approaches

Administering Authority Approaches to RI

LEVEL 1	LEVEL 2	LEVEL 3
<p>Aims to meet expected legislative standards</p> <p>RI Principle Strategy</p> <p>Coherent Approach to Proxy Voting</p> <p>Engagement through Asset Managers</p>	<p>Level 1 + bespoke voting template</p> <p>Partner other lead funds on company engagement</p> <p>Greater accountability from asset managers</p> <p>May require Pool operator to become active addressing RI agenda</p>	<p>Integrate ESG activity into investment strategy</p> <p>Actively engage on a range of ESG matters</p> <p>Seeks to manage ESG risks in assets held</p> <p>Extensive reporting & accountability for engagement activity</p> <p>Extensive collaboration with other concerned investors</p> <p>Commissions research and analysis of ESG issues</p>

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The LGPS RI & Pooling

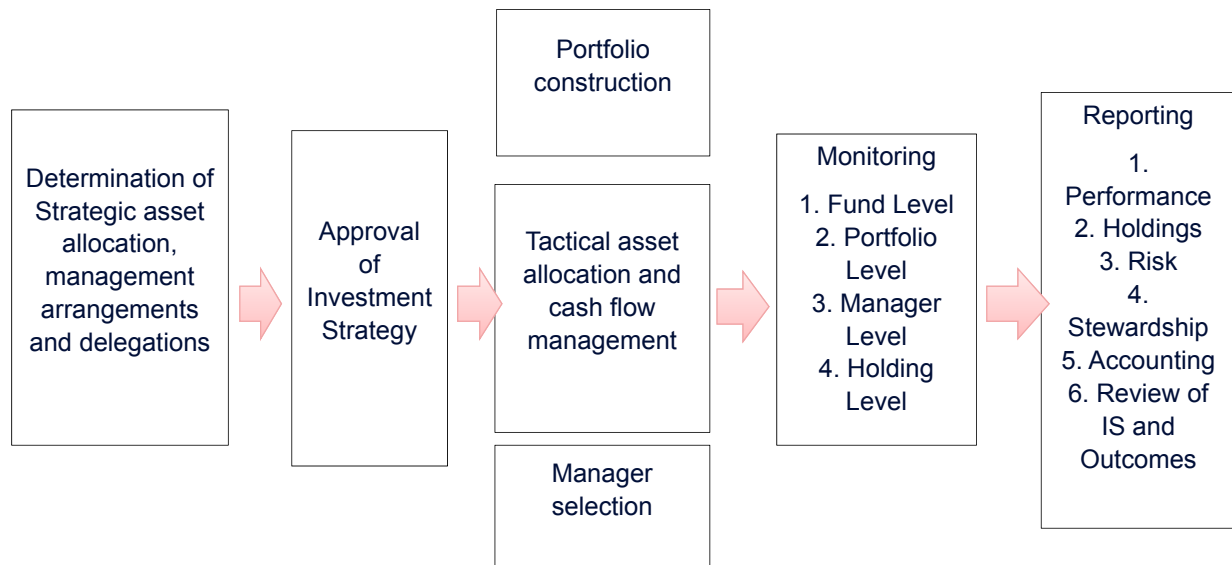
RI & the Investment Process

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The LGPS RI & Pooling

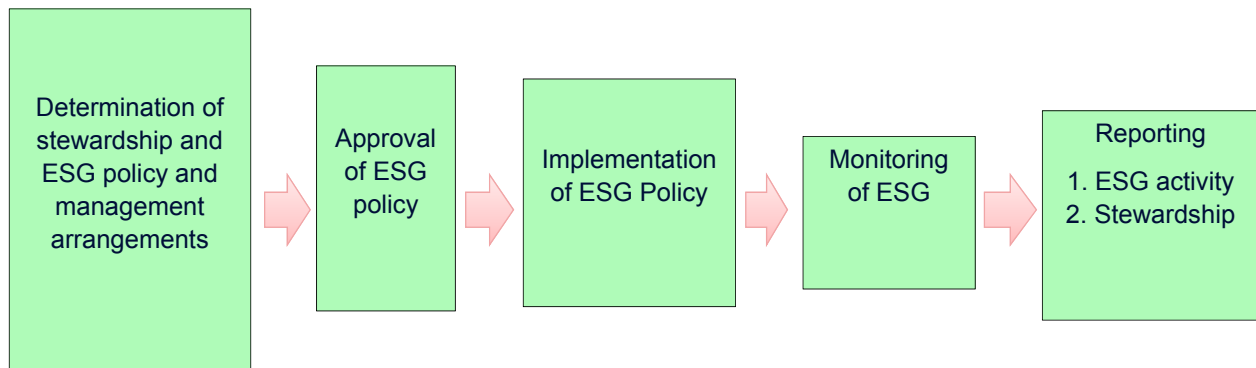
RI & the Investment Process

Investment Decision Track



RI & the Investment Process

RI Decision Track



RI Resources

Policy, Operations, Capability & Competence

Policy:

- Determination of RI strategy
- Policy statements, Code adherence etc
- Communications strategy
- Reporting & accountabilities
- Conflict management
- Collective engagements
- Evaluating RI Risk

Operations:

- Elected Member involvement & oversight
- Accountable bodies, eg governance sub-committees
- Proxy voting template
- Engagement protocols
- RI Research
- Custom voting policies
- RI reporting schedule
- Engagement support & facilitation
- Training, training, training

Capability & Competence:

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The LGPS RI & Pooling

Future Challenges

- **PoolCos & Conflicts:** As pools become independent asset management companies, what proportion of LGPS assets will be maintained in the face of new investment opportunities outside of AA assets?
- **Resource management:** This will be a major area of tension: the goal of reducing spend as well as developing appropriate RI capability will require constant monitoring.
- **Asset management appointments & RI:** A procurement framework for asset management services must have an explicit RI dimension especially in Investment Management Agreements.
- **Advice services:** AA's adopting a High Conviction strategy for RI will require a combination of advice from In-House Staff; the PoolCo operator; sub-pool Asset Managers; specialist governance services providers; operational agents and custodians. Last but not least will be the AA's traditional advisers.

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LGPS POOLING: 2018 & TRANSITION

Jill Davys – Client Relations Director, LCIV

Agenda

- Pooling Background and Data
- 2018 Drawing Closer
- Transition Considerations
- LCIV Experience

LGPS Scheme Data

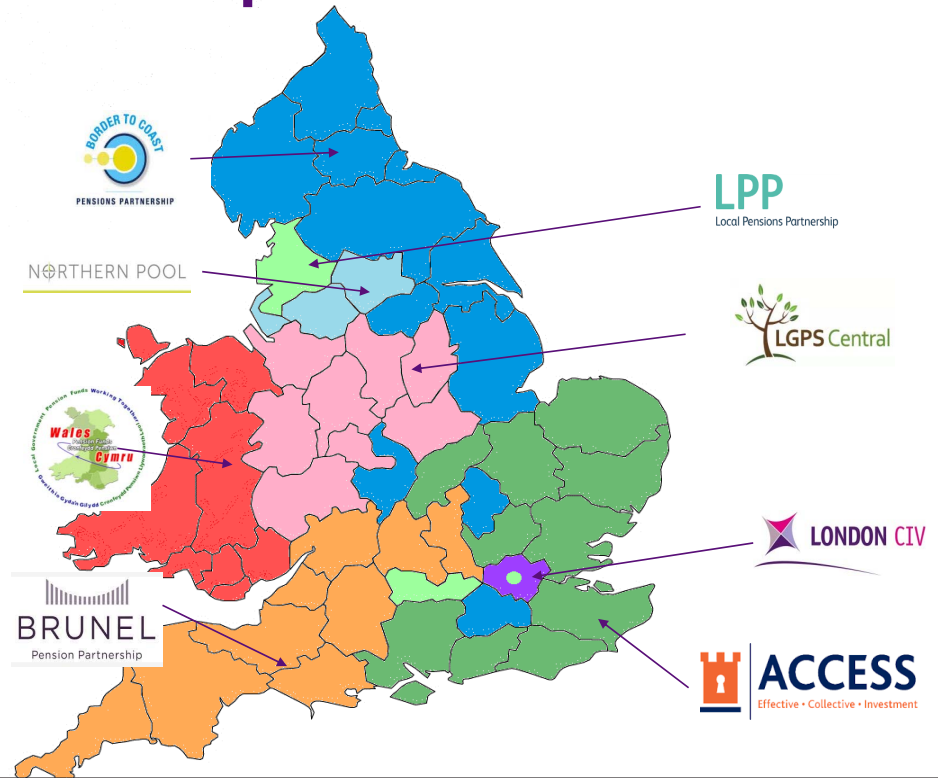
- 2016 Scheme Data
- 89 LGPS Funds across England & Wales
- £217bn Assets under management – (top 10 of global sources of capital)
- 5.3m Scheme members
- Over 13,000 employers
- Funding 79% average

