Lancashire County Council

Lancashire Local Pension Board

Monday, 18th January, 2016 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	**Item**	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 19 October 2015** To be confirmed, and signed by the Chair.	(Pages 1 - 8)
4.	**Training and Development - Feedback from Board Members on External Training Events and Conferences**	(Pages 9 - 10)
5.	**Lancashire and London Pensions Partnership Update and Response to Government Proposals to Pool LGPS Assets into 'Wealth Funds'**	(Pages 11 - 44)
6.	**Preparation for the 2016 Actuarial Valuation**	(Pages 45 - 50)
7.	**Compliance with The Pension Regulator Requirements - Update**	(Pages 51 - 68)
8.	**Review of Communication between Lancashire County Pension Fund, its Employers and Scheme Members**	(Pages 69 - 86)
9.	**Recent Reports Considered by the Pension Fund Committee**	(Pages 87 - 90)

Lancashire County Council

10. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chair should be given advance warning of any Member's intention to raise a matter under this heading.

11. Date of Next Meeting

The next meeting of the Board will be held on Monday 11 April 2016 at 2pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston.

12. Exclusion of Press and Public

The Board is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part I of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.

Part II (Not Open to Press and Public)

13. Recent Reports Considered by the Pension Fund Committee (Pages 91 - 94)

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Lancashire Local Pension Board

Minutes of the Meeting held on Monday, 19th October, 2015 at 2.00 pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston

Present:

Chair

William Bourne

Committee Members

Steve Browne, Lancashire County Council
Carl Gibson, Other Employers
Kathryn Haigh, Active Members
John Hall, Deferred Members
Bob Harvey, Pensioner Members
County Councillor Tony Martin, Lancashire County Council
Yvonne Moult, Active Members
Steve Thompson, Unitary, City, Boroughs, Police and Fire

Officers

George Graham, Lancashire County Pension Fund
Diane Lister, Lancashire County Pension Fund
Frances Deakin, Lancashire County Pension Fund

1. Apologies

None received.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

County Councillor Tony Martin declared a non-pecuniary interest as a member of Burnley Borough Council.

3. Minutes of the Meeting held on 8 July 2015

The Chair reported that he would draft a 'job description' for Board Members for consideration at the next meeting.

Resolved: - That the minutes of the meeting held on 8 July 2015 be approved as a true and accurate record and signed by the Chair.

4. Update on Board Policies

The Clerk presented a report updating on progress on the approval and adoption of a Code of Conduct and Conflict of Interests Policy, and the development of a Reporting of Breaches Policy for the Board.

It was reported that the final Code of Conduct and Conflict of Interests Policy would be considered by the Full Council on 22 October 2015 and subject to approval, Board Members would then be asked to make a new declaration to replace the interim declarations that were made in advance of the first meeting of the Board on 8 July 2015.

It was further reported that work had now commenced to develop a Reporting of Breaches Policy and that Board Members would be invited to consider a draft policy in due course. The Full Council would be asked to authorise the Board to approve the final policy.

Resolved: - That:

(i) The updates as set out in the report, now presented, be noted;
(ii) Subject to approval of the Code of Conduct and Conflict of Interests Policy by Full Council on 22 October 2015, the requirement to submit a new declaration, be noted.

5. Training and Development

The Board considered reports and verbal updates on a number of issues relating to training and development.

5a. Training and Development - Local Pension Boards

Frances Deakin, Financial Policy Officer, Lancashire County Pension Fund, presented a report setting out details of a Technical Knowledge and Skills Framework for Local Pension Boards published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The framework was designed to assist Board Members in gaining the degree of understanding necessary to properly exercise their functions and responsibilities. Work was currently being undertaken to refresh the Pension Fund's current Training Policy which would also take account of the training and development requirements for the Pension Board.

Resolved: - That:

(i) The report, now presented, be noted;
(ii) The publication by CIPFA of a Technical Knowledge and Skills Framework for Local Pension Boards be noted;
(iii) The requirements under the framework, to be reflected within a refreshed Training Policy currently under development for the Fund, be noted.

5b. Virtual Reading Room

Board Members reported that the Virtual Reading Room was a useful tool and that it was helpful to have all the relevant information in one place. It was noted that it was not always clear where certain items were located and further consideration would be given to the structure and layout of the information. Frances Deakin was thanked for her work on developing this useful tool.

Resolved: - That the development of the Virtual Reading Room be welcomed and that Frances Deakin be thanked for her work.

5c. Progress on The Pension Regulator Training Modules

Board Members updated on their individual progress working through the online training modules provided by the Pensions Regulator. It was noted that it was important that all Board Members completed these modules at the earliest opportunity.

Resolved: - That the updates, now presented, be noted.

5d. Feedback from Board Members on External Training Events and Conferences

The Board considered a report on recent attendance by Board Members at external training events and conferences. Since the last meeting, John Hall had attended the CIPFA Pensions Network Introduction to the LGPS, and Bob Harvey had attended the NAPF Annual Conference and Exhibition. Both events had been useful and relevant with keynote speakers at the NAPF Annual Conference including William Hague, a former Cabinet Minister, and Ros Altmann, Minister at the Department for Work and Pensions. Those Board Members who had attended recent briefing sessions on the Lancashire County Pension Fund/London Pensions Fund Authority (LCPF/LPFA) partnership proposals had found them useful.

Resolved: - That the updates, now presented, be noted.

6. Lancashire County Pension Fund Administration Report and Communications Strategy

Diane Lister, Head of Your Pension Service, presented a report providing further information on administration and communication following the initial report considered by the Board at its meeting on 8 July 2015.

The Chair highlighted that the Board should ensure that it was satisfied that the Pension Fund was compliant with legislation; that data was accurate and that information and enquiries were dealt with in a timely manner according to the targets specified in the Service Level Agreement.

A number of issues were discussed, as follows:

- Timely receipt of annual benefit statements; it was noted that 98.6% of statements were issued by the statutory deadline of the end of August 2015;
- The introduction of EPIC, whereby data is as accurate and up to date as possible; It was noted that, for employers, the system was a far more efficient tool than previous processes;
- Employers which persistently fail to meet deadlines would be reported to the Pensions Regulator; it was suggested that employers needed to be reminded on a regular basis of key dates and actions and it was noted that employer sessions and visits were held and that the continuing development of online processes ensured as streamlined an approach as possible;

- Online services needed to include all relevant information, including deductions, and users needed to be confident and able to access the online services easily; it was noted that consideration was being given to setting out information in the form of a payslip which would specify each item, including deductions;
- It was suggested that a narrative would be useful where a target was underperforming, outlining why that was the case and setting out any remedial action which was being undertaken/considered;
- Feedback and engagement from Fund Members; Take up of the My Pension online service was low and it was felt that employers had a role to play in communicating with their employees and encouraging take up. It was noted that some members may not have access to the internet or may not be familiar/be comfortable with online processes.

The Board acknowledged that communication was an important issue which would feature regularly as an agenda item at its meeting.

Resolved: - That, subject to the comments above, the report, now presented, be noted.

7. Lancashire County Pension Fund - Report on Administering Authority Discretions

Diane Lister presented a report setting out details of a consultation exercise with Fund employers and the Local Pension Board on the following five key areas of discretion:

- Abatement of pensions

  It was proposed to maintain the existing abatement policy until the outcome of the Government's recently announced £95,000 redundancy cap for the public sector on members of the LGPS was known.

- Transfer in of pension rights

  It was proposed that transfers into the Fund continue to be accepted within the existing 12 month time limit with decisions in respect of exceptions jointly made by the Fund and the relevant employer.

- Commutation of pensions

  It was proposed that small pension pots are to be commuted as the 'standard offer'. An exercise to commute existing small pensions will be considered pending advice from the Fund Actuary on the impact on Fund cashflow and liabilities.

- Admissions and Terminations

  It was proposed that admissions are no longer accepted, unless these follow as a result of contracting-out by a scheme employer or there are exceptional circumstances.

- Bulk Transfers

  It was proposed that bulk transfers are treated on a case by case basis and on the advice of the Fund Actuary.

It was noted that all the proposals were designed to mitigate risk to the Pension Fund.

Resolved: - That:

(i) The proposals approved by the Pension Fund Committee, as set out at Appendices 'A' - 'E' of the report, now presented, be noted;
(ii) The proposals being consulted on at Appendices 'A' - 'E' of the report, now presented, be supported.

8. Governance Review

George Graham, Director, Lancashire County Pension Fund (LCPF), presented a report setting out details of a review of the governance arrangements of the Lancashire County Pension Fund in light of changes introduced as a result of the Public Service Pensions Act 2013 and the proposed partnership arrangements with the London Pensions Fund Authority (LPFA).

The Board noted that it was not proposed to specifically review the Local Pension Board, given that it had only recently been established, however it was important that the Board and its role was specifically and fully integrated into the governance of the Fund and that its role was carefully defined to prevent any overlap with that of the Pension Fund Committee.

Board Members agreed to forward any further comments to George Graham at the earliest opportunity.

Resolved: - That:

(i) The report, now presented, be noted;
(ii) That Board Members provide George Graham with any additional comments at the earliest opportunity.

9. Recent Reports Considered by the Pension Fund Committee

The Board considered a report setting out details of Part I reports recently considered by the Pension Fund Committee at its meeting on 30 September 2015.

George Graham updated the Board on the item of urgent business (item 17) which was considered by the Committee at that meeting. This was a response to the Department for Communities and Local Government consultation on the Local Government Pension Scheme Criteria for the assessment of pooling proposals.

In respect of item 8 (Initial Approach to the 2016 Actuarial Valuation), it was reported that information had now been sent out to employers.

Resolved: - That the report, now presented, be noted.

10. Dates of Future Meetings 2015/16

The Board considered and agreed that the pattern of meetings adopted for 2015/16 be carried forward into 2016/17.

Resolved: - That the Clerk be requested, in consultation with the Chair, to arrange dates for meetings of the Board in 2016/17 using the pattern of meetings for 2015/16.

11. Urgent Business

There was no urgent business to be considered.

12. Date of Next Meeting

It was noted that the next meeting of the Board would take place on Monday 18 January 2016 at 2pm in Cabinet Room 'B' - The Diamond Jubilee Room, County Hall, Preston.

13. Exclusion of Press and Public

Resolved: - That the press and members of the public be excluded from the meeting during consideration of the following item of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

14. Progress on the Lancashire County Pension Fund/London Pensions Fund Authority Partnership Proposals

(Not for Publication – Exempt information as defined in Paragraphs 1 and 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

George Graham presented an update on progress on the LCPF/LPFA Partnership proposals. The Pension Fund Committee had considered a report at its meeting on 30 September 2015 and a further report, setting out a draft business plan, would be considered by the Committee at a special meeting on 10 November 2015. This meeting would coincide with a special meeting of the LPFA Board, convened for the same purpose.

It was reported that Michael O'Higgins, a former Chair of the Pensions Regulator, had been appointed as Chair of the Board of the Lancashire and London Pensions Partnership (LLPP). County Councillor David Borrow had been appointed as the LCPF's Board Member and Dermot 'Skip' McMullan as the LPFA's Board Member.

Resolved: - That the update, now presented, be noted.

15. Recent Reports Considered by the Pension Fund Committee

(Not for Publication – Exempt information as defined in Paragraphs 1 and 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

The Board considered a report setting out details of Part II reports recently considered by the Pension Fund Committee at its meeting on 30 September 2015.

Resolved: - That the report, now presented, be noted.

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Lancashire Local Pension Board
Meeting to be held on 18 January 2016

Electoral Division affected:
None

Training and Development - Feedback from Board Members on External Training Events and Conferences

Contact for further information:
Dave Gorman, (01772) 534261, Legal and Democratic Services
dave.gorman@lancashire.gov.uk

Executive Summary

This report provides Members of the Board with the opportunity to provide feedback on external training events and conferences attended by Members since the last meeting of the Board.

Recommendation

The Board is asked to note the report and the feedback presented.

Background and Advice

The Pension Fund Committee at its meeting on 29 November 2013 approved a training plan for members of the Committee. The purpose of the plan is to ensure best practice within the Fund, and to comply with the Public Service Pensions Act 2013. Members and officers are also required to undertake training to satisfy the obligations placed upon them by the:

- Myners Principles (as detailed in the Statement of Investment Principles);
- Pensions Regulations and the Pensions Regulator;
- Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills; and the
- Local Government Pension Scheme (LGPS) Governance Compliance Statement.

It is appropriate that the same principles be extended to the operation of the Board and that Board Members therefore provide verbal feedback at the subsequent Board meeting to cover:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to Board Members.

The following event has been attended by Board Members since the last meeting of the Board:

- **Lancashire County Pension Fund Annual Members Meeting, 11 November 2015, Guild Hall, Preston**
  The event was attended by Yvonne Moult, who gave a presentation to the meeting on the work of the Local Pension Board; Kathryn Haigh and Bob Harvey.

Feedback on the above will be provided at the meeting.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Without the required knowledge and skills, Board Members may be ill-equipped to make informed considerations regarding the direction and operation of the Pension Fund.

