

Agenda Item: 7

**REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND
EMPLOYEES**

LGPS GOVERNANCE CONFERENCE 20 – 21 JANUARY 2022

Purpose of the Report

1. To report on the LGPS Governance Conference 2022.

Information and Advice

2. The Annual LGPS Governance Conference took place on the 20 and 21 January 2022. The Conference was opened by the LGPC Chair, Cllr John Fuller OBE. The Conference covered a range of topical items for the Local Government Pension Scheme, including McCloud, Divestment, Cyber risk, and 2022 valuations.
3. This year the conference was attended by Councillor Stephen Garner, Pension Committee Member, along with Jonathan Clewes Pension Administration Manager.
4. The following are the main highlights of the presentations given at the conference and represent the views of the presenters.

Day 1 – Welcome from the LGPC Chair, Cllr John Fuller OBE

5. The combined assets of the LGPS top £300 billion, which presents an opportunity to do good, while taking appropriate risk.
6. The LGPS has a role to play in the wider economy and it can show thought leadership in this area.
7. The upcoming challenges this year are likely to be inflation, McCloud/Sergeant and Goodwin.
8. It was acknowledged that investments are only a fraction of what funds need to cover, setting up the themes of the day – administration, governance, and compliance.

Pensions in the 21st Century

Charlotte O’Leary, Pensions for Purpose; Georgia Stewart, Tumelo; Facilitated by Jo Donnelly, SAB Secretariat

9. The background to the session was that lobbyists are becoming more active. Funds need to understand the views of their members, so they can respond to lobbyists.
10. The panellists discussed the need for greater engagement with members regarding investment choices and how Funds can use technology to gather information from their members on investment beliefs and concerns.
11. Animal welfare, human rights and climate change were the biggest concerns for investors based on recent data analysis from the Tumelo software.
12. Tumelo software enables investment platforms and pension providers to engage investors by giving a transparent view of the companies they own.
13. There was acknowledgement that Funds have the ability to change the investment market and influence companies and capturing this data can help facilitate that.

How the Scheme Advisory Board (SAB) Levy is spent

14. 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.
15. Recognised the difficult environment for Pension Administration.
 - Continued Financial Pressures
 - Impact of dealing with COVID
 - Growing regulatory compliance
 - Increased requirement for good training and advice
 - Need to balance the needs of the LGPS
16. The SAB has traditionally had a strong and respected relationship with the Government, but there is room for improvement in this area at the moment.
17. Cllr Phillips noted the balance of the relationship between Pools and Funds. He made a number of deliberate comments about the Funds being the owners of the pools, not partners.
18. Specific emphasis was made of succession plans and staff development, identifying, and managing conflicts of interest and supporting Boards and Committees through training and development of skills.
19. There is a lot on the horizon –
 - McCloud,
 - Task Force on Climate- Related Financial Disclosures (TCFD).
 - Exit Cap v2,

- Cost Cap 2016 & 2020,
- The Pension Regulator Single Code of Practice
- 2022 valuations.
- GMP Equalisation
- Good Governance Framework for Pension Funds
- Pension Dashboard - will enable individuals to access their pensions information online, securely and in one place. This will hopefully support better planning for retirement.

20. Concern about delays on TCFD in the LGPS and its implementation lagging behind the private sector. This doesn't reflect well on Local Government's focus in this important area.

Divest Now?

Rianna Gargiulo, Friends of the Earth; Jill Davys, London Borough of Sutton; Facilitated by Bob Holloway, SAB Secretariat

21. Climate change risks make up 5 of the top 10 in the World Economic Forum's Risks Perception survey in 2021/22.

22. Rianna argued that divesting completely from fossil fuels is the easiest and most effective way for LGPS funds to take direct action on climate change. Engagement isn't working and immediate action is needed given the urgency highlighted by recent climate change reports.

23. Financially, Rianna presented that fossil fuel companies are valued based on extracting all resources in the ground, rather than what their carbon budget allows. This could lead to stranded assets.

24. Jill made the case that engagement still has time and scope to run.

25. Investors can engage with fossil fuel companies to encourage and promote change to greener energy. Disinvestment may result in another investor buying the asset who is less climate change conscious and relieves pressure on the company to change.

The Scheme member's view

Jon Richards, Assistant General Secretary, UNISON

26. The working relationship with SAB was praised for allowing constructive and critical challenge.

27. Jon appreciated how well Funds have handled the pandemic and remain committed to offering their services to members.

28. The LGPS is starting from a good place – well funded and taking ESG seriously (although "Social" is often forgotten when talking about ESG). Jon used the anecdote of recently completing the paperwork for his own pension and praised the LGPS as a model for good administration.

29. A desire for all pools to have member representation was strongly noted.

Panel session – Valuation 2022

Jeff Houston, Chair; Barry McKay (Barnett Waddingham); Jonathan Teasdale (Aon); Rob Bilton (Hymans Robertson); Michelle Doman (Mercer)

30. Asset returns have been strong since the last valuation, around 20-30% to 31 December 2021. While this is good news, higher inflation will increase the liabilities, offsetting some of these high returns.

31. Life expectancy is expected to continue to increase, but the rate of increase might be slowing down.

32. McCloud is likely to be explicitly allowed for at the 2022 valuation. There will be variation in the impact between employers, but generally, it is likely to be less than 1% of liabilities.