Source: Scheme Advisory Board

Government pooling criteria

- Asset pools that achieve the benefits of scale - £25bn
- Strong governance and decision making
- Reduced costs and excellent value for money
- Improved capacity to invest in infrastructure

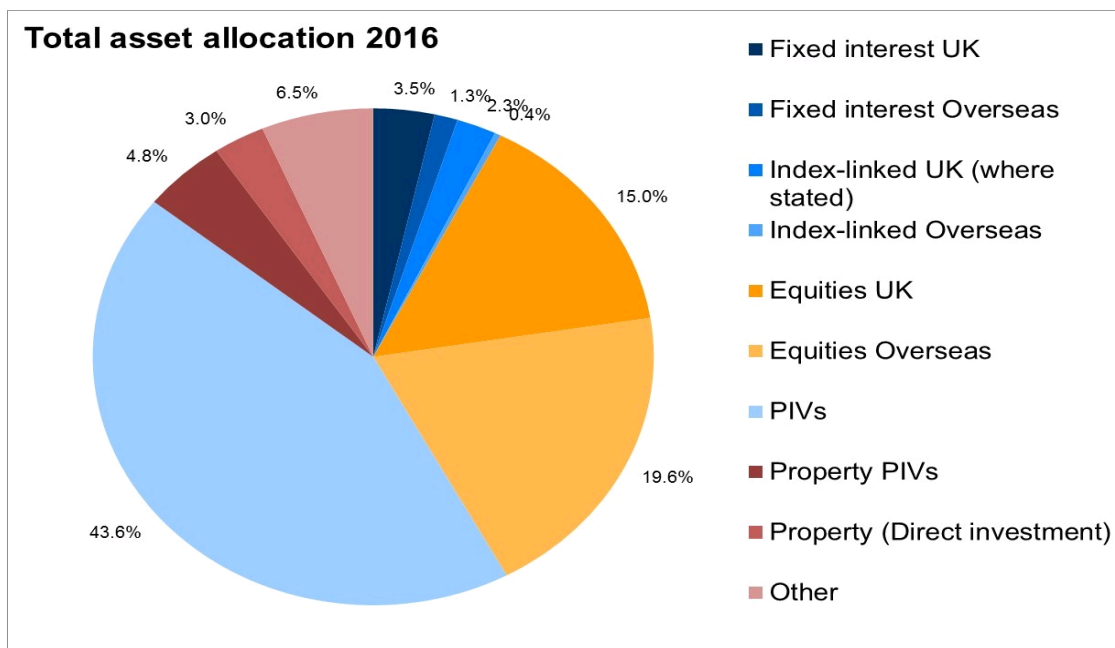
Pooling landscape



LGPS POOLS

- Different models to fit needs of individual Pools and their Sovereign Funds
- Asset Allocation Decisions remain firmly at the local level
- Transparency & openness – Pool and Funds
- Internal vs External investment management
- Operator build vs Outsourced
- Responsible Investment
- Unprecedented in terms of scale & complexity
- Resourcing to deliver success

LGPS Asset Allocation 2016



Source: Scheme Advisory Board

2018 Drawing Closer

Preparing for Transition

- Governance structures in place
- FCA Approval
- Key personnel in place
- Oversight and Reporting
- Policies and Procedures
- Will all take longer and be more complex than expected

- Analyse Fund's current positions
- Consolidation of managers
- Where are areas of commonality?
- Commonality isn't always as clear cut as it appears
- Which asset classes to prioritise?
- Areas of compromise for Funds?
- Procurements?
- Need to deliver to meet strategic local Fund objectives

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Transition Considerations

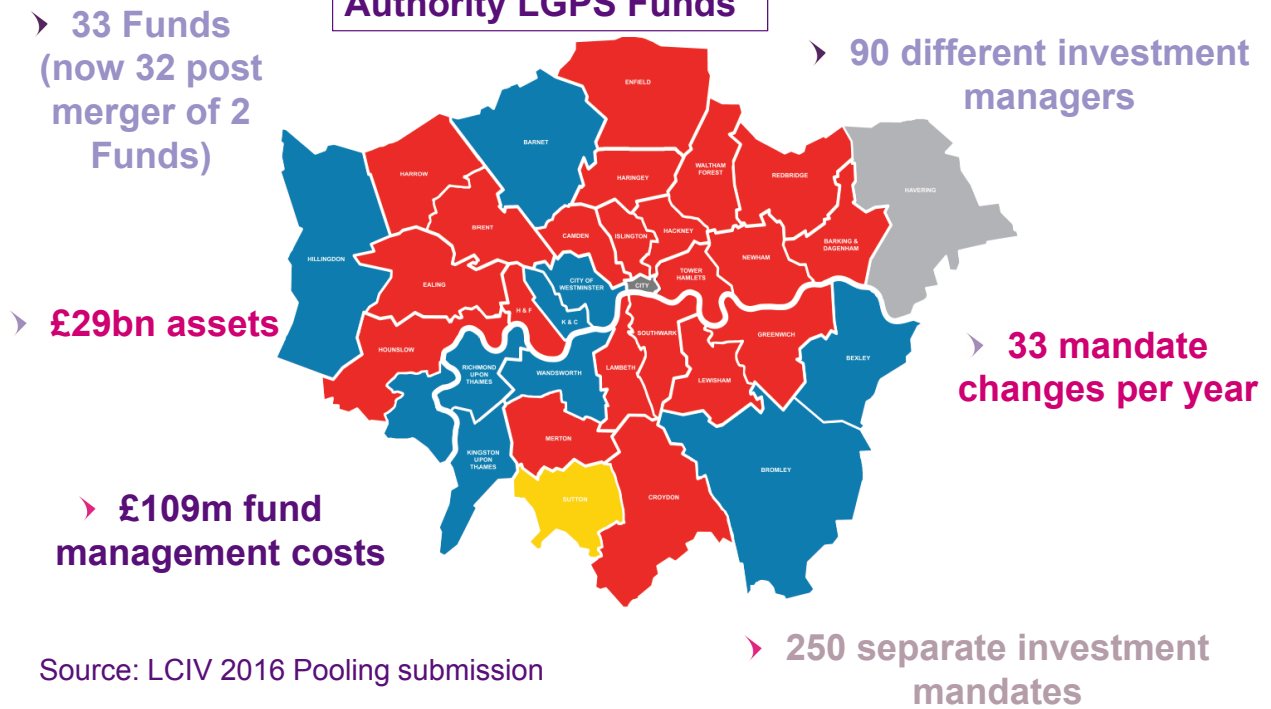


- Use of 3rd party transition manager, custodian?
- Costs will be dependent on market timing, amount of in-specie holdings transitioned
- As with any asset allocation changes or transitions there will be costs associated
- Calculated in advance of transition and reported against
- Internal Fund resources to manage transition
- Transition Manager Framework – development underway

LCIV Transition Experience



London Local Authority LGPS Funds



LCIV Transition Experience



- LCIV AUM £5bn – transitions of existing managers
- Commonality, Quantum, Conviction (CQC)
- 8 Sub-funds open: 1 UK Equity; 3 global equity; 4 DGF/Total Return
- 4 further global equity sub-funds scheduled for launch July-September
- Global equity tender 2016
- Fixed Income/multi asset income procurement