Financial

The cost of attendance, together with travel and subsistence costs is met by the Pension Board.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Attendance at Conferences approved under the Scheme of Delegation to Heads of Service	2015	Frances Deakin, (01772) 533112

Reason for inclusion in Part II, if appropriate

N/A

Lancashire Local Pension Board
Meeting to be held on 18 January 2016

Electoral Division affected:
None

Lancashire and London Pensions Partnership Update and Response to Government Proposals to Pool LGPS Assets into 'Wealth Funds'
(Appendix 'A' refers)

Contact for further information:
Abigail Leech, (01772) 530808, Interim Head of Fund
abigail.leech@lancashire.gov.uk

Executive Summary

This report provides Members of the Board with an update on the Lancashire and London Pensions Partnership (LLPP) and the proposed response to the Government's proposals to pool Local Government Pension Scheme assets into Wealth Funds.

Recommendation

The Board is asked to note the contents of the report and identify any comments or specific issues that they would like the Pension Fund Committee to consider in framing its response to the consultation.

Background and Advice

Appendix 'A' provides an update for the Local Pension Board in relation to the developments in the Government's agenda for LGPS reform and the local response.

These issues have been considered on a regular basis by members of the Pension Fund Committee and in reports presented for information to the Local Pension Board over the last 18 months.

The Government's reform agenda is now operating across a number of work streams:

- Replacement of the existing Investment Regulations;
- Publication of criteria for evaluating pooling proposals;
- A requirement to provide pooling proposals.

Appendix 'A' deals with each of these areas in turn.

Lancashire County Council

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The Board is asked to identify any specific issues it would like the Pension Fund Committee to consider when framing the response to the consultation.

Financial

N/A

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Progress in Addressing the Government's LGPS Reform Agenda
(Annexes 1 - 2 refer)

Introduction

This report provides an update for the Local Pension Board in relation to the developments in the Government's agenda for LGPS reform and the local response. These issues have been considered on a regular basis by members of the Pension Fund Committee and in reports presented for information to the Pension Board over the last 18 months.

The Government's reform agenda is now operating across a number of work streams:

- Replacement of the existing Investment Regulations;
- Publication of criteria for evaluating pooling proposals;
- A requirement to provide pooling proposals.

This report deals with each of these areas in turn.

Replacement of the Current LGPS Investment Regulations

The Government proposes to replace the current highly prescriptive regulations with a new framework more akin to that used by private sector pension funds, details of the proposals are set out at Annex 1. This will require funds having taken proper advice to invest their funds in a suitably diversified mix of assets. Funds will have to produce a new Investment Strategy Statement which will replace the Statement of Investment Principles and the Funding Strategy Statement. This new statement will set out any prudential limits (for example on the proportion of the fund that can be invested in any single asset) that the Fund may consider it appropriate to set as well as approaches to Environmental Social and Governance issues, and there is a specific proposal to prohibit funds from taking steps to disinvest or take similar action on foreign policy type grounds.

There are specific reserve powers proposed to allow the Secretary of State to intervene and direct funds to undertake specific actions. This is intended to ensure that all funds participate in pooling of investment assets, although the power is actually much more widely drawn.

A formal response to the consultation on the Draft Investment Regulations will be considered by the Pension Fund Committee on 29 January 2016. In general the changes are very welcome and reflect a broad approach that the Fund and its officers have advocated for some time. However, there are some concerns about the overall breadth of the reserve power, and officers feel that in some areas some additional "for the avoidance of doubt" language in some places would provide additional clarity for investment counter parties. The new Investment Strategy Statement is regarded as a particularly welcome change, particularly in the context of asset pooling, as it requires funds to set out in one place the logic of their strategic asset allocation.

The Board may wish to consider whether it wishes to pass on any comments on these proposals to the Pension Fund Committee.

Criteria for Evaluating Pooling Proposals

As previously reported, the Government is seeking to consolidate the investment assets of the LGPS around a number of asset pools which they describe as "Citizens' Wealth Funds". They have now published the criteria that they propose to use to evaluate the proposals made by individual funds to meet this aspiration.

These criteria, details of which are at Annex 2, are focussed around:

- Achieving the benefit of scale;
- Demonstrating strong governance and decision making;
- Delivering reduced costs and excellent value for money;
- Achieving an improved capacity to invest in infrastructure.

These criteria are much as expected, looking for pools to achieve a scale of around £25bn and at a detailed level a number of the specific measures reflect suggestions made by the Fund in its input to the informal consultation process over the summer.

Requirement to Provide Pooling Proposals

Funds are required to make an initial submission in relation to their intentions in relation to pooling by 19 February 2016 with a final fully worked up proposal by July. The Pension Fund Committee will be asked to approve the initial response at its meeting on 29 January 2016.

The Lancashire responses will be based around the proposals which have been developed over the last 12 months with the London Pensions Fund Authority for a pooling arrangement which covers not just investment assets but pensions administration as well. Both funds have been involved in a range of discussions with other funds over the pooling of investment assets in recent weeks and further details will be provided at the Board meeting if possible.

In terms of the specific Lancashire/London proposal the governing bodies of the two funds endorsed a business plan in November as demonstrating the viability of the business model and work to complete the necessary legal documentation is progressing alongside consideration by the Financial Conduct Authority for the authorisation of the relevant parts of the new entities. The target date to commence operation is 1 April 2016. As a consequence of this process the County Council has appointed Ms Abigail Leech as Interim Head of the Pension Fund. This role will be responsible for managing the relationship between the Partnership and the Pension Fund, taking decisions which will continue to have to be taken by the Fund and acting as the lead officer for both the Pension Fund Committee and the Local Pension Board. Officers who transfer to the Partnership will, of course, continue to attend meetings of both the Committee and the Board and provide information and prepare reports as necessary.

The Board may wish to consider whether it wishes to make any comments on these matters for the Pension Fund Committee to consider.

Appendix 'A' - Annex 1

Department for Communities and Local Government (DCLG) Consultations

- Expected for over a year, DCLG released its criteria for rolling the LGPS's 89 funds into six wealth funds to help "match" the infrastructure investment levels of leading global pension funds, and significantly reduce costs.
- The Government is now asking administering authorities to put forward proposals for pooling scheme assets by 19 February 2016.
- Their proposals will be assessed against four key criteria:
  - Asset Pools that achieve the benefits of scale.
  - Strong governance and decision making.
  - Reduced costs and excellent value for money.
  - An improved capacity to invest in infrastructure.
- There were no great surprises in the pooling criteria, though the wording has changed slightly. Six pools and a minimum asset size of £25bn were widely expected.
- 'Value for money' has been included in the cost criteria as well as 'Capability to invest' in the infrastructure criteria rather than a mandated figure. This implies and certain level of flexibility.
- The criteria recognised that in areas such as illiquid investments, where the Hymans report last year highlighted substantial potential for cost savings, the £25bn target figure may not be reached. There is recognition that the pools may not be suitable for some existing investments such as direct property.
- The Cabinet Office also published a consultation on revoking and replacing the LGPS investment regulations in order to remove prescriptive rules, as well as consulting on backstop legislation to force administering authorities to pool their assets with others.
- LPFA, Lancashire and the London Collective Investment Vehicle (CIV) are is raised specifically as encouraging reform in this area, particularly around the 35% allocation cap.
- This consultation recognises that funds may be hamstrung by existing regulations which place restrictions on certain investments, which in turn may constrain pooling efforts. Therefore, it proposes to move to a prudential approach which places the onus on authorities and Funds to determine their investment strategy which appropriately takes risk in to account. Essentially – 'we trust you know your own knitting'.
- However, this is proposed in parallel with a power allowing the Secretary of State to intervene if they believe the guidance set is not being followed.

Breakdown

- Funds should include a commitment to pooling and a description of progress towards formalising arrangements with other authorities. The government's preference is likely to be for funds to do this through CIVs using the authorised contractual scheme, based on analysis by PwC published in a separate report by the Cabinet Office and Department for Communities and Local Government earlier this year.
- Authorities are expected to take the lead in cost savings and report the costs they incur more transparently. Proposals are expected to include how the pool(s) will deliver substantial savings in investment fees, both in the near term

and over the next 15 years, while at least maintaining overall investment performance.

- Additionally, active fund management should only be employed where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index.
- Finally, proposals should explain in detail how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

Time scale

Investment regulations

- Consultation responses are to be submitted by **19 February 2016.**

LGPS Reform

I. Authorities are asked to submit initial proposals by **19 February, 2016**. These proposals should include a commitment to pooling and a description of their progress towards formalising arrangement with other Funds.
II. A refined submission is expected by **15 July, 2016**. This submission must fully address the detailed criteria set out in the consultation. The submission must comprise:
    a. For each pool, a joint proposal from participating authorities/funds setting out pooling arrangements in detail.
    b. For each authority/fund, an individual return detailing its commitment to, and expectations of, the pool.

It is expected that liquid assets are transferred into the pools over a relative short timeframe, beginning from April 2018. It has been recognised that illiquid assets are likely to transition over a longer period of time.

Department for
Communities and
Local Government

Local Government Pension Scheme: Investment Reform Criteria and Guidance

November 2015
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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November 2015

ISBN: 978-1-4098-4734-2

Contents

Ministerial Foreword

At the summer Budget 2015, the Chancellor announced our intention to invite administering authorities to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver significantly reduced costs while maintaining overall investment performance.

We have been clear for some time that the existing arrangements for investment by the Local Government Pension Scheme are in need of reform, and the announcement made plain our expectation that authorities would be ambitious when developing their proposals. The publication of these criteria and their supporting guidance marks a significant milestone on the road to reform, placing authorities in a strong position to take the initiative and drive efficiencies in the Scheme, and ultimately deliver savings for local taxpayers.

The Scheme is currently organised through 89 separate local government administering authorities and a closed Environment Agency scheme, which each manage and invest their assets largely independently. Recognising the potential for greater efficiency in this system, the coalition government first began to consider the opportunity for collaboration in 2013 with a call for evidence. Since then, we have been exploring the opportunities to improve; gathering evidence, testing proposals, and listening to the views of administering authorities and the fund management industry.

The Chancellor’s announcement draws on this earlier work and in particular the consultation, *Opportunities for collaboration, cost savings and efficiencies,* published in May 2014 by the coalition government. More than 200 consultation responses and papers were received and analysed, leading to the development of a framework for reform that has administering authorities at its centre. The criteria published today make clear the Government’s expectation for ambitious proposals for pooling, and invite authorities to lead the design and implementation of their own pools. The criteria have been shaped and informed by earlier consultations, as well as several conversations with administering authorities and the fund management industry which took place over the summer.

Working together, authorities have a real opportunity to realise the benefits of scale that should be available to one of Europe’s largest funded pension schemes. The creation of up to six British Wealth Funds, each with at least £25bn of Scheme assets, will not only drive down investment costs but also enable the authorities to develop the capacity and capability to become a world leader in infrastructure investment and help drive growth. I know that many authorities have already started to consider who they will work with and how best to achieve the benefits of scale. These early discussions place those authorities on a strong footing to deliver against our criteria, and I look forward to seeing their proposals develop over the coming months.

Marcus Jones

Criteria

1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

1.2 The following criteria set out how administering authorities can deliver against the Government's expectations of pooling assets.

1.3 It will be for authorities to suggest how their pooling arrangements will be constituted and will operate. In developing proposals, they should have regard to each of the four criteria, which are designed to be read in conjunction with the supporting guidance that follows. Their submissions should describe:

A. Asset pool(s) that achieve the benefits of scale: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.
- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any environmental, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.
- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

C. **Reduced costs and excellent value for money:** In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

As part of their proposals, authorities should provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.

- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. **An improved capacity to invest in infrastructure:** Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
- How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Addressing the criteria

Requirements and Timetable

2.1 Authorities are asked to submit their initial proposals to the Government to LGPSReform@communities.gsi.gov.uk by 19 February 2016. Submissions should include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities can choose whether to make individual or joint submissions, or both, at this first stage.

2.2 Refined and completed submissions are expected by 15 July 2016, which fully address the criteria in this document, and provide any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:

- for each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
- for each authority, an individual return detailing the authority's commitment to, and expectations of, the pool(s). This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pools in the long term.

Assessing the proposals against criteria

2.3 The Government will continue to engage with authorities as they develop their proposals for pooling assets over the coming months. The initial submissions will be evaluated against the criteria, with feedback provided to highlight areas that may fall outside of the criteria, or where additional evidence may be required.

2.4 Once submitted, the Government will assess the final proposals against the criteria. A brief report will be provided in response, setting out the extent to which the criteria have been met and highlighting any aspects of the guidance that the Government believes have not been adequately addressed. In the first instance, the Government will work with authorities who do not develop sufficiently ambitious proposals to help them deliver a more cost effective approach to investment that draws on the benefits of scale. Where this is not possible, the Government will consider how else it can drive value for money for taxpayers, including through the use of the "backstop" legislation, should this be in place following the outcome of the consultation described below.

