

13 February 2020

Agenda Item: 4

REPORT OF SERVICE DIRECTOR – CUSTOMERS AND HR

LGPS GOVERNANCE CONFERENCE 23 – 24 JANUARY 2020

Purpose of the Report

1. To report on the 16th LGPS Governance Conference 2020.

Information and Advice

2. The 16th Annual LGPS Governance Conference took place in York on 23 and 24 January 2020. The Conference was opened by the Scheme Advisory Board (SAB) Chair, Cllr Roger Phillips. The Conference covered a range of topical items for the Local Government Pension Scheme, including responsible investment, governance, compliance, along with actuarial and legal issues.
3. This year the conference was attended by two Members of the pension committee, Councillor Stephen Garner, Pension Committee Vice Chair, and Terry Needham, Member Representative, along with Jonathan Clewes Pension Administration Manager.
4. It should be noted that the views set out in the report are those of the presenters and not of the Nottinghamshire Pension Fund.

Day 1 - Keynote Address

5. The keynote address for day 1 was presented by Anthony Arter, The Pension Ombudsman and he covered several areas which have impacted on the LGPS.
6. The purpose of the ombudsman is that he can investigate all occupational and personal pension schemes. The Ombudsman is impartial, customer focused and a free alternative to the courts. Over the last couple of years, the Ombudsman has changed, now only 10% of all complaints go on to formal determination, as an early resolution process was established in April 2018.
7. The Ombudsman reported that the number of LGPS complaints have remained steady at around 300 a year, and 24% of LGPS complaints were upheld in 2018/19 and this is lower than the average of 28% across all pension schemes.

8. The top 10 complaint topics are the following:

Complaints	Percentage
Failure to provide information/act on instructions	13.92%
Transfer: general	11.24%
Benefits: incorrect calculation	10.14%
Misquote/Misinformation	8.49%
Ill health	8.41%
Benefits: refusal to Pay or late payment	5.74%
Death Benefits	5.50%
Administration	4.64%
Benefits: overpayment	3.38%
Contributions: failure to pay into the scheme	2.59%

9. It was also reported that the volume of transfer complaints are reducing, and complaints against scams are low, however there have been several high-profile cases and there is no room for complacency from pension providers.

10. The highest number of complaints in local Government related to Ill Health retirements at 47% with the next issue relating to the incorrect calculation of benefits at 13%.

11. The message from the Ombudsman was that communication to pension members is very important in reducing complaints.

How the Scheme Advisory Board (SAB) Levy is spent

12. Cllr Roger Phillips, Scheme Advisory Board Chair, reported to the conference the work being undertaken by the SAB, as well as a review of its achievements.

13. The conference members were reminded of the wealth of information which is supplied on the SAB website which contains meeting papers and minutes, scheme developments and information, the scheme annual report, information on the good governance project, and responsible investment information.

14. The aim of the Board is to work closely and collaboratively with MHCLG, and this has continued through the election period. Meetings are now being arranged with ministers as a priority as the board need to be aware of the new Government priorities in terms of Public Service Pensions especially the LGPS. SAB intends to be on the front foot, protecting the scheme and its members will continue to be the key objective.

15. SAB's achievements include the annual report, the code of transparency on fees (developed with the Investment Association) which over 120 asset managers are now signed up to, the good governance project, and work to date on responsible investment guidance and pooling governance.

Securing Compliance

16. J Gerard Moore, Local Pension Board Chair – Northumberland, Powys and Bedfordshire. Gerard gave his evaluation of the role of the Local Pension Boards from his analogy of the Coal Face in terms of the Local Pension Board being a ‘critical but supportive friend’.
17. The main board function is to Assist the Scheme Manager: (i.e. the Administering Authority) to secure compliance with scheme regulations, other legislation and requirements of the Pensions Regulator, and to ensure effective and efficient governance & administration of the LGPS. In order to achieve this compliance, the relationship between Pensions Committee, the Pension Board and officers is crucial, with the democratic services officer playing a key role, along with a strong relationship between the Pension Board and the Pensions Administration Manager is also needed.