LCIV Transition Experience



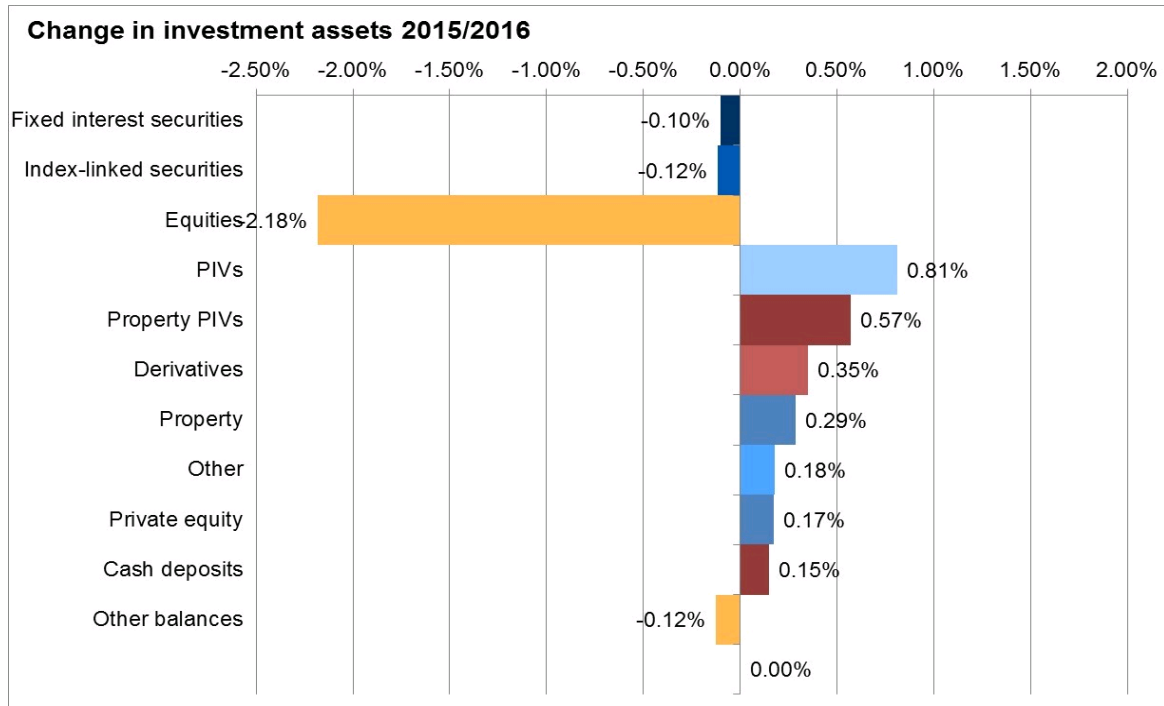
- CQC not as straightforward as would have hoped
- Fund agreements to transition
- Cost savings vary across funds and asset classes
- Negotiations took longer than expected
- Procurements added impetus to negotiations for managers
- Due diligence: Investment; Compliance; Operational
- Sub-fund launches: build timeframe 3-4 months (legal; FCA; asset service provider)

Transition Considerations



- Need to be flexible
- Adapt to changing Fund needs and external circumstances
- Reporting post transition
- Access to investment strategies where external providers used
- Appointments; Removal; Switching
- Future proofing: changes to asset allocation
- Managing expectations

LGPS Asset Allocation Changes



Source: Scheme Advisory Board

Changes to Strategic Asset Allocation

Equities
Gilts



Multi-asset income
Illiquid Credit
Property
Infrastructure



Indicative Asset Allocation Movements

	Total £m
AUM 31/12/16	32,626
UK Equities	-63
UK Passive	-745
Global Equities	-567
Passive Global Equities	-432
DGF	-154
Index Linked Gilts	112
Gilts and other FI	-199
Multi-asset credit	134
Multi-asset income	426
Corporate Bonds	55
Hedge Funds	-57
Illiquid Credit Inc Private Debt	624
Private Equity	147
Property	615
Infrastructure	591

Thank you



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Important information

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LGPS Annual Trustees' Conference

Legal Update

29 June 2017

Gary Delderfield – *Partner*

"You can't take over the world without a good acronym"

CS Woolley

Agenda

- **MiFID II**
- **IORP II**
- **GDPR**
- **GRUOOBAP**

IORP II



IORP II Directive



- EU Directive on Institutions for Occupational Pension Schemes
- Long awaited and debated
- IORP II came into force 12 January 2017
- Member States must now implement- 24 months
- By 13 January 2019

IORP II Directive

Do we need to worry?

- Impact will depend on timing and terms of UK exit from EU
- Unlikely to be known until terms of Brexit are known
- IORP II will still apply to remaining EU states

IORP II Directive

Will it apply to LGPS?

- Under IORP I provisions apply with right to disapply certain provisions in respect of statutory schemes with a public body guarantee
- Position in respect of whether provisions do or do not automatically apply to LGPS is less clear under IORP II drafting
- On assumption IORP II provisions would apply to LGPS (and will apply to UK generally) number of provisions worth consideration

IORP II Directive

Relevant provisions

- New governance requirements
 - written policies in relation to risk management, internal audit and, where relevant, actuarial activities and outsourced activities
 - new 'own risk assessment'
- Funds must notify national regulator where activities outsourced
 - prior notification before any key functions are outsourced
- Remuneration policy
 - establish and apply a "sound remuneration policy for all those persons who effectively run the IORP, perform key functions and other categories of staff whose professional activities have a material impact on the risk profile of the IORP"

IORP II Directive

Relevant provisions

- Fit and proper persons
 - Directive requires each Member State to ensure that the competent authority is able to assess whether the persons who effectively run an IORP, or have key functions, fulfil certain fit and proper person requirements. If implemented, this could mean that the UK Regulator would need to have greater involvement in assessing and monitoring the fitness and propriety of pension committee members
- No professional qualifications for those who run an IORP
- Pension benefit statements
- Requirement to consider environmental, social and governance factors in investment decision making
- Watch this space!

MiFID II

What is MiFID II?

- The Markets in Financial Instruments Directive (MiFID)
- Framework of European Union (EU) legislation for:
 - investment intermediaries that provide services to clients around shares, bonds, units in collective investment schemes and derivatives (collectively known as 'financial instruments'); and
 - the organised trading of financial instruments

What is MiFID II?

- MiFID has applied in the UK from November 2007
- Now being revised.
- Changes set to take effect from 3 January 2018:
 - new legislation being known as MiFID II - this includes a revised MiFID
 - a new Markets in Financial Instruments Regulation (MiFIR).

How is MiFID II relevant to LGPS?

- LGPS investment pooling entity where it is regulated by the FCA either as:
 - a fund operator / alternative investment fund manager; or
 - as an investment manager / investment adviser
- Indirectly, each LGPS administering authority as a client of:
 - its investment pooling entity; or
 - any other provider of investment services to it
- Indirect application:
 - Increased investor protections
 - Revised client terms
 - Client categorisation

Application to individual LGPS funds

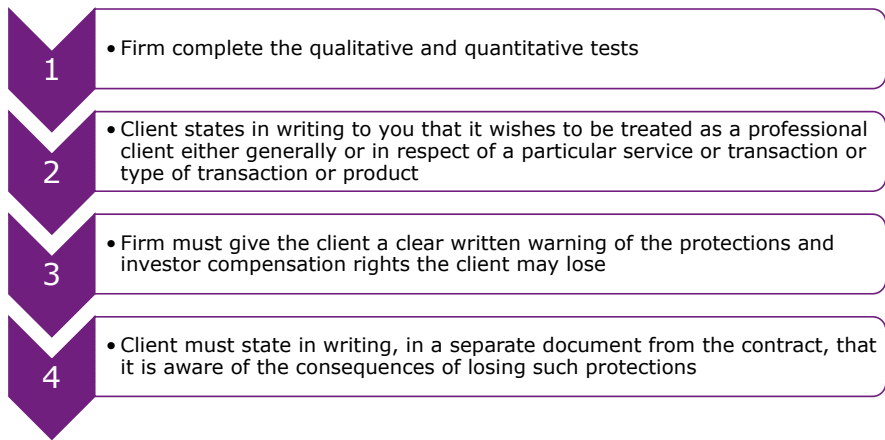
Client Categorisation

Reporting	Organisation	Investor Protection	Distribution
Best Execution	Product Governance	Conflicts of Interest	Appropriateness
Transaction Reporting	Voice Recording	Investment Advice Independence	Inducements
Outsourcing	Complaints	Inducements	Product Governance
	Governance	Client Categorisation	
	Compliance	Remuneration	
	Safe Keeping		

Application to individual LGPS funds

- Why is client categorisation important?
 - Professional Client vs Retail Client
 - Potentially significant impact under FCA Consultation
 - Increased administrative burden
 - Reduced investment universe
 - Ongoing discussions with FCA

The opting-up process



Key steps

- ▶ FCA to confirm opt up process in July (or before)
- ▶ Prepare pack to support opt up process, where required


Mastering the MiFID maze

A selection of collateral designed and developed to help you understand the regulations, keep up to date with the changes and clarify next steps.