Transitional arrangements

2.5 Plans should be made to transfer assets to the pools as soon as practicable. Analysis commissioned by the Government from PricewaterhouseCoopers (PwC) indicates that, even those pooling mechanisms requiring supporting infrastructure, such as collective investment vehicles, could be established within 18 months. It is expected that liquid assets are transferred into the pools over a relatively short timeframe, beginning from April 2018. It is recognised that illiquid assets are likely to transition over a longer period of time. For the avoidance of doubt, investments with high penalty costs for early exit should not be wound up early on account of the pooling arrangements, but should be transferred across as soon as practicable, taking into account value for money considerations. Any assets that are held outside of the pool should be kept under review to ensure that arrangement continues to provide value for money.

2.6 While authorities will need to be mindful of their developing pooled approach, they should continue to manage both their investment strategies and manager appointments as they do now until the new arrangements are in place. In keeping with the investment regulations, they are still responsible for keeping both under regular review.

Support to develop proposals

2.7 To help authorities develop proposals quickly and efficiently, the Government has made available PwC's detailed technical analysis of the different collective investment vehicles and their tax arrangements at: https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance. This paper is provided for information only. It does not represent the view of Government, and authorities should seek professional advice as needed when developing their proposals. Authorities are also strongly encouraged to learn from those who have already begun to develop collective investment vehicles, such as the London Boroughs or Lancashire and the London Pension Fund Authority.

Legislative context

2.8 At the July Budget 2015, the Chancellor also announced the Government's intention to consult on "backstop" legislation that would require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others. That consultation has now been published and is available on the Government's website at: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme.

2.9 The consultation proposes to introduce a power for the Secretary of State to intervene in the investment function of an administering authority where it has not had sufficient regard to guidance published by the Secretary of State. The intervention should be proportionate and subject to both consultation and review.

2.10 The draft regulations include a provision for the Secretary of State to issue guidance. Subject to the outcome of the consultation, authorities would then need to have regard to that guidance when producing their investment strategy. The Government proposes to issue this document as Secretary of State's guidance if the draft regulations come into effect. The guidance will be kept under review and may be updated, for example if the proposals for pooling that come forward are not sufficiently ambitious.

2.11 The consultation also proposes to replace and update the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to make significant investment through pooled vehicles possible.

Supporting guidance

3.1 This guidance is to assist authorities in the design of ambitious proposals for pooling investments and to provide ongoing support as they seek to ensure value for money in the long term. It will be kept under review to ensure that it continues to represent best practice.

A. Asset pool(s) that achieve the benefits of scale

Headline criterion: The 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported.

3.2 The consultation, *Opportunities for collaboration, cost savings and efficiencies*, set out strong evidence that demonstrated how using collective investment vehicles and pooling investments can deliver substantial savings for the Local Government Pension Scheme without affecting investment performance. Additional advantages to pooling, which should further reduce costs and improve decision making in the long term, include:

- Increasing the range of asset classes to be invested in directly,
- Strengthening the governance arrangements and in-house expertise available to authorities,
- Improving transparency and long-term stewardship, and
- Facilitating better dissemination of best practice and performance data between authorities.

The case for collective investment

3.3 Published in May 2014, the analysis in the Hymans Robertson report evidenced that using collective investment vehicles could deliver savings. In the case of illiquid assets alone, they found that £240m a year could be saved if investments were channelled through a Scheme wide collective investment vehicle rather than the existing "fund of funds" approach.[1]

3.4 A review of the academic analysis available also supports the case for larger investment pools. For example, Dyck and Pomorski's paper, *Is Bigger Better? Size and performance in pension fund management*, established that larger pension funds were able to operate at lower cost than their smaller counterparts, through a combination of

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[1] Hymans Robertson report: *Local Government Pension Scheme structure analysis,* p.3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf

improved negotiating power, greater use of in-house management, and more cost effective access to alternative assets like infrastructure.[2]

A third to a half of the benefits of size come through cost savings realized by larger plans, primarily via internal management. Up to two thirds of the economies come from substantial gains in both gross and net returns on alternatives.

3.5 A number of respondents to the May 2014 consultation also set out the case for larger funds being able to access lower cost investments. London Councils, for example, estimated that savings of £120m a year could be delivered if £24bn was invested through the London collective investment vehicle (CIV), as a result of reduced investment management fees, improved performance, and enhanced efficiency.

3.6 Formal mechanisms of pooling, such as collective investment vehicles, offer additional benefits to alternative arrangements such as procurement frameworks. For example, Hymans Robertson explained that larger asset pools would increase the opportunities for buy and sell transactions to be carried out within the Scheme, reducing the need to go to the market and so minimising transaction costs. Their analysis found that this could reduce transaction costs, which erode the value of assets invested, by £190m a year.[3]

3.7 Pooling investments will also create an opportunity to improve transparency and information sharing amongst authorities. By having a single entity responsible for negotiating with fund managers and reporting performance, authorities can see what they are paying and generating in returns and how it compares with other authorities. Similarly, Lancashire County Pension Fund and the London Pension Fund Authority, who are developing a pool for assets and liabilities, anticipate economies of scale driving improved performance. They have recently estimated that by pooling they can achieve enhanced investment outcomes of £20-£30m a year from their current levels.[4]

Achieving appropriate scale

3.8 The Government expects all administering authorities to pool their investments to achieve economies of scale and the wider benefits of sharing best practice.

3.9 A move to larger asset pools would also be in keeping with international experience. For example, in Ontario, smaller public sector pension funds are being required to come together to form pools of around $50bn Canadian (approximately £30bn at the time the proposal was made). Similarly, Australian pension funds have been consolidating in recent years, where a formal review in 2010 recommended that each MySuper pension fund be required to consider annually whether they have sufficient scale and membership to continue as a separate pension fund.[5]

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[2] Dyck and Pomorski, *Is bigger better? Size and Performance in Pension Plan Management*, pp.14-15
[3] Hymans Robertson report, pp.14-15
[4] Sir Merrick Cockell, writing in the *Pensions Expert* on 30 September 2015
[5] Government Response to the Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, Recommendation 1.6,

3.10 The May 2014 consultation sought views on the number of collective investment vehicles to be established. Respondents stressed the importance of balancing the need for scale with local input and practical governance arrangements. It was also argued that while larger asset pools would deliver greater savings, the potential difficulties of successfully investing large volumes of assets in a single asset class, particularly active strategies for listed assets, should also be taken into account. However, while individual managers may restrict the value of assets they are prepared to accept or are able to invest, the selection of a few managers for each asset class would help to mitigate this risk.

3.11 Having reflected on the views expressed in response to the consultation and the experience of pension funds internationally, the Government believes that in almost all cases, fewer, larger assets pools will create the conditions for lower costs and reduce the likelihood of activity being duplicated across the Scheme, for example by minimising pooled vehicle set-up and running costs. It therefore expects authorities to collaborate and invest through no more than six large asset pools, each with at least £25bn of Local Government Pension Scheme assets under management once fully operational.

3.12 However, the Government recognises that there may be a limited number of bespoke circumstances where an alternative arrangement may be more appropriate for a particular asset class or specific investment. As set out below, this may include pooling to invest in illiquid assets like infrastructure, direct holdings in property and locally targeted investments.

Investment in infrastructure and other illiquid or alternative assets

3.13 The Hymans Robertson report highlighted illiquid or alternative assets as an area for significant savings for the Scheme. They found that in 2012-2013, illiquid asset classes like private equity, hedge funds and infrastructure represented just 10% of investments made, but 40% of investment fees. They also demonstrated that changing the way these investments are made, moving away from "fund of funds" to a collective investment vehicle, could save £240m a year.[6]

3.14 The Government expects the pooling of assets to remove some of the obstacles to investing in these asset classes in a cost effective way. A separate criterion has been included on infrastructure, although similar benefits exist for other alternative or illiquid assets, such as private equity, venture capital, debt funds and new forms of alternative business finance. In light of this, authorities should consider how best to access these asset classes in a more cost-effective way. Regionally based pools, such as the London boroughs' collective investment vehicle, would allow authorities to make best use of existing relationships, while a single national pool for infrastructure or illiquid assets would deliver even greater scale and opportunity for efficiency.

3.15 A considerable shift in asset allocation would be needed to develop a pool of £25bn for investment in infrastructure and other illiquid or alternative assets, such as private equity or venture capital. The Government recognises that such a significant movement in

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http://strongersuper.treasury.gov.au/content/Content.aspx?doc=publications/government_response/recommendation_response_chapter_1.htm

[6] Hymans Robertson report, p.24

asset allocation is unlikely in the near term. As such, should authorities elect to develop a single asset pool for illiquid investments or infrastructure, the Government recognises that a value of assets under management less than £25bn might be appropriate.

Investments outside of the pools

3.16 The Government's presumption is that all investments should be made through the pool, but we recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or products tailored to specific liabilities. Authorities may therefore wish to explore whether to retain a small proportion of their existing investments outside of the pool, where this can demonstrate clear value for money. Any exemptions should be minimal and must be set out in the pooling proposal, alongside a supporting rationale.

Property

3.17 As of the 31 March 2014, authorities reported that they were investing around 2.5% of their assets in directly held property, with a further 4.1% invested through property investment vehicles.[7] However, the amount invested varies considerably between authorities, with some targeting investment of around 10% of their assets in direct holdings, for example.

3.18 A number of consultation responses stressed the importance of retaining direct ownership of property outside of any pooled arrangement, a view echoed in our discussions with interested parties over the summer. Directly held property is used by some authorities to match a particular part of an authority's liabilities, or to generate regular income. If these assets were then pooled, while the authority would receive the benefits of the pooled properties, there is a risk that this would not match the liability or cash-flow requirements that had underpinned the decision to invest in a particular property.

3.19 In light of the arguments brought forward by authorities and the fund management industry, the Government is prepared to accept that some existing property assets might be more effectively managed directly and not through a pool at present. However, pools should be used if new allocations are made to property, taking advantage of the opportunity to share the costs associated with the identification and management of suitable investments.

3.20 Where authorities invest more than the reported Scheme average of 2.5% in property directly, they should make this clear in their pooling submission.

Addressing the criterion

3.21 When developing their proposals for pooling, authorities should set out:

- The size of their pool(s) once fully operational.
- In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.

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[7] Scheme Advisory Board, Annual Report http://www.lgpsboard.org/index.php/investment-performance-2014

- The type of pool(s) they are participating in, including the legal structure if relevant.
- How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
- The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

B. Strong governance and decision making

Headline criterion: The proposed governance structure for the pools should:

i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability.

3.22 A number of consultation responses stressed the importance of establishing strong governance arrangements for pools. Securing the right balance between local input and timely, effective decision making was viewed as essential, but also a significant challenge. The management and governance arrangements of each pool will inevitably be defined by the needs of those participating. However, there are some underlying principles that the Government believes should be incorporated.

Maintaining democratic accountability

3.23 The May 2014 consultation was underpinned by the principle that asset allocation should remain with the administering authorities. Consultation respondents were strongly in favour of retaining local asset allocation, noting that each fund has a unique set of participating employers, liabilities, membership and cash-flow profiles, which need to be addressed by an investment strategy tailored to those particular circumstances.

3.24 Respondents also highlighted the transparency and accountability benefits offered by local asset allocation. If councillors are responsible for setting the investment strategy, then local taxpayers, who in part fund the Scheme through employer contributions, have an opportunity to hold their decisions directly to account through local elections. As one consultation response explained:

> The accountability of Members of the employing authorities playing a part in deciding locally how the assets of the Pension Fund are allocated is important. Employer contributions are paid, in the main, by local council tax payers who in turn vote for their local councillors. Those councillors should have the autonomy to make decisions relating to the investment strategy of that Pension Fund.

3.25 The Government agrees that this democratic link is important to the effective running of the Scheme and should not be wholly removed by the pooling of investments. As set out below, determining the investment strategy and setting the strategic asset allocation should remain with individual authorities. When developing a pool, authorities should ensure that there remains a clear link through the governance structure adopted, between the pool and the pensions committee. For example, this might take the form of a shareholding in the pool for the authority, which is exercised by a member of the pension committee.

Strategic asset allocation

3.26 Establishing the right investment strategy and strategic asset allocation is crucial to optimising performance. It is increasingly accepted that strategic asset allocation is one of the main drivers of investment returns, having far greater an impact than implementation decisions such as manager selection.

3.27 The majority of respondents to the May 2014 consultation supported local asset allocation, but discussions with interested parties over the summer have highlighted a lack of consensus as to what constitutes strategic asset allocation. Definitions have ranged from selecting high level asset classes such as the proportions in bonds, equities and property; to developing a detailed strategy setting out the extent and types of investments in each of the different equity or bond markets.

3.28 Informed by these discussions with fund managers and administering authorities, the Government believes that pension committees should continue to set the balance between investment in bonds and equities, recognising their authority's specific liability and cash-flow forecasts. Beyond this, it will be for each pool to determine which aspects of asset allocation are undertaken by the pool and which by the administering authority, having considered how best to structure decision making in order to deliver value for money. Authorities will need to consider the additional benefits of centralising decision making to better exploit synergies with other participating authorities' allocations and further drive economies of scale. When setting out their asset allocation authorities should be as transparent as possible, for example making clear the underlying asset class sought when using pooled funds.

