



Shropshire Council  
Legal and Democratic Services  
Shirehall  
Abbey Foregate  
Shrewsbury  
SY2 6ND

Date: 12<sup>th</sup> March 2015

**Committee:**  
**Pensions Committee**

**Date:** Friday, 20 March 2015

**Time:** 10.30 am

**Venue:** Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

You are requested to attend the above meeting.  
The Agenda is attached.

Claire Porter  
Head of Legal and Democratic Services (Monitoring Officer)

**Members of the Committee:**

Thomas Biggins  
Anne Chebsey  
Andrew B Davies  
Malcolm Pate

**Co-opted Members (Voting):**

Bill McClements (Telford & Wrekin Council)  
Malcolm Smith (Telford & Wrekin Council)

**Co-opted Members (Non-Voting):**

Jean Smith (Pensioner Representative)  
Vacancy (Employee Representative Shropshire Council)  
Vacancy (Employee Representative Telford & Wrekin Council)

**Substitute Members of the Committee:**

Joyce Barrow (SC)

Stuart West (SC)

Arnold England (T&W)

Michael Wood (SC)

Roger Evans (SC)

Vacancy (Employee Rep T&W)

Rob Sloan (T&W)

Vacancy (Employee Rep SC)

Vacancy (Pensioner Rep)

Your Committee Officer is:

**Sarah Townsend** Committee Officer

Tel: 01743 252803

Email: [sarah.townsend@shropshire.gov.uk](mailto:sarah.townsend@shropshire.gov.uk)

# AGENDA

## 1 **Apologies for Absence and Substitutions**

## 2 **Disclosable Pecuniary Interests**

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

## 3 **Minutes** (Pages 1 - 4)

The Minutes of the meeting held on 28 November 2014 are attached for confirmation, marked 3.

Contact: Sarah Townsend (01743 252803)

## 4 **Public Questions**

## 5 **Majedie Asset Management (UK Equities)**

Mr Simon Hazlitt and Mr Mark Hepburn will give a presentation.

## 6 **MFS Investment Management (Global Equities)**

Mr Matt Hensher and Ms Nicole Neubelt will give a presentation.

## 7 **Aberdeen Fund Management Ltd (Pan European Property)**

Mr Mike Dinsdale and Mr Tom Richardson will give a presentation.

## 8 **LDI and Unconstrained Bonds**

The report of the Head of Finance, Governance and Assurance (Section 151 Officer) is to follow.

Contact: James Walton (01743 255011)

## 9 **Grant Thornton - Informing The Audit Risk Assessment for Shropshire County Pension Fund 2014-15** (Pages 5 - 20)

The report of Grant Thornton is attached, marked 9.

Contact: Ashley Wilson (0121 232 5430)

**10 Grant Thornton - Shropshire County Pension Fund Audit Plan 2014/15**  
(Pages 21 - 36)

The report of Grant Thornton is attached, marked 10.

Contact: Ashley Wilson (0121 232 5430)

**11 Schedule of Committee and Other Meetings 2015/16** (Pages 37 - 44)

The report of the Head of Treasury & Pensions is attached, marked 11.

Contact: Justin Bridges (01743 252072)

**12 Governance Compliance Statement** (Pages 45 - 62)

The report of the Head of Finance, Governance & Assurance is attached, marked 12.

Contact: James Walton (01743 255011)

**13 Pension Fund Treasury Strategy 2015/16** (Pages 63 - 72)

The report of the Head of Treasury & Pensions is attached, marked 13.

Contact: Justin Bridges (01743 252072)

**14 Corporate Governance Monitoring** (Pages 73 - 100)

The report of the Head of Treasury & Pensions is attached, marked 14.

Contact: Justin Bridges (01743 252072)

**15 Pensions Administration Monitoring** (Pages 101 - 122)

The report of the Pension Administration Manager is attached, marked 15.

Contact: Debbie Sharp (01743 252192)

**16 Exclusion of Press and Public**

To consider a resolution under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation

to Agenda Items 17 to 19 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them.

**17 Exempt Minutes (Exempted by Category 3) (Pages 123 - 124)**

The Exempt Minutes of the meeting held on 28 November 2014 are attached for confirmation, marked 17.

Contact: Sarah Townsend (01743 252803)

**18 New Admission Bodies (Exempted by Category 3) (Pages 125 - 128)**

The report of the Pension Administration Manager is attached, marked 18.

Contact: Debbie Sharp (01743 252192)

**19 Investment Monitoring - Quarter to 31 December 2014 (Exempted by Category 3) (Pages 129 - 178)**

The report of the Head of Treasury & Pensions is attached, marked 19.

Contact: Justin Bridges (01743 252072)

This page is intentionally left blank



Pensions Committee

20 March 2015

10.30 am

## MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 28 NOVEMBER 2014 10.30 AM - 12.36 PM

**Responsible Officer:** Sarah Townsend  
Email: sarah.townsend@shropshire.gov.uk Tel: 01743 252803

### **Present:**

#### Members of the Committee:

Councillors Thomas Biggins, Anne Chebsey, Andrew Davies and Malcolm Pate

#### Co-Opted Members (Non-Voting):

Jean Smith

### **37 Apologies for Absence and Substitutions**

Apologies for absence were received from Councillor Bill McClements and Councillor Malcolm Smith.

Apologies for absence were also received from Councillor Arnold England and Councillor Rob Sloan (Substitute Members).

### **38 Disclosable Pecuniary Interests**

Members were reminded that they must not participate in the discussion or voting on any matter in which they had a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

### **39 Minutes**

#### **RESOLVED:**

That the minutes of the meeting held on 19 September 2014 be approved and signed by the Chairman as a correct record.

### **40 Public Questions**

There were no public questions.

#### 41 **HarbourVest (Private Equity)**

Mr Peter Wilson and Ms Hannah Tobin gave an overview of HarbourVest, which was formed in 1982 as an independent business owned by its employees. It had committed more than \$40 billion to investments over three decades.

A list of the assets in which Shropshire County Pension Fund was invested as at 30 June 2014 was detailed together with their status and performance. A more detailed analysis of the various funds was then provided.

Finally, two more recent investments, namely, Dover Street VIII and HarbourVest Partners IX-Venture Fund were outlined to the Committee.

#### 42 **BlackRock (Hedge Funds)**

Mr Simon Betteley and Mr John Ware gave a presentation about the Hedge Fund Market Environment and about BlackRock, who provide bespoke hedge fund solutions.

It currently had £12 billion of assets under management with fifteen people in its Local Authorities team. The key themes for this team in 2015 included reducing the fund volatility, seeking return from secure income assets and impact investing.

Shropshire County Pension Fund's investment was in QIP Ltd, which sought to minimise the frequency and magnitude of negative returns. The presentation compared the fund's performance against various benchmark indices and detailed the portfolio characteristics and its discipline and strategy allocations.

In terms of the outlook going forward, it was reported that a pick up in market volatility was expected.

#### 43 **Brevan Howard (Hedge Funds)**

Mr Magnus Olsson and Mr Dan Riggs gave a presentation about Brevan Howard, which is a large global macro absolute return manager. It was founded in 2002 and currently had £25 billion of assets under management for more than 650 institutional investors in over 35 countries.

Shropshire County Pension Fund's investment is in Brevan Howard Multi-Strategy Master Fund Ltd, which in turn is invested in seven underlying Brevan Howard managed funds and a Direct Investment Portfolio, where funds are allocated directly to Senior Traders. The paper presented, detailed the investment allocation to each fund, as well as risk allocation by asset class and an analysis of historical performance to September 2014.

The Committee were advised that the proceeds of the Commodity Fund and Emerging Market Fund, which the Shropshire Fund had a small percentage invested in, were being transferred to the Direct Investment Portfolio.



#### **44 Corporate Governance Monitoring**

The Committee received the report of the Head of Treasury and Pensions (copy attached to the signed Minutes) which informed Members of Corporate Governance and socially responsible investment issues arising in the quarter 01 July 2014 to 30 September 2014.

**RESOLVED:**

That the position as set out in the report, Manager Voting Reports (Appendix A) and F&C Responsible Engagement Overlay Activity Report (Appendix B) be accepted.

#### **45 Pensions Administration Monitoring**

The Committee received the report of the Pension Administration Manager (copy attached to the signed Minutes) which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

It was noted that The Pension Fund had responded to the first DCLG Consultation, which closed in August 2014. In terms of their second consultation, which began in October 2014, on the revised draft Local Government Pension Scheme (Amendment) (Governance) Regulations 2014, they were not intending to submit a second response as there were very few changes. These changes were briefly outlined to the Committee.

**RESOLVED:**

That the position as set out in the report by the Pension Administration Manager be accepted.

#### **46 Annual Report Update**

The Committee received the report of the Head of Finance, Governance and Assurance (copy attached to the signed Minutes) which informed Members that the Addendum to the Annual Report for 2013/14 (Appendix B) had been produced in response to a letter dated 18 August 2014 from the Department for Communities and Local Government and the revised guidance issued by CIPFA (Appendix A).

**RESOLVED:**

That the Addendum to the Pension Fund Annual Report 2013/14 (Appendix B) be approved.

#### **47 Exclusion of Press and Public**

**RESOLVED:**

That under paragraph 10.2 of the Council's Access to Information Procedure Rules, the proceedings of the Committee in relation to the following items, be not conducted in public on the grounds that they might involve the likely disclosure of exempt information as defined by the category specified against them.

**48 Exempt Minutes (Exempted by Category 3)**

**RESOLVED:**

That the Exempt Minutes of the meeting held on 19 September 2014 be approved and signed by the Chairman as a correct record.

**49 Investment Monitoring - Quarter to 30 September 2014 (Exempted by Category 3)**

The Committee received the exempt report of the Head of Treasury and Pensions (copy attached to the Exempt signed Minutes) which provided Members with monitoring information on investment performance and managers for the quarter period to 30 September 2014, and reported on the technical meetings held with managers since the quarter end.

**RESOLVED:**

That the position as set out in the exempt report by the Head of Treasury and Pensions be noted.

Signed ..... (Chairman)

Date: .....

# Informing the audit risk assessment for Shropshire County Pension Fund

Year ended 31 March 2015

February 2015

**John Gregory**  
Engagements Lead  
T 07880 456 107  
E [john.gregory@uk.gt.com](mailto:john.gregory@uk.gt.com)

**Ashley Wilson**  
Manager  
T 0121 232 5430  
E [ashley.l.wilson@uk.gt.com](mailto:ashley.l.wilson@uk.gt.com)



Agenda Item 9

---

# Contents

<b>Section</b>	<b>Page</b>
Purpose	3
Fraud	4
Fraud Risk Assessment	5 - 6
Laws and Regulations	7
Impact of Laws and Regulations	8
Going Concern	9
Going Concern Considerations	10 – 11
Estimates	12
Estimate considerations	13 - 17
Related Parties	18 - 19

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

---

# Purpose

Shropshire Pension Fund is required by law to administer the Pension Scheme within the geographical area of Shropshire and the responsibilities for both administration and investments are met in-house.

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Pension Fund Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Pension Fund Committee under auditing standards

## Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Pension Fund Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Pension Fund Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Pension Fund Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Pension Fund Committee and supports the Pension Fund Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension Fund Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- accounting estimates
- related party transactions

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# Fraud

## Issue

### Matters in relation to fraud

ISA (UK&I) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Pension Fund Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Pension Fund Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As an auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls. As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Pension Fund Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Pension Fund Committee oversees the above processes. We are also required to make inquiries of both management and the Pension Fund Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

# Fraud risk assessment

Question	Management response
<p>Has the Pension Fund assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>The Pension fund completes its own accounts and the two main statements of account are also included with the main accounts of Shropshire Council, . Fraud risks are identified by Internal Audit in their audit plan covering the council and the pension fund and all fundamental systems which feed the statement including the pension fund accounts are reviewed annually to ensure that controls in place are satisfactory. The statement of pension fund accounts is also subject to an analytical review each year which considers any significant or material changes to figures, to confirm that the accounts are presented without such misstatements.</p>
<p>What processes does the Pension Fund have in place to identify and respond to risks of fraud?</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 9</p>	<p>Specific fraud risks are identified in the internal audit planning process noted above; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with the Council and Pension Fund. This is done through the Counter Fraud, Bribery and Anti-Corruption Strategy, Speaking up about Wrongdoing Policy, online Meritec training package and supporting manual training packages.</p> <p>In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption.</p> <p>In relation to pensioner payroll, the Fund takes part in the National Fraud Initiative scheme. Any queries identified are investigated and resolved. Fund Managers and their Administrators sends internal control reports and these are reviewed by the pension team and any exceptions reported on. Internal Audit also reviews the internal control reports as part of their annual audit cycle. Quarterly Pension Committee meeting is held to monitor the fund's investment managers and business risk including fraud will be communicated to 'those charged with governance'.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Internal controls, including whether segregation of duties exist, are reviewed by Internal Audit as part of their routine and investigative work; exceptions are reported to managers and inform the Internal audit opinion.</p>

# Fraud risk assessment

Question	Management response
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	There is always the potential for an override of controls within systems however our control framework has established secondary compensatory controls in place that would identify any such override taken place. Financial reporting is produced and balanced from the financial system, and the reporting hierarchy allows for checks to be performed throughout the process by the Head of Treasury and Pensions and the S151 Officer., and no areas where there is a potential for override of controls or inappropriate influence over the financial reporting process have been identified.
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No, as detailed above, there are compensatory controls in place to flag any overrides of controls.
How does the Pension Fund Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Internal Audit Risk Based Plan is approved by Audit Committee of the Council. Internal Audit completes a robust review of internal controls on a risk basis and reports regularly to the Shropshire Council Audit Committee. The Pension Fund Committee is informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting the Audit Committee of the Council receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes. The Pensions Fund members are informed at their meetings of any pension based issues.
How does the Pension Fund communicate and encourage ethical behaviour of its staff and contractors?	The Pension Fund follows Shropshire Council's Whistle Blowing policy and guidelines. The Pension Fund shares the whistleblowing policy with the public and all contractors. The terms and conditions within Pension Fund contracts also include ethical considerations for contractors and suppliers. The vision and values for the Pension Fund identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None identified.
Are you aware of any instances of actual, suspected or alleged, Fraud within the Pension Fund as a whole since 1 April 2014?	None identified.



---

# Laws and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK&I) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
What arrangements does the Pension Fund have in place to prevent and detect non-compliance with laws and regulations?	Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. This would include the Pension Fund if applicable. The Pension Fund has a robust corporate governance and risk management process in place, which are based on approved policies and procedures.
How does management gain assurance that all relevant laws and regulations have been complied with?	<p>The Council has a Monitoring Officer and S151 Officer who provide assurance that all relevant laws and regulations have been complied with.</p> <p>The Pensions Fund has adopted the Local Government Pensions Scheme Regulations. The Pension Committee receive regular reports of compliance from officers, who are suitably qualified. Any non compliance would be reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues. These would cover the pension fund as applicable.</p>
How is the Pension Fund Committee provided with assurance that all relevant laws and regulations have been complied with?	See above
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014, or earlier with an on-going impact on the 2014/15 financial statements?	The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2014-15. The Chair of the Pension Fund Committee is not aware of any instances of non-compliance during 2014/15.
What arrangements does the Pension Fund have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts, which includes consideration of the Pension Fund, which is consolidated into the Council's financial statements.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

---

# Going concern

## Issue

### Matters in relation to going concern

ISA (UK&I) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Pension Fund is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

# Going concern considerations

Question	Management response
Are management or members of the Pensions Fund Committee aware of the existence of events or circumstances that have or will lead to the winding up of the scheme or an entry into a Pensions Protection Fund assessment period.	No such events or circumstances are known of or considered likely in the foreseeable future.
Is management aware of the existence of other events or conditions that may cast doubt on the Pension Fund's ability to continue as a going concern?	No events or conditions have been identified.
Are arrangements in place to report the going concern assessment to the Audit Committee and Pensions fund?	The Pension Fund Committee consider a number of financial reports which provide them with assurance that the Pension Fund continues as a going concern. They also receive reports stating that all controls and risks have been managed appropriately and as Members will have access to all reports produced across the Pension Fund whether public or exempt.

---

# Estimates

## Issue

### Matters in relation to accounting estimates

ISA (UK&I) 540 covers auditor responsibilities relating to estimates in an audit of financial statements.

Local authorities use estimates in the preparation of their financial statements. We need to obtain an understanding of:

- how management identifies the transactions, events and conditions that give rise to the need for an accounting estimate.
- how management actually make the estimates, including the control procedures in place to minimise the risk of misstatement.

We need to be aware of all estimates that the Pension Fund use as part of their accounts preparation. These are set out overleaf.

# Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	December valuation is received and cash flow adjustments are used to roll forward the valuation to 31 March as appropriate. Valuation is then compared to the year end capital statement to determine any significant fluctuations.	Custodian and Fund Manager Capital Statement		No
Hedge Fund of Funds	The fund of funds is valued at the sum of the fair values provided by the Administrators of the underlying funds plus any adjustments deemed necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurance over the valuation are gained from the independent audit of the value.	Fund audited accounts and control reports		No
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems to identified where goods have been received but not paid for. Requests of service managers to identify any other goods or services received or provided but not paid for.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No

# Related parties

## Issue

### Matters in relation to related parties

ISA (UK&I) 550 covers auditor responsibilities relating to related party transactions.

Many related party transactions are in the normal course of business and may not carry a higher risk of material misstatement. However in some circumstances the nature of the relationships and transaction may give rise to higher risks.

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: related party disclosures. The Code identifies the following as related parties to local government bodies:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Pension Fund (i.e. subsidiaries)
- associates
- joint ventures in which the Pension Fund is a venturer
- an entity that has an interest in the Pension Fund that gives it significant influence over the Council
- key officers, and close members of the family of key officers
- post-employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the Pension Fund and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

# Related party considerations

Question	Management response
Who are the Pension Fund's related parties?	The Pension Fund main related party is Shropshire Council., with some disclosure in relation to employee who hold key responsibilities.
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: <ul style="list-style-type: none"><li>• Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</li><li>• Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.</li></ul>



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

[grant-thornton.co.uk](http://grant-thornton.co.uk)

This page is intentionally left blank

# The Audit Plan for Shropshire County Pension Fund

Year ended 31 March 2015

25 February 2015

**John Gregory**  
Engagement Lead  
T 07880 456 107  
E [john.gregory@uk.gt.com](mailto:john.gregory@uk.gt.com)

**Ashley Wilson**  
Audit Manager  
T 07584 591 482  
E [ashley.l.wilson@uk.gt.com](mailto:ashley.l.wilson@uk.gt.com)

**Kieran Armitage**  
Executive  
T 0121 232 5422  
E [Kieran.Armitage@uk.gt.com](mailto:Kieran.Armitage@uk.gt.com)



Agenda Item 10

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

---

# Contents

## Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks
6. Results of interim work
7. Key dates
8. Fees and independence
9. Communication of audit matters with those charged with governance

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. New governance arrangements

- The new governance regulations have introduced further changes for LGPS which take effect from April 2015. These introduce a Local Pension Board for each fund. These boards will work with the administering authority to help ensure compliance and effective governance and administration of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap.
- There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards, with a real challenge for administering authorities to meet the statutory requirements, but in a way which delivers visible improvements in the governance of the funds.

