

Cambridgeshire Pension Fund



Pension Fund Board

31st January 2020

Report by: Head of Pensions

Subject:	Governance and Compliance Report
Purpose of the Report	To provide the Pension Fund Board with information on the activities of: 1) The LGPS Scheme Advisory Board 2) The Pensions Regulator; 3) The Ministry of Housing, Communities and Local Government 4) National pension issues and 5) Skills and knowledge opportunities.
Recommendations	That the Pension Fund Board notes the content of the report.
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1. Background

- 1.1 This is a standing report that identifies issues concerning the governance of the Local Government Pension Scheme (LGPS) and also potential, new, amending and overriding legislation that will have an impact on how the Scheme is managed and on members' benefits.

2. LGPS Scheme Advisory Board

2.1 Good Governance Review – phase two

- 2.1.1 Following on from the Good Governance Report that was issued by Hymans Robertson on 8 July as commissioned by the Scheme Advisory Board, the Board agreed to constitute two working groups to take forward the proposals in the report. Hymans Robertson were again appointed to assist the working groups.
- 2.1.2 The first working group was asked to focus on specifying clearly the outcomes and standards that the Scheme Advisory Board wishes to see achieved by funds under the approach and how these outcomes should be evidenced.
- 2.1.3 The second working group was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

2.1.4 On 15th November 2019 the Hymans Robertson issued the second report of the Good Governance Review that includes detailed implementation proposals in respect of each work-stream including a list of the changes required to guidance to implement this framework.

2.1.5 The full report can be found in appendix 2 of this report along with the summary of the 17 recommendations. Some of the recommendations are already in place or partially so for the Cambridgeshire Pension Fund. The most notable new recommendations are detailed below:

Report reference	Recommendation
General (A1)	MHCLG* will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals (see appendix 2A).
General (A2)	Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
General (A3)	Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the guidance (see A1). This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.
Representation (C1)	Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.
Knowledge and understanding (D2)	Introduce a requirement for S151 officers to carry out LGPS relevant training as part of their Continuing Professional Development (CPD) requirements to ensure good levels of knowledge and understanding.
Service delivery for the LGPS function (E1)	Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with roles descriptions and business processes.
Service delivery for the LGPS function (E5)	Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate, market supplements, relevant to the needs of their pension function. Administering authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.
Compliance and improvement (F1)	Each administering authority must undergo a biennial Independent Governance Review (IGR) and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a Scheme Advisory Board panel of experts.
Compliance and improvement (F2)	LGA to consider establishing a peer review process for LGPS funds.

*MHCLG = Ministry of Housing, Communities and Local Government

2.1.6 The Scheme Advisory Board have invited comments on the report and its recommendations prior to the next meeting of the Scheme Advisory Board on 3rd February 2020. Officers are in the process of drafting a response in conjunction with the Chairman and Vice-Chairman of the Pension Fund Committee and Local Pension Board which will be submitted to the Scheme Advisory Board no later than 20th January 2020.

2.1.7 Should the Scheme Advisory Board and MHCLG accept the recommendations within this report phase three will be initiated and will include the following activities:

- MHCLG to draft the required changes to the Guidance
- Scheme Advisory Board to ask the National LGPS Framework to begin work on establishing Independent Governance Review provider framework
- Scheme Advisory Board to establish the 10-15 KPIs referred to within proposal E.3.
- Scheme Advisory Board to consider drawing up a complete list of the topics that should be included within the statutory governance compliance statement.

2.2 LGPS Code of Transparency – compliance reporting system

2.2.1 Following a procurement process the Scheme Advisory Board has chosen the technology provider Byhiras who deliver transparency and governance solutions, to develop a platform that will ensure that asset managers comply with its cost transparency code.

2.2.2 The platform will be rolled out across all UK LGPS funds and pools by quarter 1 of 2020 and will validate and store data about fees and expenses that asset managers disclose to pension funds and allow for reporting and data comparison between managers.

2.2.3 The platform will ensure that managers comply with the requirements of the LGPS Code of Transparency that was launched in 2017 and led to the Cost Transparency Initiative, an industry-wide body co-founded by the Scheme Advisory Board that is developing cost reporting standards for UK international investors. Asset managers are asked to comply with the Code if they hold mandates from LGPS funds and so far more than 100 asset managers have signed up.