Effective and timely decision making

3.29 Authorities should draw a distinction between locally setting the strategic asset allocation and centrally determining how that strategy is implemented. The Government expects that implementation of the investment strategy will be delegated to officers or the pool, in order to make the most of the benefits of scale and react efficiently to changing market conditions. As one consultation response suggested:

> We believe that high-level decisions about Fund objectives, strategy and allocation are best made by individual Funds considering their better knowledge of their liabilities, risk and return objectives and cash flow requirements. More detailed asset allocation decisions should however be centralised to achieve better economies of scale, and to allow more specialist management.

3.30 Authorities will need to revisit and review their decision-making processes as part of their move towards pools. For example, in order to maximise savings, manager selection will need to be undertaken at the pool level. Centralising manager selection would allow the pool to rationalise the number of managers used for a particular asset class. The resulting larger mandates should then allow the pool to negotiate lower investment fees. This approach would also give local councillors more time to dedicate to the fundamental issue of setting the overarching strategy.

3.31 A number of authorities have already delegated hiring and dismissing mangers to a sub-committee comprised predominantly of officers. This has allowed these authorities to react more quickly to changes in the market, taking advantage of opportunities as they arise. Similarly, delegating implementation decisions to the pool will allow the participating authorities to benefit not only from more streamlined decision making, but also from effecting those decisions at scale.

3.32 The creation of pools will necessarily lead to a review of decision making within each authority. The Government expects to see greater consolidation where possible. However, as a minimum, we would expect to see the selection of external fund managers and the implementation of the investment strategy to be carried out at the pooled level.

Responsible investment and effective stewardship

3.33 In June 2011, the Government invited Professor John Kay to conduct a review into UK equity markets and long-term decision making. The Kay Review considered how well equity markets were achieving their core purposes: to enhance the performance of UK companies and to enable savers to benefit from the activity of these businesses through returns to direct and indirect ownership of shares in UK companies. The review identified that short-termism is a problem in UK equity markets.[8]

3.34 Professor Kay recommended that Company directors, asset managers and asset holders adopt measures to promote both stewardship and long-term decision making. In particular, he stressed that 'asset managers can contribute more to the performance of British business (and in consequence to overall returns to their savers) through greater involvement with the companies in which they invest.'[9] He concludes that adopting such responsible investment practices will prove beneficial for investors and markets alike.

3.35 In practice, responsible investment could involve making investment decisions based on the long term, as well as playing an active role in corporate governance by exercising shareholder voting rights. Administering authorities will want to consider the findings of the Kay Review when developing their proposals, including what governance procedures and mechanisms would be needed to facilitate long term responsible investing and stewardship through a pool. The UK Stewardship Code, published by the Financial Reporting Council, also provides authorities with guidance on good practice in terms of monitoring, and engaging with, the companies in which they invest.

Enacting an environmental, social and corporate governance policy

3.36 The investment regulations currently require authorities to set out within the statement of investment principles the extent to which social, environmental or corporate governance considerations are taken into account in the selection, retention and realisation of investments. The draft regulations published alongside this document do not propose to amend this principle.

3.37 These policies should be developed in the context of the liability profile of the Scheme, and should enhance the authority's ability to manage down any funding deficit and ensure that pensions can be paid when due. Indeed, environmental, social and

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[8] *The Kay Review of UK Equity Markets and Long-Term Decision Making*, pp. 9-10 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf
[9] The Kay Review, p.12

corporate governance policies provide a useful tool in managing financial risk, as they ensure that the wider risks associated with the viability of an investment are fully recognised.

3.38 As the Law Commission emphasised in its 2014 report on the fiduciary duty of financial intermediaries, the law generally is clear that schemes should consider any factors 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.

3.39 The Law Commission also clarified that, although schemes should make the pursuit of a financial return their predominant concern, they may 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.

3.40 The Government's intention is to issue guidance to authorities to clarify that such considerations should not result in policies which pursue municipal boycotts, divestments and sanctions, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. Investment policies should not be used to give effect to municipal foreign or munitions policies that run contrary to Government policy.

3.41 Authorities will need to determine how their individual investment policies will be reflected in the pool. They should also consider how pooling could facilitate implementation of their environmental, social and corporate governance policy, for example by sharing best practice, collaborating on social investments to reduce cost or diversify risk, or using their scale to improve capability in this area.

Addressing the criterion

3.42 When developing their proposals for pooling, authorities will need to set out:

- The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
- The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
- Decision making procedures at all stages of investment, and the rationale underpinning this.
- The shared objectives for the pool(s), and any policies that are to be agreed between participants.
- The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
- How any ethical, social and corporate governance policies will be handled by the pool(s).
- How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.

- How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.

- The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board’s key performance indicator assessment.

C. Reduced costs and excellent value for money

Headline criterion: In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while maintaining overall investment performance.

Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

3.43 As set out in the July Budget 2015 announcement, the Government wants to see authorities bring forward proposals to reform the way their pension scheme investments are made to deliver long-term savings for local taxpayers. Authorities are invited to consider how they might best deliver value for money, minimising fees while maximising overall investment returns.

Scope for savings

3.44 Pooling investments offers an opportunity to share knowledge and reduce external investment management fees, as the fund manager is able to treat the authorities as a single client. There is already a considerable body of evidence in the public domain to support authorities in developing their proposals for investment reform and this continues to grow with new initiatives emerging from local authorities:

- **Passive management:** Hymans Robertson showed that annual fee savings of £230m could be found by moving from active to passive management of listed assets like bonds and equities, without affecting the Scheme's overall return.[10]
- Their analysis suggested that since passive management typically results in fewer shares being traded, turnover costs, which are a drag on the performance achieved through active management, might be reduced by £190m a year.[11]
- **Collective investment:** Hymans Robertson also demonstrated that £240m a year could be saved by using a collective investment vehicle instead of "fund of funds" for illiquid assets like infrastructure, hedge funds and private equity.[12]
- Similarly, the London Pension Fund Authority has estimated that they have reduced their external manager fees by 75% by bringing equity investments in-house, and hope to expand this considerably as part of their collective investment vehicle with Lancashire County Pension Fund.[13]

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[10] Hymans Robertson report, p. 12
[11] Hymans Robertson report, pp. 14-15
[12] Hymans Robertson report, p. 3
[13] Chris Rule, LPFA Chief Investment Officer, reported in *Pension Expert* on 1 October 2015

- **Sharing services and procurement costs:** The National Procurement Framework has also helped authorities to address some of the other costs associated with investment, such as legal and custodian fees, reporting measurable savings of £16m so far.[14]

3.45 As Hymans Robertson's analysis shows, just tackling the use of "fund of funds" for illiquid assets like infrastructure could save around £240m a year, with clear opportunities to go further. It is in this context that the Government is encouraging authorities to bring forward their proposals for collaboration and cost savings. Although a particular savings target has not been set, the Government does expect authorities to be ambitious in their pursuit of economies of scale and value for money.

In-house management

3.46 Some authorities manage all or the majority of their assets internally and so can already show very low management costs. In these cases, a move to a collective investment vehicle with external fund managers is unlikely to deliver cost savings from investment fees alone. However, there are wider benefits of collaboration which authorities with in-house teams should consider when developing their proposals for pooling. A pool of internally managed assets could lead to further reductions in costs, for example by sharing staff, research and due diligence checks; it may improve access to staff with stronger expertise in particular asset classes; and could introduce greater resilience in staff recruitment, retention and succession planning. Alternatively, newly created pools might wish to work with existing in-house teams to build up expertise and take advantage of their lower running costs.

Active and passive management

3.47 The May 2014 consultation considered the use of active and passive management by the Local Government Pension Scheme. Active management attempts to select fund managers who actively choose a portfolio of assets in order to deliver a return against a specific investment target. In practice, this is often used to try and outperform a benchmark, for that class of assets over a specific period. In contrast, passive management tracks a market and aims to deliver a return in line with that market.

3.48 The consultation demonstrated that when considered in aggregate, the Scheme had been achieving a market return over the last ten years in each of the main equity markets. This suggested that collectively the Scheme could have delivered savings by using less costly passive management for listed assets like bonds and equities, without affecting overall performance. While the majority of consultation responses agreed that there was a role for passive management in a balanced portfolio, most also argued that authorities should retain the use of active management where they felt it would deliver higher net returns.

3.49 In response to that consultation, the Government has now invited authorities to bring forward proposals for pooling investments to deliver economies of scale. The extent to which passive management is used will remain a decision for each authority or pool,

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[14] National LGPS Frameworks website, http://www.nationallgpsframeworks.org/national-lgps-frameworks-win-lgc-investment-award

based on their investment strategy, ongoing performance and ability to negotiate lower fees with fund managers. However, in light of the evidence set out in the Hymans Robertson report and the May 2014 consultation, authorities are encouraged to keep their balance of active and passive management under review to ensure they are delivering value for money. For example, should their net returns compare poorly against the index in a particular asset class over the longer term, authorities should consider whether they are still securing value for money for taxpayers and Scheme members.

3.50 When determining how to measure performance, authorities are encouraged to consider setting targets for active managers that are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

Improving the transparency of costs

3.51 In addition to the fees paid to asset managers, there are considerable hidden costs of investment that are difficult to identify and so often go unreported by investors. In the case of the Local Government Pension Scheme, Hymans Robertson showed that investment costs in 2012-13 were at least £790m a year, in contrast to the £409m reported by the authorities.[15] Even the £790m understated the total investment costs as it excluded performance fees on alternative assets such as private equity and hedge funds (it included performance fees on traditional assets) and turnover costs (investment performance figures include the impact of turnover costs).

3.52 To really drive savings within the Scheme, it is essential that these hidden costs are better understood and reported as transparently as possible. Although many of these costs are not paid out in cash, they do erode the value of the assets available for investment and so should also be scrutinised and the opportunities for savings explored.

3.53 The Chartered Institute of Public Finance and Accountancy (CIPFA) has already made some changes to their guidance, Accounting for Local Government Pension Scheme management costs 2014, to encourage authorities to explore these costs and report some through a note to the accounts. For example, these include performance fees and management fees on pools deducted at source. Authorities should have regard to this guidance and ensure that they are reporting costs as transparently as possible.

3.54 In addition, the Scheme Advisory Board is commissioning advice to help authorities more accurately assess their transparent and hidden investment costs. Once available, authorities should take full advantage of this analysis when developing their proposals.

Addressing the criterion

3.55 As set out above, there is a clear opportunity for authorities to collaborate to deliver hundreds of millions in savings in the medium term. Although there is no overall savings target for the Scheme, the Government expects authorities to take full advantage of the benefits of pooling to reduce costs while maintaining performance.

[15] Hymans Robertson report, pp.10-11

3.56 To support the delivery of savings authorities bringing forward proposals are asked to set out their current investment costs in detail, and demonstrate how these will be reduced over time and the savings forecast. Where possible, costs should be reported back to 2012-2013 so that any cost reductions already achieved as a result of procurement frameworks and early fee negotiations are transparently captured.

3.57 Authorities are encouraged to provide:

- A fully transparent assessment of investment costs and fees as at 31 March 2013.
- A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
- A detailed estimate of savings over the next 15 years.
- A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
- A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.

D. An improved capacity and capability to invest in infrastructure

Headline criterion: Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

3.58 Investment in infrastructure is increasingly being seen as a suitable option for pension funds, particularly amongst larger organisations. This may in part be the result of the typically long term nature of these investments, which may offer a useful match to the long term liabilities held by pension funds.

International experience

3.59 Multiple large international pension funds are investing a significant proportion of their assets in infrastructure. A recent OECD report, which analysed a sample of global pension funds as at 2012, showed that some Canadian and Australian funds (with total assets of approximately £35-40bn in 2014 terms) were investing up to 10-15% in this asset class.[16] The report also noted that those funds with the largest infrastructure allocations were investing directly, and that such investment was the result of the build up of sector-specific knowledge, expertise and resources.[17] This experience might be demonstrated through an organisation's ability to manage large projects, as well as the associated risk.

3.60 Figures published by the Scheme Advisory Board for the 2013 Annual Report show that around £550m, or 0.3%, of the Scheme's total assets of £180bn was invested in infrastructure.[18] This falls some way behind other large pension funds that have elected to invest in this area, such as those noted above and the Ontario Teachers Pension Plan which invested 6.1% according to the same 2014 report.

Creating the opportunity

3.61 The Scheme's current structure, where assets are locked into 90 separate funds, reduces scale and makes significant direct infrastructure investment more difficult for administering authorities. As a result, authorities may determine that they are unable to invest in infrastructure, or may invest indirectly, through the "fund of funds" structure. Such arrangements are expensive, as the Hymans Robertson report demonstrated and this paper sets out in paragraph 3.13.

3.62 Developing larger investment pools of at least £25bn will make it easier to develop or acquire improved capacity and capability to invest in infrastructure. In so doing, it should be possible to reduce the costs associated with investment in this area. This is likely to be the case particularly if authorities pool their infrastructure investment nationally, where the

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[16] OECD, *Annual Survey of Large Pension Funds: report on pension funds' long-term investments*, p.32, available at: http://www.oecd.org/daf/fin/private-pensions/LargestPensionFunds2012Survey.pdf
[17] OECD report, p.14
[18] Scheme Advisory Board annual report http://www.lgpsboard.org/index.php/scheme-investments

resultant scale may allow them to buy-in or build-up in-house expertise in relevant areas, such as project and risk management.