### 2. Pensions Regulator

- The Public Services Pension Act also provides for the extension of the work of The Pensions Regulator to the LGPS from 1 April 2015.
- The Fund will need to monitor compliance with requirements set by the regulator.

### 3. Future structural reform

- In May 2014 DCLG consulted on the opportunities for collaboration, cost savings and efficiencies in the management of LGPS funds. While the outcome of this is still awaited there is clearly a growing momentum for structural change.
- In the meantime the growing use of shared arrangements is delivering real benefits to funds through reduced costs, increasing access to relevant expertise and improved quality.

### 4. Local government outsourcing

- As many councils look to outsourcing and the set up of external organisations as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

## Our response

- We will continue our on-going dialogue with officers around their governance arrangements.
- We will share good practice that is emerging with officers.

- We will share our experience of working with The Pensions Regulator.
- We will discuss with officers any changes that have been made to existing practices for the fund to demonstrate compliance.

- We will share good practice in reducing administration costs through collaboration or other initiatives.
- We will discuss any proposals for structural change and their impact on the Pension Fund with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Pension Fund.

# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

### 2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code .

### 3. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.
- We are aware that your fund has had to use some cash balances to cover some elements of benefit payments, but have not had to disinvest from assets held.

### 4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

## Our response

- We will consider changes made to the pensions administration control environment in response to LGPS data requirements, and
- we will review and test controls over contributions and benefits.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

# Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

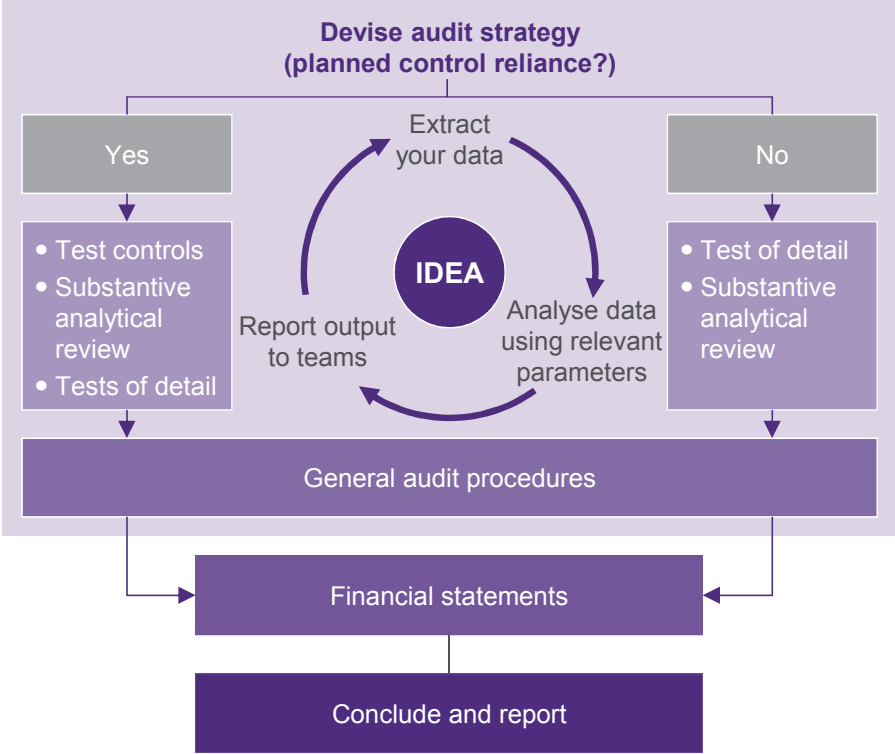
Page 26

- \* Understanding the environment and the entity
- \* Understanding the business
- \* Understanding management's focus
- \* Evaluating the year's results

Inherent risks  
Significant risks  
Other risks  
Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material<sup>a</sup> respects with the CIPFA Code of Practice framework using our global methodology and audit software

Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls





# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Shropshire Council who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Audit work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

# Significant risks identified cont'd

Significant risk	Description	Substantive audit procedures
<p>Level 3 Investments – Valuation is incorrect</p> <p><i>Level 3 investment are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.</i></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 28</p>	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have discussed with officers investment strategy for the fund which has indicated no change is expected in the overall split between level 1,2 and 3 investments held at the year-end.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will perform walkthrough tests of key controls identified in for this system.</li> <li>For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period.</li> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation.</li> <li>To review the nature and basis of estimated values.</li> </ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment Income  <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 29</div>	Investment activity not valid. Investment income not accurate. (Accuracy)	<b>Audit work planned:</b> <ul style="list-style-type: none"> <li>We will perform walkthrough tests of key controls identified for this cycle.</li> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.</li> <li>The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation.</li> </ul>
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	<b>Audit work planned:</b> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> </ul>

# Other risks identified continued

Other risks	Description	Audit Approach
<p>Investment values – Level 2 investments</p> <p><i>Level 2 investments are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.</i></p>	<p>Valuation is incorrect. (Valuation net)</p>	<p><b>Audit work planned:</b></p> <ul style="list-style-type: none"> <li>We will update our understanding of the cycle with relevant personnel from the team during the interim audit.</li> <li>We will perform walkthrough tests of key controls identified for this cycle.</li> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation.</li> </ul>
<p>Contributions</p> <p>Page 30</p>	<p>Recorded contributions not correct (Occurrence)</p>	<p><b>Audit work planned:</b></p> <ul style="list-style-type: none"> <li>We will update our understanding of the cycle with relevant personnel from the team during the interim audit.</li> <li>We will perform walkthrough tests of the controls identified in this cycle.</li> <li>We will discussed with internal audit their work completed in this area and seek to minimise the level of testing we undertake in this area.</li> <li>We will sample test controls testing over the contributions made to the fund.</li> <li>Test a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</li> </ul>
<p>Benefits payable</p>	<p>Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)</p>	<p><b>Audit work planned:</b></p> <ul style="list-style-type: none"> <li>We will update our understanding of the cycle with relevant personnel from the team during the interim audit.</li> <li>We will perform walkthrough tests of key controls identified for this cycle.</li> <li>Controls testing over, completeness, accuracy and occurrence of benefit payments,</li> <li>Test a sample of individual pensions in payment by reference to member files,</li> <li>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>

## Other risks identified continued

Other risks	Description	Audit Approach
Member Data	Member data not correct. (Rights and Obligations)	<p><b>Audit work planned:</b></p> <ul style="list-style-type: none"><li>• We will update our understanding of this cycle with relevant personnel from the team during the interim audit.</li><li>• We will perform walkthrough tests of the controls identified in the cycle.</li><li>• We will perform controls testing over new enrolments to the pension scheme.</li><li>• Controls testing over annual/monthly reconciliations and verifications with individual members</li><li>• Sample testing of changes to member data made during the year to source documentation</li></ul>

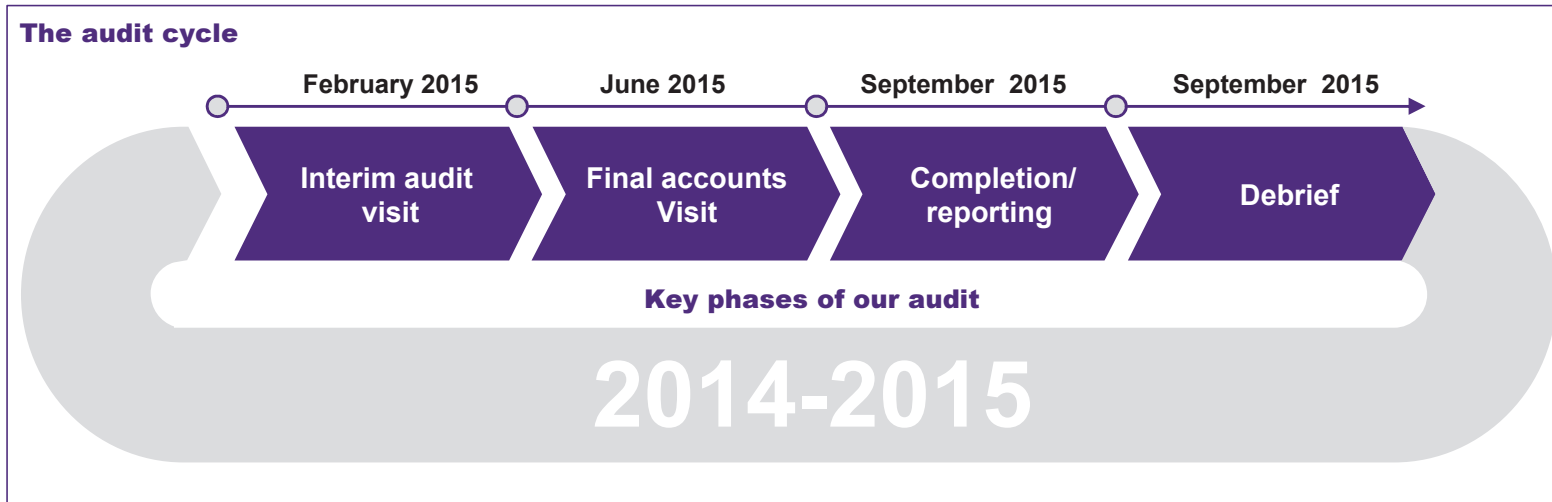
# Plan of interim audit work

	<b>Work planned</b>
<b>Internal audit</b>	We will carry out a high level review of internal audit's overall arrangements.
<b>Walkthrough testing</b>	We will carry out a walkthrough test of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.
<b>Entity level controls</b>	<p>We will obtain an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>
<b>Review of information technology controls</b>	We will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.
<b>Journal entry controls</b>	We will review the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.

Page 32

The plan for our interim audit work is noted above, the impact of our findings may impact on the accounts audit approach and we will issue an update to this plan, if required, following our interim work.

# Key dates



Date	Activity
January 2015	Planning
February 2015	Interim site visit
March 2015	Presentation of audit plan to Pensions Fund Committee
June/July 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with appropriate officers
September 2015	Report audit findings to those charged with governance being the Pensions Fund Committee
By 29 September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Pension Fund Scale Fee	23,427
Proposed fee variation – IAS 19 Assurances	1,979
<b>Total fees (excluding VAT)</b>	<b>25,406</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

### Proposed fee variation – IAS 19 Assurances

In line with Audit Commission standing guidance we are required to provide assurance to admitted body auditors over the reliability of the information provided by the Pension Fund to the actuary for the purposes of them making their IAS 19 estimates. As in the previous year this work is not currently included in the scale fee and therefore a fee variation is proposed to cover the cost of the work required by the admitted bodies.

## Fees for other services

Service	Fees £
None	Nil

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.



# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

[grant-thornton.co.uk](http://grant-thornton.co.uk)



<u>Committee and Date</u>
Pensions Committee
20 March 2015
10.30am

<u>Item</u>
<b>11</b>
Public

## SCHEDULE OF COMMITTEE AND OTHER MEETINGS 2015/16

**Responsible Officer** Justin Bridges

e-mail: [justin.bridges@shropshire.gov.uk](mailto:justin.bridges@shropshire.gov.uk)

Tel: (01743)  
252072

Fax (01743)  
255901

### 1. Summary

- 1.1 The report brings together a schedule of meetings of the Committee and outside bodies on which the Committee is represented. It also identifies which managers and advisers will be attending the respective meetings.

### 2. Recommendation

2.1 Members are asked to:-

- Agree the schedule of Committee meetings, including the Annual Meeting.
- Agree representation at other conferences and training events.
- Consider and provide feedback on the alternative Committee Meeting structure in Appendix B.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 There are no direct environmental, equalities or climate change consequences arising from this report.

### 4. Financial Implications

4.1 There are no direct financial implications on the resources of the Council.

## **5. Background**

5.1 The Committee traditionally meets quarterly, as soon as possible after each quarter end, but allowing sufficient time for the preparation of managers' reports, technical meetings between managers and officers and independent confirmation of performance data.

## **6. Schedule of Meetings**

6.1 The Calendar at Appendix A proposes dates for the quarterly meetings for next year and indicates which managers and advisers will be invited to present their reports in person. Also included is the date of the Annual Meeting so that Members can co-ordinate their attendance at meetings relating to all the Committee's activities and other major seminars are included where these are known. Details of the training offered by the Local Government Association for new Pension Board members is also included on the schedule.

## **7. Manager Monitoring**

7.1 The requirements of the LGPS Investment Regulations on Administering Authorities in relation to the review of an investment manager's performance are:-

- "To keep his performance under review."
- "At least once every three months to review the investments he has made."
- "Periodically to consider whether or not to retain him."

7.2 The present review and reporting arrangements, including quarterly technical meetings with officers, the quarterly investment report and periodic personal attendance at Committee are considered to comply with the regulatory requirements. Managers and advisers are invited to present to the Committee annually and this results in 3 or 4 presentations each meeting. Discussions are currently taking place with the Fund's Independent advisor and Investment Consultant, Aon Hewitt, about the future structure of Pension Committee meetings and this will be discussed during the training session prior to the meeting in order to get feedback from Members. Detailed in Appendix B is a possible alternative Committee meeting structure for Members to consider.

## **8. Annual Training Day**

8.1 The 2015 Annual Training Day will be held on 29 July 2015 in the Wilfred Owen Room, Shirehall. Further details of the event will be sent to Members in advance of the Training Day.

8.2 Further training events will be considered during the year and additional training sessions will be arranged for Pension Board members once appointed.

## 9. The Local Authority Pension Funds Forum (LAPFF)

9.1 As members of the LAPFF, the Committee are asked to be represented at a number of meetings through the year. Forum meetings are generally held in London. When the Fund is represented, it is usually by an appropriate officer and/or the Chairman.

## 10. Other Seminars/Conferences

10.1 In addition to the above, there are a number of other major conferences and seminars, to which the Committee might wish to send delegates. These include:-

- **NAPF Investment Conference – May 2015.** *It is recommended that appropriate officers attend this conference*
- **LGC Investment Symposium – June 2015.** It is recommended that appropriate officers attend this conference.
- **LGC Public Sector Pension Funds Investment Seminar – September 2015.** It is recommended that appropriate officers and the Chairman or Vice Chairman (or any other Member of the Pension Committee) should represent the Committee at this conference.
- **LAPF Annual Conference – December 2015.** It is proposed that an appropriate officer or Member of the Committee should represent the Fund at this conference.
- **LGC Investment Conference – February 2016.** *It is recommended that appropriate officers attend this conference*
- It is proposed that should other seminars and training events be identified as beneficial, then attendance be agreed by the Chairman and the Scheme Administrator through the year.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b> N/A</p>
<p><b>Cabinet Member</b> N/A</p>
<p><b>Local Member</b> N/A</p>
<p><b>Appendices</b> A - Schedule of Meetings 2015/16 B – Alternative committee meeting structure</p>

This page is intentionally left blank

## Pensions Committee – Schedule of Meetings 2015/16

(Committee meetings are in bold print)

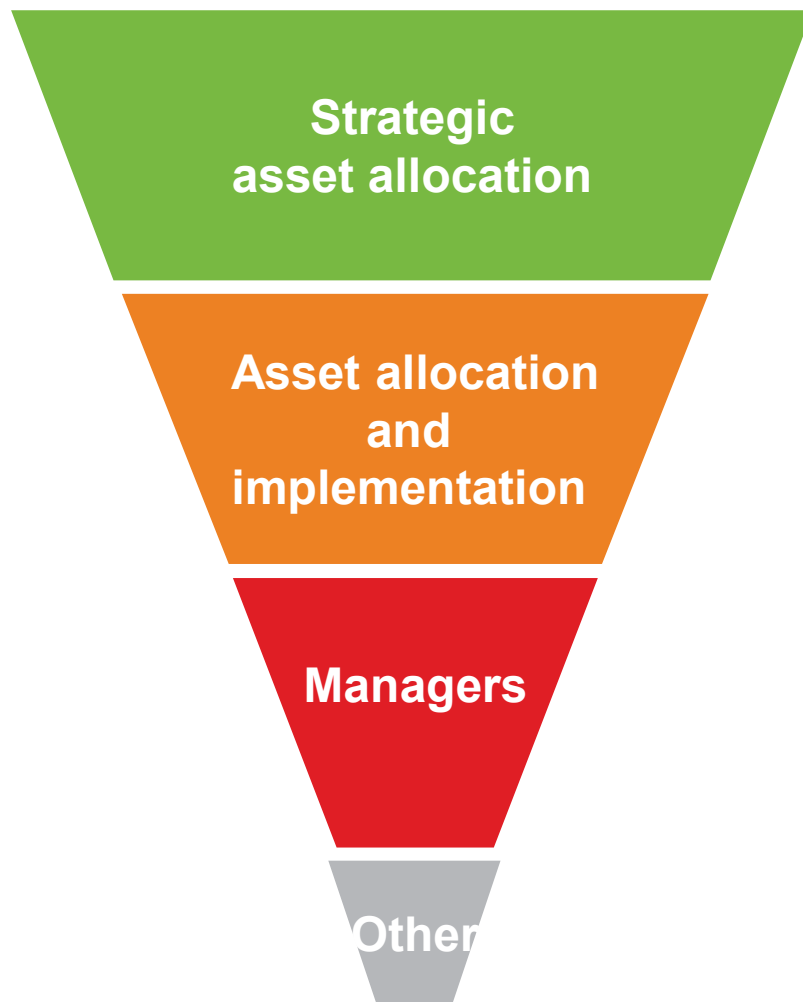
Meeting date	Details (and location of other than Shirehall)	Manager / Adviser to present	Comments
19 - 20 May 2015	NAPF Investment Summit (Gloucestershire)		Officer Attendance
28 May 2015	LGA Pension Board Member Training (Liverpool)		Pension Board Members to attend
25 June 2015	LGC Pension Fund Symposium		Officer Attendance
<b>26 June 2015</b>	<b>Quarterly Meeting (March 2015)-</b>	<b>GIP</b> – Infrastructure <b>Legal &amp; General</b> – Global Equities/Index Linked Bonds <b>F&amp;C</b> – Responsible Engagement Overlay <b>Aon</b> – Training/Investment Strategy Review	
29 July 2015	Training Day (Wilfred Owen Room)		Members / Substitute Members officer attendance
<b>25 Sept 2015</b>	<b>Quarterly Meeting (June 2015)</b>	<b>PIMCO</b> (Global Bonds) <b>Investec</b> (Global Equities) <b>Harris</b> (Global Equities) <b>Grant Thornton</b> – 2014/15 Audit <b>Aon</b> – Training/Investment Strategy Review	
7 - 9 Sept 2015	LGC Investment Summit (South Wales)		Member / Officer attendance
12 Nov 2015	<b>ANNUAL MEETING</b> Council Chamber, Shirehall		
<b>27 Nov 2015</b>	<b>Quarterly Meeting (Sept 2015)</b>	<b>HarbourVest</b> (Private Equity) <b>BlackRock</b> (Hedge Funds) <b>Brevan Howard</b> – Hedge Funds <b>Aon</b> – Training/Investment strategy Review	
2 - 4 Dec 2015	LAPFF Annual Conference (Bournemouth)		Member / Officer attendance
25 – 26 February 2016	LGC Investment Seminar (Chester)		Officer Attendance
<b>18 March 2016</b>	<b>Quarterly Meeting (Dec 2015)</b>	<b>Majedie</b> (UK Equities) <b>Aberdeen</b> (Pan European Property) <b>MFS</b> (Global Equities) <b>Grant Thornton</b> – Audit Plan <b>Aon</b> – Training/Investment Strategy Review	

This page is intentionally left blank



## Governance: Proposal for allocation of Committee meeting time

Page 43



**60 minutes**  
Training, discussion and decisions on strategic matters

**45 minutes**  
Training, discussion and decisions on changing asset allocation and implementing changes

**45 minutes**  
Officers and Aon Hewitt report on managers  
Committee meet manager(s) where necessary

**30 minutes**  
Other items

This page is intentionally left blank



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	
20 March 2015	<b>12</b>
10.30am	Public

## GOVERNANCE COMPLIANCE STATEMENT

**Responsible Officer** James Walton

e-mail: james.walton@shrophire.gov.uk

Tel: (01743)  
255011

Fax (01743)  
252184

### 1. Summary

- 1.1 The report outlines the requirement to produce and keep updated a Governance Compliance Statement in line with the best practice principles published by the Communities & Local Government Department. This report updates the Governance Compliance Statement that was first published back in February 2006 and has now been updated to include the creation of the Pension's Board.