We have included links on this page to our relevant sources of law, regulations and guidance. For the very latest information and advice on MiFID II, please feel free to contact one of our specialists.

www.eversheds-sutherland.com/mifid


Our four pillar approach to MiFID II





Explaining the changes
Our four pillar approach to MiFID II




Helping you stay on top
of the latest regulatory changes





MiFID Maps




Mapping the regulations
for your MiFID II business





MiFID II – EU Implementation tracker




Helping you stay on top
of the latest regulatory changes



Implementing the MiFID II Research Payment Rules



Helping you stay on top
of the latest regulatory changes



GDPR and Cyber Security



73

Data protection and cyber security

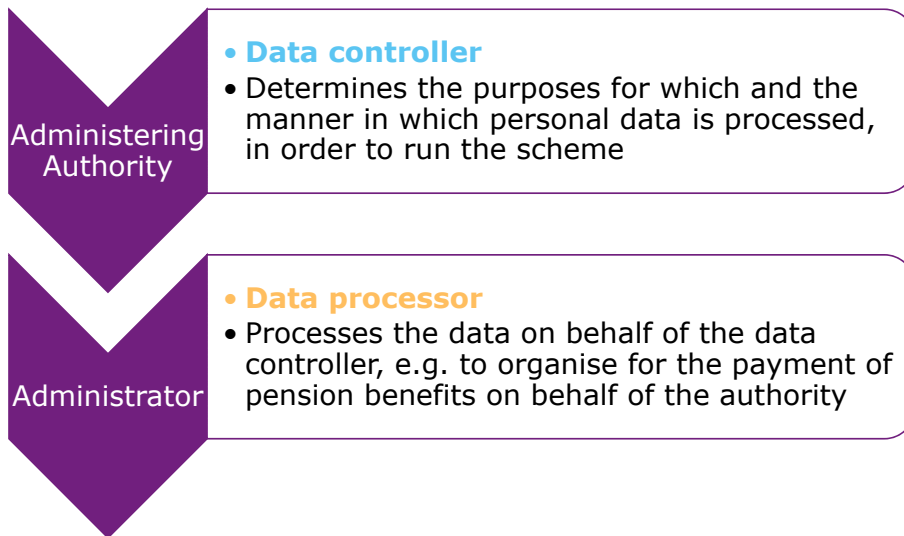
All change!

- General Data Protection Regulation – May 2018
 - New obligations on data controllers
 - Need to ensure that processes are in place to comply
- Cyber security
 - GDPR requires data to be secure
 - Focus of Pensions Regulator



Data protection and cyber security

Applying this to LGPS...



Cyber security

- **46% of all UK businesses identified at least one cyber security breach or attack in the last 12 months**
- **18% suffered hack or data breach**
- **Cost to UK business of £29.1 billion in 2016**
- **NHS attack in May**
- LGPS funds hold a significant amount of personal and financial information:
 - name and address
 - NI number and DOB
 - medical records
 - bank details
- Information may be held on wider authority systems equally probe to attack

This is attractive to criminals and open to exploitation.

Cyber security

Pensions Regulator expectations

TPR expects that:

- Administering authorities should put in place controls to ensure the security of member data
- ensure anyone with access to scheme and member records is suitably vetted and trained
- Authorities administrators should have in place measures to avoid security breaches and data losses

GDPR

The General Data Protection Regulation ("GDPR")



- will come into force across Europe (including UK) on 25 May 2018
- not affected by Brexit
- this will replace the Data Protection Act 1998 ("DPA")

GDPR

Key changes

Relationship with Scheme Administrators

- Administering authorities will continue to have direct obligations (as data controllers)
- Administrators will also have direct obligations (as data processors)
- Previously Scheme Administrators only had obligations under contract
- Both authorities and administrators can be held liable for breach of the GDPR
- This may create complexity when determining which party is liable for a breach under contract.
- Contracts between data controllers and data processors need to include specific terms

GDPR

Key changes

Dealing with Scheme Members

- Authorities will need to provide additional information to scheme members, including:
 - legal basis for processing data (in relation to each purpose)
 - period that data will be retained
- Scheme members will have additional rights, including
 - the right to erasure
 - portability

GDPR

Key changes

Security Breach

- New direct legal obligation to notify ICO (and scheme member) in event of security breach:
 - notify ICO within **72 hours** of awareness
 - notify Scheme Member without undue delay
 - must provide specified information in relation to the breach
- Scheme administrators will be required to notify authorities of breach:
 - without undue delay following awareness
 - no requirement to provide specified information
 - must ensure contract provides for this – so authorities can meet their legal requirements

GDPR

Key changes

Fines

- the GDPR brings greatly increased enforcement powers:
 - Regulatory fines of up to **4% worldwide annual revenue**
 - Civil claims
 - Reputation and brand damage

GDPR

How can authorities start preparing for the GDPR?

- carry out an information audit, e.g.:
 - what personal data do you process?
 - why do you process it?
 - where did it come from?
 - who is it shared with?
 - where is it processed (outside the EEA)?
- identify key risks
- consider privacy compliance from the outset
- review existing and new agreements with processors for compliance
- ensure security breach procedures are adequate

GDPR compliance is no easy task and not something that can be resolved swiftly.

GRUOOBAP

(General Round Up of Other Bits and Pieces)

84

General Round Up

LGPS Criminal Prosecution

- One of first LGPS related criminal prosecutions
- Alleged theft by Chief Investment Officer of over £1 million from pension fund
- Transfer to overseas bank account with assistance of wife
- Charges of:
 - Fraud by abuse of position
 - Theft by employee
 - Concealing criminal property
 - Wife – assisting with the transfer
- Timely reminder of core and basic risks and need for robust internal controls

General Round Up

Mr A (PO-7277)

- Pensions Ombudsman held local authority not entitled to withhold a member's LGPS pension benefits to recover debts owed
- Member had fraudulently transferred £448,207 from authority's bank account to his own
- Authority sought to recoup money by withholding amount from member's LGPS benefits
- To rely on Regulation 74 member must have been dismissed from his employment by reason of his fraudulent activity
- Member dismissed through redundancy prior to fraud being uncovered
- Authority could not rely on Regulation 74
- Authority directed to reconsider method it intended to use to recover the debt
- Need to reconsider drafting of LGPS Regulations?

Questions?



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This information pack is intended as a guide only. Whilst the information it contains is believed to be correct, it is not a substitute for appropriate legal advice. Eversheds Sutherland (International) LLP can take no responsibility for actions taken based on the information contained in this pack.

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LGPS Trustees' Conference 2017

“Apples with Apples”

Bob Holloway

LGA Pensions Secretary

www.local.gov.uk

The Holy Grail of Data



- **Universal data specification**
 - **Consistent data input**
 - **Sufficient resources**
 - **Working knowledge of the scheme**
 - **Single line of communication**
 - **Single software/payroll provider**
 - **Single employer**
 - **Central administration**
 - **Regular internal data reviews**
 - **Independent external review**
-

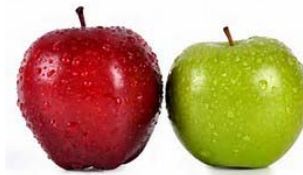
“Big data is like teenage sex: everyone talks about it, nobody really knows how to do it, everyone thinks everyone else is doing it, so everyone claims they are doing it.”

Anon

**“Errors using inadequate data
are much less than those
using no data at all”**

Charles Babbage

**“Comparing apples with apples is fine,
until you discover that there are over
7,500 varieties”**



Bob Holloway

Why is good data important?

- **Members are paid the pensions they are entitled to**
 - **Employers' costs are reliable/correct**
 - **Investment and administration costs are reliable/correct**
 - **Fund valuations reflect true costs**
 - **Reduced administration – less queries**
 - **Avoid IDRPs cases**
 - **Avoid the Pensions Regulator**
 - **Maintains the scheme's reputation**
-

The Pensions Regulator - Public service governance and administration survey – May 2017



Main findings on Data : All Schemes

- **79% of schemes had undertaken a data review within the past 12 months**
 - **9% had done so less frequently**
 - **3% had never undertaken any data review**
 - **9% didn't know if they had undertaken a data review!**
 - **Where data had been reviewed, 53% of schemes had identified issues**
 - **18% of schemes had implemented a data improvement plan**
 - **43% of schemes reported that all active members had received annual benefit statements**
 - **19% of schemes reported that none of their active members had received a statement**
-

Main findings on Data : The LGPS

Proportion of employers providing timely, accurate and complete data as a matter of routine :-

- 0-49% of the time = 5%
- 50-69% of the time = 12%
- 70-89% of the time = 27%
- 90-99% of the time = 38%
- 100% of the time = 7%*

***Corresponding figures for the Police and Firefighters' schemes were 63% and 58% respectively**

Proportion of schemes where all active members received their annual benefit statement by the statutory deadline

- LGPS = 45%
 - Firefighters = 32%
 - Police = 54%
 - Other = 36%
-

TPR concerns

- Poor awareness of governance duties
- Failure to maintain complete and accurate member records
- Ineffective data reviews
- Poor quality of improvement plans
- Poor quality of data
- Absence of risk registers
- Absence of process to report breaches of the law
- Missing statutory deadlines on annual benefit statements

“Scheme managers should be aware that we are more likely to move to use of our enforcement powers this year. We have, and will, take enforcement action where scheme managers have not taken sufficient action to address issues or meet their duties.”