3.63 In considering such investment, administering authorities might want to reflect on the wide range of assets that might be explored, such as railway, road or other transport facilities; utilities services like water and gas infrastructure; health, educational, court or prison facilities, and housing supply. Authorities should also examine the benefits of both:

- Greenfield infrastructure – projects involving the construction of brand new infrastructure, such as a new road or motorway junction to unlock a housing development, or the recent investment of £25m by the Greater Manchester Pension Fund to unlock new sites and build 240 houses; and
- Brownfield infrastructure – investing in pre-existing infrastructure projects, such as taking over the running of (or the construction of a new terminal building at) an airport.

3.64 As set out above, investment in infrastructure represents a viable investment for pension funds, offering long term returns to match their liabilities. Authorities will need to make their investments based on an assessment of risk, return and fit with investment strategy. However, the creation of large pools will make greater investment in infrastructure a more realistic prospect, opening up new opportunities to develop or buy-in the capacity and capability required.

3.65 In developing their proposals for pooling, authorities should take the opportunity to review their asset allocation decisions and consider how they can be more ambitious in their infrastructure investment. The Government believes that authorities can play a leading role in UK infrastructure and driving local growth, and encourages authorities to compare themselves against the example set by the leading global pension fund investors in their approach to allocating assets in this area.

Addressing the criterion

3.66 Authorities should identify their current allocation to infrastructure, and consider how the creation of up to six pools might facilitate greater investment in this area. When developing proposals, authorities should explain:

- The proportion of their fund currently allocated to infrastructure, both directly and through fund, or “fund of funds”.
- How they might develop or acquire the capability and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or “fund of funds” arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

Lancashire Local Pension Board
Meeting to be held on 18 January 2016

Electoral Division affected:
None

Preparation for the 2016 Actuarial Valuation
(Appendix 'A' refers)

Contact for further information:
George Graham, (01772) 538102, Lancashire County Pension Fund,
george.graham@lancashire.gov.uk

Executive Summary

The Board has previously received a report on the framework of assumptions that the Fund is minded to use in the 2016 actuarial valuation. This report provides additional information on the wider range of preparations that are being undertaken in order to ensure the smooth delivery of the overall process.

Recommendation

The Board is asked to note the preparations being made for the 2016 Actuarial Valuation of the Fund and identify any specific issues that it would like either the Pension Fund Committee or Fund Officers to consider.

Background and Advice

The detailed report at Appendix 'A' sets out details of the preparations being made for the 2016 valuation of the Fund which will result in new employer contribution rates from April 2017.

The basic approach of the Fund to this valuation has been to raise awareness of the broad issues at an early stage and propose a framework for the valuation which seeks to address those issues, where possible. This is then reflected in the detailed timetable and process.

The timetable set out in Appendix 'A' provides the opportunity for significant dialogue with employers about their particular circumstances and how to address them as the expectation, borne out by some initial modelling is that there is the potential for there to be a spread of results around the overall fund level position. This process is important for a number of reasons and will also allow particular employer related risks to be addressed through dialogue, which is the preferable course of action.

Consultations

Various elements of the valuation process require consultation with employers and the Fund is endeavouring, as in previous valuations, to maintain an ongoing dialogue both with employers generally and specific groups of employers in order to ensure they are aware of the issues for them which flow from the valuation.

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Implications:

This item has the following implications, as indicated:

Risk management

A properly planned and transparent valuation process aims to reduce the risks facing the Fund, while at the same time achieving a balance with employer interests.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Preparation for the 2016 Actuarial Valuation

Introduction

At its last meeting the Board received a report, which was also considered by the Pension Fund Committee, setting out a proposed initial position on various issues associated with the 2016 actuarial valuation of the Fund. This report provides the Board with further information on the proposed process and timeline.

Initial Framework

The key elements of the initial framework which employers have been asked to respond on by 15 January 2016 are:

- Overall valuation approach – a proposal to move away from the "gilts +" valuation basis to a "CPI +" basis which will provide a more stable view of liabilities. This is also more in line with the approach the Government Actuary will use to assess the cost of the scheme against the cost cap.
- Deficit Recovery Period – bringing the period down to 16 years in line with elapsed time.
- An aim to maintain the 2013 contributions plan in terms of total cash to be received as contributions.

Elements of these proposals were discussed at the annual "Director's Brief" and a discussion has been arranged with academy schools on 8 January 2016. At the time of writing no specific responses either positive or negative to the proposed framework have been received.

Further Preparatory Work

Alongside this consultation on the initial framework, the results of which are scheduled to be considered by the Pension Fund Committee, on 1 April 2016 a number of other pieces of preparatory work are being undertaken.

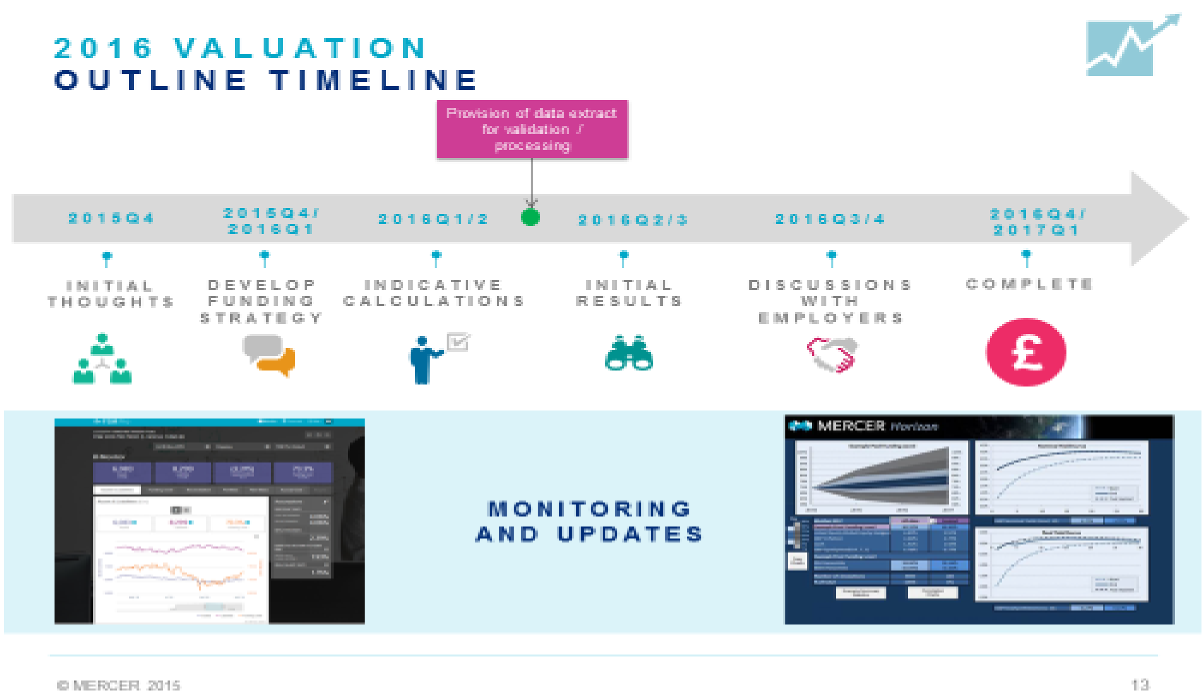
- Data Management – Work is being undertaken as part of business as usual to address employer data issues. In general this is a collaborative process between the Fund and employers. However, specific action is to be taken in the case of a small number of employers (covering a very small proportion of members) who have consistently failed to provide accurate data on time. This will include reporting those employers to the Regulator. Given timescales for the submission of final data it is important to resolve any data issues prior to the valuation date.
- Covenant Assessment – Work has been undertaken to assess the financial covenant of employers. This work has identified a small number of relatively small employers who's participation within the Fund represents a high risk for the Fund. The Pension Fund Committee will be asked to agree a course of

action in these cases at its April meeting when it receives the results of this work.

- Additional Actuarial Modelling – The change in the valuation approach will impact different employers in different ways as it will tend to switch the emphasis from deficit contributions to future service contributions Depending on the nature of an employer's membership in the scheme this will have different impacts and work is being undertaken to model these impacts for a representative sample of employers (e.g. one with a relatively young workforce, one with a preponderance of pensioners, one who's participation in the scheme is relatively recent). This modelling will allow officers to anticipate areas where there might be issues when the final valuation results come through and engage in early discussions with employers. Larger employers such as the County Council and the two unitary councils which tend to be representative of the fund as a whole are less likely to be affected by this change.
- Actuarial Assumptions – There will be further engagement with the actuary around key assumptions within the model over the period to March. These will include future pay increases, where some research on historical trends will be fed into the process; the relationship between RPI and CPI and the reliability of market implied inflation measures; and the assumed level of returns from individual asset classes when compared to actual local assets. This process will not necessarily change any assumptions, but it will enable the Fund's officers to make them more transparent and explicable to employers.

Timetable

The broad timetable is set out below



Running alongside this local process the actuary is required by July to provide the Government Actuary with a valuation carried out using a standardised methodology which will be used in the cost cap calculation for the scheme nationally. Given the assumptions that are used in this valuation there are likely to be some differences from the local result which will use more tailored assumptions.

Individual teams such as the Your Pension Service Data Centre have specific detailed project plans to deliver accurate data to the actuary in line with the required timescales.

The intention locally is that as in previous years the Fund will run sessions for specific employer groups (such as councils and universities and colleges) as early as possible in the process in order to provide clear indication and assistance in financial planning. In addition, at the end of the process prior to the final report being considered by the Pension Fund Committee every employer will be offered the opportunity for dialogue with the actuary and an officer from the fund to discuss their own specific circumstances and their proposed contribution rates. This dialogue also acts as a consultation process that feeds in to the preparation of the Funding Strategy Statement which will be considered by the Pension Fund Committee alongside the actuary's final report and rates and adjustments certificate.

Conclusion

The valuation process is a major piece of work for the Fund on a number of levels and appropriate preparations have been put in place to ensure that the Fund achieves an acceptable result.

Agenda Item 7

Lancashire Local Pension Board
Meeting to be held on 18 January 2016

Electoral Division affected: All

Compliance with The Pension Regulator Requirements - Update
(Appendix 'A' refers)

Contact for further information:
Diane Lister, (01772) 534827, Head of Your Pension Service,
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Executive Summary

The Government has extended the role of The Pensions Regulator (TPR) to provide independent oversight of public service pension schemes. This was in response to recommendations made by the Independent Public Service Pensions Commission.

As part of its new role, TPR is required to issue a code of practice covering specific matters relating to public service pension schemes. Consequently, 'Code of Practice No. 14: Governance and administration of public service pension schemes' has been issued and has effect from 1 April 2015.

A Lancashire County Pension Fund (LCPF) Compliance Statement has been drafted and is attached at Appendix 'A'.

The Statement reflects that LCPF is largely compliant with TPR's new requirements for public service pension schemes. However, the Fund continues to place the upmost importance upon maintaining up to date and accurate Scheme data and further work is being undertaken to improve the data flow from employers to the Fund. In addition, further consideration will be given to undertaking an exercise to improve address data in respect of deferred scheme members.

Recommendation

The Board is asked to consider the draft Compliance Statement as attached at Appendix 'A'.

Background and Advice

Code 14 provides practical guidance in relation to the exercise of functions under relevant pension's legislation and sets out the standards of conduct and practice expected from those who exercise those functions.

Lancashire County Council

A detailed compliance document has been drafted summarising the legal requirements placed upon pension schemes by various legislation and TPR's associated guidance. A self-assessment has been undertaken to assess how the Fund measures in terms of compliance with the code. This self-assessment does not contain a line-by-line compliance commentary but instead aims to assess the Fund in line with the various sections of the code.

The self-assessment indicates that the Fund largely complies with 'Code 14' as detailed at Appendix 'A'. It is important to note that the Fund was already compliant with the relevant legislation prior to the formal introduction of the code.

However, the self-assessment has highlighted a number of areas where, although the Fund appears to satisfy Code 14, it is clear that further work could be undertaken (some of which has already been planned to take place during 2016).

In terms of data quality TPR has specified that a scheme's 'common data' be at least 95% accurate. LCPF is just ahead of this target at 96.3%. However, for a significant number (5,205) of deferred members, i.e. members not currently working for scheme employers, and with whom ongoing contact is notoriously difficult, address details are known to be inaccurate. As outlined in the compliance statement, regular attempts are made to contact these members, many of whom are years away from claiming their pensions.

Attempts at contacting and updating records are resource-intensive and relatively costly, and the Fund will need to consider both the relative importance of such and how much resource it can put into obtaining up to date data which is most likely to change again, before retirement. Nonetheless, the numbers involved are significant and further consideration will be given to undertaking an exercise to improve address data in respect of deferred scheme members.