### 2. Recommendations

- 2.1 The Committee is asked to approve, with or without comment, the revised Governance Compliance Statement at Appendix A.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk management is considered by Committee in making decisions under the governance arrangements outlined.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 The Governance Compliance Statement will be issued to employers and published on the Scheme's website.

#### **4. Financial Implications**

4.1 There are no direct financial implications arising from this report.

#### **5. Background**

5.1 In February 2006 Members approved the Governance Compliance Statement for the Shropshire Fund which outlined the governance arrangements that had been in existence since 1994. This document was published following consultation with employers.

5.2 The Governance Compliance Statement was last updated and approved by Committee in June 2014.

#### **6. Purpose of Governance Compliance Statement**

6.1 The regulations require an administering authority to prepare a written statement setting out:-

(a) Whether it delegates its functions, or part of its function, in relation to maintaining a pension fund to a committee, sub committee or officer of the authority

(b) And, if so, it must state:

- The terms of reference, structure and operational procedures of the delegation
- The frequency of any committee/sub committee meetings;
- Whether the committee/sub committee includes representatives of employing authorities (including non-scheme employers) or scheme members, and, if so, whether these representatives have voting rights;

(c) The extent to which delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying

(d) details of the terms, structure and operational procedures relating to the local pension board.

6.2 In 2008 the Communities & Local Government Department issued a document entitled "Best Practice in Governance Arrangements for Local Government Pension Schemes" which required pension funds to outline compliance against a range of best practice principles. The governance arrangements of the Shropshire Fund adhere to all these best practice principles. Compliance against these principles is shown within the Governance Compliance Statement.

6.3 The Governance Compliance Statement has been updated to take account of the creation of the local pension board.

- 6.4 The revised Governance Compliance Statement is attached at Appendix A. Following approval this document will be issued to all employers and published on the website.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pensions Committee, 20 June 2014, Governance Compliance Statement

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

A – Governance Compliance Statement (revised March 2015)

This page is intentionally left blank

# Shropshire County Pension Fund

# GOVERNANCE COMPLIANCE STATEMENT

Agreed by Pensions Committee on 20 March 2015



## INTRODUCTION

1. This Statement has been prepared by Shropshire Council (the Administering Authority) to set out the governance compliance statement for the Shropshire County Pension Fund (the Scheme), in accordance with The Local Government Pension Scheme Regulations 2013 (Regulation 55 refers), and its predecessor, Regulation 31 of the Local Government Pension Scheme Regulations 2008 (as amended).

2. It has been prepared by the administering authority in consultation with appropriate interested persons.

## PURPOSE OF GOVERNANCE COMPLIANCE STATEMENT

3. The regulations on governance compliance statements require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out ...

- a) whether it delegates its functions, or part of its functions, in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;
- b) and, if so, it must state:
  - the terms of reference, structure and operational procedures of the delegation;
  - the frequency of any committee/sub-committee meetings;
  - whether the committee/sub-committee includes representatives of employing authorities (including non-scheme employers) or scheme members and, if there are such representatives, whether they have voting rights.
- c) the extent to which delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.
- d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

4. Thus, the policy statement should include information about all of the administering authority's pension fund governance arrangements. Information about the representation of employers should

cover any arrangements for representing admitted body employers (non-scheme employers).

## Governance of Shropshire County Pension Fund

5. Under the cabinet structure in local government, management of the pension fund is a non-executive function and this is reflected in the Shropshire Council governance structure that is set out below.

6. The Pensions Committee was established in 1994 with responsibility for all matters relating to the management and administration of the Shropshire County Pension Fund. The Pensions Committee is a standing committee of the Council and is linked to Full Council by virtue of the Chairman or Vice Chairman being a Shropshire Council member.

7. The Shropshire County Pension Fund local Pension Board was established by Shropshire Council in 2015 under the powers of Section 5 of the Public Service Pensions Act 2013 and in accordance with regulation 106 of the Local Government Pension Scheme Regulations 2013. The local Pension Board operates independently of the Pensions Committee, details of which are set out in its terms of reference (summarised below).

## SHROPSHIRE COUNCIL

### Pensions Committee (non-executive committee)

The Pensions Committee reports to Full Council. It meets formally at least quarterly and more frequently if formal decisions are required. In between meetings Chairman's approval may be sought.

### Terms of Reference:

- a) To advise the Council on the arrangements for the proper administration of the Shropshire County Pension Fund in accordance with the Local Government Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- b) To advise employing organisations and employees within the Fund of their benefits, contributions and the financial performance of the Fund;
- c) To advise and assist the Council on the determination of any matters of general policy relating to the investment of the Pension Fund;



- d) To approve the annual report and accounts of the Fund and hold an Annual Meeting.

**8. The Pensions Committee formal terms of reference (above) are interpreted as including:**

- Admission of employing organisations to the Fund where discretion is permitted;
- Appointment of external advisors and actuaries to assist with the administration of the Fund, and of external managers for the management of the Fund’s portfolio of assets;
- Approval of the periodic formal valuation of the Fund;
- Consideration of the advice of the Council’s external investment advisers and of the Scheme Administrator;
- Determination of the objectives and general investment approach to be adopted by external fund managers;
- Review and monitoring of investment transactions and the overall investment performance of the Fund;
- To develop and implement shareholder policies on corporate governance issues;
- To review and approve on a regular basis the content of the Statement of Investment Principles and to monitor compliance of the investment arrangements with the Statement;
- To review the Funding Strategy Statement in detail at least every three years ahead of the triennial valuations being carried out, in order to inform the valuation process;
- To review and approve on a regular basis the Communications Policy for the Fund;

**REPRESENTATION**

**9. Representation on the Pensions Committee is as follows:**

Organisation	Allocation
Shropshire Council	4
Borough of Telford and Wrekin Council (co-opted)	2
Employees (co-opted)	2 (non-voting)
Pensioners (co-opted)	1 (non-voting)

The Administering Authority (Shropshire Council) always holds either the Chairmanship or Vice

Chairmanship. The position of Chairman and Vice Chairman rotate between Shropshire Council and the Borough of Telford & Wrekin on a one year basis.

The Committee is supported by the advice from an independent advisor and investment consultant – one advises on strategic issues and overall investment approach and the investment consultant provide analysis and advice of a technical nature in relation to portfolio construction, interpretation of performance measurement and the monitoring of investment managers.

The role of Scheme Administrator is held by the officer who has responsibilities under S151 of the Local Government Act 1972 and provides financial (non-investment) advice to the Committee, including advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting and liaison with independent advisers.

Legal advice is provided by the Head of Legal and Democratic Services.

The remit for the LGPS vests formal statutory responsibility for the LGPS and fund investment with the administering authority which is answerable for the effective and prudent management of the scheme.

**10.** The power to co-opt rests with the Council in full assembly and not with committees; although in practice the selection of persons to serve as co-opted members is usually left to committees. The co-opted members from the Borough of Telford & Wrekin are voting members.

**11. The Pensions Committee can, if so minded, elect a co-opted member as its Chairman but in this instance the Chairman is unable to:**

- attend council meetings and pilot Pension Committee proposals through the full assembly;
- answer questions put to him/her there;
- represent the Pensions Committee on other committees

However, a Shropshire Council Vice-Chairman is able to deputise for the co-opted member Chairman.

## REASONS FOR CURRENT REPRESENTATION

**12.** Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. All members of the Pensions Committee are offered the Employers Organisation training.

The Fund holds an annual training day when members of the Committee are exposed to presentations on topical issues, such as hedge funds, private equity, actuarial valuations, infrastructure etc.

### **13. In the CIPFA Guidelines relating to the governance regulations, it states that...**

*'As things stand, Section 7 of the Superannuation Act 1972 does not permit the Secretary of State to make regulations which impact on the constitution and membership of local authority committees. There are no plans at present to amend local government law to change the provisions regarding the composition of investment or pension committees. This must be a matter for individual fund administering authorities to consider, reflecting local circumstances and choice. But in exercising that choice, it is important that authorities recognise the desirability of achieving an effective and comprehensive level of stakeholder representation within the LGPS nationally.'*

*'The challenge for pension fund panels is to find ways of engaging those people with an interest in decisions made without undermining the operation of the Panel. The Funding Strategy Statements will encourage greater emphasis on consultation and if local authority employers contributing to a fund do not have representation on the panel or committee, be it voting or non voting, then there would be a need to demonstrate they were being engaged in other ways.'*

*For example by the holding of*

- *bi-lateral discussions, or similar forums, involving employers and other stakeholders;*
- *an annual general meeting for all employers;*
- *a triennial meeting between all employers and the actuary to discuss the results of the actuarial valuation'.*

**14.** The Myners principle, the CIPFA guidance and the statutory position have led the Council as administering authority to conclude that current representation provides the appropriate balance between accountability and inclusion.

## LOCAL PENSION BOARD

### Introduction and Role

**15.** The Shropshire County Pension Fund local Pension Board was established by Shropshire Council in 2015 under the powers of Section 5 of the Public Service Pensions Act 2013 and in accordance with regulation 106 of the Local Government Pension Scheme Regulations 2013.

**16.** The role of the local Pension Board as defined by regulation 106 (1) of the LGPS Regulations, is to assist Shropshire Council, the Administering Authority, as Scheme Manager;

- to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
- to ensure the effective and efficient governance and administration of the LGPS for the Shropshire County Pension Fund.

The Council considers this to mean that the Pension Board is providing oversight of these matters and, accordingly, the Pension Board is not a decision making body in relation to the management of the Pension Fund but merely makes recommendations to assist in such management.

In undertaking its role, the Pension Board will ensure it:

- is done effectively and efficiently
- complies with relevant legislation and
- is done by having due regard and in the spirit of the Code of Practice on the governance and

administration of public service pension schemes issued by the Pension Regulator and any other relevant statutory or non-statutory guidance.

### **Composition and Appointment**

**17.** The Pension Board shall consist of 4 voting members and be constituted as follows:

- i) 2 employer representatives
- ii) 2 scheme member representatives.

Employer representatives shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. Subject to restrictions as set out in the LGPS Regulations, Employer representatives can also include elected members. Member representatives shall be scheme members of the Shropshire County Pension Fund and have the capacity to represent scheme members of the Fund.

**18.** An independent member and substitute members may also be included in the composition of the Pension Board at the discretion of the Appointment Panel. Substitute members for employer and scheme member representatives will have voting rights but an independent member or any other members appointed to the Pension Board by the Appointment Panel will not.

**19.** The Appointment Panel, made up of the Legal Monitoring Officer and the Head of Finance, Governance & Assurance at Shropshire Council (or their deputies) will determine any eligibility and/or selection criteria that will apply to Pension Board members having due regard to the LGPS Regulations and any other relevant Code of Practice and guidance (statutory or otherwise). The selection process for representative members will be:

- Employer representatives – each employer will be invited to nominate one representative to represent employers on the Pension Board.
- Scheme member representatives – all active, deferred and pensioner scheme members will be invited to submit applications to join the Pension Board.

The applications and nominations will then be subject to a selection process determined and carried out by the Appointment Panel. The Chair and Deputy Chair will be determined by the Appointment Panel.

The term of office will be for 4 years with a possible extension for up to 2 years.

Former or existing members of the Pension Board can be reappointed (under the appointment procedures) with no limit on the number of terms they may have.

### **Operational Procedures**

**20.** Full details of the operational procedures are set out in the local Pension Board's Terms of Reference.

This includes:

- circumstances where membership may be terminated prior to the end of the member's term of office
- Duties and role of the chair insofar as they:
  - i. will ensure all meetings are productive and effective
  - ii. ensure opportunity for all views to be heard, and
  - iii. seek to reach consensus and that decisions are properly put to vote where necessary.
- A quorum constituting as 2 members, made up of 1 employer and 1 member representative.
- The reporting of any concerns over a decision made by the Pension Committee to the Pension Committee subject to the agreement of at least 50% of voting Pension Board members if all voting members are present. If not all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate.
- Escalation route and procedures if necessary, regarding a breach of regulation / the regulator's code previously reported to the Pensions Committee but not rectified in a reasonable time period.
- Meetings will normally be held at the offices of Shropshire Council and will be a minimum of twice in each calendar year.
- Compliance with Shropshire Council's Conflict of Interest Policy including

declarations of interest of members which may lead to a conflict.

- The ability to access advice and information, either from Fund officers, or other professional advisers as appropriate.
- The requirement of members to be able to demonstrate their appropriate knowledge and understanding and to refresh and keep their knowledge up to date. In addition to the requirements under the Public Service Pensions Act, it includes compliance with the Pension Fund's Training Policy insofar as it relates to Pension Board members.
- A requirement for members to have the highest standards of conduct in accordance with the Council's Constitution.
- The right for members of the Pensions Committee to attend in an observer capacity.
- The publication of information relating to the local Pensions Board in accordance with the Public Service Pensions Act requirements.
- Details of reimbursement, remuneration and allowances.

#### **DELEGATION TO OFFICERS**

**21.** Under the Local Government Pension Scheme Regulations 2013 the Shropshire Fund was required to formulate a policy on local discretions. These discretions were originally approved by Pensions Committee in March 1998 and have been updated following subsequent regulation changes. The latest version taking into account LGPS Regulations 2013 is listed in Appendix A.

**22.** In addition to these local fund-wide discretions there are certain employer discretions, which under regulations, employers have the authority to determine. These discretions are employer specific.

#### **ARRANGEMENTS OUTSIDE OF FORMAL GOVERNANCE**

The Council is committed to the widest inclusion of all stakeholders in consultation and communication

outside of the formal governance arrangements. The arrangements include:

#### **WITH EMPLOYING AUTHORITIES**

**23.** The Fund's primary long term investment objective is to achieve and maintain a funding level at, or close to, 100% of the Fund's estimated liabilities; and within this to endeavour to maintain stable employers' contribution rates. Employing Authorities are pro-actively consulted on the Funding Strategy Statement on which the valuation and employer contribution rates are based.

**24.** The ratio of membership from the various employing authorities in the Shropshire County Pension Fund is:

Organisation	Contributors %
Shropshire Council	48
Borough of Telford and Wrekin Council (co-opted)	27
Parish / Town Councils	1
Other Scheme Employers	14
Admitted Bodies	10
<b>Total</b>	<b>100</b>

The Shropshire County Pension Fund involves all employers, irrespective of size, in consultations and communications.

The information to be supplied by employers to enable the Administering authority to discharge its functions is outlined in the Pensions Administration Strategy Statement and can be found on the fund's website.

**25.** Over the last decade, consultation with employing authorities on pension fund investment, actuarial matters and proposed central government changes to the regulations has evolved. A large step forward was afforded by the introduction of Statements of Investment Principles and Funding Strategy Statements, the consultation process surrounding them, and their accessibility to the Council's web site.

**26.** All employers are invited to regular employer meetings which provide information on changes in regulations, investment matters and actuarial valuations. All employing authorities are also kept abreast of events, by e-mail, and they are encouraged to get in touch if they have questions.

**27.** The Fund undertakes annual monitoring of its actuarial valuation position. Employer organisations are kept up to date of the latest position and its likely impact on employer contributions at the next formal valuation. At triennial valuations the Scheme Actuary presents to the employers meeting to explain changes in the funding level and implications on employer contribution rates. Employers meetings are also used to discuss the Funding Strategy Statements and data requirements for FRS17.

**28.** An annual meeting is held each year to which all employers are invited. The meeting outlines investment performance and any changes to the Fund's investment strategy as well as regulation changes and administration issues. A Fund Manager also presents at the meeting and allows employers and scheme members the opportunity to ask questions.

#### **WITH SCHEME MEMBERS**

**29.** Employees are represented on the Pensions Committee by two non-voting members (both Union members) who have an active role in the selection of managers, performance monitoring, investment strategy and responses to consultations on regulation changes. Pensioners are represented by a non-voting pensioner member.

**30.** All employees, as well as representatives from employer organisations, are invited to the Annual Meeting each year. All pensioners and deferred members also receive an invite to the Annual Meeting which is usually held in November in the county. The meeting is filmed and made available online to enable members unable to attend in person to watch. The meeting is well attended and provides a useful opportunity for members to meet their Employee or Pensioner Representative, learn about the fund and ask questions.

**31.** Where possible every member of the scheme receives Pensions Newsletters. The fund's annual report and a financial summary of the scheme are published on The Pension Fund's web site and in September an email notifications (where an email address is held) is issued notifying the website update. The full communication policy can be found on the website. This outlines the fund approach on communicating with members, representatives of members, prospective members and employing authorities including the format, frequency and method of communications.

The Pension Fund's website includes further information on:

- Full annual report and financial summary
- Statement of Investment Principles
- Myners Compliance
- Funding Strategy Statement
- Communication Policy
- Actuarial Valuation
- Investments
- Pensioner meetings

**32.** The Pensions Section has a very good informal working relationship with the unions, and is always there to assist with any problems in understanding the regulations.

**33.** In light of the requirements following the LGPS Governance changes emerging from the Public Service Pensions Act 2013, Fund Officers are currently reviewing the Training Policies in order to ensure that all stakeholders are well equipped to carry out their duties as effectively and efficiently as possible. The Training Plan includes:

- Pension Fund Officers and Managers
- Pensions Committee Members
- Local Pensions Board Members.