33. While Government Actuaries Department (GAD) have asked for consistency of assumptions and approach to allocating assets to academies, it was acknowledged that there still needs to be the ability to set these at Fund level, particularly the discount rate and longevity assumptions, to take account of local factors.

34. Climate change risk should be considered by all Funds to some degree at the 2022 valuation.

Day 2 – Cyber security and scams

Alison Murray, Aon; Chris Emmerson, Aon

35. Across all pension schemes (not just LGPS) the number of schemes impacted by a cyber incident has increased from 3% in 2019 to 7% in 2021. That would equate to around 7 LGPS funds being affected.

36. The new draft Single Code of Practice is clear that funds need to have cyber risk on their risk register.

37. A possible approach to cyber risk is to seek where the risk lies, put protections in place and then have a plan, with clear roles and responsibilities to solve a cyber risk event. Frequent review of the approach is also recommended.

38. A major source of cyber risk is the number of data transactions which occur. Funds should have a sufficient understanding of the controls which are in place for third parties such as administration providers.

39. Ensure Officers, Committee and Board members are not the weak link in your protection by offering comprehensive training.

McCloud and general outlook

Con Hargrave, Department of Levelling up, Housing and Communities

40. A White Paper on levelling up is expected in the first couple weeks of February.
41. The McCloud timetable has Regulations completed by the summer 2022 recess with final guidance published in winter 2022/23. It is likely that the remedy regulations will not come into force until October 2023 (instead of April 2023).
42. It was noted that the aggregations window is likely to be re-opened as part of the McCloud remedy.
43. Cost Control mechanism – the 2016 valuation is still being challenged due to inclusion of McCloud. There are discussions with Scheme Advisory Board (SAB) to explore how the SAB mechanism will be amended in light of the changes taking place in the HMT mechanism.
44. On the horizon: -
 - Investments: Task Force on Climate-Related Financial Disclosures (TCFD),
 - Next steps on pooling and banning of boycotts of foreign nations –
 - Exit Pay reform: Government still committed, expect an LGPS consultation later in the year –
 - Good Governance: DLUHC team expanding to look at this area –
 - Other: Survivor benefit regulations (in light of recent legal challenges),
 - Fair Deal and the 2019 consultations relating to strengthening pension protections on outsourcing.

Legal Update

Kirsty Bartlett, Squire Patton Boggs

45. The Pension Regulator (TPR) has issued a draft new Single Code of Practice which sets out proposed new governance standards for pension schemes. The new code is both a consolidation of 10 out of 15 existing codes of practice, as well as a significant update and extension of the existing codes.
46. The new code is the first phase of the TPR's efforts to both harmonise and modernise its codes of practice, with the ultimate aim of creating a code of practice appropriate to the needs of pension schemes today and in the future. The new code will cover 5 themes, and these are.
 - funding and investment,
 - administration,
 - communication
 - disclosure,
 - reporting to the TPR.
47. The Single Code of Practice is expected to come into force in spring 2022. Funds will then have 12 months to complete their first Own Risk Assessment. It is unlikely to change much from the draft, so there is much which Funds can be doing to prepare, including 'gap' analysis.

48. New legislation on transfers and scams from Department for Work and Pensions (DWP) in effect from November 2021. Places more responsibility on Committee and Board members with transfers to non-public sector schemes being more arduous for administering authorities to verify.
49. There are red and amber flag criteria for administering authorities to follow. Where administrators do not have enough evidence to make a judgement, they need to refer members to the Money and Pensions Service..
50. If you are dealing with data outside the UK, ask questions and speak to a lawyer to avoid data protection issues
51. The current focus on simple Annual Benefit Statements for Defined Contribution schemes may be applied to Defined Benefit and the LGPS.

Stewardship code 2020

Claudia Chapman, Financial Reporting Council

52. The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. The Code comprises a set of 'apply and explain, principles for asset managers and asset owners, and a separate set of principles for service providers.
53. The Financial Reporting Council are asking LGPS funds to consider becoming signatories to the Stewardship code.
54. There are 12 principles, but the key ones for LGPS Funds are - Purpose and culture - Governance, resources, and incentives - Client and beneficiary needs - Monitoring managers and service providers.
55. They are looking for all assets under management to be covered by stewardship reporting for funds which are signatories.
56. Where pools control a large part of the assets, the Fund should still prepare the stewardship report, but the pool should feed into this report.

Investment outlook

Stephen Lee, Ninety-One Asset Management

57. The main theme is around the need to normalise post-Covid, which may be painful.
58. The recovery in 2021 was supported by loose monetary policy which may be tightened in 2022.
59. UK inflation might reach 6-7% and then moderate in the second half of this year, and interest rates expected to increase to just over 1% sooner rather than later. UK growth expected to be slightly ahead of previous expectations.

60. Growth in USA looks promising, but this is generally priced into the markets already.
61. China tightened credit last year, but now loosening as it focuses on growth stabilisation. However, there is potential exposure to Omicron which would apply downward pressure.
62. Enthusiasm for all things technology related is waning.

Closing remarks from the chair

63. The chair summarised the morning's messages, thanked the organisers for their work and looked forward to next year's event, with more delegates hopefully attending in person

Statutory and Policy Implications

64. 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

The report is for noting.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:

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Constitutional Comments (28/02/2022KK)

65. The proposal in this report is within the remit of the Nottinghamshire Local Pension Board.

Financial Comments (22/02/2022KP)

66. 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.