The Fund's new data collection portal has been successfully implemented to cater for the monthly collection of data from participating employers. This new development has been instrumental in enabling the production of 98.6% of annual benefit statements within a new statutory deadline of 31 August. It is also important to have up to date and accurate data in order to properly assess the liabilities of the Fund. Work is ongoing to ensure the continued submission of monthly data files from employing organisations in readiness for the 2016 Actuarial Valuation.

Further system and process improvements will be made during 2016 which will assist employers. In addition the Fund makes ongoing efforts to support employers and spells out, explicitly, what is required regarding:

- Frequency of data remittance
- Content of data remittance
- Payment of contributions

However, there are a small number of employers who take up significant administrative resource to ensure the Fund's data collection and contribution reconciliation timescales are met. During 2016, the Fund intends to take a more assertive line with the minority of employers who do not make reasonable efforts to comply with these requirements. This may include reporting this small number of employers to The Pensions Regulator.

Overall, the results of this initial self-assessment are encouraging with no significant areas for concern. The Board is asked to consider the draft Compliance Statement as attached at Appendix 'A'.

Consultations

N/A

Implications:

N/A

Risk management

There are no significant risk management implications.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel

N/A

Reason for inclusion in Part II, if appropriate

N/A

Code of practice no.14 compliance statement

Section	Sub-section	Legal requirement	TPR's guidance	How we Comply
Governing your scheme	Knowledge and understanding required by pension board members [34 – 60]	A member of the pension board of a public service pension scheme must be conversant with: • the rules of the scheme, and • any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme. A member of a pension board must have knowledge and understanding of: • the law relating to pensions, and • any other matters which are prescribed in regulations.	(1) Schemes should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding [38]. (2) Schemes should designate a person to take responsibility for (1) [38]. (3) Schemes should prepare and keep an updated list of documents with which they consider pension board members need to be conversant [46] (4) Clear guidance on the roles and responsibilities and duties of boards and its members should be set out in scheme documentation [47]. (5) Schemes should assist pension board members to determine the degree of knowledge and understanding needed [48]. (6) Schemes should provide board members with the relevant training and support that they require [55]. (7) Schemes should offer pre-appointment training or arrange for mentoring by existing board members [56]. (8) Pension board members should undertake a personal training needs analysis [57]. (9) Learning programs should be flexible [58]. (10) Schemes should keep appropriate records of the learning activities of board members [60].	The Fund's existing training policy has been amended to reflect the requirements for Knowledge and Understanding. The Fund's Financial Policy Officer is responsible for all training matters. Terms of Reference for the Pension Board specify roles and responsibilities and these are documented accordingly. Board members have been introduced to the new CIPFA Knowledge and Skills Framework for Local Pension Boards, published in July 2015. Training and support needs will be assessed and develop in line with Board member needs. Training needs will be identified in a number of ways including self-identified (by Board members) needs and those identified or suggested by the Fund's officers. A number of media/methods will be used to deliver training, and feedback received as to the efficacy of such will help the fund tailor future training accordingly. Board members are encouraged to discuss their learning needs and experiences at each Board meeting and to ask for the support they need from the Fund for their ongoing learning. Records are being maintained of all formal

				training attended by Board members and reported on periodically.
	Conflicts of interest and representation [61 – 91].	In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied: • that a person to be appointed as a member of the pension board does not have a conflict of interest and • from time to time, that none of the members of the pension board has a conflict of interest. Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above. Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers.	(1) The 'Seven principles of public life' should be applied to all board members [70]. (2) Schemes should incorporate these principles into any codes of conduct (and across their policies and processes) and other internal standards for boards [70]. (3) Take professional legal advice when considering issues to do with conflict of interests [74]. (4) Schemes should ensure that there is an agreed and documented conflicts policy and procedure which should be kept under regular review [76]. (5) Schemes should cultivate a culture of openness and transparency [78]. (6) Board members should have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest [78]. (7) Board members should know how to manage potential conflicts [78]. (8) Pension board members should be appointed under procedures that require them to disclose any interests or responsibilities which could become conflicts of interest [80]. (9) All terms of engagement should include a clause requiring disclosure of all interests and responsibilities which could become conflicts of interest as soon as they arise [81]. (10) All disclosed interests should be recorded [81]. (11) Schemes should consider what important matters or decisions are likely to be considered during, for example, the year ahead and identify and consider any potential or actual	The Local Pension Board has been established having had regard to the requirements set out in legislation and guidance. All Board Members have completed a Register of Interests declaration having had regard to the Board's Code of Conduct and Conflict of Interests Policy, which was approved in October 2015. The agenda for each Board meeting includes a declaration of pecuniary and non-pecuniary interests in relation to matters under consideration on that agenda. Any such declarations are minuted. Registers of Interest will be reviewed on an annual basis and all Board Members received training at an induction session prior to the first meeting of the Board. Advice on potential conflicts can be sought from Democratic Services officers at any time.

			conflicts [82]. (12) Identify, evaluate and manage dual interests [83]. (13) Use a register of interests to record and monitor dual interests [84]. (14) Capture decisions about how to manage potential conflicts of interest in their risk register or elsewhere [84]. (15) The register of interest and other relevant documents should be circulated to the board for ongoing review [84]. (16) The register of interest and other relevant documents should be published [84]. (17) Conflicts of interest should be included as an opening agenda item at board meetings and revisited during the meeting where necessary [85]. (18) Establish and operate procedures which ensure that boards are not compromised by potentially conflicted members [86]. (19) Be open and transparent about the way they manage potential conflicts of interest [87]. (20) Seek professional legal advice when assessing any option when seeking to manage a potential conflict of interest [88]. (21) Membership of boards should be designed with regard to proportionality, fairness and transparency and with the aim of ensuring that the board has the right balance of skills, experience and representation [91].	The Board comprises representation from employers and members. All member representatives have a pensions background, and employer representatives are fully conversant with LGPS issues.
	Publishing information about schemes [92 – 99]	The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up-to-date.	(1) Schemes should also publish useful related information about the pension board such as set out in 96 and 97.	The Fund has a dedicated web page that includes details such as: • Board membership ; • Board terms of reference;

		The information must include: • who the members of the pension board are • representation on the board of members of the scheme(s), and • the matters falling within the pension board's responsibility.	(2) Have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete [98].	• A link to the Lancashire County Council website detailing agendas and minutes of the Board's meetings The Fund publishes all statutory documents on the Your Pension Service website www.yourpensionservice.gov.uk The website is reviewed at least annually and updated accordingly, as are other media such as leaflets/guides etc. Additionally whenever regulatory or other significant changes occur, relevant media/documentation are reviewed and changed at the time.
Managing risks	Internal controls [101 – 120]	The scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.	(1) Internal controls should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risks, reviewing breaches of law and managing contributions to the scheme [103]. (2) Internal controls should address significant risks which are likely to have a material impact on the scheme [105]. (3) Sufficient time and attention should be spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls [105]. Identifying risks (4) Schemes should carry out a risk assessment [106]. (5) Schemes should record risks in a risk register and review it regularly [108].	Internal controls are designed to manage risks facing the fund. As such, the starting point for the fund's approach is the risk register. The risk register is a 'live' document which is reviewed regularly, at least every 6 months and is derived from best practice guidance developed by CIPFA and the DCLG. The risk register categorises risks into several primary areas and ascribes ownership of these risks. Each risk is scored, with 'gross' and 'net' risk scores indicating the scale of a risk before and after mitigation which has been put in place to manage it. Many risks cannot be controlled directly by the Fund, nor can the mitigation measures in place always affect the risk scoring, however as a dynamic document the register serves to track performance in managing risks and ensure a focus on changes in the risk landscape. A documented internal compliance regime

			(6) Schemes should keep appropriate records to demonstrate compliance [108]. Evaluate risks and develop internal controls (7) Prioritise risks where the impact and likelihood of the risk materialising is high [109]. (8) Review any existing internal controls [110]. (9) Design internal controls to mitigate main risks and consider how best to monitor them [111]. Monitor controls effectively (10) Schemes should periodically review the adequacy of internal controls [115]. (11) Internal or external audits and/or quality assurance processes should ensure that adequate internal controls are in place and being operated effectively [116]. (12) Review internal controls when substantial changes take place or where a control has been found to be inadequate [116]. Suggested internal controls (13) Internal controls that regularly assess the effectiveness of investment-related decision making. (14) Internal controls that regularly assess the effectiveness of data management and record-keeping. (15) Internal controls that ensure that new employers understand what member data is required and how it should be supplied [112]. (16) Internal controls that require internal	reviews progress in managing risk and ensures that risk owners are accountable accordingly. Clearly, some risks are more significant than others and their relative scale drives the resource input devoted to such; for example the Investment panel and associated due diligence processes ensure a clear separation of duties and a documented decision-making mechanism. Similarly rigorous separation of duties apply to the pensions payroll function which controls around £250m of pension payments annually. Controls are reviewed in a number of ways, such as lessons learned, internal and external audit and continuous improvement drivers. Significant reliance is placed upon both internal and external audits, which review and test existing controls – the fund enjoys very positive feedback from both audit functions and works closely in developing audit programmes, in particular drawing attention to new developments and associated system changes which, being new, can present new and untested risks. A good example of this in seeking audit input to system developments needed to manage very large volumes of detailed data from employers required under the new CARE regime. Detailed monitoring takes place monthly in respect of investment performance and associated governance/control issues.

			or external auditors to audit any automated systems [112]. (17) Internal controls to ensure that systems support the maintenance and retention of good member records [112]. (18) Internal controls that ensure that data are complete (e.g. undertake a data-cleansing or member tracing exercise and review this on a regular basis (at least annually or at regular intervals that they consider appropriate) [112]. (19) Ensure that all staff completes information management training before they are given access to sensitive data. (20) Ensure that member communications are reviewed regularly [112] (21) Schemes should put in place systems and processes for making an objective assessment of the strength of an employer's covenant.	The fund manages enormous volumes of complex and dynamic data and as such commits significant resource to keeping data clean and up to date in a number of ways. Internal data cleansing regimes apply, but just as importantly, significant resource is dedicated to supporting employers to ensure they can comply with the fund's data requirements. Whilst data quality is important, maintaining it comes at a cost: for example the fund only marginally meets the Regulator's data quality targets simply due to the numbers of members for whom it does not have up to date data – this largely applies to deferred members who cannot be traced, despite continued efforts. There is a need to balance the cost of chasing such deferred members against the benefit of 100% accuracy of data, and choices need to be made accordingly. It is not possible within this document to specify all areas of compliance with the Regulator's suggested internal control framework, however: • Information governance training forms part of induction and annual review; • Member communications are reviewed and fine-tuned in the light of feedback • The Fund is putting in place processes and resources to assess employer covenant and proactively manage the outcome of such assessments.
Administration	Scheme record-keeping [122 – 146]	Scheme managers must keep records of information relating to: • member information	(1) Schemes should be able to demonstrate to the regulator, where required, that they keep accurate, up-	Details of Pension Board meetings are available via the Fund's website

		• transactions, and • pension board meetings and decisions Schemes must ensure that processes that are created to manage scheme member data meet the requirements of the Data Protection Act 1998 and the data protection principles.	to-date and enduring records [124]. (2) Schemes should establish and operate adequate internal controls to support record-keeping requirements [125]. (3) Member data should be subject to regular data evaluation [126]. (4) Schemes should require employers to provide them with timely and accurate data [128 and 130]. (5) Schemes should seek to ensure that employers understand the main events which require information to be passed to the scheme [129]. (6) Schemes should be able to trace the flow of funds into and out of the scheme and reconcile these against expected contributions and scheme costs [131]. (7) In respect of keeping information about the pension board, schemes should also keep records of key discussions [133]. (8) Records should be retained for as long as they are needed [135]. (9) Schemes should have in place adequate systems and processes to enable the retention of records for the necessary time periods [135]. (10) Schemes should monitor data (based on a proportionate and risk based approach) on an ongoing basis to ensure it is accurate and complete [136,137]. (11) Schemes should carry out a data review exercise at least annually [138]. (12) Schemes should continually review their data [138]. (13) Upon change of admin system, schemes should review and cleanse data records [140] (14) Schemes should put in place a data	www.yourpensionservice.org.uk A data cleaning schedule specifies data cleaning activities during the year. The cleanliness of this data is compared to targets set out by the Pensions Regulator. YPS is working on implementing electronic data quality reporting routines, covering employers' and scheme data quality. A records retention policy is in place. Most records are stored electronically, and paper records are in the main stored with LCC's records management team, who securely destroy records in line with the Fund's record retention policy. Fund flows into and out of the scheme are reconciled on an aggregate basis. Work is in hand to further refine this process, at a detail level. The Fund has a policy for chasing and tracing missing or inaccurate member records. There are a significant number of deferred members whose current details are not known. The service takes a proportionate and risk-based approach in using resource to trace and chase such records. Comparisons of active member data with employer payroll data occur each pay period. Reconciliations between pay and contributions are carried out on a monthly basis. A backlog plan is in place to manage some outstanding work in this area. The Fund's Pensions Administration Strategy Statement (PASS) outlines mechanisms and deadlines for employers' submission of data to the fund. A number of employers do not meet these deadlines, and an ongoing training and support programme provides support to