Once this review has been completed, the updated Training Policy will be adopted and steps taken to ensure all parties meet their requirements.

#### **COMPLIANCE AGAINST BEST PRACTICE GUIDELINES**

**34.** The current governance arrangements which were established in 1994 and updated since to take

account of the latest regulatory change, adhere to the best practice guidance given by the Secretary of State. The extent to which delegation complies with the best

practice guidance is shown in Appendix B.

**APPENDIX A: SHROPSHIRE COUNTY PENSION FUND POLICY ON LOCAL DISCRETIONS**

- **The Local Government Pension Scheme Regulations 2013 [prefix R]**
- **The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [prefix TP]**
- **The Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]**
- **The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]**
- **The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]**
- **The Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]**

<b>Regulation</b>	<b>Discretion</b>	<b>Guideline</b>	<b>Delegated To</b>
A52 (2) TP17 (5) TO (8) R40 (2) R43 (2) R46 (2) R82 (2) LGPS 1997 38 (1) & 155 (4) R17 (12)	Payment of death grant	The death grant will normally be paid to or amongst nominated beneficiaries. Where no nomination has been made, we would normally pay a death grant to the deceased’s personal representatives (in that capacity). Where both of these options are seen to be inappropriate or impossible perhaps because nominees have died, circumstances appear to have changed since the nomination was made or other persons claiming some or all of the death grant or would seem to have a claim, we may pay the grant as we see fit to or between surviving nominees or personal representatives or any person appearing to us to have been a relative or dependant of the deceased at any time. Any Additional Voluntary Contributions (AVCs)/ Shared Cost Additional Voluntary Contributions (SCAVCs) monies will be paid as above.	Scheme Administrator
B26 (4)	Payment of Child’s pension after attaining age 18.	To be paid when the child commences full time education or vocational training after the date of the member’s death as an eligible child after the child attains age 18 and until age 23.	Scheme Administrator
Rsch1 & TP 17 (9)	Decide to treat child as being in continuous education or vocational training despite a break	To be reinstated where break does not exceed one academic year	Scheme Administrator
B27 (5)	Split of children’s pensions	To be paid in equal proportions	Scheme Administrator

A52 (A) B27 (5)	Payment of children's pensions to parent or guardian	To be paid to child and only paid to parent or guardian in exceptional circumstances.	Scheme Administrator
R-30 (8)	Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age (Relevant to Admin. Authority where Employer has become defunct)	Due to the potential costs of waiving actuarial reduction it is recommended that it be applied only on strong compassionate grounds e.g. where evidence shows that long-term care is being given to a dependent relative (solely dependent on the employee) and that this is likely to continue for many years. However, the cost of pension strain will be given significant relevance in reaching a decision.	Scheme administrator
B39 & T14 (13) R34 (1)	Commutation of small pensions	To be commuted in all cases where annual value is below Inland Revenue limits	Scheme Administrator
LGPS97 - 50 and 157	Commutation – serious ill health	To be commuted with agreement of pensioner	Scheme Administrator
A56 (2) R 36 (3)	Medical requirements	To be based on advice from the Council's Occupational Health Physician or one of the doctors on the list as approved by the pensions committee for the giving of certificates regarding permanent incapacity.	Scheme Administrator
LGPS97 - 60 (5)	Minimum level of Additional Voluntary Contribution	NONE	Scheme Administrator
R71 (1)	Employer's Contributions	To be paid within 1 month of the end of the month to which they relate after which time interest will be chargeable and be split by employees (EE's) and employers (Er's) contributions.	Scheme Administrator
A28 (2) TP15 (1) (d) A28 (2)	Charge for estimate of transfer of AVC to main scheme	First calculation free thereafter £25 per estimate	Scheme Administrator
LGPS97 - 92	Recovery of Contribution Equivalent Premium	To be recovered in all cases permitted by the regulations	Scheme Administrator
A83 (9) R100 (7)	Acceptance of transfer value	To be refused if insufficient to meet Guaranteed Minimum Pension liability	Scheme Administrator
Financial Rules of the Administering	Overpayment of pension	Overpayments of less than £100 not to be recovered where they occur during the month of	Scheme Administrator

Authority, Shropshire Council.		death and recovery is likely to cause hardship or be impractical.	
R69 (1)	Frequency of payment of members contributions	On a monthly basis.	Scheme Administrator
A40 (2) & (4) (9)(b)	Agree method of paying augmented membership	SCPF require the payment for augmented service to be paid by BACS, in whole and before the date of retirement (leaving) once the resolution has taken place (actives). Not relevant for 2013 Regulations only transitional period.	Scheme Administrator
A60 (8) R76 (4)	Procedure to be followed by Admin Authority when exercising its stage two IDRPs functions	Full procedure can be found on: <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a>	Scheme Administrator
R100 (68)	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	The fund will generally support employers who wish to allow an employee to transfer in pension rights outside of the standard 12 month election period. However, where the Fund considers that such a transfer would have a significantly adverse effect on an individual employers funding position and/or there is a possibility that the additional liability will fall to a sponsoring employer or some other employing authority a late transfer will not be permitted.	Scheme Administrator
LGPS97 - 109 & 110 (4) (b) TP3 (13) A70 (1) A71 (4) (c) T12	Abatement of pensions following re-employment	From the 1 June 2006 the abatement and suspension of pension policy operated by the Council changed and since this date no adjustments are required to funded pensions in respect of re-employment, regardless of the level of earnings.  This policy applies to the funded element of the pension only and not the added year's compensation. This will still be subject to adjustment as per the regulations.	Scheme Administrator
B10 (2) TP3 (6) TP4 (6)(c) TP8 (4) TP10 (2) a TP17 (2)(b) Tsch1 L23(9)	Where a member dies before making an election of average of 3 years pay for final pay purposes.	Election to be made by the Fund on behalf of the deceased member.	Scheme Administrator
A52 A	Payments for persons	If it appears that a person (other than an eligible	Scheme



B27 (5) R83	(other than an eligible child) incapable of managing their affairs	<p>child as defined in the appropriate regulations is entitled to the payment of benefits under the Scheme but is, by reason of mental disorder or otherwise, incapable of managing his or her affairs, taking regard to the circumstances of the case and medical guidance where appropriate the following will be considered;</p> <p>(a) paying benefits or any part of them to a person having care of the person entitled, or such other person as the Scheme Administrator may determine, to be applied for the benefit of the person entitled as the Scheme Administrator may direct, or</p> <p>(b) applying the benefits in such manner as the Scheme Administrator may determine for the benefit of the person entitled, or his/her beneficiaries and is authorised to implement the Regulation subject to any third parties who are not the legal partner of the pension benefit recipient being required to provide Power of Attorney where the annual pension payable exceeds £1000 (linked to CPI from 2014); in cases where the annual pension benefit is below £1000, medical and documentary evidence as applied for legal partners would be deemed acceptable.</p>	Administrator
B25 RSch1 TP17 (9)(b)	Evidence required to determine financial dependence of co-habiting partner	A signed declaration form is required confirming the conditions which have been met and evidence provided.	Scheme Administrator
TSch 1 & L23 (9) B42 (1) (c) R49 (1) (c)	In the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	Benefit which is more beneficial to member to be used.	Scheme Administrator
31 (2)	Recharging payments to employers for annual compensation	A 1% handling fee of the total recharge of compensation being paid on behalf of the Employer, will be levied.	Scheme Administrator

Local Government and the extent of the Council's compliance with each of the guidelines is set out below.

## 1. STRUCTURE

- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

### Fully compliant

The Council delegates the management of the Shropshire County Pension Fund to the Pensions Committee.

- b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

### Fully compliant

The Pensions Committee includes a representative from Shropshire Council and Borough of Telford and Wrekin Council. Representatives of employees and pensioners are also members of the Pension Committee.

- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

### Not applicable.

The Shropshire County Pension Fund does not have any secondary committee or panel. It is felt that including all members including employee and pensioner representatives on the main Pensions Committee is more inclusive.

- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

### Not applicable

The Shropshire County Pension Fund does not

have any secondary committee or panel. It is felt that including all members including employee and pensioner representatives on the main Pensions Committee is more inclusive.

## 2. REPRESENTATION

- a) That all key stakeholders are afforded the opportunity to be represented within the main committee or advisory panel. These include:
- i. *employing authorities (including non-scheme employers, eg admitted bodies)*
  - ii. *scheme members (including deferred and pensioner scheme members),*
  - iii. *independent professional advisors*
  - iv. *expert advisors (on an ad-hoc basis)*

### Fully compliant

The Pension Committee includes representatives from its main employers which represent 75% of active members. The Committee includes two co-opted employee representatives and a pensioner representative. The Committee is supported by the advice of an independent advisor and investment consultant.

- b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

### Fully compliant

All Pension Committee members have equal access to all papers and meetings, and are able to participate in training, and contribute to the Committee's decision-making process.

## 3. SELECTION AND ROLE OF LAY MEMBERS

- a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

### Fully compliant

All Pension Committee members are given training on their responsibilities and are aware of the terms of reference and remit of the Pensions Committee.

- b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda

**Fully compliant**

All Pension Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda at the start of each committee meeting.

**4. Voting**

- a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

**Fully compliant**

The elected councillor representatives, from Shropshire Council and Borough of Telford and Wrekin Council representative all have voting rights. The Constitution of the Administering Authority requires voting members to be democratically elected. The employee and pensioner representatives are therefore co-opted non-voting members of the Committee.

**5. TRAINING/ FACILITY TIME/ EXPENSES**

- a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.

**Fully compliant**

The Pensions Committee hold an Annual Training day to which all Committee members and substitute members are invited. Training is also provided to new members and on an ad hoc basis as required. All Pensions Committee members are covered by their respective Council's scheme for reimbursement of expenses for committee members.

- b) That where such a policy exists, it applies equally to all members of committees, sub-committees,

advisory panels or any other form of secondary forum.

**Fully Compliant**

All Pensions Committee members have equal access to training and reimbursement of expenses.

**6. MEETINGS (FREQUENCY/QUORUM)**

- a) That an administering authority's main committee or committees meet at least quarterly.

**Fully compliant**

The Pensions Committee meets quarterly. Additional meetings are arranged for specific items of business as required.

- b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

**Not applicable**

The Shropshire County Pension Fund does not have any secondary committee or panel. It is felt that having all members including employee and pensioner representatives on the main Pensions Committee is more inclusive.

- c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

**Fully compliant**

The Fund includes employee and pensioner representatives on its main Committee. The Fund also hold an Annual Meeting to which all employers, employees, deferred members and pensioners are invited.

**7. ACCESS TO INFORMATION, DOCUMENTS AND ADVICE**

- a) That subject to any rules in the Councils constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that

fails to be considered at meetings of the main committee.

**Fully compliant**

All Pensions Committee members have equal access to all papers and meetings.

**8. SCOPE**

- a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

**Fully compliant**

The Pensions Committee terms of reference are multi-disciplined and include the monitoring of investments, scheme administration and general scheme issues.

**9. PUBLICITY**

- a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

**Fully compliant**

The Pension Fund Governance Policy Statement is published on the Administering Authority's web-site and hard copies are available on request.



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	
20 March 2015	<b>13</b>
10.30am	Public

## **PENSION FUND TREASURY STRATEGY 2015/16**

**Responsible Officer** Justin Bridges

e-mail: Justin.bridges@shropshire.gov.uk

Tel: (01743)  
252072

Fax (01743)  
255901

### **1. Summary**

- 1.1 This report proposes the Pension Fund Treasury Strategy for 2015/16 for the small cash balances that the Administrating Authority maintains to manage the day to day transactions of the Fund. These transactions include the payment of pensions and transfers out together with the receipt of contributions from employers and transfers into the Fund. From the 1 April 2010 these balances have been invested separately in accordance with the Pension Fund Treasury Strategy.

### **2. Recommendations**

- 2.1 Members are asked to delegate authority to the Scheme Administrator (Section 151 Officer) to manage the Pension Funds day to day cash balances.
- 2.2 Members are asked to approve, with any comments, the Pension Fund Treasury Strategy.
- 2.3 Members are asked to authorise the Scheme Administrator (Section 151 Officer) to place deposits in accordance with the Pension Fund's Treasury Strategy.
- 2.4 Members are also asked to delegate authority to the Scheme Administrator (Section 151 Officer) to add or remove institutions from the approved lending list and amend cash and period limits as necessary in line with the Administering Authority's creditworthiness policy.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

- 3.3 Compliance with the CIPFA Code of Practice on Treasury Management, adhering to the Council's Treasury Policy Statement and Treasury Management Practices together with the rigorous internal controls will enable the Fund to manage the risk associated with Treasury Management activities and the potential for financial loss
- 3.4 There are no direct environmental, equalities or climate change consequences arising from this report.

#### **4. Financial Implications**

- 4.1 There are no direct financial implications arising from this report.

#### **5. Background**

- 5.1 The Fund has assets of over £1.4 billion which are managed by the Funds Global Custodian, Northern Trust. Shropshire Council as the Administering Authority maintains a small working cash balance (currently around £4 million). This Treasury Strategy relates solely to the Pension Fund cash managed by Shropshire Council as the Administering Authority.
- 5.2 The Administering Authority aims to keep the Pension Fund cash held for day-to-day transactions to a minimum level. Fund cash is currently managed separately and invested on the money markets in accordance with Shropshire Council's Treasury Strategy. A separate Pension Fund account is credited with investment income.
- 5.3 Investment regulations issued by the DCLG in December 2009 no longer permit pension fund cash to be pooled with the cash balances of Shropshire Council from 1st April 2010. In view of these changes a separate Pension Fund Treasury Strategy must be approved each year.

#### **6. Investment Policy**

- 6.1 The Fund's investment policy is based on the Treasury Strategy adopted by Shropshire Council. The investment policy will have regard to the Communities for Local Government (CLG) Guidance on Local Government Investments, the Audit Commission's report on Icelandic investments and the 2011 revised CIPFA Treasury Management Code of Practice.
- 6.2 The investment priorities for the management of Pension Fund cash balances are the security of capital and the liquidity of its investments. The Fund will also aim to achieve the optimum return on its cash investments commensurate with proper levels of security and liquidity.
- 6.3 The CLG guidance requires Shropshire Council to categorise their investments as either "specified" or "non specified" investments. Shropshire Council as Administering Authority for the Pension Fund will adopt these same categorisations for the investment of Pension Fund cash. Specified investments are deemed as "safer" investments and must meet the following conditions:-

- be denominated in Sterling
  - have less than 12 months duration
  - not constitute the acquisition of share or loan capital
  - be invested in the government or a local authority or a body or investment scheme with a “high” credit quality.
- 6.4 The Fund is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.
- 6.5 The Fund is required to look at non specified investments in more detail. It must set out:
- Procedures for determining which categories of non-specified investments should be used
  - The categories deemed to be prudent
  - The maximum amount deemed to be held in each category
  - The maximum period for committing funds
- 6.6 As all of the Funds’ investments will be placed in sterling for periods up to 12 months with highly credit rated institutions all investments will be classified as specified investments. It is recommended that the maximum limit of £4 million is set for other Local Authorities and institutions which are part nationalised and £2 million for institutions which meet the minimum credit ratings but are not supported by the Government. Any changes to the minimum credit ratings or maximum limits must be approved by the Scheme Administrator (Section 151 Officer).
- 6.7 The Fund may use for the prudent management of its cash balances any of the specified investments detailed on Appendix A.
- 6.8 In order not to rely solely on institutions credit ratings there have also been a number of other developments since the credit crunch crisis which require separate consideration and approval. Nationalised and Part Nationalised Banks in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. This is because the Government owns significant stakes in the banks and this ownership is set to continue despite a partial return of some Lloyds shares back into private ownership. Capita are still supportive of the Fund using these institutions with a maximum 12 month duration. For this reason Lloyds TSB, Royal Bank of Scotland (RBS) and National Westminster Bank which are part of the RBS group are included on the approved counterparty list.
- 6.9 Local Authorities are not credit rated but where the investment is a straightforward cash loan, statute suggests that the credit risk attached to English and Welsh local authorities is an acceptable one (Local Government Act 2003 s13). Local authorities are therefore included on the approved list.

- 6.10 The use of AAA rated Money Market Funds (MMFs) may be considered but only with the express approval of the Scheme Administrator (Section 151 Officer).

## 7. Creditworthiness Policy

- 7.1 It is proposed that the Fund will adopt the same methodology as Shropshire Council when determining the minimum credit ratings to be used. The Creditworthiness policy has been adopted from Shropshire Council's Treasury Strategy who use information provided by their treasury advisor, Capita Asset Services. This service has been progressively enhanced following the problems with Icelandic Banks in 2008. Capita use a sophisticated modelling approach with credit ratings from all three rating agencies Fitch, Moody's and Standard and Poor's. In accordance with the revised Treasury Management Code of Practice they do not rely solely on the current credit ratings of counterparties but also use the following as overlays:-
- Credit watches and credit outlooks from credit rating agencies
  - Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings
  - Sovereign ratings to select counterparties from only the most creditworthy countries
- 7.2 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used to determine the duration of investments and are therefore referred to as durational bands. The Fund is satisfied that this service now gives a much improved level of security for its investments. It is also a service which would not be able to replicate using in-house resources.
- 7.3 The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with Capita's weekly list of worldwide potential counterparties. The Fund will therefore use counterparties within the following durational colour bands:-
- Yellow – 5yrs e.g. AAA rated Government debt, UK Gilts, Collateralised Deposits
  - Dark Pink – 5 years for Enhanced Money Market Funds with a credit score of 1.25 (Not currently used)
  - Light Pink - 5 years for Enhanced Money Market Funds with a credit score of 1.5 (Not currently used)
  - Purple - 2yrs (Council & Pension Fund currently has maximum of 1 year)
  - Blue - 1 year (only applies to nationalised or part nationalised UK Banks)
  - Orange - 1 year
  - Red - 6 months
  - Green – 100 days
  - No colour – not to be used
- 7.4 Although the maximum period limit is currently 5 years the Fund will take a more prudent approach and not invest for any longer than 12 months.



- 7.5 All credit ratings are monitored continuously and formally updated monthly by the Administering Authority. The Administering Authority is alerted to changes to ratings of all three agencies through its use of the Capita's creditworthiness service. The Fund will use the same policy when constructing its approved lending list. If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Funds minimum criteria, the further use of that counterparty will be withdrawn immediately.
- 7.6 Sole reliance will not be placed on the use of this external service. Officers also use market data and information and regularly monitor the financial press.

## **8. Country Limits**

- 8.1 It is recommended that the Fund will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). However, following the problems with Icelandic Banks lending is currently restricted to the UK which currently has a sovereign credit rating of AA+ and Sweden which has the highest possible sovereign rating of AAA. The S151 Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Capita's revised creditworthiness policy if required.