It was explained that Boards’ agendas can (or should) include:

- The fund the Pension Regulator Survey response
- Composite the Pension Regulator survey conclusions
- The fund Pension Regulator Annual Return
- Composite Annual Return conclusions
- The Pension Regulator LGPS 2018/19 Cohort review (the regulator visited 10 LGPS schemes and produced a review report).

Scheme Member’s perspective

18. John Richard from Unison presented a summary of the impact of the Hutton reforms from the fund member’s viewpoint.
19. John explained that Unison’s view was that the Government’s implementation was an issue leading to lengthy union negotiations, strikes and Danny Alexander’s 25 year “guarantee” of no further reform. John went onto describe that there are now Unison members representatives on Local Pension Boards but not yet on all pools.
20. John also reminded the conference that Unison had stated at its implementation that the fixed cost ceiling would cause issues relating to the cost cap which has now been found to be true.
21. John’s further points related to Unison’s view that Pools are dictating to funds rather than serving funds, and running costs are a concern, and Unison believes that funds should take back control.

Panel Session – Is the cost cap fit for purpose?

22. This session was chaired by Jeff Houston, the LGA Head of Pensions;
23. The panel was made up of Melanie Durrant, Barnett Waddingham; Alison Murray, Aon; Richard Warden, Hymans Robertson; Paul Middleman, Mercer.

24. Various questions were put to the panel of actuaries about the cost management (not just “cap”) process and the McCloud case, the points included.

- Cost management being in a parallel universe compared to actual costs paid by employers in the real world.
- The risk that measuring long term cost cap assumptions, such as longevity, over short time periods can lead to a breach before the long-term trend is known.
- Recognition that McCloud may place a huge burden on LGPS administration teams.

2nd Day - Keynote Address

25. Lord Hutton of Furness looked back over the period since his report was published on the 10 March 2011 on public sector pension reforms.

26. Lord Hutton stated that the pace of change in pensions won't slow down; and one of the biggest issues is likely to be the climate change agenda.

27. One of the main successful changes since 2011 has been the implementation of Auto Enrolment in terms of pensions provision, but an ongoing challenge is that people are not saving enough for retirement.

28. The key pillars of the public sector pension reform were the introduction of career average revalued earnings making the scheme fairer, rather than having a final salary scheme. Also cost management providing transparency about who is paying what, and finally governance, demonstrating good stewardship.

29. In relation to McCloud the report warned at the time against building in age related protection because of the danger of age discrimination.

30. Finally, Lord Hutton went on to talk about the UK not being a nation of savers, and raised the question, is more compulsion needed? and stated he would like to see a 'Minister for Savings' where tax and pensions policy are joined-up instead of separate.

Regulating the Reforms

31. Nick Gannon, The Pensions Regulator presented his position on how the LGPS is measuring up against the TPR's standards on governance and administration.

32. The TPR is a public body that protects workplace pensions in the UK, and ensures that employers, trustees, pension specialists and business advisers can fulfil their duties to savers. The TPR has regulatory powers to tackle pension risks in a targeted and proportionate manner, and regulate compliance with the Public Services Pensions Act 2013. The TPR engages public service schemes mainly through scheme managers and pension boards.

33. Currently the TPR is finalising the revised, single code of practice, and the new code will be a new way of approaching TPR's expectations rather than a new set of expectations. The TPR's objective is to set clear expectations to Pension Funds, and to also move towards being a more proactive regulator. The message was “don't be afraid” and if the fund has a problem the regulator is “here to help”.