			improvement plan where poor quality or missing data is identified [141]. (15) Schemes should reconcile member records with information held by the employer [142].	employers to enable them to comply Additionally the Employer Guide sets out in some detail the Fund's specific data requirements. The Fund's Business Continuity Plan specifies actions to mitigate the impact of various scenarios including loss of IT systems.
	Maintaining contributions [147 – 186]	Employer contributions must be paid to the scheme in accordance with any requirements in the scheme regulations. Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable. Where employee contributions are not paid within the prescribed period, if the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law.	(1) Scheme managers should have effective procedures and processes in place to identify payment failures that are – and are not – of material significance to the regulator [150 to 151]. (2) Such procedures are likely to involve: (i) Developing a record to monitor the payment of contributions. (ii) Monitoring the payment of contributions. (iii) Managing overdue contributions. (iv) Reporting payment failures which are likely to be of material significance to the regulator [152]. <u>Developing a record to monitor the payment of contributions</u> (3) Schemes should have a contributions monitoring record [155 to 157]. <u>Monitoring the payment of contributions</u> (4) Schemes should monitor contributions on an on-going basis [161]. (5) A risk based and proportionate monitoring approach should be used to identify employers and situations which present a higher risk of	A complex yet effective series of processes are in place to manage employer contributions due, and their payment. Employers are required to submit detailed information on a monthly basis, in respect of both membership data and the associated financials. Currently two forms are submitted, which creates some reconciliation issues but does speed up the process of collecting money due to the fund. A detailed reconciliation framework is continuously applied to the two sets of data, and employers who do not submit on time are chased accordingly. The vast majority of contributions are collected by direct debit and if an employer doesn't inform the Fund of the exact amount to collect by the due date, an estimated sum due is collected. This ensures cash flow but does cause further reconciliation issues. Monthly reconciliations highlight any late, overpaid, underpaid or non- payment of

			payment failure [162]. (6) Schemes should have a process in place to identify where payments are late or have been underpaid, overpaid or not paid at all [163]. (7) Scheme managers must record and retain information on transactions (including any employer and employee contributions) [166].	contributions. Thus late/missing payment or submission of data is identified and employers chased accordingly. All employers are monitored in the same way. All contributions are recorded and maintained monthly and kept for the required retention period.
			<u>Managing overdue contributions</u> (8) Where a payment failure is identified, there should be a process to follow to resolve the issue quickly (including the suggested steps set out in the Code) [169]. (9) Schemes should keep a record of their investigation and communications between themselves and the employer [170]. (10) Schemes should have a process which is able to detect deliberate underpayment or non-payment or other fraudulent behaviour by an employer [171].	Any non-payment issues are taken up with employers in the first instance. The introduction of the new CARE scheme has caused problems for both funds and employers, i.e. the switch from annual to monthly data submission, in new and relatively complex formats, has presented challenges and consumed resource accordingly. A significant effort has been put into training employers and supporting them to understand and deliver on their responsibilities.
			<u>Reporting payment failures which are likely to be of material significance to the regulator</u> (11) Where schemes identify a payment failure, they should attempt to recover contributions within 90 days of their due date [174]. (12) Where a payment failure is identified it should at least ask the employer the 3 questions set out in 175. (13) Schemes should investigate the payment failure and use their judgement when deciding whether to report to the regulator taking into account the wording of the Code [177].	The service is further developing the electronic interface which is used to manage data and cash collection from employers; when live this enhanced system will benefit employers (having to submit one set of data per month only) and will also enable any employer performance issues and non-payment to be identified/reported upon more easily than at present. Non or late payment issues will be dealt with in

			(14) Schemes should consider whether it is appropriate to report payment failures of employer contributions to members where it is reported to the regulator [182]. (15) Reports to the regulator should be made in accordance with the code.	accordance with the Code.
	Providing information to members [187 – 211]	The law requires schemes to disclose information about benefits and scheme administration to scheme members and others. The Code summarises the legal requirements around - (1) Benefit statements [188 – 195] (2) Other information about scheme administration [196 – 197]. (3) Who is entitled to information [198 – 199] (4) When basic scheme information must be provided [200 – 201] (5) What information must be disclosed on request [202] (6) How benefit statements and other information must be provided [203 – 206] Scheme should also comply as appropriate with other legal disclosure requirements [211].	(1) Schemes should design and deliver communications to scheme members in a way that ensures they are able to engage with their pension [207]. (2) Information should be clear and simple to understand as well as being accurate and easily accessible [207]. (3) Schemes should attempt to make contact with their scheme members and, where contact is not possible, schemes should carry out a tracing exercise to locate the member and ensure that their member data are up-to-date [208]. (4) Where a person has made a request for information, schemes should acknowledge receipt if they are unable to provide the information at that stage [209]. (5) Schemes may encounter situations where the time period for providing information takes longer than expected. In these circumstances, schemes should notify the person and let them know when they are likely to receive the information [209]. (6) Information should be readily available at all times to ensure that members are able to access it when they require [210].	YPS uses a wide range of communications media such as: • An electronic self -service "my pension online" facility and the YPS website, both of which allow members to access pensions information 24/7 • Annual benefit statements that are produced annually and made available to all members via the online facility. Members who choose to opt out of e communication are provided with a paper copy. • Face to face presentations to groups and one to one appointments at pension surgeries are offered to all members • A dedicated helpdesk and email facility are available to members All information whether electronic, written or face to face is delivered in a simple and clear manner avoiding pension jargon. The details of when and what information is provided to members is contained in the communications policy statement that is published on the YPS website at: https://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33736&e=e The Fund makes every attempt to contact

				scheme members. When contact attempts have not been possible, attempts at tracing are made as follows: • for active members the service contacts the employer for up to date details; • for pensioner members contact is made with the member's bank in the first instance, asking the bank to forward a letter on. If this isn't successful then the DWP letter forwarding service is tried. • for deferred members, email is used if the member is registered, if not then the DWP letter forwarding service is used Receipt of emails to the pensions helpdesk is confirmed automatically; paper correspondence is not acknowledged, but response times form part of the service's SLA and are monitored accordingly. Details of service standards, targets and processes are published on the Funds website in order to manage member's expectations.
	Internal dispute resolution [212 – 240]	Scheme managers must make and implement dispute resolution arrangements that comply with the requirements of the law and help resolve pensions disputes between the scheme manager and a person with an interest in the scheme.	(1) In terms of the LGPS, the requirements relating to IDRP are prescribed in the LGPS regulations. (2) Schemes should publish and make IDRP time limits readily available [225]. (3) Schemes should be satisfied that the time taken to reach a decision is appropriate to the situation and be able to demonstrate this, if necessary. [230 and 240] (4) Schemes should provide the applicant with regular updates on the progress of their investigation. They should notify the	Details of the Internal Dispute Resolution Procedure (IDRP) are published on the Fund's website and contained within the employee's brief and full guide. In addition the appeals application form, also available on the website, contains further guidance for members including the specific time limits imposed by the IDRP. Those documents are reviewed regularly to ensure that they are in line with amending legislation and procedures. (The latest versions can be viewed at the link below) http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=339

			applicant where the time period for a decision is expected to be shorter or longer than the reasonable time period and let them know when they are likely to receive an outcome [232]. (5) Schemes should focus on educating and raising awareness of their internal dispute resolution arrangements and ensuring that they are implemented [233]. (6) Schemes should ensure that the effectiveness of the arrangements is assessed regularly and be satisfied that those following the process are complying with the requirements set, which includes effective decision making [234]. (7) Schemes should confirm and communicate their arrangements to members, for example, in the joining booklet [235]. (8) Schemes should make their arrangements accessible to potential applicants, for example by publishing them on a scheme website [235]. (9) Schemes should ensure they make the following information available to applicants: (i) The procedure and processes to apply for a dispute to be resolved; (ii) The information that an applicant must include; (iii) The process by which any decisions are reached; and (iv) An acknowledgement once an application has been received [239].	12&e=e Procedures for employers are also contained within the employer guide on the website. In addition a guide for employers is also available, used particularly for employers who have a new adjudicator reviewing a stage 1 case. Training for employers and bulletins highlighting problem areas such as Ill health determinations are utilised where appropriate. In respect of stage 1 and stage 2 IDRP cases, a task management process exists through the pensions administration system to ensure that the appropriate deadlines and notifications are provided to members and representatives involved in the IDRP and that those deadlines are adhered to. Bespoke documentation covers acknowledgements and details of extensions to time limits. Procedures for stage 2 are regularly updated. The right to appeal a decision under IDRP is part of all YPS documentation where a decision is being taken that may affect a member or prospective member's benefits, whether that be an administering or employing authority decision. A log of all appeal cases is kept detailing dates when cases are received, acknowledged and determined.
	Reporting breaches of the law [241 – 275]	Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that: • a legal duty which is relevant to the administration of the scheme has not	(1) Schemes should be satisfied that those who are responsible for reporting breaches are made aware of the legal requirement and the Code [244]. (2) Training should be provided for	The Local Pension Board will be considering a proposed 'Reporting Breaches' procedure at its meeting on 18 January 2016.

		been, or is not being, complied with • the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.	scheme managers and pension board members [244]. (3) All others under a statutory duty to report should ensure they have sufficient level of knowledge and understanding to fulfil that duty [244]. (4) Those with a statutory duty to report should establish and operate appropriate and effective procedures in regards to reporting breaches [245]. (5) Those procedures should be in accordance with and take into account paragraphs 245 to 262 of the Code. (6) Reports made to the Regulator should be submitted in accordance with paragraphs 263 to 271.	

Lancashire Local Pension Board
Meeting to be held on 18 January 2016

Electoral Division affected:
None

Review of Communication between Lancashire County Pension Fund, its Employers and Scheme Members
(Appendices 'A', 'B' and 'C' refer)

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Executive Summary

This report reviews communication between Lancashire County Pension Fund, its employers and scheme members.

Recommendation

The Board is asked to note the contents of the report and comment as appropriate.

Background and Advice

A copy of the Fund's Communication Policy Statement is attached at Appendix 'A'. A number of principles underpin Fund communication and they are to: -

- Provide clear, accurate and timely communication about the Local Government Pension Scheme to all stakeholders.
- Actively promote the Scheme to prospective members and their employers.
- Take a multimedia approach in recognition that different styles and methods of communication suit different stakeholders.
- Use and encourage the use of electronic/online communication and information sharing.
- Support Scheme employers, providing publicity and information toolkits, to enable employers to fulfil their responsibility to communicate and share information with members in relation to the Scheme.
- Treat information security with the upmost importance.

Appendix 'B' sets out how the Fund applies these principles to current employer and member communication. Appendix ‘B’ also sets out ways in which feedback is sought. There is no doubt that the Fund has a pro-active approach to communication. Future plans include: -

- Increasingly interactive online self-services.

- Improving the customer experience.
- Additional support for employers.

Appendix 'C' sets out what the Fund expects from its employers. In brief the Fund expects employers to:

- Pay contributions accurately and on time in line with legislative requirements.
- Submit accurate member data in line with Fund requirements and timescales.
- Supply additional information when a member leaves their employment or retires.

Appendix 'C' clearly highlights 'leavers' as an area where improvement in information flow is needed. Raising awareness, targeted employer training and improvements in automated/electronic notifications will be utilised to achieve improved employer reporting, although ultimately employers must be reported to The Pensions Regulator where information is not forthcoming.

Overall, this review indicates that a significant amount of resource and effort is used to encourage two-way communication with both employers and scheme members. The Fund expects that this intensive level of effort will enhance and improve:

- Data accuracy.
- Communication channels.
- Information sharing.
- Customer satisfaction.
- Scheme membership.

Even without this pro-active approach, there is no doubt that communication will continue to evolve, as new technology, increasing levels of scrutiny, customer expectation and a seemingly never ending stream of legislative amendments, dictate the pace of change.

The Board is asked to note the contents of the report and comment as appropriate.

Consultations

N/A

Implications:

N/A

Risk management

N/A

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Lancashire County Pension Fund

Local Government Pension Scheme

Communication Policy Statement

1 April 2014

Lancashire County Council
as administering authority of
Lancashire County Pension Fund

Lancashire County Council

www.lancashire.gov.uk

Local Government Pension Scheme

Communication Policy Statement

Introduction

This is the Communication Policy Statement of Lancashire County Pension Fund which is administered by Lancashire County Council; the administering authority. All Local Government Pension Scheme (LGPS) administering authorities in England and Wales are required to prepare maintain and publish a written statement setting out their policy concerning communications with: -

- ***Members;***
- ***Representatives of members;***
- ***Prospective members; and***
- ***Scheme Employers***

In particular, the statement must set out their policy on: -

- ***The provision of information and publicity about the Scheme to members, representatives of members and Scheme Employers;***
- ***The format, frequency and method of distributing such information or publicity; and***
- ***The promotion of the Scheme to prospective members and their employers.***

Policy

Lancashire County Pension Fund recognises the government's objective to help people save for their retirement and will aim to: -

- ***Actively encourage the provision of good pension information and the promotion of pensions in the workplace.***
- ***Increase transparency and build trust, confidence and engagement in pension saving as the norm.***

To achieve its aim the administering authority will undertake to: -

- ***Provide clear, accurate and timely communication about the Local Government Pension Scheme to all stakeholders.****
- ***Actively promote the Scheme to prospective members and their employers.***
- ***Take a multimedia approach in recognition that different styles and methods of communication suit different stakeholders***
- ***Use and encourage the use of electronic/online communication and information sharing.***
- ***Support Scheme employers, providing publicity and information toolkits, to enable employers to fulfil their responsibility to communicate and share information with members in relation to the Scheme.***
- ***Treat information security with the upmost importance.***

Communication Programme

The Fund will regularly review the format, frequency and method of communication. The following programme is currently in use.