## **9. Investment Strategy**

- 9.1 The next financial year is expected to see investment rates continue at historically low levels. The Bank Rate has remained at 0.50% since March 2009. It is not expected to rise to 0.75% until December 2015. By March 2017 the bank rate is expected to rise to 1.25%. This view is based on the latest forecasts obtained by the Administering Authority's treasury advisor, Capita Asset Services.
- 9.2 It is anticipated that balances available for investment will be between £3 - 15 million which will be invested short term in accordance with the approved lending list. Separate lending and period limits have been approved for investment of Pension Fund cash.
- 9.3 Short term cash flow requirements limit the scope for longer term investments. For cash flow generated balances we will seek to utilise the business reserve accounts with National Westminster Bank and Svenska Handelsbanken and short dated deposits (overnight - 3 months) in order to benefit from the compounding of interest.
- 9.4 All investments will be made in accordance with the Funds treasury strategy and in accordance with the CLG investment regulations.

## **10. Short Term Borrowing**

- 10.1 The current banking and investment arrangements mean the Fund has not needed to borrow on the money markets to fund day to day transactions. The new investment regulations give the Administering Authority an explicit power to borrow for up to 90 days, for the purpose of the pension fund. This will enable borrowing for cash flow purposes such as to ensure that scheme

benefits can be made on time. Any borrowing needs to have an identifiable income from which repayment of the borrowed amount and related interest can be funded.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pension Fund Treasury Strategy 2014/15, Pensions Committee 20 March 2014

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

A. Specified Investment Schedule

**SPECIFIED INVESTMENTS***All investments listed below must be sterling-denominated.*

<b>Investment</b>	<b>Share/ Loan Capital?</b>	<b>Repayable/ Redeemable within 12 months?</b>	<b>Security / Minimum Credit Rating</b>	<b>Capital Expenditure?</b>	<b>Circumstance of use</b>	<b>Maximum period</b>
<b>Term deposits</b> with the UK government (e.g. DMO Account) or with English local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although LAs not credit rated.	NO	In-house	1 year
<b>Term deposits</b> with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes – Minimum colour band Green	NO	In-house	1 year
<b>Certificates of Deposit</b> issued by credit-rated deposit takers (banks and building societies) up to 1 year. <i>Custodial arrangement required prior to purchase</i>	No	Yes	Yes – Minimum colour band Green	NO	In house buy and hold	1 year
<b>Banks nationalised by high credit rated (sovereign rating) countries</b>	No	Yes	Minimum Sovereign Rating AA-	No	In house	1 year
<b>UK Nationalised &amp; Part Nationalised banks</b>	No	Yes	Yes – Minimum colour band green	No	In house	1 Year

Contact: Justin Bridges on (01743) 252072

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
<b>Government guarantee on all deposits by high credit rated (sovereign rating) countries</b>	No	Yes	Yes – Minimum Sovereign Rating AA-	No	In house	1 year
<b>Bonds issued by multilateral development banks</b> (Euro Sterling Bonds as defined in SI 2004 No 534) or issued by a financial institution guaranteed by UK government with maturities under 12 months.  <i>Custodial arrangement required prior to purchase</i>	No	Yes	AAA	NO	In-House on a buy and hold basis after consultation/advice from Capita&	1 year
<b>Equity Funds and Bond Funds</b>	No	Yes	AAA	NO	In House	1 year
<b>Gilts : up to 1 year</b>  <i>Custodial arrangement required prior to purchase</i>	No	Yes	Govt-backed UK Sovereign Rating	NO	In House on a buy and hold basis	1 year

<b>Money Market Funds &amp; Government Liquidity Funds (including CCLA Fund) &amp; Enhanced Money Market Funds</b>	No	Yes	Yes AAA rated & UK sovereign rating. Enhanced MMFs minimum colour Dark Pink/Light Pink & AAA rated	NO	In-house	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements.  Deposits are repayable at call.
<b>Treasury bills</b> <i>[Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]</i>  <i>Custodial arrangement required prior to purchase</i>	No	Yes	Govt-backed UK Sovereign Rating	NO	In House	1 year

Page 4

**Monitoring of credit ratings:**

All credit ratings will be monitored continuously and formally updated on a monthly basis. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Pension Fund's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.

Any intra-month credit rating downgrade which the Pension Fund has identified that affects the Pension Fund pre-set criteria will also be similarly dealt with.

This page is intentionally left blank



<u>Committee and Date</u>
Pensions Committee
20 March 2015
10.30am

<u>Item</u>
<b>14</b>
Public

## **CORPORATE GOVERNANCE MONITORING**

**Responsible Officer** Ed Roberts

e-mail: [ed.roberts@shropshire.gov.uk](mailto:ed.roberts@shropshire.gov.uk)

Tel: (01743) 252078

Fax (01743) 255901

### **1. Summary**

- 1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1<sup>st</sup> October 2014 to 31<sup>st</sup> December 2014.

### **2. Recommendations**

- 2.1 Members are asked to accept the position as set out in the report, Manager Voting Reports at Appendix A and F&C Responsible Engagement Overlay Activity Report at Appendix B.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.
- 3.4 There are no direct Equalities or Community consequences.

### **4. Financial Implications**

- 4.1 There are no direct financial implications arising from this report.

### **5. Background**

- 5.1 The Shropshire County Pension Fund has been actively voting for over fifteen years at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests. Voting is carried out by individual Fund Managers on all equity portfolios.

5.2 The Fund is also addressing its social responsibility through a strategy of responsible engagement with companies. F&C Asset Management provide this responsible engagement overlay on the Fund's UK equities portfolio.

## 6. Manager Voting Activity

6.1 Details of managers voting activity during the quarter relating to equity portfolios are attached (Appendix A).

## 7. Responsible Engagement Activity

7.1 During the last quarter F&C have continued to actively engage with companies on the Fund's behalf. An update on the engagement activities for the quarter is attached at Appendix B in the REO Activity report.

### **List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Corporate Governance Monitoring report, Pensions Committee 28 November 2014

#### **Cabinet Member**

N/A

#### **Local Member**

N/A

#### **Appendices**

A. Manager Voting Activity Reports.

B. F&C Responsible Engagement Overlay Reports.



# VOTING POLICY



We began to introduce our own customised voting policy in Q1 2014, which was implemented in Q2. This is run in parallel with ISS's policy. The majority of areas in which our policy differs from that of ISS are within the smaller company sector, in which we are a leading participant, and relates to capital raising with pre-emptive shareholder rights; these are by their nature often associated with smaller companies. It is not inconceivable that we will make exceptions and vote against our own policy: as with all our voting, we proceed on a case by case basis.

We regard a smaller company as having a market capitalisation of £1.5bn or less.

Below are the specifics of the policy:

Agenda Type	ISS policy	Majedie Policy
Smaller Company Board Structure	Where Non-Executive Directors (NEDs) are members of internal boards, or where members of the board sit on more than one internal committee, this is regarded as being against best practice, and therefore the recommendation is to vote against such proposals.	Give smaller companies greater flexibility in the composition of their boards for practical reasons, given personnel limitations, unless we take issue with one of the board members.
Issuances with Pre-emptive Rights	Proposals of greater than 33% of Issued Share Capital are against best practice and therefore the recommendation is to vote against.	As shareholders we will be given the right to take up the issuance, and therefore will not be diluted. We therefore vote for such proposals.
Issuances without Pre-emptive Rights	Proposals of greater than 10% of Issued Share Capital are against best practice and therefore the recommendation is to vote against.	Vote in line with ISS as such issuances are potentially dilutive for shareholders.
Political Contributions	Vote for.	Vote against. We like to maintain an independent stance.

# VOTING SUMMARY

Over the quarter, Majedie Asset Management voted at a total of 50 meetings on 390 resolutions.

Please see below a breakdown of the meetings and resolutions which pertain to the UK Equity Fund.

Number of meetings we voted at this quarter	38	
Number of resolutions	267	
Where we voted in line with Management	261	(97.8%)
Where we have not voted in line with Management	6	(2.2%)
Where we voted against ISS's recommendation	13	(4.9%)

Source: Majedie, ISS (Institutional Shareholder Services)

The table below is a breakdown of the number of resolutions where we have either voted against Management or against the recommendation of ISS.

RESOLUTION	AGAINST MANAGEMENT	AGAINST ISS
Routine/Business	5	4
Remuneration	1	1
Board election & related proposals	0	7
Reorg. and Mergers	0	1
Capitalisation	0	0
Miscellaneous	0	0
Total	6	13

Sources: Majedie, ISS (Institutional Shareholder Services)

# VOTING BREAKDOWN

SECURITY	MEETING DATE	MEETING TYPE	MAJEDIE VOTE	IN LINE WITH ISS
African Barrick Gold	26 Nov 2014	EGM	Voted for all	Yes
Amlin	24 Nov 2014	EGM	Voted for all	Yes
Bango	16 Oct 2014	EGM	Voted for all	Yes
British Sky Broadcasting	06 Oct 2014	EGM	Voted for all	Yes
British Sky Broadcasting (1)	21 Nov 2014	AGM	Abstention on Resolution 4. Against Resolution 20	No
CSR	04 Dec 2014	EGM	Voted for all	Yes
Cupid	23 Dec 2014	EGM	Voted for all	Yes
CVS	04 Dec 2014	AGM	Voted for all	Yes
Dignity	30 Oct 2014	EGM	Voted for all	Yes
Dunelm (2)	11 Nov 2014	AGM	Voted for all	No
DX	04 Nov 2014	AGM	Voted for all	Yes
Galliford Try (3)	07 Nov 2014	AGM	Against Resolution 16	No
Gemfields (4)	28 Nov 2014	AGM	Voted for all	No
GlaxoSmithKline	18 Dec 2014	EGM	Voted for all	Yes
Hargreaves Services	05 Nov 2014	AGM	Voted for all	Yes
Hays (5)	12 Nov 2014	AGM	Against Resolution 15	No
IPSA	03 Oct 2014	AGM	Voted for all	Yes
Micro Focus (6)	27 Oct 2014	EGM	Voted for all	No
Norseman Gold (7)	30 Dec 2014	AGM	Against Resolution 1	Yes
OPG Power Ventures (8)	19 Dec 2014	AGM	Voted for all	No
Patagonia Gold	08 Dec 2014	EGM	Voted for all	Yes
Rambler Metals & Mining (9)	04 Dec 2014	AGM	Voted for all	No
Real Estate Investors	23 Dec 2014	EGM	Voted for all	Yes
Restore	24 Nov 2014	EGM	Voted for all	Yes
RPC	17 Dec 2014	EGM	Voted for all	Yes
Ryanair	28 Nov 2014	EGM	Voted for all	Yes
Spark Ventures (10)	03 Oct 2014	AGM	Voted for all	No
Speymill Deutsche Immobilien (11)	16 Dec 2014	AGM	Against Resolution 1	Yes
St Ives	27 Nov 2014	AGM	Voted for all	Yes
Standard Life	03 Oct 2014	EGM	Voted for all	Yes
Sylvania Platinum	22 Dec 2014	AGM	Voted for all	Yes
Velocys	17 Oct 2014	EGM	Voted for all	Yes
Victoria Oil & Gas (12)	26 Nov 2014	AGM	Voted for all	No
Weatherly International	07 Nov 2014	AGM	Voted for all	Yes
YouGov	10 Dec 2014	AGM	Voted for all	Yes

Source : ISS (Institutional Shareholder Services)

# VOTING NOTES

- 1) British Sky Broadcasting: On Resolution 4, ISS recommended we abstain, principally due to a lack of transparency in performance targets, and the increase in Long Term Incentive Plan (LTIP) awarded to the CFO. We are sympathetic to the commercially sensitive nature of BSKyB's targets, and note that they will disclose them retrospectively when they are no longer sensitive. In regard to the CFO, we feel his performance warrants the increase in potential reward; we therefore voted in favour of the Remuneration Report. On Resolution 20, we voted in line with Majedie policy with regards to political donations.
- 2) Dunelm: ISS recommended a vote against the waiver on the tender bid requirement as it may give effect to creeping control, allowing major shareholders to gain control of the Company without the payment of a premium to other shareholders. Management have explained the reasons for the increase in share ownership and made the intentions of Executive Director, Will Adderley, clear. We therefore voted in favour.
- 3) Galliford Try: we voted in line with Majedie policy with regards to political donations.
- 4) Gemfields: ISS recommended a vote against the re-election of Clive Newall, as he is not considered to be independent and his membership on the Audit and Remuneration Committees is contrary to UK best practice recommendations. Consistent with our policy of allowing smaller companies greater flexibility in the composition of their boards we decided to vote in favour of his re-election.
- 5) Hays: we voted in line with Majedie policy with regards to political donations.
- 6) Micro Focus: ISS recommended a vote against the approval of additional share grants and amending the Remuneration Policy owing to the inclusion of retention awards and significant awards which will partly be paid in cash. Management contacted us and explained that the transaction would trigger a change of control clause in the contracts of all of the Attachmate senior management therefore arrangements had to be made to ensure the retention of senior employees. We therefore voted in favour.
- 7) Norseman Gold: ISS recommended a vote against the Financial Statements and Statutory Reports as the auditor provided a qualified opinion on the financial statements due to limited audit evidence. We agreed and therefore voted in line with ISS. It is worth noting that Norseman Gold plc has been delisted and therefore in the control of auditors.
- 8) OPG Power Ventures: Ravi Gupta serves on both the Audit Committee and the Remuneration Committee. Whilst we would prefer to see directors serve on only one committee, we acknowledge that smaller companies need to be permitted greater leeway in the composition of their boards, so we chose to vote in favour.
- 9) Rambler Metals & Mining: Leslie Goodman serves on both the Audit Committee and the Remuneration Committee. Whilst we would prefer to see directors serve on only one committee, we acknowledge that smaller companies need to be permitted greater leeway in the composition of their boards, so we chose to vote in favour.
- 10) Spark Ventures: Charles Berry serves on both the Audit Committee and the Remuneration Committee. Whilst we would prefer to see directors serve on only one committee, we acknowledge that smaller companies need to be permitted greater leeway in the composition of their boards, so we chose to vote in favour.

- 11) Speymill Deutsche Immobilien: ISS recommended a vote against the Financial Statements and Statutory Reports as the company has not provided a copy of its latest annual report. We agreed and therefore voted inline with ISS. It is worth noting that this stock was delisted in 2011 and therefore in the control of auditors.
- 12) Victoria Oil & Gas: on Resolution 1, ISS recommended a vote against the financial statements and statutory reports owing to insufficient independence with regard to the make-up of the board. We voted in favour, as smaller companies should, we believe, be treated differently to their larger brethren. On Resolution 2, Grant Manheim serves on both the Audit Committee and the Remuneration Committee. Whilst we would prefer to see directors serve on only one committee, we acknowledge that smaller companies need to be permitted greater leeway in the composition of their boards, so we chose to vote in favour.



## Stewardship review

Quarter ended 31 December 2014

---

Investec Asset Management takes an active and transparent approach to voting and engagement with the companies in our portfolios. We aim to encourage and reward better corporate governance and business integrity. The goal of this is to benefit clients and also improve the broader environmental, social realms in which we invest.

During the last quarter of the year, the ACGA (Asian Corporate Governance Association) usually holds its annual investor conference somewhere in Asia. This year the conference was held in the outskirts of Hong Kong with the central focus of the meeting itself on corporate governance in China, corporate governance reform in Japan and general developments and challenges to corporate transparency, access and engagement right across the continent. In general, we are witnessing reform and debate on how to improve corporate governance in Asia. The reasons for such reform, which usually involves a new corporate governance code or accountancy efforts, vary between countries but they all tend to seek an improvement to the perception that corporate governance is less organised or poorly managed within emerging markets.

To an extent, that perception is the result of applying an Anglo-American governance model which focuses on 'agency problems' (the potential conflict between shareholders and management), and assumes that the company has a dispersed ownership model. In Asia, we are more often than not faced with other ownership models, including family businesses, state-owned enterprises or other controlled businesses. Although some areas of discussion including transparency, shareholder rights and voting rights are the same, we face other issues where the classic board model may fall short and miss some of the important cultural elements of how these markets and boards function.

Although Investec Asset Management has developed a set of guidelines around governance and ownership, which to a large extent follow an Anglo-Saxon model in terms of governance arrangements, we are continuously learning about how to engage with companies and markets where this set up is less common. From engaging through proxy voting, e-mails, letters or face-to-face meetings we are continuously getting better at focusing on the elements which are causes for shareholder concern and which areas require a different approach. On a positive note, we are noticing more companies proactively engaging with us on governance. In China, most of these companies tend to be dual-listed in Hong Kong but we are still intrigued to see what changes will come about for companies in this market, especially with A-shares increasingly seeking foreign ownership.

On a different subject relating to Asia, we were pleased to hear the news about the agreement between China and the US regarding greenhouse gas emissions. Although it is still early days, many have cheered the pact which has seen a commitment from the US to reduce emissions by 26-28% (compared with the 2005 level) by 2025, while China has committed to increasing the share of non-fossil fuels in its energy portfolio to around 20% by 2030 and make efforts to peak its CO<sub>2</sub> emissions earlier than 2030. There was much vagueness in the language and both parties spoke about the goals as statements of intent, suggesting that formal agreements are still some way off. Some developing countries have also expressed their scepticism and argue that the deal is more about long-term relations between the countries for broader business purposes and that the commitments are unambitious. Despite this weakness, the news was historic in its own right and came very timely as the UN Framework Convention on Climate Change Conference of the Parties (COP) 20 conference in Lima was drawing to a close.

Climate change negotiations will most probably go down in history as one of the most difficult environmental issues to find a unilateral response to: certainly, that we are at COP 20 this year and looking to COP 21 in Paris next year is evidence of this. That said, we see some very interesting, challenging but also positive times ahead with regards to climate change. Investors will start making real strides towards understanding and managing their carbon footprints and companies will be expected to do the same. Together with the sustainable development goals that were mentioned in the last quarterly update, it is clear that next year will be an important year for the climate change debate, especially if we continue to see a weak oil price.

For further details of our ESG efforts, please visit: [www.investecassetmanagement.com/stewardshipreport](http://www.investecassetmanagement.com/stewardshipreport), where you can access the latest quarterly Stewardship report.



# Voting

Quarter ended 31 December 2014

---

## Voting policy

- We believe in the importance of responsible corporate governance and vote the shares held in your portfolio.
- For any queries specifically related to proxy voting, please email us on [proxyvoting@investecmail.com](mailto:proxyvoting@investecmail.com)
- Over the period under review, the following votes were cast on your behalf:

Company	Type	Date	For	Against	Abstained	Withheld	Did not vote*
Cardinal Health, Inc.	Annual	2014-11-05	14	1			
Cisco Systems, Inc.	Annual	2014-11-20	6	9	1		

\* Due to POA markets or share blocking.  
Source: Investec Asset Management.





# Policy and latest developments in Corporate Governance & Responsible Investment

## Policy and Practice

We aim to maximise and protect shareholder value on behalf of our clients by exercising their voting rights. We also engage with companies both directly and collaboratively with other investors to reduce risks of corporate failure and promote best practice. We comply with the principles set out in the UK Stewardship Code and are a signatory to the UN Principles of Responsible Investment (PRI) <http://www.legim.com/uk/en/capabilities/corporate-governance/>

In order to demonstrate key governance issues, voting statistics are divided up into main voting categories. We engage on a range of Environmental, Social, Governance (ESG) and Financial issues and integrate all components where appropriate. All UK votes are disclosed on our website.