34. Nick also ran through the TPR annual survey for the LGPS 2018, currently awaiting the 2019 survey results. The main message was that the LGPS measures up well but there is room for improvement.
35. One of the main issues for funds has been the issue of benefit statements, and he stated that it is better to get them out to members slightly late and 100% accurate than to send inaccurate statements to hit the deadline.
36. Finally, Nick presented highlights from the LGPS 'deep dive' visits which revealed there is an over-reliance on local authority controls (especially on cyber security), some funds had little documentation on internal processes, other issues were that risk registers lacked detail, and there is not enough monitoring of risks. The top three reported governance and administration risks facing funds were:
- Funding or investment
 - Record Keeping
 - Recruitment and retention of staff or knowledge

Legal Update

37. Kirsty Bartlett, Squire Patton Boggs presented all the conference needed to know to keep the lawyers at bay and gave a summary of the Pensions Bill and the main subjects which will impact on the LGPS.
38. The Pension Schemes Bill was reintroduced in the House of Lords on 7 Jan 2020, and the Bill will have several implications for LGPS funds and will commence in April or October 2020. The Bill is designed to strengthen the employment link between receiving schemes and members in relation to transfers, with a greater requirement to undertake due diligence. It is suggested that further checks will be required to be made by the Pension Administration Teams.
39. The Bill will also extend the TPR's information-gathering powers, along with new civil penalties where information is not volunteered.
40. The Bill is also progressing the proposed Pensions Dashboard which is a proposed online facility to access information about all individual pension benefits. This is due to be created and operated by the pensions industry. The quality and security of data will be key. The Pensions Dashboard has been described as "the HS2 of Pensions", and therefore the LGPS will keep a close eye on progress.
41. Pensions taxation was a talking point as this is a complicated area for the LGPS to administer, and therefore there is a possibility that the Government will propose some changes in the next budget.
42. The view on the McCloud case was that Funds will need to wait and see, but that the impact on Funds' ability to administer whatever outcome is agreed is expected to be significant.

Why responsible investment matters

43. Caroline Escott, Pension & Lifetime Savings Association (PLSA) presented her view on the rise and rise of responsible investment, regulation and policy.
44. The presentation related to responsible investment, risk adjusted returns, investment in the Social Sector and enterprises, mitigating climate risk (Boris Johnson is chairing the Government's response, highlighting its importance).
45. However, there are barriers in the form of a lack of client demand, a lack of standardised data, and insufficient member engagement.
46. There is a strong political imperative to ensure some positive outcomes from the United Nations climate change summit COP 26 in Glasgow this year.
47. The PLSA is launching a responsible investment guidance at its conference in May. Caroline also took the opportunity to promote the PLSA, and that there is a lot of online guidance and tools.

Investment spotlight

48. Deirdre Cooper, Investec Asset Management, presented her view on a topical look at investment issues.
49. The first point made was that funds should talk less about "disinvestment" and more about "investment" and focus on opportunities.
50. Deirdre went on to explain that it is estimated that we are on track for 5 degrees of warming by 2100, and that £2.4tn of investment is needed until 2035 to decarbonise.
51. It was also stated that future trajectory of warming will depend on pace of policy response including the use of technology.
52. In terms of calculating Carbon foot printing it was explained that there are 3 scopes to measuring climate risk:
 - Scope 1 – direct emissions from factories
 - Scope 2 – carbon emissions being the indirect emissions from the generation of purchased energy.
 - Scope 3 – there are 15 separate categories of scope including, 8 relating to supply chain e.g. fuel and energy related activities, capital goods, and 7 relating to the emissions of the products once they are sold and used. Typically, 75% of emissions are in Scope 3.
53. The last point made was that emissions from China are growing but that they are also investing heavily in research on carbon reduction

Statutory and Policy Implications

54. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

That members consider whether there are any actions they require in relation to the issues contained within the report.

Marjorie Toward
Service Director – Customers and HR

For any enquiries about this report please contact:

Jonathan Clewes, Pensions Manager on 01159773434 or jon.clewes@nottsc.gov.uk

Constitutional Comments (GR30/01/2020)

55. Pursuant to the County Councils Constitution, the Nottinghamshire Pension Fund Committee has the delegated authority pursuant to Part 4 section 37 to consider the recommendations set out within this report.

Financial Comments

56. There are no financial implications arising from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None.