How do we avoid the naughty step?

- Know your duties and responsibilities
 - Clear role for local pension boards to scrutinise
 - Universal data specification
 - Better engagement between funds and employers
 - Practical guidance for all employers
 - Early engagement
 - Effective communication with scheme members
 - Comply with TPR code of practice No 14
-

Conclusions

- Good data is essential for good outcomes
 - Data must be reviewed and action taken where necessary
 - Pension committees and LPB's are key players
 - Recognise that problems also exist at scheme level
 - Clear role for SAB to work with stakeholders
 - Scheme simplification?
 - The honeymoon period with the TPR is at an end
 - Improve or face the consequences.....
-

Disclaimer

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(Chair, Local Government Pensions Committee)

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

The Local Government Pensions Committee presents:

14th Annual LGPS Trustees Conference

“Brave New World”

Bournemouth, 29-30 June 2017

Conference Chair

Denise Le Gal

(Chair, Local Government Pensions Committee)

2016 VALUATIONS

SURPRISING OUTCOMES?

JUNE 2017



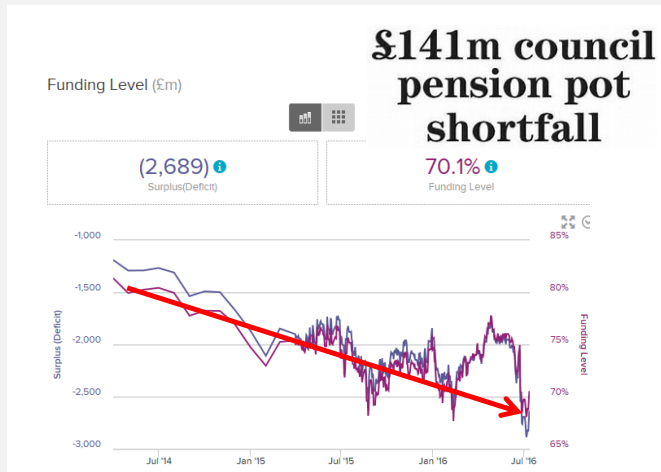
LEANNE JOHNSTON FIA
LGPS STRATEGIST

LEANNE.JOHNSTON@MERCER.COM



MAKE TOMORROW, TODAY  MERCER

HEADLINES.....



BBC Sign in

News Sport Weather iPlayer TV

NEWS

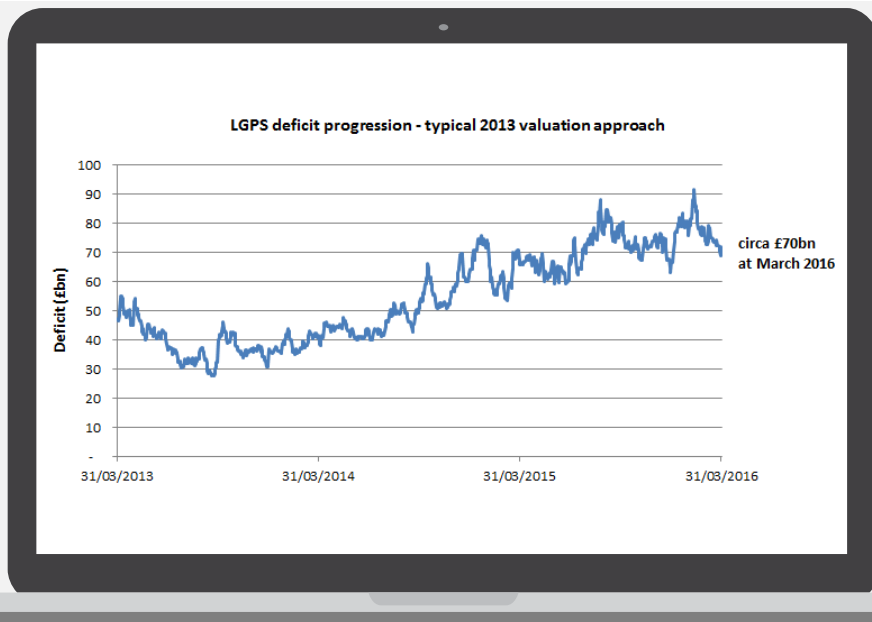
Home UK World Business Election 2017 Tech Science Health Education

Business Your Money Market Data Markets Companies Economy

FTSE 100 firms' pension deficit soars,

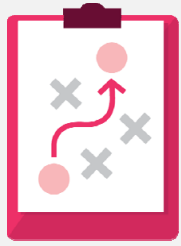
KPMG analysis: LGPS deficit falls by more than expected

AN EXPECTED OUTCOME?



- EXPECTED DEFICIT TO INCREASE FROM £47BN IN 2013 TO CIRCA £70BN

ACTUAL RESULTS



**FUNDING
LEVELS UP
5%-10%**

**DEFICITS
HAVE
DECREASED**



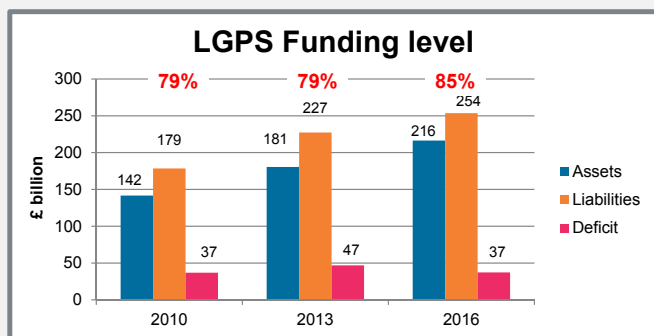
**INCREASED
CONTRIBUTIONS**

**RECOVERY PLANS
MAINTAINED**



SUMMARY RESULTS ACROSS ALL FUNDS

2016 VALUATION RESULTS



OVERALL EMPLOYER CONTRIBUTIONS



PRIMARY RATES



SECONDARY RATES



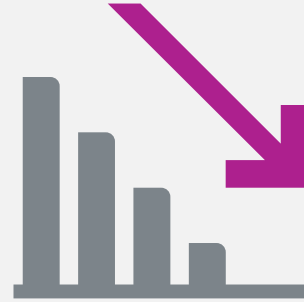
WHAT'S HAPPENED OVER THE LAST 3 YEARS?

INVESTMENTS



**POSITIVE
RETURNS**

LOW INFLATION



DEMOGRAPHIC



**ILL
HEALTH
COSTS**

50/50



**LIFE
EXPECTANCY**

SALARY IMPACT



**DEPENDENT ON
EMPLOYER**

LOOKING FORWARD....



LOWER REAL RETURNS?



INFLATION CONCERNS?



INCREASED EMPLOYER RISK?



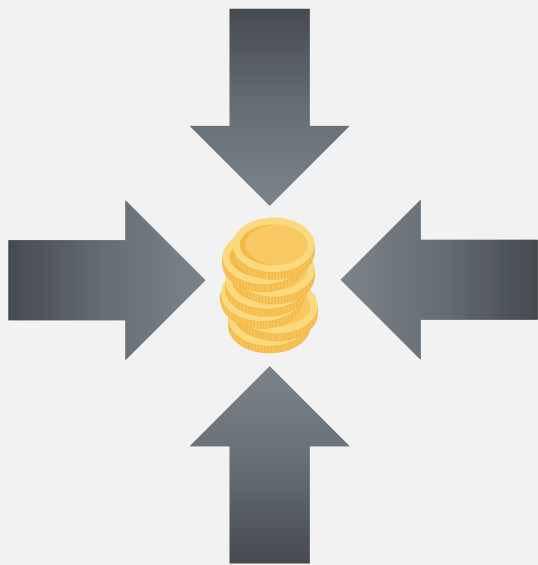
“PREPARE” FOR FURTHER MARKET VOLATILITY?



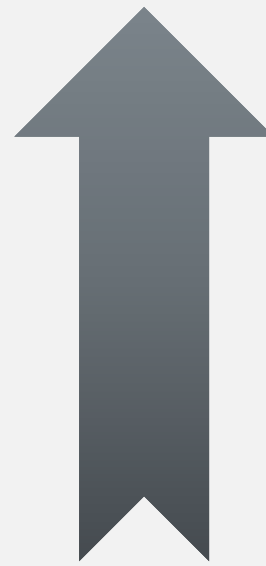
COST CAP?

STILL LOTS OF UNCERTAINTY.....

WHAT IS CERTAIN IS...