We have extended our public voting disclosure to cover the North American and Japanese markets. These can also be found on our webpage.

LGM votes in all major developed markets including: Europe, North America, Japan and Asia Pacific, and continue to minimise abstentions. We also vote in the major emerging markets and have started reporting on our activities in this region.

## Latest News and Development

### Press Coverage

During the year we have been in nearly every major national newspaper on various governance topics. This quarter, we continued to promote key issues such as cyber security, board diversity, board effectiveness reviews, auditor independence and were quoted on remuneration relating to BG Group which faced opposition from various stakeholders.

### Diversity in FTSE 250

We met with several of the remaining FTSE250 companies with all male boards after writing to each of them to request meetings and discuss the issue of diversity. The companies we engaged with included Brit plc, Personal Assets Trust, Synthomer and Telecom Plus. All the companies recognised the challenge of increasing diversity and talent management in their organisations. We will continue to push for more progress in the area of diverse boards.

Institute of Chartered Secretaries Association (ICSA) and NAPF Stewardship Conference  
Our Director was a panel member at the ICSA conference presenting to a large group of company secretaries discussing governance from an investor perspective. We highlighted the importance of the company secretarial role in maintaining good governance standards. A presentation by the LGM CEO was also given to NAPF members on how index funds act as long term and active owners.

### China and Hong Kong visit

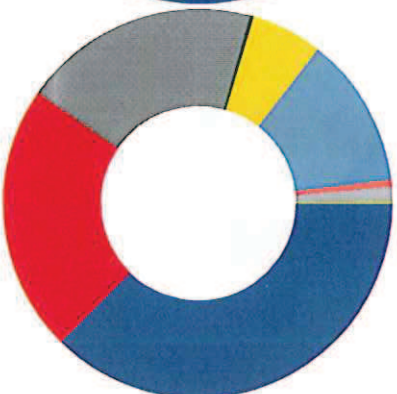
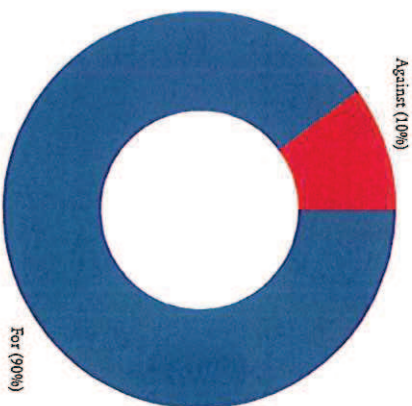
We visited China and Hong Kong to attend a corporate governance (CG) conference and meet several Chinese companies. Issues in China are dominated by large stakes held by the state and its influence on board composition and minority shareholder rights. CG requirements can vary between Hong Kong and the mainland, but with the new Shanghai-Hong Kong connect, there will be greater access to Chinese listed companies for global investors. This will increase the need to push for further governance awareness and disclosure in China. Additionally, we met with industry leaders in the energy and climate change space to understand the latest attitude to energy transition (from coal to gas to renewables) and the impacts of pollution on energy consumption.

### FCA consultation on sponsor conflicts

LGM continued to push for change in the regulatory space regarding the role of sponsors and investment banks in the listing process and the conflicts that may occur. Our views on better disclosure and conflict management were submitted to the FCA.

## Voting Decisions

## Against/Abstain Votes by Topic



- Director related (67.3%)
- Remuneration (22.2%)
- Capital Structure (13.7%)
- General Governance (0.3%)
- Routine & Other business (6.0%)
- Takeover/Merger (12.5%)
- Auditors (0.6%)
- Environmental issues (1.1%)
- Anti - takeover measures (0.3%)
- Social issues (0%)

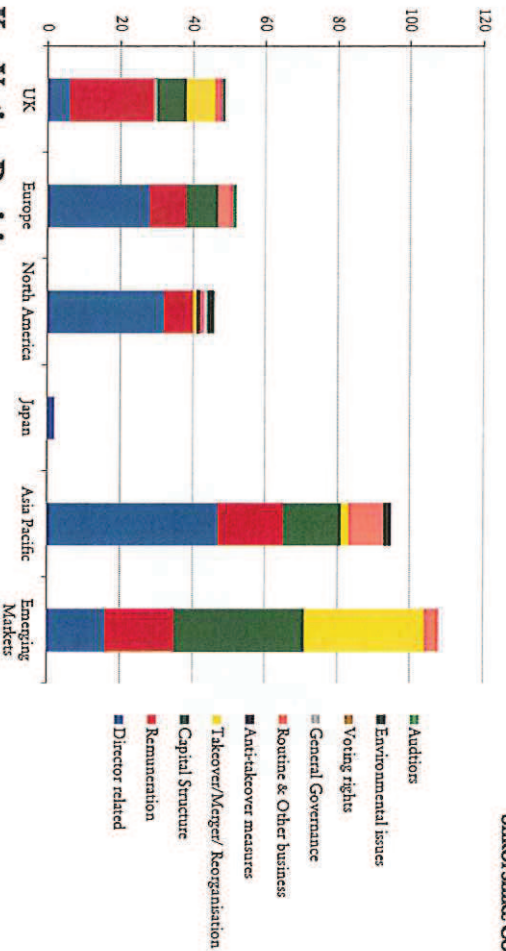
## Regional Breakdown of AGAINST Votes by Topic

SHROPSHIRE COUNTY PENSION FUND (POLICY No 2)

US

Legal & General Investment Management

6



### Key Voting Decisions

United Kingdom

M.Cap: £15bn

Media

UK

LGM voted against the remuneration report due to the complexity of the LTIP, concerns with the performance measures and the lack of transparency surrounding discretion applied. 11.2% of investors voted against and 19% abstained.

Dairy Crest (EGM)

M.Cap: £682.5m

Food Processing

UK

At the EGM in December to approve the disposal of the company's Dairies business and operations, we voted against the resolution to provide an additional one-off award to the CEO which is on top of an existing LTIP award and outside the scope of the Remuneration Policy. At the meeting, 35.7% of shareholders voted against.

Balfour Beatty (EGM)

M.Cap: £1.46bn

Construction

UK

We voted against the sale of Parsons Brinkerhoff subsidiary. We felt the timing for the sale of this cash generative business was not in line with long term shareholders' interests. This is because of the arrival of a new CEO and departure of key directors leaving the company. Shares have underperformed the market significantly during 2014.

Europe

M.Cap: €42.7bn

Utilities

France

LGM voted against four resolutions related to the amendment of company bylaws. In particular, the company proposed to maintain in its bylaws mandatory combination of the duties of Chairman and CEO while the new French legislative framework provides for the possibility to separate the roles. We also voted against the election of all the nominated Directors because the proposed duration is in excess of recommended guidelines and there is a lack of independence at the board level (17%).

Microsoft

M.Cap: \$382.88bn

Technology

US

We engaged with the Chairman ahead of the AGM to discuss the succession process of the new CEO and their new remuneration structure. We highlighted our concerns with the practice of making discretionary payments and the high quantum of award to the new CEO. Furthermore, we explained that remuneration should be examined more closely alongside succession going forward to ensure that large discretionary awards are not made. LGM voted against the remuneration report as did 72% of shareholders. We will continue to engage with the company.

Oracle

M.Cap: \$197.48bn

Technology

US

Our engagement with the company has been on-going and despite the reduction in equity awards for the CEO, the company suffered a third failed say on pay vote. We voted against the plan because we have continual concerns that pay is not sufficiently linked to the performance and the quantum is excessive. We also voted in favour of the proxy access proposal as we feel that the board composition remains an issue due to the CEO's historical role at the company, despite the recent changes of appointing a co-CEO and him stepping down to Executive Chairman. This proposal received 44.6% support from shareholders.

News Corporation

M.Cap: \$8.98bn

Media

US

We continue to be concerned with the board structure at the company and the protection for minority shareholders as there is a dual class share structure. LGM voted against all directors due to a poison pill being put in place without shareholder approval. Given the voting power is already concentrated with Rupert Murdoch and his family, this continues to block outsiders who wish to increase their voting rights and have a greater say in the company's governance structure. At the meeting, Directors received between 63% and 73% support from shareholders. We also voted in favour of the elimination of the company's dual class capital structure which received 47% support from shareholders.

Asia - Pacific

Hopewell Highway Infrastructure Ltd

M.Cap: HKD11.96bn

Construction

Hong Kong

We opposed the election of two directors because we have concerns with the board composition and there is a conflict of interest. Moreover, board independence is below one-third and the company has failed to set up a nominations committee which is not in compliance with the Hong Kong Stock Exchange listing rules.

Ramsay Health Care Ltd

M.Cap: AUD11.69bn

Healthcare Services

Australia

LGM voted against the re-election of two independent directors, as both have been serving on the board of the company for 17 consecutive years and, hence, cannot be considered independent due to their length of tenure. In addition, the board is not comprised of a majority of independent directors. Although we appreciate that the company is actively looking to introduce an appropriate succession planning system, this has not materialised and significant time has passed.

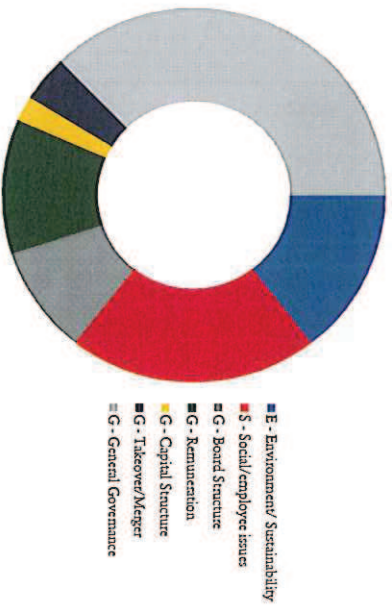
**SHROPSHIRE COUNTY PENSION FUND (POLICY NO 2)**  
**IGIM Voting Summary by Topic and Region**

Legal & General Investment Management

	UK		Europe		North America		Japan		Asia Pacific		Emerging Markets		Total	
	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST		
<b>Between 01/10/2014 and 31/12/2014</b>														
<b>Management Proposals</b>	Director related	439	2	83	27	307	29	20	2	281	41	94	15	1340
	Remuneration	160	23	11	9	52	8			149	18	36	19	485
	Capital structure	252	8	26	9	8				29	16	221	36	605
	Auditors	133	1	7	1	36				29		1		208
	Voting rights													
	General governance													
	Routine and company business	183	2	54	4	3	1	2		49	10	75	4	387
	Anti-takeover related	41				8	1			7				57
	Takeover/merger/reorganisation	26	8	16		10	1	2		24	2	146	33	268
	Social issues													
<b>Shareholder Proposals</b>	SP - Anti-takeover measures													
	SP - Director related		4	2	1	15	3					40	1	72
	SP - Remuneration				1	2								3
	SP - Capital structure													
	SP - Voting rights													
	SP - Corporate Governance					1	1					2		4
	SP - Routine and company business											17		17
	SP - Health/Environment						2				2			4
	SP - Social issues													
	SP - Other			1		3	3							7
<b>Total Votes</b>	1234	48	200	52	445	49	24	2	568	95	632	108		
<b>Total number of resolutions</b>	1282		252		494		26		663		740		3457	
<b>Annual General Meetings (AGM)</b>	79		9		35		3		90		40		256	
<b>Extraordinary General Meetings (EGM)</b>	48		19		14		1		23		137		242	
<b>Number of companies voted at</b>	119		28		49		4		113		148		461	

\*The above table details the voting that has been carried out for the PMC UK, Europe, North America, Japan, Asia Pacific and Emerging Markets – Equity Index Funds  
 \*\*Please note that abstentions were included within the 'Against' categories in the table above. This was six in North America

## Engagement Topics & Frequencies



Meetings covering one or more of ESG and F topics*	Number of meetings
E	216
S	40
G	58
F	75
Environment/ Sustainability	40
Social/employee issues	58
Board Structure	26
Remuneration	32
Capital Structure	6
Takeover/Merger	11
General Governance**	103

\*Please note meetings may be double counted as we often discuss more than one issue in a meeting  
 \*\*General Governance category covers topics including company performance and strategy, audit and risk, and voting rights

## Key Company Engagements on E(Environmental), S(Social), G(Governance) and F(Financial) Topics

**Tesco** M.Cap: £15.3bn Retail UK GF

**Subject:** Financial performance, Audit and Risk Management  
 During the quarter, Tesco uncovered accounting irregularities that led to profits being overstated by over £260m. This was shortly followed by another profit warning. We met the SID to discuss the accounting issues and the dismissal of key employees. Furthermore, we met the new CEO to hear his strategy for turning around the business. Subsequently, the Chairman has offered to resign once a replacement has been found. LGM has made its views known to the Board and will be consulted on the succession of the Chairman.

**BG Group** M.Cap: £29.5bn Oil and Gas UK G

**Subject:** Succession and Remuneration  
 Over the past few years, the Company has had numerous profit warning and management changes. This included the last CEO announcing in April that he was leaving after 16 months in the job. In May, we engaged with the company extensively on its new 2014 pay policy. However later in November, the company announced its intention to hold an EGM to approve a package outside its policy even though it was renewed six months ago. We spoke to the company extensively on pay and there was collaboration between investors. Subsequently the Company announced that it was withdrawing the EGM with the new CEO still joining on the same date and will ensure that the recruitment package is in line with their newly approved policy. We will continue to engage with the company on governance, succession and performance issues.

**Apple** M.Cap: \$647.4bn Technology US ESG

**Subject:** Sustainability and Remuneration  
 LGM visited the company's offices in California to discuss various ESG issues. The company has worked hard around its sustainability framework, particularly in terms of management of its supply chain. In addition, the Company has made a transition towards a structure that is more socially responsible. LGM will encourage the company to continue this improvement and to communicate this story more widely. We also had an open discussion on remuneration and will follow up with the company's Chair of the Compensation Committee to discuss these issues in more detail.

**Cisco Systems** M.Cap: \$142.3bn Technology US G

**Subject:** Board composition  
 We spoke to the company to discuss board structure, remuneration and governance issues. The company received a proxy access proposal at its AGM and we encouraged the company to think more about board turnover as there are several long-serving directors, including the Chairman & CEO. Although we feel the company should refresh its board, we did not support this proposal as it would have enabled shareholders to replace 40% of the board which we felt would be too disruptive to the business. The proposal gained 5% support from shareholders.

**KAZ Minerals** M.Cap: £1.1bn Mining UK ES

**Subject:** Sustainability  
 LGM engaged with KAZ Minerals, focusing primarily on health and safety issues, considering the high rate of fatalities experienced by the company in the past. The company, as a result of its restructuring plan, is modernising its equipment, as well as providing extensive training to its employees and linking health and safety to management compensation. Despite considerable reductions in fatality rates – from 32 in 2010 to 14 in 2014 – the goal of zero fatalities remains far away and the company is still considered a laggard among its peers. Hence, we will continue to monitor their performance and intend to meet the Company in 2015 to assess its progress and discuss other important areas related to the sector, such as water management.

**Vote Summary Report**

Date range covered: 10/01/2014 to 12/31/2014

Location(s): All Locations

Institution Account(s): 5984 -Shropshire County Pension Fund

**Oracle Corporation**

<b>Meeting Date:</b> 11/05/2014	<b>Country:</b> USA	<b>Primary Security ID:</b> 68389X105
<b>Record Date:</b> 09/08/2014	<b>Meeting Type:</b> Annual	<b>Ticker:</b> ORCL
<b>Primary CUSIP:</b> 68389X105	<b>Primary ISIN:</b> US68389X1054	<b>Primary SEDOL:</b> 2661568
<b>Shares Voted:</b> 69,100		

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1.1	Elect Director Jeffrey S. Berg	Mgmt	For	For	For	For
1.2	Elect Director H. Raymond Bingham	Mgmt	For	Withhold	For	For
1.3	Elect Director Michael J. Boskin	Mgmt	For	Withhold	For	For
1.4	Elect Director Safra A. Catz	Mgmt	For	For	For	For
1.5	Elect Director Bruce R. Chizen	Mgmt	For	Withhold	For	For
1.6	Elect Director George H. Conrades	Mgmt	For	For	For	For
1.7	Elect Director Lawrence J. Ellison	Mgmt	For	For	For	For
1.8	Elect Director Hector Garcia-Molina	Mgmt	For	For	For	For
1.9	Elect Director Jeffrey O. Henley	Mgmt	For	For	For	For
1.10	Elect Director Mark V. Hurd	Mgmt	For	For	For	For
1.11	Elect Director Naomi O. Seligman	Mgmt	For	For	For	For
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	Against	Refer	For
3	Ratify Auditors	Mgmt	For	For	For	For
4	Provide Vote Counting to Exclude Abstentions	SH	Against	Against	Refer	Against
5	Adopt Multiple Performance Metrics Under Executive Incentive Plans	SH	Against	For	Refer	Against
6	Adopt Specific Performance Standards	SH	Against	For	Refer	Against
7	Adopt Proxy Access Right	SH	Against	For	Refer	For



## Vote Summary Report

Date range covered: 10/01/2014 to 12/31/2014  
 Location(s): Massachusetts Financial Services  
 Institution Account(s): MFS Investment Fund - Global Equity Fund

### Ambev S.A.

**Meeting Date:** 10/01/2014      **Country:** Brazil      **Primary Security ID:** P0273U106      **Meeting ID:** 916769  
**Record Date:**      **Meeting Type:** Special      **Ticker:** ABEV3

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1	Approve Agreement to Absorb Londrina Bebidas Ltda. (Londrina Bebidas)	Mgmt	For	Refer	For
2	Appoint Independent Firm to Appraise Proposed Transaction	Mgmt	For	Refer	For
3	Approve Independent Firm's Appraisal	Mgmt	For	Refer	For
4	Approve Absorption of Londrina Bebidas	Mgmt	For	Refer	For
5	Amend Articles to Reflect Changes in Capital	Mgmt	For	Refer	For
6	Authorize Board to Ratify and Execute Approved Resolutions	Mgmt	For	Refer	For
7	Consolidate Bylaws	Mgmt	For	Refer	For

### British Sky Broadcasting Group plc

**Meeting Date:** 10/06/2014      **Country:** United Kingdom      **Primary Security ID:** G15632105      **Meeting ID:** 919200  
**Record Date:** 10/02/2014      **Meeting Type:** Special      **Ticker:** BSY

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1	Approve Matters Relating to the Acquisition of Sky Italia S.r.l. and Sky Deutschland AG	Mgmt	For	Refer	For

### Akzo Nobel NV

**Meeting Date:** 10/08/2014      **Country:** Netherlands      **Primary Security ID:** N01803100      **Meeting ID:** 915752  
**Record Date:** 09/10/2014      **Meeting Type:** Special      **Ticker:** AKZA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
	Special Meeting	Mgmt			
1	Elect M. Castella to Management Board	Mgmt	For	For	For