2.3 Draft Guidance on Responsible Investment Guidance

2.3.1 On 22nd November 2019 the Scheme Advisory Board issued the first part of guidance on responsible investment which was open for consultation until 11th January 2020. The aim of the first part of the guidance is to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG (environmental, social and governance) policies as part of investment strategy statements.

2.3.2 The Scheme Advisory Board has made it clear that there is no intention to prescribe the extent to which ESG policies must be adopted as this must remain a matter for local consideration and agreement in accordance with Ministry of Housing, Local Government and Communities' (MHCLG) statutory guidance.

2.3.3 The Scheme Advisory Board has commenced work on drafting part two of the guidance of which the aim is to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy. It is anticipated that the working draft of the part two guidance will be considered by the Scheme Advisory Board at the meeting of 3rd February 2020.

2.3.4 Officers, in agreement with the Chairman of both the Pension Fund Committee and Local Pension Board, have written to the Scheme Advisory Board advising of concerns regarding the draft guidance in its present form. Legal advice is being sought and thereafter comments on the Draft Guidance will be provided either individually or collectively with other ACCESS funds shortly after the 11th January deadline.

2.3.5 The comments provided to the Scheme Advisory Board following provision of the legal advice will be circulated to members of the Local Pension Board.

2.3.6 The Draft Guidance can be found in appendix 3 of this report.

3. The Pensions Regulator

3.1 LGPS engagement report

3.1.1 On 19th September the Pensions Regulator published a report on the findings from its engagement with 10 LGPS funds during the period October 2018 to July 2019. The engagement took place following the results of the Pensions Regulator annual governance and administration survey from which it was identified that improvements being made across the LGPS had slowed down.

3.1.2 The report identifies the following key improvement areas:

- **Key person risk** – while most scheme managers demonstrated a good knowledge of what the Pensions Regulator expects many funds lack comprehensive documented policies and procedures. An over-reliance on controls put in place by the Local Authority was identified particular in relation to cyber security.
- **Local Pension Boards** – engagement levels varied with concerns being raised about the frequency that some boards meet and their appetite to gaining knowledge and understanding.
- **Fraud/scams** – some scheme managers were not as vigilant at taking steps to protect members from potential scams as they were at protecting the scheme assets.
- **Employers**- considerable variance was noted in the approaches taken to deal with the risks surrounding scheme employers such as receiving contributions and employer solvency. This tended to be connected to fund resourcing and different philosophies on taking security over assets.

3.1.3 The full report can be found here:

<https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagement-report#f3ed2f980db645d0a1ac39dd86773d2a>

3.2 Initiative to improve data quality

3.2.1 On 2nd October the Pensions Regulator announced a crackdown on poor record keeping. The Pensions Regulator has contacted 400 pension schemes that they believe have not reviewed their data within the last 3 years and have asked them to conduct a review of their data within the next 6 months. Whilst some LGPS administering authorities are included amongst the group of 400, the Cambridgeshire Pension Fund has not been contacted. The Fund takes a continual and proactive approach to data improvement as demonstrated in the Data Improvement Plan and Plan.

4. Ministry of Housing Communities and Local Government (MHCLG)

4.1 SF3 Data (LGPS Funds: England and Wales 2018-19)

4.1.1 On 16th October 2019, MHCLG published a statistical release on LGPS Funds for England and Wales for 2018-19. Highlights from the report are as follows:

- Total LGPS expenditure in 2018-19 was £12.7bn representing a like-for-like increase of £0.7bn (5.7%) on 2017-18. Total expenditure for the Cambridgeshire Pension Fund was £134.3m in 2018-19 and £126.4m in 2017-18 an increase of £7.9m (6.3%).

- Total LGPS income in 2018-19 was £15.1bn representing a like-for-like decrease of £2.3bn (13.2%) on 2017-18. Total income Cambridgeshire Pension Fund was £357.6m in 2018-19 and £242.1m in 2017-18, an increase of £115.5m (47.7%). The increase was a result of an increase in the value of investments.
- Employers' contributions to the LGPS was £7.1bn in 2018-19, a decrease of 24.7% on 2017/18. The decrease in employers' contributions is largely due to the some large upfront pension contribution payments made in 2017-18 following the triennial valuation. Employers' contributions to the Cambridgeshire Pension Fund was £98.1m in 2018-19 and £103.1m in 2017-18, a decrease of £5m (4.8%).
- Employees' contributions to the LGPS was £26bn in 2018-19, an increase of £0.06bn (2.8%) on 2017-18. Employees' contributions to the Cambridgeshire Pension Fund was £26.4m in 2018-19 and £25.3m in 2017-18 a decrease of £1.1m (4.3%).
- The market value of the LGPS funds at the end of March 2019 was £287.2bn an increase of £16.bn (6%). The market value of the Cambridgeshire Pension Fund was £3.19bn in 2018-19 and £2.96bn in 2017-18, an increase of £0.23bn (7.8%).