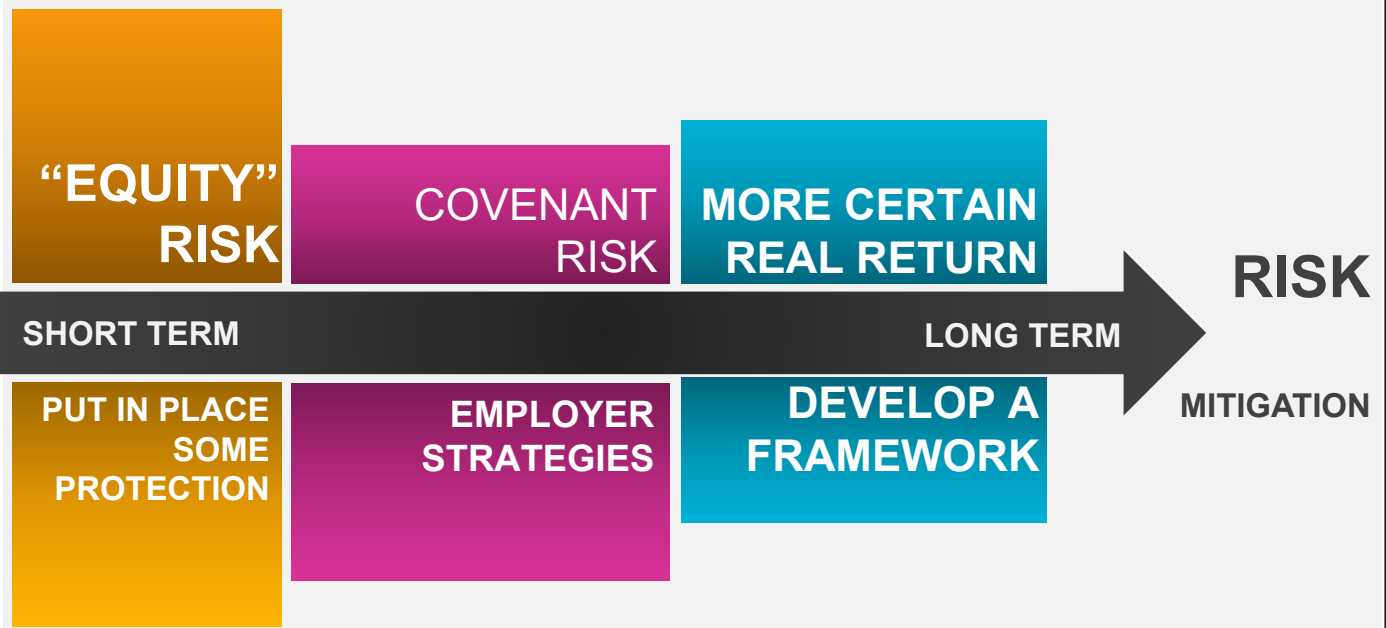


**BUDGETS ARE
SHRINKING...**



**...PENSION COSTS
AREN'T**

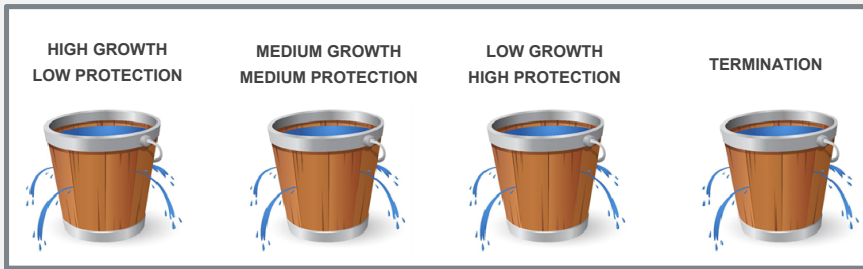
NOW IS A GOOD TIME TO REVIEW YOUR RISK MANAGEMENT STRATEGY



WHAT ABOUT EMPLOYERS....



WHAT LEVERS ARE AVAILABLE?



FINALLY 3 TAKE AWAYS....



1. CONTRIBUTIONS



2. CONTINUED IMPROVEMENT IN FUNDING



3. RISK MANAGEMENT

DON'T WAIT UNTIL IT IS TOO LATE

QUESTIONS



MAKE TOMORROW, TODAY



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Are Public Service Pensions Affordable? (or How the Risk is Shared)

John Bayliss (GAD)

Bournemouth Marriott Highcliff Hotel, BH2 5DU
14th Annual LGPS Trustees' Conference "Brave New World", 30 June 2017

I'm here to tell you about GAD

And it's role in the question

Are Public Service Pensions Affordable?

WHY
ARE
WE
HERE?





- To support effective decision-making and robust reporting within government as the first choice provider of actuarial and specialist analysis, advice and assurance

Public Service Pension Schemes

- Pension liability £1.49 trillion
- Largest Component (54%) of non-current liabilities
- Pension costs £45bn (about 1/3 of wages)
- Benefits paid £37.8bn

Source: 2014/15 Whole of Government Accounts



Whole of Government
Accounts
year ended 31 March 2015



For traditional defined benefit schemes, the employer takes the risk of costs rising

In Public Service Pensions Act 2013, the Cost Cap was introduced.

- A means of capping the cost of providing the benefits in the scheme regulations
- Leading to greater stability of costs to employers and the tax payer
- A mechanism to share the risk with members



Public Service Pensions

- Valuation (cost cap, setting contribution rates)
- Resource accounts
- Factors
- Advice to departments



Most Public Service Pensions Schemes are unfunded

- NHS Pension Scheme,
- Principle Civil Service Pension Scheme,
- Teachers Pension Scheme
- etc



are all unfunded (ie pension benefits are paid out of revenue, not proceeds from assets). Contributions set centrally.

- LGPS is the exception. It has assets built up over time, set aside to help meet the pensions it has committed to pay. Contributions set locally.



Advisor to DCLG

- Cost Cap Valuations under HMT Directions
- Advise the Secretary of State on actuarial guidance/factors in accordance with regulations
- Section 13
- Other ad hoc projects

Relationship with other stakeholders eg Scheme Advisory Board, CIPFA, ACA



Department for Communities and Local Government

“The Government, on behalf of the taxpayer, should set out a fixed cost ceiling: the proportion of pensionable pay that they will contribute, on average, to employees’ pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached.”

Lord Hutton

“Employer cost cap

(1) Scheme regulations for a scheme under section 1 which is a defined benefits scheme must set a rate, expressed as a percentage of pensionable earnings of members of the scheme, to be used for the purpose of measuring changes in the cost of the scheme.”

Public Service Pension Act 2013 – Section 12





Cost Cap – what is the point?

Cost Cap is:

A benchmark cost of providing the (mainly post 2014) benefits earned by active members

Recognising experience since 2014 (and spreading it over 15 years)

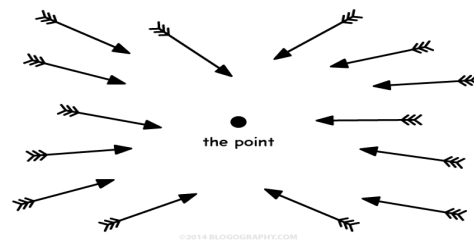
A way of passing a share of the risk of the public service schemes onto members

Cost Cap is not:

Used to set contributions

A real world estimate of the value of the fund

Well understood by the community



Scheme as a whole unit

**Assessed initial cost cap
@31 March 2013**

**Reassess every three years
Action required if +/- 2%**

**Process and most assumptions set
under HM Treasury Directions**

SAB has a separate cost cap

**A breach leads to change in benefits or
member contributions**



Target cost of 19.5% (Employer = 13%; Employee = 6.5%)

If the increase in the employers' target cost of 13% is :-

- > Less than 1%, SAB may make recommendations to the SoS
- > Between 1% and 2%, SAB should make recommendations to the SoS
- > More than 2%, SAB must make recommendations to the SoS

To bring costs back to the target cost.