## Vote Summary Report

Date range covered: 10/01/2014 to 12/31/2014

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

## Time Warner Cable Inc.

Meeting Date: 10/09/2014

Country: USA

Primary Security ID: 88732J207

Meeting ID: 917773

Record Date: 08/18/2014

Meeting Type: Special

Ticker: TWC

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1	Approve Merger Agreement	Mgmt	For	Refer	For
2	Advisory Vote on Golden Parachutes	Mgmt	For	Refer	For

## The Procter & Gamble Company

Meeting Date: 10/14/2014

Country: USA

Primary Security ID: 742718109

Meeting ID: 916365

Record Date: 08/15/2014

Meeting Type: Annual

Ticker: PG

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1a	Elect Director Angela F. Braly	Mgmt	For	For	For
1b	Elect Director Kenneth I. Chenault	Mgmt	For	For	For
1c	Elect Director Scott D. Cook	Mgmt	For	For	For
1d	Elect Director Susan Desmond-Hellmann	Mgmt	For	For	For
1e	Elect Director A.G. Lafley	Mgmt	For	For	For
1f	Elect Director Terry J. Lundgren	Mgmt	For	For	For
1g	Elect Director W. James McNeerney, Jr.	Mgmt	For	For	For
1h	Elect Director Margaret C. Whitman	Mgmt	For	For	For
1i	Elect Director Mary Agnes Wilderotter	Mgmt	For	For	For
1j	Elect Director Patricia A. Woertz	Mgmt	For	For	For
1k	Elect Director Ernesto Zedillo	Mgmt	For	For	For
2	Ratify Auditors	Mgmt	For	For	For
3	Approve Omnibus Stock Plan	Mgmt	For	Against	Against
4	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For
5	Assess Environmental Impact of Non-Recyclable Packaging	SH	Against	Refer	For
6	Report on Consistency Between Corporate Values and Political Contributions	SH	Against	Against	Against



## Vote Summary Report

Date range covered: 10/01/2014 to 12/31/2014

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

## Grupo Financiero Banorte S.A.B. de C.V.

Meeting Date: 10/22/2014

Country: Mexico

Primary Security ID: P49501201

Meeting ID: 922163

Record Date: 10/10/2014

Meeting Type: Special

Ticker: GFNORTEO

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
	Ordinary Business	Mgmt			
1.1	Elect Carlos Hank Gonzalez as Director to Replace Graciela Gonzalez Moreno	Mgmt	For	For	For
1.2	Elect Graciela Gonzalez Moreno as Alternate Director to Replace Alejandro Hank Gonzalez	Mgmt	For	For	For
1.3	Approve Directors Liability and Indemnification	Mgmt	For	For	For
2	Approve Cash Dividends of MXN 0.2435 Per Share	Mgmt	For	For	For
3	Approve Creation of an Incentive Plan for the Employees of the Company and its Subsidiaries	Mgmt	For	For	For
4	Receive External Auditor's Report on Fiscal Obligations	Mgmt	For	For	For
5	Authorize Board to Ratify and Execute Approved Resolutions	Mgmt	For	For	For

## Oracle Corporation

Meeting Date: 11/05/2014

Country: USA

Primary Security ID: 68389X105

Meeting ID: 920721

Record Date: 09/08/2014

Meeting Type: Annual

Ticker: ORCL

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1.1	Elect Director Jeffrey S. Berg	Mgmt	For	Refer	Withhold
1.2	Elect Director H. Raymond Bingham	Mgmt	For	Refer	Withhold
1.3	Elect Director Michael J. Boskin	Mgmt	For	Refer	Withhold
1.4	Elect Director Safra A. Catz	Mgmt	For	Refer	Withhold
1.5	Elect Director Bruce R. Chizen	Mgmt	For	Refer	Withhold
1.6	Elect Director George H. Conrades	Mgmt	For	Refer	Withhold
1.7	Elect Director Lawrence J. Ellison	Mgmt	For	Refer	Withhold
1.8	Elect Director Hector Garcia-Molina	Mgmt	For	Refer	Withhold

## Vote Summary Report

Date range covered: 10/01/2014 to 12/31/2014

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

### Oracle Corporation

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1.9	Elect Director Jeffrey O. Henley	Mgmt	For	Refer	Withhold
1.10	Elect Director Mark V. Hurd	Mgmt	For	Refer	Withhold
1.11	Elect Director Naomi O. Seligman	Mgmt	For	Refer	Withhold
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	Refer	Against
3	Ratify Auditors	Mgmt	For	For	For
4	Provide Vote Counting to Exclude Abstentions	SH	Against	Refer	Against
5	Adopt Multiple Performance Metrics Under Executive Incentive Plans	SH	Against	Refer	For
6	Adopt Specific Performance Standards	SH	Against	Refer	For
7	Adopt Proxy Access Right	SH	Against	Refer	For

### Pernod Ricard

Meeting Date: 11/06/2014

Country: France

Primary Security ID: F72027109

Meeting ID: 921442

Record Date: 10/31/2014

Meeting Type: Annual/Special

Ticker: RI

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
	Ordinary Business	Mgmt			
1	Approve Financial Statements and Statutory Reports	Mgmt	For	For	For
2	Approve Consolidated Financial Statements and Statutory Reports	Mgmt	For	For	For
3	Approve Allocation of Income and Dividends of EUR 1.64 per Share	Mgmt	For	For	For
4	Approve Auditors' Special Report on Related-Party Transactions	Mgmt	For	For	For
5	Reelect Martina Gonzalez-Gallarza as Director	Mgmt	For	For	For
6	Reelect Ian Gallienne as Director	Mgmt	For	For	For
7	Elect Gilles Samyn as Director	Mgmt	For	For	For
8	Approve Remuneration of Directors in the Aggregate Amount of EUR 910,000	Mgmt	For	For	For
9	Advisory Vote on Compensation of Daniele Ricard, Chairman of the Board	Mgmt	For	For	For

## Vote Summary Report

Date range covered: 10/01/2014 to 12/31/2014

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

## Pernod Ricard

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
10	Advisory Vote on Compensation of Pierre Pringuet, Vice Chairman and CEO	Mgmt	For	For	For
11	Advisory Vote on Compensation of Alexandre Ricard, Vice CEO	Mgmt	For	For	For
12	Authorize Repurchase of Up to 10 Percent of Issued Share Capital Extraordinary Business	Mgmt Mgmt	For	Refer	Against
13	Authorize up to 1.5 Percent of Issued Capital for Use in Restricted Stock Plans	Mgmt	For	For	For
14	Authorize up to 1.5 Percent of Issued Capital for Use in Stock Option Plans	Mgmt	For	Refer	Against
15	Authorize Capital Issuances for Use in Employee Stock Purchase Plans	Mgmt	For	For	For
16	Authorize Filing of Required Documents/Other Formalities	Mgmt	For	For	For

## Cisco Systems, Inc.

Meeting Date: 11/20/2014

Country: USA

Primary Security ID: 17275R102

Meeting ID: 922025

Record Date: 09/22/2014

Meeting Type: Annual

Ticker: CSCO

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1a	Elect Director Carol A. Bartz	Mgmt	For	For	For
1b	Elect Director M. Michele Burns	Mgmt	For	For	For
1c	Elect Director Michael D. Capellas	Mgmt	For	Against	Against
1d	Elect Director John T. Chambers	Mgmt	For	For	For
1e	Elect Director Brian L. Halla	Mgmt	For	For	For
1f	Elect Director John L. Hennessy	Mgmt	For	For	For
1g	Elect Director Kristina M. Johnson	Mgmt	For	For	For
1h	Elect Director Roderick C. McGeary	Mgmt	For	For	For
1i	Elect Director Arun Sarin	Mgmt	For	For	For
1j	Elect Director Steven M. West	Mgmt	For	For	For
2	Amend Qualified Employee Stock Purchase Plan	Mgmt	For	For	For

## Vote Summary Report

Date range covered: 10/01/2014 to 12/31/2014

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

### Cisco Systems, Inc.

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For
4	Ratify Auditors	Mgmt	For	For	For
5	Establish Public Policy Board Committee	SH	Against	Against	Against
6	Adopt Proxy Access Right	SH	Against	Refer	Against
7	Report on Political Contributions	SH	Against	For	For

### British Sky Broadcasting Group plc

Meeting Date: 11/21/2014

Country: United Kingdom

Primary Security ID: G15632105

Meeting ID: 926131

Record Date: 11/19/2014

Meeting Type: Annual

Ticker: SKY

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For	For
2	Approve Final Dividend	Mgmt	For	For	For
3	Approve Remuneration Policy	Mgmt	For	Refer	For
4	Approve Remuneration Report	Mgmt	For	Refer	Against
5	Re-elect Nick Ferguson as Director	Mgmt	For	For	For
6	Re-elect Jeremy Darroch as Director	Mgmt	For	For	For
7	Re-elect Andrew Griffith as Director	Mgmt	For	For	For
8	Re-elect Tracy Clarke as Director	Mgmt	For	For	For
9	Re-elect Martin Gilbert as Director	Mgmt	For	For	For
10	Re-elect Adine Grate as Director	Mgmt	For	For	For
11	Re-elect Dave Lewis as Director	Mgmt	For	For	For
12	Re-elect Matthieu Pigasse as Director	Mgmt	For	For	For
13	Re-elect Danny Rimer as Director	Mgmt	For	For	For
14	Re-elect Andy Sukawaty as Director	Mgmt	For	For	For
15	Re-elect Chase Carey as Director	Mgmt	For	For	For
16	Re-elect David DeVoe as Director	Mgmt	For	For	For
17	Re-elect James Murdoch as Director	Mgmt	For	For	For

## Vote Summary Report

Date range covered: 10/01/2014 to 12/31/2014

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

### British Sky Broadcasting Group plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
18	Re-elect Arthur Siskind as Director	Mgmt	For	For	For
19	Reappoint Deloitte LLP as Auditors and Authorise Their Remuneration	Mgmt	For	For	For
20	Authorise EU Political Donations and Expenditure	Mgmt	For	For	For
21	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For	For
22	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For	For
23	Approve Change of Company Name to Sky plc	Mgmt	For	For	For
24	Authorise the Company to Call EGM with Two Weeks' Notice	Mgmt	For	For	For

### LVMH Moet Hennessy Louis Vuitton

Meeting Date: 11/25/2014

Country: France

Primary Security ID: F58485115

Meeting ID: 924934

Record Date: 11/19/2014

Meeting Type: Special

Ticker: MC

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
	Extraordinary Business	Mgmt			
1	Amend Article 28 of Bylaws Re: Allocation of Income and Dividends	Mgmt	For	For	For
	Ordinary Business	Mgmt			
2	Approve Transfer from Carry Forward Account to Other Reserves Account	Mgmt	For	For	For
3	Approve Distribution in Kind of 2 Hermes International Shares per 41 LVMH Shares	Mgmt	For	For	For

### Reckitt Benckiser Group plc

Meeting Date: 12/11/2014

Country: United Kingdom

Primary Security ID: G74079107

Meeting ID: 929882

Record Date: 12/09/2014

Meeting Type: Special

Ticker: RB.

## Vote Summary Report

Date range covered: 10/01/2014 to 12/31/2014

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

## Reckitt Benckiser Group plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1	Approve Demerger of the Pharmaceuticals Business by Way of Dividend in Specie	Mgmt	For	Refer	For

## AutoZone, Inc.

Meeting Date: 12/18/2014

Country: USA

Primary Security ID: 053332102

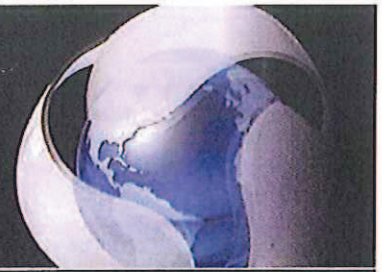
Meeting ID: 926571

Record Date: 10/20/2014

Meeting Type: Annual

Ticker: AZO

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Voting Policy Rec	Vote Instruction
1.1	Elect Director Douglas H. Brooks	Mgmt	For	For	For
1.2	Elect Director Linda A. Goodspeed	Mgmt	For	For	For
1.3	Elect Director Sue E. Gove	Mgmt	For	For	For
1.4	Elect Director Earl G. Graves, Jr.	Mgmt	For	For	For
1.5	Elect Director Enderson Guimaraes	Mgmt	For	For	For
1.6	Elect Director J. R. Hyde, III	Mgmt	For	For	For
1.7	Elect Director D. Bryan Jordan	Mgmt	For	For	For
1.8	Elect Director W. Andrew McKenna	Mgmt	For	For	For
1.9	Elect Director George R. Mrkonic, Jr.	Mgmt	For	For	For
1.10	Elect Director Luis P. Nieto	Mgmt	For	For	For
1.11	Elect Director William C. Rhodes, III	Mgmt	For	For	For
2	Approve Executive Incentive Bonus Plan	Mgmt	For	For	For
3	Ratify Auditors	Mgmt	For	For	For
4	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For
5	Report on Political Contributions	SH	Against	For	For



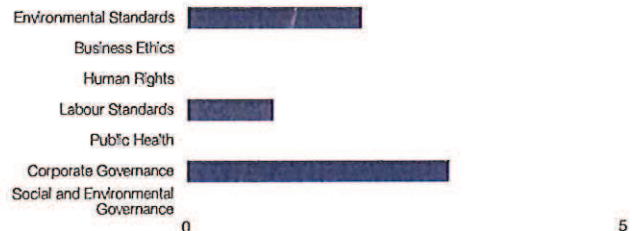
Shropshire County Council

The purpose of the **reo**<sup>®</sup> (responsible engagement overlay)\* service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The **reo**<sup>®</sup> approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities. Through a combination of constructive dialogue and active share voting, **reo**<sup>®</sup> works to drive behavioural change with companies, and records successful outcomes as 'milestones' – changes in corporate policies or behaviour following intervention.

COMPANIES ENGAGED THIS QUARTER

Companies engaged	33
Milestones achieved	6
Countries covered	2

Milestones achieved by issue



Companies engaged by country



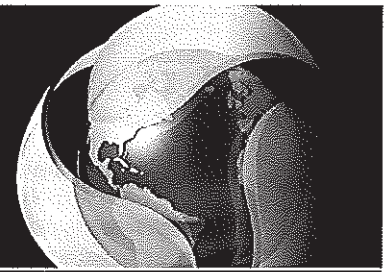
Companies engaged by issue \*\*



# Company Engagement and Your Fund

Name	Country	Priority Company	Engagement	Millions	In this report	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Afen Plc	United Kingdom		✓		✓	☉						
Anglo American	United Kingdom	✓		✓	✓			☿				
Antofagasta	United Kingdom		✓		✓	☉						☿
Barclays	United Kingdom	✓	✓		✓		♋				♎	
BG Group	United Kingdom		✓	✓	✓	☉					♎	
Booker Group PLC	United Kingdom		✓		✓						♎	
BP	United Kingdom	✓	✓		✓	☉		☿				
Burberry Group plc	United Kingdom		✓		✓						♎	
Cairn Energy	United Kingdom		✓		✓	☉						
Cairn India Limited	United Kingdom		✓		✓	☉						
Cargill Inc	United Kingdom		✓		✓	☉						
Centrica Plc	United Kingdom		✓		✓	☉					♎	
Development Securities	United Kingdom		✓		✓						♎	
Drax Group	United Kingdom		✓		✓	☉					♎	
Galiford Try Plc	United Kingdom		✓		✓						♎	
GlaxoSmithKline	United Kingdom	✓	✓		✓		♋				♎	☿
Hill & Smith Holdings Plc	United Kingdom		✓		✓						♎	
HSBC	United Kingdom	✓	✓		✓		♋				♎	
Hunting plc	United Kingdom		✓		✓		♋				♎	
IG Group Holdings	United Kingdom			✓	✓						♎	
Informa PLC	United Kingdom		✓		✓						♎	
James Halstead	United Kingdom		✓		✓						♎	
Jupiter US Smaller Companies PLC	United Kingdom		✓		✓						♎	
Laird Plc	United Kingdom		✓	✓	✓						♎	
Lloyds Banking Group	United Kingdom		✓		✓		♋				♎	
Man Group	United Kingdom		✓		✓						♎	
Micro Focus International PLC	United Kingdom		✓		✓						♎	
Premier Oil Plc	United Kingdom		✓		✓	☉						
Regeneris Plc	United Kingdom		✓		✓						♎	
Royal Bank of Scotland Group	United Kingdom	✓	✓		✓		♋				♎	
Royal Dutch Shell	United Kingdom	✓	✓		✓	☉						☿
Standard Chartered Plc	United Kingdom		✓		✓		♋				♎	
SThree Plc	United Kingdom		✓		✓						♎	
Synairgen Plc	United Kingdom		✓		✓						♎	
Tullow Oil	United Kingdom	✓	✓	✓	✓	☉		☿				☿





Kajetan Czyz, Analyst, Governance and Sustainable Investment

## GLOBAL WARMING MITIGATION GAINING MOMENTUM

- Negotiations accelerate as 120 heads of state meet in New York City
- Multiple initiatives show institutional investor support for decisive action
- F&C engages companies on strategies for transition to low-carbon economy

### KEEPING THE SHOW ON TRACK

Approximately 120 heads of state attended the UN Secretary General meeting on climate change in New York in September, making it the largest such event in history. This topped the (in)famous Copenhagen summit of 2009. Ban Ki-moon convened the gathering in order to mobilise political will ahead of next year's key climate summit in Paris, where a legally binding international deal is expected to be signed. The event also attracted high numbers of investor commitments.

Ban Ki-moon's initiative was slightly unorthodox as it was not in the standard negotiating schedule of the UN Framework Convention on Climate Change (UNFCCC). The next important stage in negotiations will be submissions by countries of their reduction pledges in the first quarter of next year. These will be reviewed and negotiations in Paris in December 2015 will aim to strengthen the commitments to make them consistent with the already agreed target of keeping temperatures from increasing more than 2°C above pre-industrial levels. At that point, if negotiations succeed, a legally binding climate treaty is expected to be signed. There is a risk that the Paris summit could be 'another Copenhagen' – a repetition of the failure to agree targets at the Danish 2009 conference, hence the Secretary General's initiative to gather top level support ahead of the Paris talks.

The European Union has already indicated a strong commitment of reducing emissions by 40% by 2030 compared to 1990. China, which is both the world's largest emitter of greenhouse gases and investor in renewable energy, has also pledged to take action by reducing its emissions by 45% per unit of GDP by 2020 compared to 2005 levels. It will reduce coal consumption in its energy mix and aim to peak its emissions 'as soon as possible'. The US Environmental Protection Agency has now, with the Supreme Court's approval, begun regulating carbon emissions from new and existing power plants as well as targeting increased efficiency standards for transport. Should all these pledges actually be delivered and adhered to that would be a significant inroad in slowing global warming. There are fears it may not be sufficient to keep temperatures within the 2°C target.