4.1.2 The full report can be found here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/839550/LGPS_England_and_Wales_2018-19.pdf

5. The Queen's Speech

5.1.1 The Queen's speech delivered on 14th October 2019 confirmed that a new Pension Schemes Bill will be introduced which will;

- strengthen the Pensions Regulator's powers
- provide a framework to support pension dashboards; and
- introduce regulations covering the right to a pension transfer.

6. Skills and knowledge opportunities – training events

- 6.1 Section 248A of The Pensions Act 2004 as incorporated within The Pensions Regulator's Code of Practice (Governance and administration of public service pension schemes) requires all members of the Pension Fund Committee to maintain the necessary skills and knowledge to undertake their role effectively.
- 6.2 In order to facilitate the acquisition of skills and knowledge for members of the Pension Fund Board, appendix 1 lists the main events that are deemed useful and appropriate.
- 6.3 Requests to attend events will be facilitated by the Governance Team. It may be necessary to restrict numbers of attendees on some courses through reasons of cost.

7. Relevant Pension Fund Objectives

To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. <i>Objective 1</i>
To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
To ensure that the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. <i>Objective 3</i>
To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. <i>Objective 5</i>

8. Risk Management

8.1 The Pension Fund Committee and Pension Fund Board are required to have the appropriate skills and knowledge to effectively carry out their duties. This report ensures that the Pension Fund Committee is up to date with:

- New or amending legislation affecting the LGPS;
- Relevant activities of the LGPS Scheme Advisory Board and the Pensions Regulator that concern the governance of the (LGPS) on a national and local basis; and
- Skills and knowledge opportunities.

8.2 The risks associated with the Pension Fund Committee and Pension Fund Board not having the required level of knowledge and understanding have been captured in the Fund's risk register as detailed below.

Risk No	Risk	Residual risk rating
7	Those charged with governance of the Fund and Scheme are unable to fulfil their responsibilities effectively.	Green
13	Failure to administer the scheme in line with regulations and guidance.	Green
16	Failure to provide relevant information to the Pension Fund Committee/ Board to enable informed decision making.	Green

8.3 The Fund's risk register can be found on the LGSS Pensions website at the following link: <https://pensions.cambridgeshire.gov.uk/app/uploads/2019/10/RiskRegisterCPF.pdf>

9. Finance & Resources Implications

9.1 There are no financial or resource implications connected to the contents of this report is for information only.

10. Communication Implications

Training	All staff involved in the administration of the LGPS are aware of the new legislation and the impact on the calculation and payment of benefits from the scheme.
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11. Legal Implications

11.1 There are no legal implications connected to the contents of this report as this report is for information only.

12. Consultation with Key Advisers

12.1 There has been no requirement to consult with advisers over the content of this report.

13. Alternative Options Considered

13.1 There are no alternative options to be considered.

14. Background Papers

14.1 None.

15. Appendices

- 15.1 Appendix 1 – Internal/external training and events 2019-20 and 2020-21.
- 15.2 Appendix 2 – Good governance in the LGPS -phase II report from working groups to the Scheme Advisory Board
- 15.3 Appendix 3 – Scheme Advisory Board Consultation: Draft Responsible Investment Guidance Part 1 (“Draft Guidance”)

Checklist of Key Approvals	
Has this report been cleared by Head of Pensions?	Mark Whitby – 14/01/2020