Methodology and assumptions to be determined by SAB

SAB report to be submitted within 23 months of the cost assessment

SoS must publish a response within 6 months of the SAB's report

The cost cap valuation and funding valuation are different exercises used for different purposes, so you can't directly compare them

Cost cap valuation

Done by Scheme Actuary (GAD) under HMT Directions

Responsibility of HMT

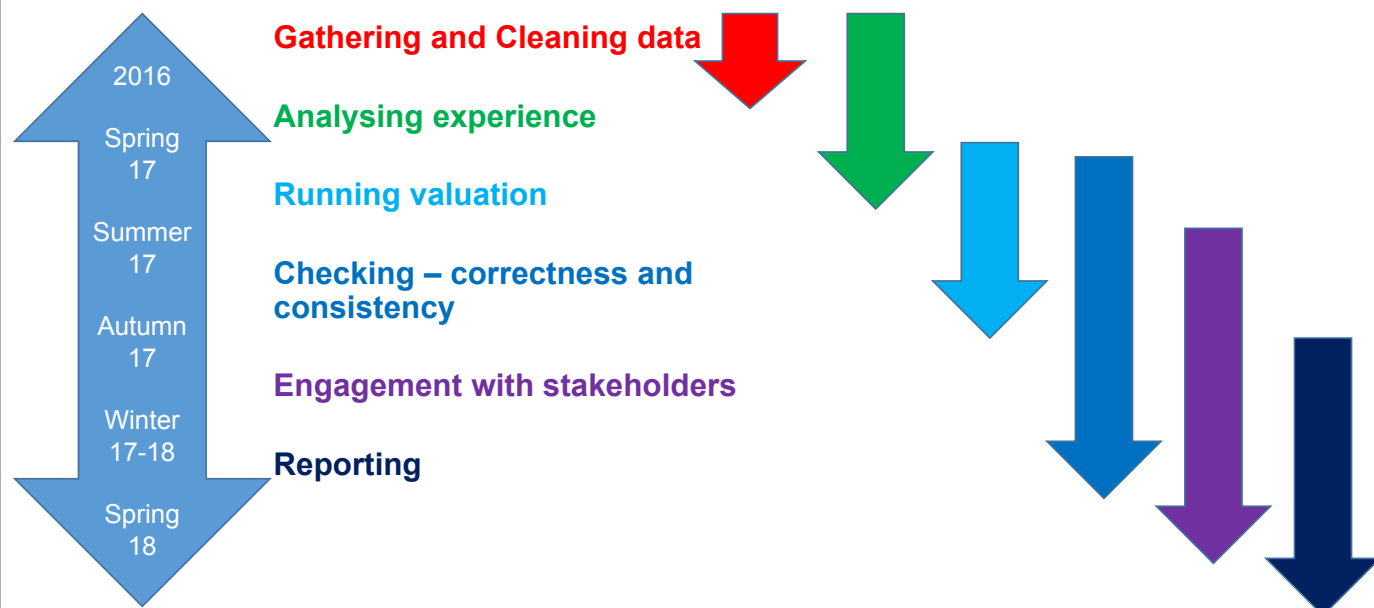
Can lead to change in member benefits or contributions if costs move by more than 2%pa

Funding valuation

Done by the Fund Actuary under scheme regulations

Responsibility of administering authority

Sets employer contribution rates for the next three years





14th Annual LGPS Trustees Conference
“Brave New World”

Panel Session

**With Alison Murray, Douglas Green,
Annemarie Allen & Glyn Jenkins**

The Local Government Pensions Committee presents:

14th Annual LGPS Trustees Conference

“Brave New World”

Bournemouth, 29-30 June 2017



National LGPS Frameworks – acorn to oak tree



Nigel Keogh, National LGPS Frameworks Operations and Development
Manager

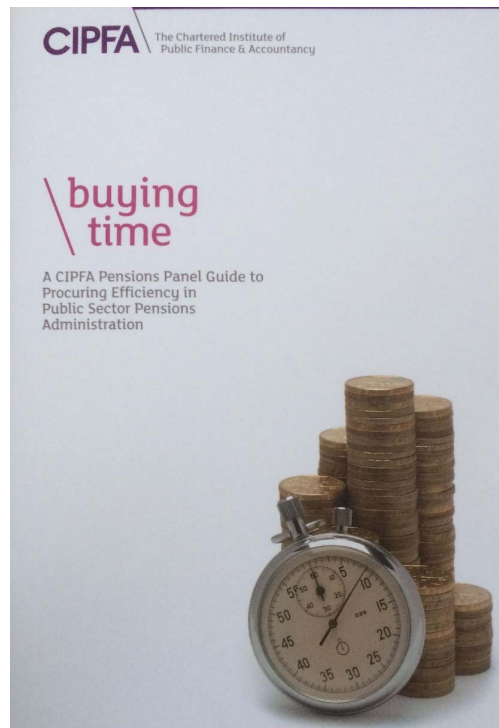


Seeds of an idea...

- Spending Review 2003 – Sir Peter Gershon commissioned to undertake a review of public sector efficiency
- July 2004 - Highlights “smarter procurement” as a one of four key focal points
- By 2008, smarter procurement delivers £9.5 billion out of a reported £26.5 billion in efficiency gains
- Operational Efficiency Programme 2008 and The Green report 2010 – both reiterate the savings to be made from collaborative procurement in the public sector



Seeds of an idea...





Seeds of an idea...

- 2010 – Coalition government establishes the Independent Public Service Pensions Commission under Lord Hutton of Furness
- 2011 – Commission publishes final report – Recommendation 23:

Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities.



Seeds of an idea...

6.78 The Commission welcomes the fact that a number of local authorities, particularly in the LGPS, have already begun to explore opportunities to share administrative services and contracts (the Commission received evidence about existing or potential projects in Scotland, Wales, the South-West of England and London). The costs and risks for local authorities from such ventures will need to be assessed carefully, but at this early stage it would seem reasonable to assume that there will be financial savings.



Seeds of an idea...

*6.78 The Commission welcomes the fact that a number of local authorities, particularly in the LGPS, have already begun to explore opportunities to share administrative services and contracts (the Commission received evidence about existing or potential projects in Scotland, Wales, the **South-West of England** and **London**). The costs and risks for local authorities from such ventures will need to be assessed carefully, but at this early stage it would seem reasonable to assume that there will be financial savings.*

Procurement Frameworks

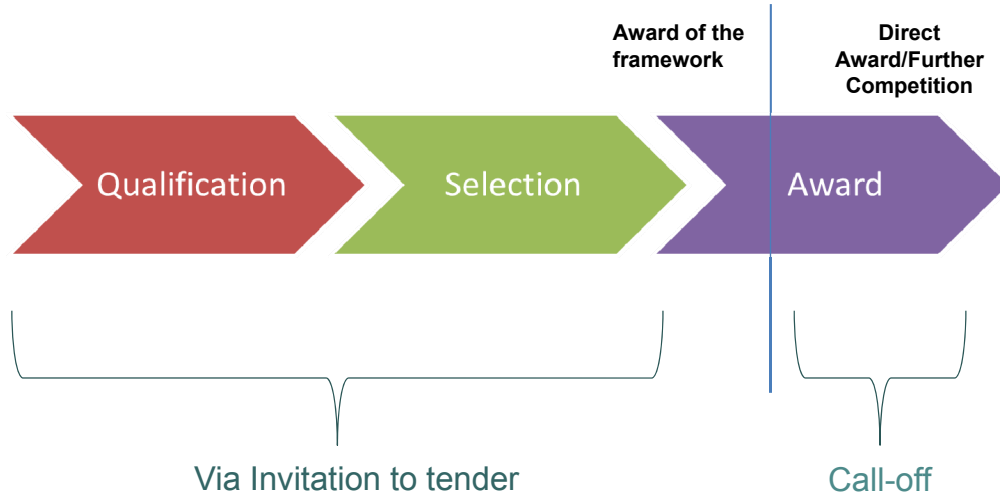


What are Frameworks?

- An agreement put in place following a full European Union (OJEU) compliant competitive tender process with a provider or range of providers that enables buyers to place orders for services without running lengthy full tendering exercises.
- Widely used across the public sector
- Good for services that you can define and have demonstrated that considerable time and cost savings can be made.
- Based on large volume purchasing. Aggregating different purchasers' potential needs means individual purchasers can buy goods and services at prices below those normally charged, or with special added benefits and/or more advantageous conditions.



The Procurement Process

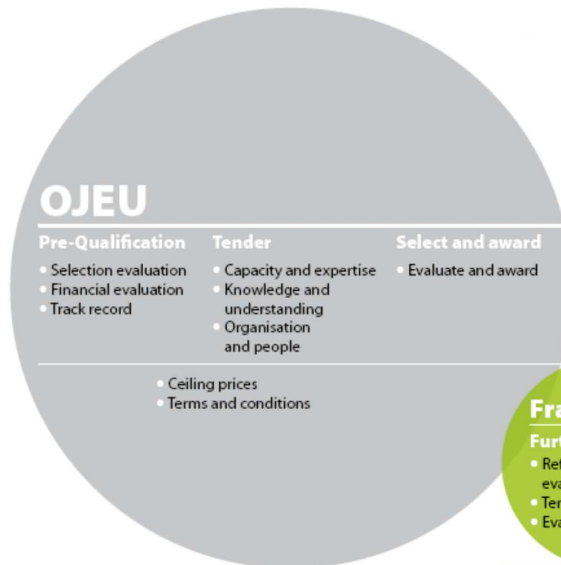


National LGPS
Frameworks

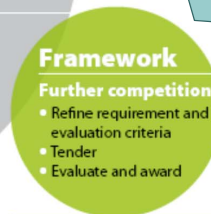


How do Frameworks work?

