

REPORT OF SERVICE DIRECTOR – CUSTOMERS AND HR**LGPS TRUSTEES CONFERENCE 29 – 30 JUNE 2017****Purpose of the Report**

1. To report on the 14th Annual LGPS Trustees Conference.

Information and Advice

2. The 14th Annual LGPS Trustees Conference, organised by the Local Government Pensions Committee (LGPC), was held on 29 to 30 June 2017 in Bournemouth. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills, the conference was attended by Stephen Garner, Pensions Committee Vice Chair, and Helen – Ann Smith Pensions Committee Member, along with Jonathan Clewes Pensions Team Manager.

3. **Keynote Address**

The Keynote Address was presented by Bob Holloway LGA Pensions Secretary on behalf of Cllr Roger Phillips the Local Government Pensions Scheme Advisory Board (SAB), who presented an update on the Scheme Advisory Board. He covered 7 main topics including the activities of the SAB, the LGPS Annual Report 2016, Scheme Advisory Board Surveys, valuation results, Cost transparency, and the impact of Brexit.

This is the fourth year of the Board being in operation, and acknowledged that this is a challenging financial environment for the LGPS, and one of the main objectives is that the Board are working to improve perception and profile of the LGPS in the face of a hostile press.

The main areas of work for SAB are:

- The LGPS Annual Report
- Assessing the Pension Boards at local level
- Reviewing the Valuation results
- Issues in relation to Academies and the size of the administration problem
- Commissioning a report on the risk of Tier 3 Employers and the risk to Local Authority Funds
- Cost Transparency for investments

Bob also emphasised that it is important for schemes to ensure that they have good data, and cost transparency, with the importance of ensuring statutory compliance.

4. The LGPS, Responsible Investment & Pooling: How it will work

Alan MacDougall, Managing Director PIRC Ltd. Alan acknowledged that this is a busy period for funds with the concept of Asset Pooling. He explained about the 8 provisional pools, and the need to make the best use of pools by using the purchasing power to reduce costs, with other benefits including better governance, along with sharing and building knowledge and expertise as well as greater engagement across funds and pools.

Alan went onto describe the main objective for the LGPS is to generate long term real returns above inflation along with trying to address issues relating to management fees being too expensive, along with the balance of risk not being right, and the desire for development versus operational risk.

5. LGPS Pooling: 2018 & Transition

Jill Davys – Client Relations Director, London CIV presented a national view of the LGPS Scheme based on the 2016 Scheme Data, and reflected the LGPS pooling landscape with different models to fit the needs of individual pools and their Sovereign Funds. Asset Allocation Decisions remain firmly at the local level, with the Pools resourcing to deliver success. Jill went on to provide commentary on preparing for transition to the pooling model, and gave an overview of the LCIV Transition Experience. The main considerations were:

- the need to be flexible
- Adapt to changing fund needs and external circumstances
- Reporting post transition
- Access to investment strategies where external providers are used.
- Future proofing: changes to asset allocation.
- Managing expectations.

The presentation closed with an overview of the London Funds changes to their strategic asset allocation.

London CIV was launched in December 2015, and was the first fully authorised and regulated investment management company set up by the London Boroughs, and the City of London Corporation, and has been established as a collective investment vehicle for their LGPS funds.

6. Legal Update

Gary Delderfield, Eversheds Sutherland provided a legal update on a number of European Directives, the first being the Directive on Institutions for Occupational Pension Schemes which came into force 12 January 2017, and member states are required to implement by 13 January 2019.

The IORP II Directive sets common standards ensuring the soundness of occupational pensions and better protects pension scheme members and beneficiaries, by means of among others:

- New governance requirements
- New rules on risk assessment
- New requirements to use a depositary

- Enhanced powers for pension supervisors

The impact of this directive will depend on timing and terms of the UK exit from the EU and further consideration to the Directive will need to be given on whether it applies to the LGPS, and the agreement in terms of the UK exit.

The presentation went on to update the conference regarding the Markets in Financial Instruments Directive (MiFID) this is a 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');

This may apply to the pooling company.