Information	Stakeholder*	Format	Frequency	Method of distribution
Actuarial Valuation	All Stakeholders	Presentation, formal report,	Triennial with annual updates	Email, mail, website and face to face briefings.
Fund Policy and Statements	All Stakeholders	website	As amended	Mail/email
Annual Benefit Statements	Members	Online self service	Annual	Online/email alert
Customer Satisfaction Survey	All Stakeholders	Website	Ongoing	Click question
Member Guides	Members	website	On or before employment. On request	Via employer HR/payroll departments Mail/intranet
Employer Updates	Employer	Website, online	As required	email/internet
Pensioner payslips/P60's	Member	Online self service, paper	Annually	email/mail
Employer Guide	Employer	Website,	As amended	email /internet
Employer Training	Employer	Presentation Webcast	On request in line with SLA	Face to face – In house Employer locations. Website
Factsheets	All members	Paper/website	On request / as required	Mail/email/ internet

Individual member information	All Stakeholders	Paper, Online self service	As required	Mail, email
Employer information pack	Employer	Paper/website	On Admission	Face to Face
Newsletters	Members	Paper/website	Annual	Online
Scheme change and legislative change	All Stakeholder	Presentation/webcast Website	As required and on request	Face to face/internet
Fund Report and Accounts	All Stakeholders	Paper/website	Annually	Mail/email/ internet
Service Level Standards	All Stakeholders	website	As amended	Internet /intranet
Query	All Stakeholders	Telephone/email/online	Mon – Fri	Telephone/email/ Online

**Stakeholders are defined as members, representatives of members, prospective members and employers (members are defined as active, deferred or pensioner members).*

Scheme Regulations and Overriding Legislation

Lancashire County Pension Fund undertakes to comply with Local Government Pension Scheme Regulations and the relevant Overriding Legislation; In particular, the Fund undertakes to comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]. A full list of Scheme and related legislation is set out below: -

Local Government Pension Scheme Regulations 2013 [2013/2356]

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [2014/]

Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]

And the following Acts (including relevant secondary legislation made under each Act not mentioned above)

Finance Act 2004 [c.12]

Pension Schemes Act 1993 [c.48]

Pensions Act 1995 [c.26]

Pensions Act 2008 [c.30]

Public Service Pensions Act 2013 [c.25]

Welfare Reform and Pensions Act 1999 [c.30]

Pensions (Increase) Act 1971 [c.56]

Date Protection Act 1998 [c.29]

Review

This statement will be reviewed where there is any material change to the Funds policy in respect of communication.

Appendix 'B'

Your Pension Service - Employer and Member Communication

Purpose

To inform the Local Pension Board of how Your Pension Service (YPS) currently communicates with employers and scheme members of Lancashire County Pension Fund.

Summary

Communications are aligned to Lancashire County Pension Fund's Communication Policy Statement (Appendix 'A' refers). Communications are delivered by the YPS Partnerships Team. The Team hosts a wide range of events and services and provides the link between YPS, scheme members and employers.

Communications Activity

Communication and information is provided via various media including website, telephone, email, on-line/self-service, mail, face-to-face and conferencing.

Website

The YPS website www.yourpensionservice.org.uk is at the heart of YPS communications and is the customer's intranet site, providing both employers and members with pension related information including: -

- Guides, leaflets and forms.
- New starter information.
- Current news and updates.
- Annual Newsletters.
- Fund documents and information.
- Service standards, feedback forms, online surveys.
- Contact details.

Also included is an employer area containing a comprehensive employer procedure guide, access to e-forms and the monthly data collection portal; EPIC.

Telephone

A dedicated telephone helpdesk provides the first point of contact for scheme members and employers and includes intranet and email access. More than 60,000 calls and over 30,000 email contacts are handled on an annual basis.

Email

All employers receive bulletins and newsletters as and when appropriate and in particular when legislative changes occur that may affect them.

YPS holds more than 40,000 member email addresses and increasingly uses email to communicate with members to inform them of information posted online, including annual benefit statements and newsletters.

Email is also becoming the norm for day to day transactional administration services with both members and employers, providing a faster, more secure option than traditional paper mailing.

On-line/self-service

'My Pension Online' is an online facility providing member and employer self-service options.

Member Self Service - Members can view their details and update YPS with any changes in address, bank and contact details. Members can also process various pension estimates to assist with planning for retirement. Members can also view their annual benefit statements. Other benefits of the system include allowing members to view their nominated beneficiaries and pensioners can view payslips and P60's.

Employer Self Service – Employers can view, check and amend their employee pension records. Employers can also process various pension estimates.

Mail

Traditional paper mail remains a constant in terms of day to day transactional administration services.

Face-to Face

YPS hosts pension surgeries throughout the county on an annual basis, specifically to help members understand their annual benefit statements, although any member can attend so that their queries can be dealt with face to face.

Drop-in sessions are hosted during the year where members (including pensioners) can be helped through the process of registering to use the online self-service system.

The Partnerships Team visits employers (with more than 100 active members) on an annual basis in order to maintain relationships, update employers of any change affecting them and to address any issues that may have arisen during the year.

Conferencing

YPS facilitates a number of conferences and events annually and throughout the year, as well as presenting at employer-led events upon request, including:

- Presenting at new starter induction courses.
- Presenting at pre-retirement courses.
- Undertaking 'scheme basics' presentations.

- Facilitating an annual Fund members meeting.
- Hosting an annual employers practitioner conference.
- Facilitating an annual directors brief.
- Hosting Road-shows where significant change occurs.
- Undertaking tailored presentations at the request of scheme employers.

Appendix 'C'

Your Pension Service - Employer Performance

Purpose and Summary

To inform the Local Pension Board of the current position with regards to information flow from employers and to identify areas of improvement.

Background

In April 2014 a new standardised method of data collection was introduced, requiring all employers to submit a data collection file every pay period, known as Employer Pension Information Collection system (EPIC).

EPIC replaces previous processes for new starters, contractual changes, contribution rate changes, personal detail changes, end of year postings, and ad hoc data cleaning with employers. It allows Your Pension Service (YPS) to ensure that data on the pensions system; Altair, is accurate and current, and to accurately post contributions and career average pay to individual records. It also provides a final pay figure at year end for benefit statement purposes.

To supplement the information provided within EPIC, the following employer forms are required:

- Leaver
- Notification of Intention to Retire
- Return from Absence
- Pension Pot Adjustments

EPIC File submissions – Employer Performance

Employers initially found it difficult and time consuming to produce the files in the required format. For many employers putting together the information is a manual process of pulling together different payroll reports. Some employers with larger payrolls have automated the process, but 'multiple employments' and the new requirement to calculate 'assumed pensionable pay' have caused problems. Support has been offered and provided by the YPS Data Management Team.

The YPS Partnerships Team has also been instrumental in terms of providing support and awareness training in respect of the new CARE Scheme for employer payroll staff.

Year end 2014/15 was very simple for employers who had regularly submitted files, but much more difficult for some employers who had not submitted complete files for the year. For the March 2015 pay period, which marks completion of the submissions for the 2014/15 year, only 34% of employers submitted files by the due date of 6th April. Because of this there is now a concerted effort to encourage employers to submit files by 6th of the calendar month following pay period end. This is in order to have current and reconciled data uploaded to Altair by the end of each calendar month. In an email sent in September 2015 and followed up in November, all employers were asked to ensure files were up to date by 6 December 2015.

Encouraging and guiding employers to submit data by 6th of the month and be up to date by April 2016 will place the Fund in the best possible position to be able to supply current and high quality data to the Actuary, for valuation purposes, within the timescales set.

Data submissions 2015/16

	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**
Submitted by 6th (% of employer units)	26%	34%	32%	38%	34%	29%	43%	55%
Now submitted* (number of employer units)	224/ 264	224/ 264	211/ 264	210/ 264	214/ 270	209/ 270	201/ 270	196/ 273
Now submitted *(% of active membership)	99%	99%	97%	97%	97%	97%	97%	95%

**as at 29 December 2015*

Although data submitted by employers as a percentage of active membership is very encouraging, there is a lot of work to do to ensure that some employers catch up and submit files on time. Although they represent a small proportion of active membership, missing data for smaller employers can have an impact on the valuation of the Fund.

EPIC File submissions - Data Quality

Checks are undertaken to ensure that file totals match contributions payable to the Fund. Contributions paid to the Fund are monitored in conjunction with Lancashire County Council's Financial Resources Team. Contributions are collected by direct debit and mismatches between contributions reported and contributions payable are dealt with promptly as are late receipt of contributions. Processes to monitor and deal with late contributions are currently under review in order to be able to properly and promptly report any non-payment (as specified under regulations) as a breach to The Pensions Regulator. In addition, employers are contacted if pensionable pay is not comparable to employee contribution amounts. One issue that has been identified by undertaking this comparison is that some employers need more support in order to correctly apply the new 'assumed pensionable pay' requirements. As pension administrators, it is not possible to ensure that all employers have applied assumed pensionable pay correctly for each individual absence. This can only be achieved through educating employers and by sending regular reminders. Where it is known that employers have reported assumed pensionable pay incorrectly, adjustments have been requested outside the EPIC system.

Leaver forms – Employer Performance

Scheme members who leave their employment should be notified about their deferred LGPS benefits within two months of leaving their employment. To enable YPS to meet this requirement, employers are asked to supply us with information about the leaver within 5 working days of their leaving date. Although this timescale is not closely monitored, it is clear that where employees are retiring (and therefore require payment of benefits) employers tend to submit information promptly, but this is not the case where information is required in respect of early leavers. Consequently there are ongoing issues with employers not supplying leaver forms in a timely manner even though employer data files indicate missing members (which may be early leavers). Not processing members as leavers can have an impact on valuation data, in particular where members are mistakenly reported as actively contributing when they are not.

Steps taken to improve performance and quality –

- Individual employers are being actively targeted and supported.
- New admitted bodies are sent an email outlining their responsibilities in the strongest possible terms.
- The Funds Pension Administration Strategy Statement (PASS) and comprehensive Employer Guides are available on the YPS website which explain employer responsibilities and the correct processes to follow.
- E-forms are the preferred method of submission for any forms required by YPS.
- Employers with significant volumes of leavers have been given the option to submit data by spreadsheet rather than by individual forms.
- Employer visits are offered annually to those with over 100 active members.
- Employer training and awareness sessions are provided either on request or at the instigation where there are obvious data issues.
- Employer conferences, e-newsletters and regular employer bulletins are provided as a matter of course.

Further steps

- Those employers who repeatedly do not submit data by 6th of the month have been notified that the Fund will consider reporting them to The Pensions Regulator.

- Significant resource has been assigned to chasing employers to supply information promptly.
- The Fund's Actuary will be consulted as to how to best deal with outstanding data issues for valuation purposes.
- An internal review of data quality has been developed by YPS and will be undertaken on a quarterly basis.

Lancashire Local Pension Board
Meeting to be held on 18 January 2016

Electoral Division affected: None

Recent Reports Considered by the Pension Fund Committee
(Appendix 'A' refers)

Contact for further information:
Dave Gorman, (01772) 534261, Legal and Democratic Services,
dave.gorman@lancashire.gov.uk

Executive Summary

Consideration of recent Part I reports considered by the Pension Fund Committee.

Recommendation

The Board is recommended to note the Part I reports considered by the Pension Fund Committee at its meeting on 27 November 2015, as set out at Appendix 'A', and comment as appropriate.

Background and Advice

The Pension Fund Committee has considered a number of reports at its meeting on 27 November 2015.

Details of the reports considered are set out at Appendix 'A'.

Board Members have also previously received notification of the Committee agenda and reports, upon publication.

The agenda and reports can also be viewed at:
http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=183&MId=3976&Ver=4

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Lancashire County Council

Risk management

There are no significant risk management implications.

List of Background Papers

Paper	Date	Contact/Tel
Pension Fund Committee Agenda	27 November 2015	Dave Gorman, (01772) 534261,

Reason for inclusion in Part II, if appropriate

N/A

Appendix 'A'

Lancashire County Council Pension Fund Committee

Friday, 27th November, 2015 at 10.45am in Cabinet Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Part I Reports Considered (Open to Press and Public)

Item No.

8. Progress on Delivering the Lancashire County Pension Fund Strategic Plan

9. Lancashire County Pension Fund Interim Administration Report

10. Responsible Investment

11. Feedback from Committee Members on External Pension Fund Training Events and Conferences

Lancashire County Council

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

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