Letting Authority
does this



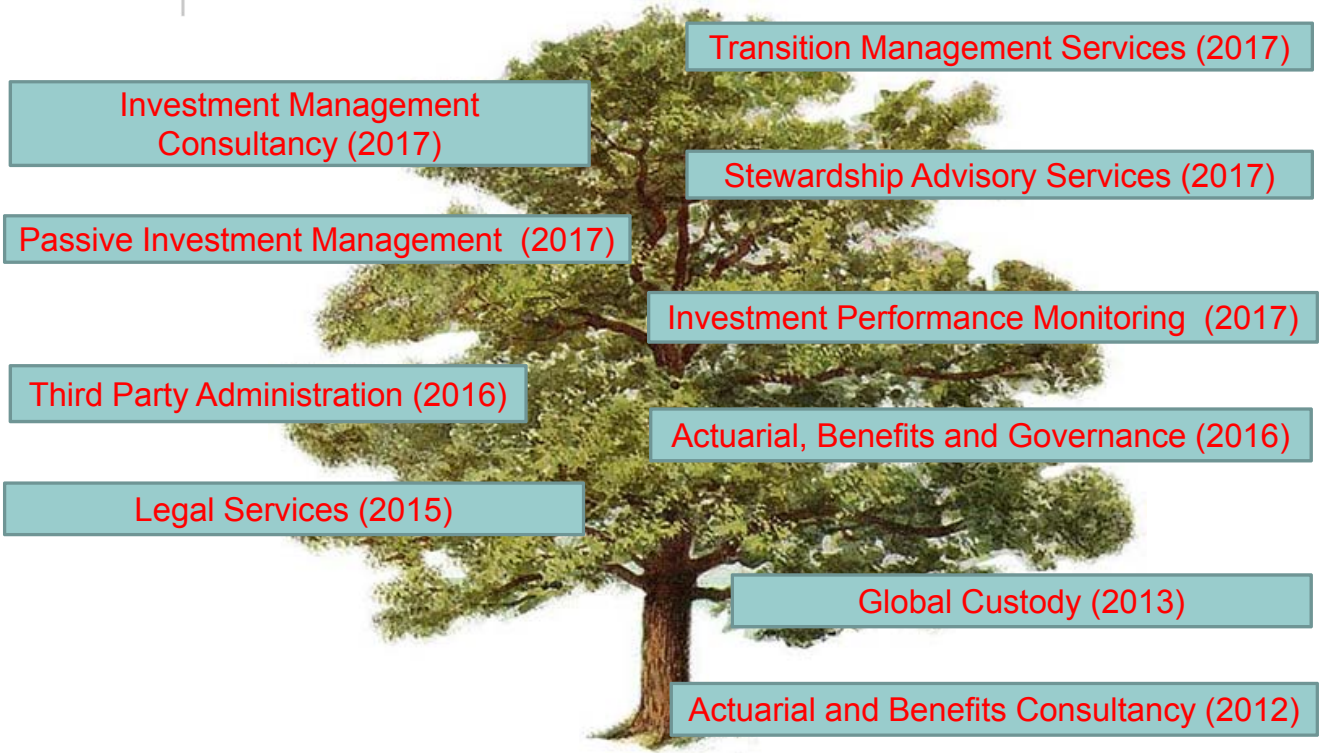
Framework
users just need
to do this



National LGPS
Frameworks



What are the National LGPS Frameworks?





National LGPS Frameworks

collaboration in action:

- We all have to buy specialist services
- We all have to comply with Public Contracts Regulations
 - National LGPS Frameworks are an OJEU compliant procurement vehicle
 - **Remove** the need to independently undertake full European Union (OJEU) procurement
 - **Retain** local service definition and decision making
 - **Leverage** our combined buying power - an aggregated cumulative stepped rebate based on the overall value of work awarded to a supplier under this framework, pro-rata'd across all users awarding work to that supplier during the year
 - **All organisations in scope** can use
- Tested and proven way to **save time** and **save money**



National LGPS
Frameworks



National LGPS Frameworks

Sharing innovation and best practice

Sharing knowledge and information

Extracting added value from suppliers

Ensure access to good quality services

Significant project supported by:

- Wide range of LGPS expertise
- Framework Procurement and Legal specialists

Established governance and collaborative decision-making model



National LGPS
Frameworks



Strong roots - how the National LGPS Frameworks work – “Founders”

- “By the LGPS for the LGPS”
- Founders are an integral part of every Framework

The Role:

- Design the specification and Invitation to Tender
- Evaluate tenders
- Share in the set-up costs



Strong roots - how the National LGPS Frameworks work – “Founders”

The Benefits:

- Shape the specification and outcome
- Free to use
- Participate in the wider governance of the National LGPS Frameworks programme



Strong roots – how the National LGPS Frameworks work – the funding model

- “By the LGPS, for the LGPS”
- Non Profit Making
- Benefits sharing



National LGPS
Frameworks



Strong roots – how the National LGPS Frameworks work – the funding model – set-up costs

- **Founder funding**
- **Joining fees**
- **Founder reimbursement**



National LGPS
Frameworks



Strong roots – how the National LGPS Frameworks work – the funding model – running costs

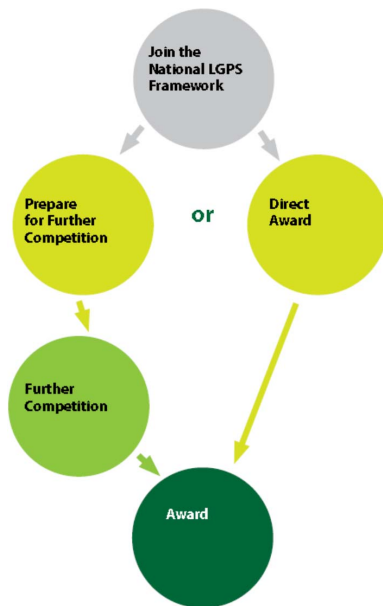
- Paid for by suppliers
- Surpluses reinvested



National LGPS
Frameworks



How does it work for users



- Contact National LGPS Frameworks
- Introduction Pack containing:
 - Introduction Notes
 - Confidentiality Statement
 - Sample Members Access Agreement
- Return Confidentiality Statement
 - Before receiving Provider's catalogues and pricing structures Funds are required to sign and return a Confidentiality Agreement
- Once a decision is made to utilise the Framework a Members Access Agreement is signed.



National LGPS
Frameworks



National LGPS Frameworks

Key benefits for users

- Agreed Terms and Conditions of contract
- Standard consistent process with standard tender documents provided to users
- Comprehensive user documentation
- Shortened timescale for Procurement
- Managed framework - continuity
- Easier for the LGPS to access services
- Cumulative rebates



National LGPS
Frameworks



Scope – who can use the National LGPS Frameworks?

- LGPS Administering Authorities (England, Scotland, Wales and Northern Ireland) and participating employers
- Use by wider public sector bodies but primarily focused on the LGPS



National LGPS
Frameworks



Call-off options

Direct award - simple order form after reviewing supplier best-fit from the supplier catalogue

Further competition - Framework users can call off for their individual or collaborative requirements by running a further competition exercise by inviting all capable providers for the required services



National LGPS
Frameworks



Further Competition – how does that work?

- Formal process
- Standardised call off Terms and Conditions
- Compliance with Award Criteria established in Framework
- Standstill period
- Contract Award



National LGPS
Frameworks



So – does the National LGPS Frameworks model work?

- 6 active Frameworks
- 3 more in development
- 29 “Founder funds”
- 154 joiner agreements across 80 different user organisations
- Estimated £35m in procurement and service cost savings
- Collaborative rebates now being paid



So – does the National LGPS Frameworks model work?

- Real, practical help e.g contracted-out reconciliation
- Not just high-value, OJEU works
- LGPS-wide solutions e.g investment management cost monitoring and reporting
- Positive feedback from users and suppliers
- Continued demand for wider coverage



Still growing...

www.nationallgpsframeworks.org

nationallgpsframeworks@norfolk.gov.uk



[@LGPS_Frameworks](https://twitter.com/LGPS_Frameworks)



National LGPS
Frameworks

14th Annual LGPS Trustees Conference

Investment Spotlight

Atul Shinh

Investment Specialist, Investec

For a copy of the slides please contact: Stephen.Lee@investecmail.com

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(Chair, Local Government Pensions Committee)

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