Appendix 1 – Training Schedule

Date	Event	Trainings Credits*	Event Details
23-24 January 2020	Local Government Association (LGA) LGPS Governance Conference	4	Although primarily aimed at elected members, the conference will be of interest to other people who attend pension committees, panels or sub-committees etc. This conference will cover; Scheme Advisory Board, Checking Compliance, Cost Cap, Regulating the reforms, Investment Spotlight and Legal Update. https://lgaevents.local.gov.uk/lga/frontend/reg/thome.csp?pageID=260501&eventID=767
6 February 2020	Local Authority Pension Fund Forum (LAPF) Strategic Investment Forum	4	This forum will look at the economic outlook, and the role of a wide range of asset classes for growth, income and diversification. The agenda also covers asset pooling and options for adapting to climate change risk. https://www.dgpublishing.com/lapf-strategic-investment-forum/about/
21 February 2020	Chartered Institute of Public Finance and Accountancy (CIPFA) Spring Seminar - Local Pension Board members only	2	The Local Pension Board seminars are exclusively for Board members and provide the latest LGPS and governance information updates, training on specific topics and opportunities for discussion and networking with members of other Funds' Boards. https://www.cipfa.org/training/l/lgps-members-spring-seminar-20200218
27-28 February 2020	Local Government Chronicle (LGC) Investment Seminar	4	The event will provide practical advice from pools and funds, insight on what's new in investment and greater opportunities to sense-check your priorities. https://investmentseminar.lgcplus.com
6 March 2020	LGSS Pension Information Day	2	TBC
TBC	Schroders Trustee Training (Part 1)	2	TBC
TBC	Schroders Trustee Training (Part 2)	2	TBC
18-20 May 2020	Pension and Lifetime Savings Association (PLSA) Local Authority Conference	4	This event is a residential conference that includes keynote speeches, stream sessions, a Learning Zone, a specialist session, an exclusive exhibition, networking lunch for Local Pension Boards, Welcome Drinks Reception and a Conference Dinner. The event is the largest of its kind dedicated to the LGPS, attended by over 400 local authority officers, councillors, members of Local Pension Boards, admitted bodies and their advisers. https://www.plsa.co.uk/Events-Local-Authority-Conference

Date	Event	Trainings Credits*	Event Details
24 June 2020	CIPFA Local Pension Boards' Annual Event (hosted by Barnett Waddingham)	2	This is a Local Pension Board seminar exclusively for Board members and provides the latest LGPS and governance information updates, training on specific topics and opportunities for discussion and networking with members of other Funds' Boards. https://www.cipfa.org/training/l/lgps-local-pension-boards-member-annual-full-day-event-20200624-london
6-8 July 2020	LAPF Strategic Investment Forum	4	The LAPF Strategic Investment Forum is the leading investment conference and dinner for senior LGPS fund investment officers and their advisers. It is organised by DG Publishing and attracts high quality officers in strong numbers. https://www.dgpublishing.com/lapf-strategic-investment-forum-july/about/
TBC - July 2020	LGSS Pensions Information Day	2	TBC
TBC September 2020	LGC Investment Summit	4	TBC
TBC	Introduction to the LGPS	2	TBC Aimed at new or inexperienced officers and elected members this course, based on the CIPFA knowledge and skills framework.
TBC	LGA LGPC Fundamentals Training (Day 1/3)	2	TBC Provides members of Pension Committees and Local Pension Boards with the knowledge and skills to enable them to carry out their duties effectively. The 3 day course provides a scheme overview and covers current issues in relation to administration, investments and governance of the LGPS – This sessions theme is Administration.
TBC - October 2020	LGSS Pensions Information Day	2	TBC
TBC	Schroders Trustee Training (Part 1)	2	TBC
TBC	Access Investor Day	2	TBC

Date	Event	Trainings Credits	Event Details
14-16 October 2020	PLSA Annual Conference	4	The conference includes keynote speeches, streamed focus sessions, specialist sessions, a Trustee Learning Zone, exhibition and a conference drinks reception. https://www.plsa.co.uk/annual-conference-and-exhibition
TBC	LGPC Fundamentals Training (Day 2/3)	2	TBC Provides members of Pension Committees and Local Pension Boards with the knowledge and skills to enable them to carry out their duties effectively. The 3 day course provides a scheme overview and covers current issues in relation to administration, investments and governance of the LGPS – This sessions theme is Investments.
TBC	Schroders Trustee Training (Part 2)	2	TBC
TBC December 2020	LAPFF Annual Conference	4	TBC
TBC	LGPC Fundamentals Training (Day 3/3)	2	TBC

*Training credits are currently under review and the revised Training Strategy will be presented to the Pension Committee in March which will include a proposal for a revised credit system.