The new General Data Protection Regulations (GDPR) come into force May 2018 which brings new obligations on data controllers, with a need to ensure that there are processes in place to comply with the new regulations. In addition also focuses on data security and is a source of focus of the pension's regulator, with the need to have up to date and accurate data. The Pensions regulator expects that:

- Administering authorities should put in place controls to ensure 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.

It is recommended that authorities start preparing for GDPR in undertaking the following:

- Carry out an information audit
- Identify key risks
- Consider privacy compliance from the outset
- Review existing and new agreements with processors for compliance
- Ensure security breach procedures are adequate.

Finally there was a round-up of some case law following a number of Pensions Ombudsman directions.

7. Apples with Apples

This was presented by Bob Holloway, LGA Pensions Secretary. This presentation focused on data within the LGPS and provided a detailed view of why good data is important for administering bodies. The presentation went on to explain The Pension Regulator's concerns relating to the Administration of the LGPS in that:

- Poor awareness of governance duties relating to employers
- Failure to maintain complete and accurate member records

- Ineffective data reviews
- Poor quality of improvement plans relating to member data.
- Poor quality of data, mainly from data provided by employers.
- Absence of risk registers
- Absence of process to report breaches of the law
- Missing statutory deadlines on annual benefit statements

The Pension Regulator is communicating that they are more likely to use their enforcement powers in the coming year, and will take enforcement action where scheme managers have not taken sufficient action to address issues or meet their duties.

It was also explained that much of the issue is with scheme employers providing timely, accurate and complete data as a matter of routine, the presentation concluded with:

- Good data is essential for good outcomes
- Data must be reviewed and action taken where necessary
- Pension committees and Local Pension Boards are key players
- Recognise that problems also exist at scheme level
- There is a clear role for the Strategic Advisory Board
- Scheme simplification

It was also acknowledged that the scheme faces many challenges in terms of the increased number of employers, and the complicated nature of the Pension scheme, which adds to the difficulties of the Administering Authorities.

8. 2016 Valuation Outcomes

Leanne Johnstone, Mercer Actuaries provided a view on the 2016 valuation outcome. Far from expected funding levels are up by 5% -10%, with deficits having decreased, and with an increase in contributions, along with recovery plans being maintained. What has happened over the last 3 years since the last valuation has been, positive returns, low inflation, and demographics in terms of life expectancy has remained static, with Ill health cost being lower than expected.

Looking forward however there is still lots of uncertainty with lower returns possible, potential inflation increase, increased employer risks, and potential market volatility. What is certain is that budgets are shrinking and pensions aren't. The advice to the conference was, now is a good time to review your risk management strategy. One question funds need to ask is, do funds understand their risk profile on employers?

9. The Government Actuary – How the Risk is Shared

John Baylis gave an overview of the Government Actuary's Department and its mission statement "to support effective decision-making and robust reporting within government as the first choice provider of actuarial and specialist analysis, advice and assurance".

The presentation went on to give a National perspective of public service pension schemes, and talked about affordability, explaining that the LGPS is the exception to other Public Service Pensions, which are all unfunded (ie pension benefits are paid out of revenue, not proceeds from assets) contributions are set centrally. The LGPS has assets which have been built up over time, and set aside to help meet the pensions it has committed to pay, with contributions set locally.

10. National LGPS Frameworks – acorn to oak tree

Nigel Keogh, National LGPS Frameworks Operations and Development Manager, gave a presentation on the operation of the LGPS National Framework set up by Norfolk Pension Fund, and how LGPS Funds can use the Framework to Purchase Goods and Services relating to the administration of pension funds. This was set up to share innovation and best practice, and enable Pensions funds procure goods and services.

The presentation provided an overview of the frame works, how they work, and the key benefits.

11. Investment Spotlight:

Atul Shinh, Investment Specialist, Investec focused on what has happened in the investment markets over the last 12 months.

Statutory and Policy Implications

12. 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

1. That Pensions Committee members continue to attend the Trustees Conference to enable members to be kept up to date with the main national topics relating to the administration of the pension fund.
2. That a future report is presented to update the committee on pension fund data quality and the new General Data Protection Regulations (GDPR).

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

13. There are no Constitutional Comments required.

Financial Comments

14. 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.

Copy of the conference documentation “Brave New World”