Another aspect to add is that technological advancements in renewables – such as the 75% reduction in the costs of solar panels

over the past three years - is rapidly and materially shifting the economics of transitioning to a low-carbon economy. Developments in this area will be an important factor in how successfully major economies can reduce emissions.

#### THEY SAID

"The alarm bells keep ringing. Our citizens keep marching. We cannot pretend we do not hear them. We have to answer the call."

Barack Obama, US President, UN Climate Summit, 22 Sep 2014

### INVESTORS PRESS FOR CLIMATE ACTION

The financial sector had been very active during the New York Summit, launching a large number of initiatives aimed at demonstrating investor support for heads of state to act on climate change. These included:

- The launch of the New Climate Economy Report (also known as "Stern 2") which shows how countries at all levels of income can achieve economic growth while combating climate change;
- The submission of a statement from institutional investors on climate risk. F&C contributed to the drafting of the Global Investor Statement, signed by 350 investors representing over \$24 trillion worth of assets, which was submitted to the heads of state meeting in New York. It requests rapid and decisive action on creating the

right policy environment for investing in low-carbon infrastructure. Supplementing the statement was a report showcasing leading investor practices from around the world in areas including low-carbon investing, decarbonisation of portfolios and corporate and policy engagement;

- A call led by the World Bank to put a material price on carbon. This statement was co signed by 73 countries and over 1000 companies (representing 54% of global emissions and 52% of global GDP), calling for the introduction of strong carbon pricing regimes globally;
- The Montreal Carbon Pledge, where investors committed to calculating and disclosing the carbon emissions of their portfolios on an annual basis;
- The Portfolio Decarbonisation Coalition (PDC), focused on emission reductions. The project led by the UNEP Finance Initiative has ambitions to convene a critical mass of investors committed to measuring and disclosing the carbon footprint of its portfolios. The aim is for a minimum of \$500 billion by December 2015, \$100 billion of which is to be 'decarbonized' (i.e. shifted towards low carbon investments). A number of commitments have already been made, which will add up to \$31 billion by 2020; and
- The launch of the Low Carbon Investment Registry - a public online database demonstrating examples of low carbon investments made by institutional investors.

#### THEY SAID:

"Climate change is more and more recognized as a financial risk and it is our duty, as trustees, to take concrete steps to reduce this risk."

Mats Andersson, CEO of AP4, Portfolio Decarbonisation Coalition launch, 23 Sep 2014

#### F&C ACTS

F&C took an active part in many of these initiatives including: contributing to the report on investor initiatives and the World Bank's carbon price statement; providing feedback to the New Climate Economy report; and drafting the Global Investor Statement.

F&C welcomes the increase in broader investor engagement on this issue. Long-term investors are at considerable risk from last minute policy reactions trying to either cut emissions or to adapt to their

consequences. F&C has been actively engaging policy makers and carbon intensive companies, both directly and through industry initiatives, supporting a holistic and smooth transition strategy towards a low-carbon economic model.

The climate debate has prompted a discussion on the levels of capital currently being deployed in maintaining and expanding fossil fuel supplies. It has been argued that under various low carbon scenarios the potential demand for fossil fuel fuels (oil and coal in particular) will decline sooner than expected. This puts companies' long-term projects at risk of not realising their projected value – i.e. fossil fuel assets may become "stranded".

Over the past 14 months, F&C has engaged 47 companies in 18 countries on this issue of "stranded assets" within the oil & gas, mining and utility sectors. We request companies to disclose the range of possible future scenarios companies use for their strategy planning, and to stress-test the capital expenditure plans against various potential scenarios. These include higher carbon prices, more stringent environmental regulation, and changing demand patterns linked to increased penetration rates of alternative technologies. From our discussions we have learned that companies in the various segments of the energy industry face a very different set of challenges, and that most still fall short of developing systematic ways to address these risks.

Oil & gas companies are facing increased pressure on maintaining their levels of returns and protecting dividends due to significant increased cost and downward price pressure. A weak economic recovery and significant fuel-efficiency gains in transport are reducing demand, and a boom in North American unconventional oil production is increasing supply.

Utility companies, particularly in Europe, have already been experiencing asset stranding of power stations due to both overcapacity (leading to falling wholesale electricity prices), decreasing demand due to a slow economic rebound, and the increasing share of renewables.

Coal mining companies have been hit hardest. The shale gas revolution in the US has wiped off 80% of the sector-wide valuation, and weaker than expected demand from China has resulted in a number of new mining projects being cancelled.

We are seeing increasing evidence that the observed changes in the energy market are structural, rather than cyclical. We will continue to engage companies on their approach to assessing the risk of "stranded assets" as well as support policymakers and industry initiatives in galvanising momentum towards a global climate deal in Paris in 2015.

More detail on our engagement on "stranded assets" and analysis of companies' responses will be provided to **reo**® clients in a future confidential Viewpoint.

If you would like further details on the information in this note, please contact your **reo**® client director.

BMO  A part of BMO Financial Group

This document is for professional advisors only and should not be circulated to other investors. Past performance should not be seen as an indication of future performance. Stock market and currency movements mean the value of, and income from, investments in the Fund are not guaranteed. They can go down as well as up and you may not get back the amount you invest. F&C Management Limited is authorised and regulated by the Financial Conduct Authority FRN: 119230 and is a member of the F&C Group of which the ultimate parent company is the Bank of Montreal. CM03941 10/14





<u>Committee and date</u> Pensions Committee	<u>Item</u>
20 March 2015	<b>15</b>
10.30am	<u>Public</u>

## PENSIONS ADMINISTRATION MONITORING REPORT

**Responsible Officer** Debbie Sharp

Email: [Debbie.sharp@shropshire.gov.uk](mailto:Debbie.sharp@shropshire.gov.uk)

Tel: 01743 252192

Fax: 01743 255901

### 1. Summary

- 1.1 The report provides Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

### 2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report and;
- 2.2 Agree that a GMP Reconciliation exercise is carried out in line with the recommendations in this report

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

#### 3.1 Risk Management

Performance is considered and monitored to ensure regulatory timescales and key performance indicators are adhered to. Administration risks are identified and managed and are reported to committee on an annual basis.

#### 3.2 Human Rights Act Appraisal

The recommendations contained in this report are compatible with the Human Rights Act 1998.

#### 3.3 Environmental Appraisal

There is no direct environmental, equalities or climate change consequence of this report.

#### 3.4 Financial Implications

Managing team performance and working with other Administering Authorities ensures costs to scheme employers for Scheme Administration are reduced. However, it must be noted that the introduction of the 2014 LGPS and the increased governance being

introduced by the Public Services Pension Act 2013 will increase the resources required by the administration team. Reconciling the Funds Guaranteed Minimum Pension Liabilities with HMRC will have a direct cost for the Fund but if this is not undertaken the Fund risks taking on financial liabilities it didn't need to and having its data called into question by the Fund Actuary.

#### 4. Performance and Team Update

- 4.1 The team's output and performance levels to the end of January 2015 are attached at **Appendix A**.
- 4.2 Over the last quarter the number of procedures outstanding has increased slightly. The help desk has been running with one member of staff down due to an unforeseen resignation before Christmas. To limit the effect of this on our help desk service phone cover has been shared amongst the team. In spite of this backlogs are still reducing in line with the plan in place to clear these by the end of this financial year.
- 4.3 A team training day took place on 16<sup>th</sup> March in the Shirehall Council Chamber. The day covered outstanding areas of the new 2014 Scheme Regulations where guidance has only recently been released from the LGA. This focused on the Aggregation of service and the employer role when undertaking an Ill Health Retirement. A Team Development session was also provided by Corporate Training which looked at understanding self and others and motivation.
- 4.4 As previously reported a middleware service called I-Connect (supplied by I-connect Ltd) is being piloted for 2 years. In readiness for using this service a full data match between Shropshire Council payroll and the Pension Administration software is underway. The same procedure will be done with Telford and Wrekin. Testing has started which should give a good understanding of how the service will work in practice. A project plan is in place.

#### 5. Help Desk Statistics

- 5.1 The following chart shows the number of queries received through the helpline number and the number of emails received to the generic Pensions email inbox.

	November 2014	December 2014	January 2015
Telephone calls received	624	585	867
Queries dealt with by helpdesk at first point of contact	93.43%	85.3%	89.04%

%*			
Emails received and responded by help desk (within 3 working days)	294	213	412
Hits to the website	1942	1603	1737

\* Where queries have not been dealt with by helpdesk, this will usually mean that the calls have been picked up by the rest of the team outside of the helpdesk.

5.2 It's interesting to note the increase in both telephone calls and emails in the month of January 2015.

## 6. GMP Reconciliation

- 6.1 Following the end of contracting out in April 2016, HMRC will be sending a statement to all individuals affected stating the amount of Guaranteed Minimum Pension (GMP) they will receive and who is responsible for paying for it. Ahead of this, HMRC is advising that schemes should reconcile the GMP values they hold for members with those calculated by HMRC or face making overpayments to existing members and even individuals for whom they believe they have no liability.
- 6.2 Pension funds can begin reconciling deferred and pensioner membership now. HMRC anticipates making Active member records available for reconciliation towards the end of 2016.
- 6.3 Until 2018 Schemes will be able to challenge the figures where they believe discrepancies are the result of errors on HMRC's part, but past this point no further challenges will be accepted. With exercises frequently taking up to three years to complete, this gives schemes a limited window to make sure their own records tally with HMRC's.
- 6.4 This reconciliation process has been recognised to be resource intensive. Funds must initially match their records with those on the HMRC file before investigating the records that do not reconcile.
- 6.5 Errors in GMP values can lead to potentially significant pension overpayments. The National Audit Office (NAO) conducted a review<sup>1</sup> of GMP figures for five of the main public sector schemes (Teachers, NHS, Civil Service, Armed Forces and Judiciary) in 2009. The Local Government Pension Scheme (LGPS) was not included in this exercise. The NAO found significant overpayments were being made due to inaccuracies in the data held by the schemes. The average

overpayment at that time was £1,100 per member with around 5% of the members being affected.

- 6.6 The reconciliation of GMP values is not a mandatory regulatory requirement; however The Fund faces significant risks if it is decided not to reconcile values. These include:
- Incorrect calculation of GMPs by HMRC increasing the fund's liability
  - Liability for GMPs that are not the Fund's responsibility
  - Breach of The Pensions Regulator's (TPR) code of practice regarding Record Keeping
- As a result it is recommended that a GMP Reconciliation exercise is carried out and commences with the project immediately.
- 6.7 The level of effort to address GMP reconciliation will depend on the quality of our data, the level of tolerance we decide to use when reconciling the GMP amounts and the approach we take to performing the reconciliation.
- Reconciling members within the LGPS is complicated by the fact that a proportion of the membership has multiple employments. This means a number of GMP values may require validation for an individual. The activities involved in the project include:
- registering with HMRC for the GMP reconciliation service – completed.
  - agreeing and documenting an approach with the pension fund committee;
    - tolerance level for reconciling – **It is recommended the Fund adopts the Pension Regulators £2 per week tolerance.**
    - That Fund policy is followed regarding recovery of any current overpayments (reclaim, write off) and underpayments
    - legal advice is sought, if necessary, on any over or under payments
  - performing the reconciliation – Delegate authority to officers to select appropriate provider.
  - correcting incorrect values on the pension and payroll systems
  - communicating with HMRC
  - communicating with members
- It is estimated the effort involved in performing the reconciliation and updating the pension system records could be around 830 days. This is based on using a spreadsheet to perform the reconciliation and updating the administration system records separately.
- 6.8 The Administration team does not currently have the resource to undertake this project without automating or outsourcing part or the whole of the exercise.
- 6.9 To address this investigations are being made into solutions that may be available to perform the GMP reconciliation efficiently. Those researched are the Heywood GMP Service and ITM GMP reconciliation services. However, neither of these systems will fully negate the requirement for additional in-house staff resource. It is understood that the Funds Advisors Mercer & Aon may also be in a position to help with the reconciliation. All options will incur additional

costs for the Pension Fund which is at present unknown, but which will be substantial.

## **7. Risk Log**

- 7.1 Pensions administration risks are monitored continually and the risk log is reviewed regularly. The Risk log is kept centrally by the Council. The current Administration risks that have been identified are attached at **Appendix B**.

## **8. The Pension Regulator Code of Practice**

- 8.1 The Pensions Regulator has laid before parliament its draft public service code of practice (Governance and administration of the public service pension schemes) which will come in to force in April 2015. The code provides Administering Authorities and pension board members with a summary of their key governance and administration duties, standards of conduct and practice which the Pensions Regulator expects in relation to those duties. Links are on the Pension Fund web site.
- 8.2 The Pensions Regulator has released its free e-learning programme aimed at those running public service pension schemes; <https://education.thepensionsregulator.gov.uk/login/index.php>. The programme has seven courses covering the governance and administration of public service schemes, as described in the draft public service code of practice. The modules are, Conflicts of interest, managing risk and internal controls, maintaining accurate member data, maintaining member contributions, providing information to members and others, resolving internal disputes and reporting breaches of the law.

## **9. Consultations**

- 9.1 In December 2014 the DCLG issued a consultation on The Local Government Pension Scheme (Amendment) Regulations 2015. The consultation period closed on 30<sup>th</sup> January 2015.
- 9.2 There were two parts to the consultation:
- Draft amendment regulations which were intended to clarify and improve the drafting of some of the provisions of the LGPS 2013 Regulations and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014; and
  - Additional issues which have not been reflected in the draft amendment regulations but on which comments and suggestions were invited
- 9.3 An officer response was sent which is attached at **Appendix C**.

## **10. Pension Freedom and Choice - LGPS**

- 10.1 From April 2015, non-pensioner LGPS members will still be able to transfer their LGPS benefits to defined contribution (DC) arrangements. However for the first time, from the age of 55 or over, they will have full access to the cash transferred to those arrangements.
- 10.2 HM Treasury, to support the April 2015 changes for Defined Contribution arrangements, has gone live with "Pension wise: Your Money. Your choice". Scheme trustees (including Administering Authorities) will be required to 'signpost' the service. This will be done via the Fund's web site. The guidance will be relevant to members of the LGPS with AVC pots or who are planning to transfer benefits into a DC arrangement on retirement. Plans are for a single 45 minute session per 'customer' (via telephone or face to face), to be booked in advance, with booking expected to be open in March.
- 10.2 The Pension Schemes Bill gives DCLG the power to designate a scheme if ministers believe that "the level or expected level of transfers out of the scheme increases the likelihood of payments out of public funds being needed to ensure that the scheme can meet its liabilities". A designation can be effective for up to 2 years and then needs to be revoked or renewed. The Bill gives HMT the power to make regulations which provide that, where a designation has been made, the scheme manager must reduce the CETV for acquiring flexible benefits in another scheme by an amount determined in accordance with the regulations. HMT is expected to issue draft regulations setting out the detail of how these protections will work in practice very soon.
- 10.3 The Bill also introduces the requirement for scheme members to take advice from an authorised Financial Conduct Authority (FCA) Independent Financial Advisor (IFA) at their own cost before making a transfers from safeguarded benefits (includes LGPS) to flexible benefits if the transfer amount is above £30,000. The Fund will have to check that a member has received independent advice and that it was from a reputable source.

## **11. Communications**

- 11.1 Two training sessions have been given, by the Pensions Manager and Communications Officer, to Human Resources staff at Shropshire Council on ill health retirement. A further training session has been booked for HR staff at Telford and Wrekin Council.
- 11.2 'Employers Training Workshop' run in November covered the responsibilities of employers in the LGPS and the data requirements. The team received good feedback particularly from new scheme



employers that attended. A workshop is planned for May for recently converted Academies.

- 11.3 Retired scheme members will again receive their P60, April payslip and pension increase notification in April as a combined document. This was introduced last year to reduce costs. Each year approval must be received from HMRC to use the fund specific artwork for the combined P60 document and this has been received for the 2015 mailing.
- 11.4 An Employer meeting was held on 14<sup>th</sup> January and presentations were given on Ill Health Retirements, LGPS data requirements as well as a talk from the Pensions Regulator. In total 16 employers were represented on the day. The meeting was filmed for viewing on line by employers who were unable to attend.
- 11.5 Feedback was requested from the Funds Independent Registered Medical Practitioners (IRMP) on the current ill health retirement process. Three IRMP's responded with constructive feedback which has been shared with Fund employers. Some of the issues raised had already been covered in the recent training sessions.
- 11.6 Employers have been surveyed to find out how they communicate with their employees and what up take there might be if web based guidance and training. Disappointingly only 8 employers responded and the findings were:
- 4 out of 8 employers regularly directed their employees to view our website to find further information
  - Email to employees was the most popular method of contact followed by face to face meetings
  - All 8 employers communicate with their staff via email
  - 5 of the respondents indicated that they would be interested in webinars and a further 2 indicated that they would not be interested in live webinars but might be interested in web based solutions.
- 11.7 The team currently undertake the administration of the Firefighters pension scheme, for the Fire Authority. The communications officer has been working with the Fire Authority to deliver the work required to implement the changes to firefighters Pension Scheme as a result of their new scheme in 2015. A plan is in place and some of the work has already been undertaken. This included two presentations one at Shrewsbury the other at Telford Fire station.
- 11.8 Under the new public service pension scheme framework implemented by the Public Service Pensions Act 2013, the costs of the reformed pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable. The Shadow Advisory Board has issued a briefing note that gives a broad overview of the proposed process. The is attached at **Appendix D**

**12. Annual Meeting**

12.1 This year’s annual meeting will be held at the Walker Theatre, Theatre Severn, Shrewsbury on XXX. Please ensure the date is saved in your diaries.

**13. Governance Regulations.**

13.1 The Governance Regulations were laid before parliament on 28<sup>th</sup> January 2015.  
[http://www.legislation.gov.uk/uksi/2015/57/pdfs/uksi\\_20150057\\_en.pdf](http://www.legislation.gov.uk/uksi/2015/57/pdfs/uksi_20150057_en.pdf)

13.2 There were a few changes from the draft;

- The Regulations now specify that only the employer and member representatives will be given voting rights. Any ‘other’ members (including independent chairpersons) will not.
- The hurdle for joint (i.e. cross-border) local boards has been lowered slightly, and the Regulations explicitly permit combined Boards (i.e. merged decision making Committee and new local Pension Board) subject to an appropriate business case being approved by the Secretary of State.
- The amendment in the 2nd draft Regulations to allow elected members (except where they are from the Administering Authority and are responsible for the discharge of any function under the LGPS Regulations (i.e. on a Pension Committee already)) has been carried forward as planned to these final Regulations.

13.3 The Terms of Reference for the Shropshire Pension Board have been updated to take account of these regulations. The invitation to apply for the roles was issued on 5<sup>th</sup> March 2015 with a closing date of 23<sup>rd</sup> March 2015.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pensions Committee Meeting 24 November 2014 Pensions Administration Report

**Cabinet Member (Portfolio Holder)**

NA

**Local Member**

NA

**Appendices**

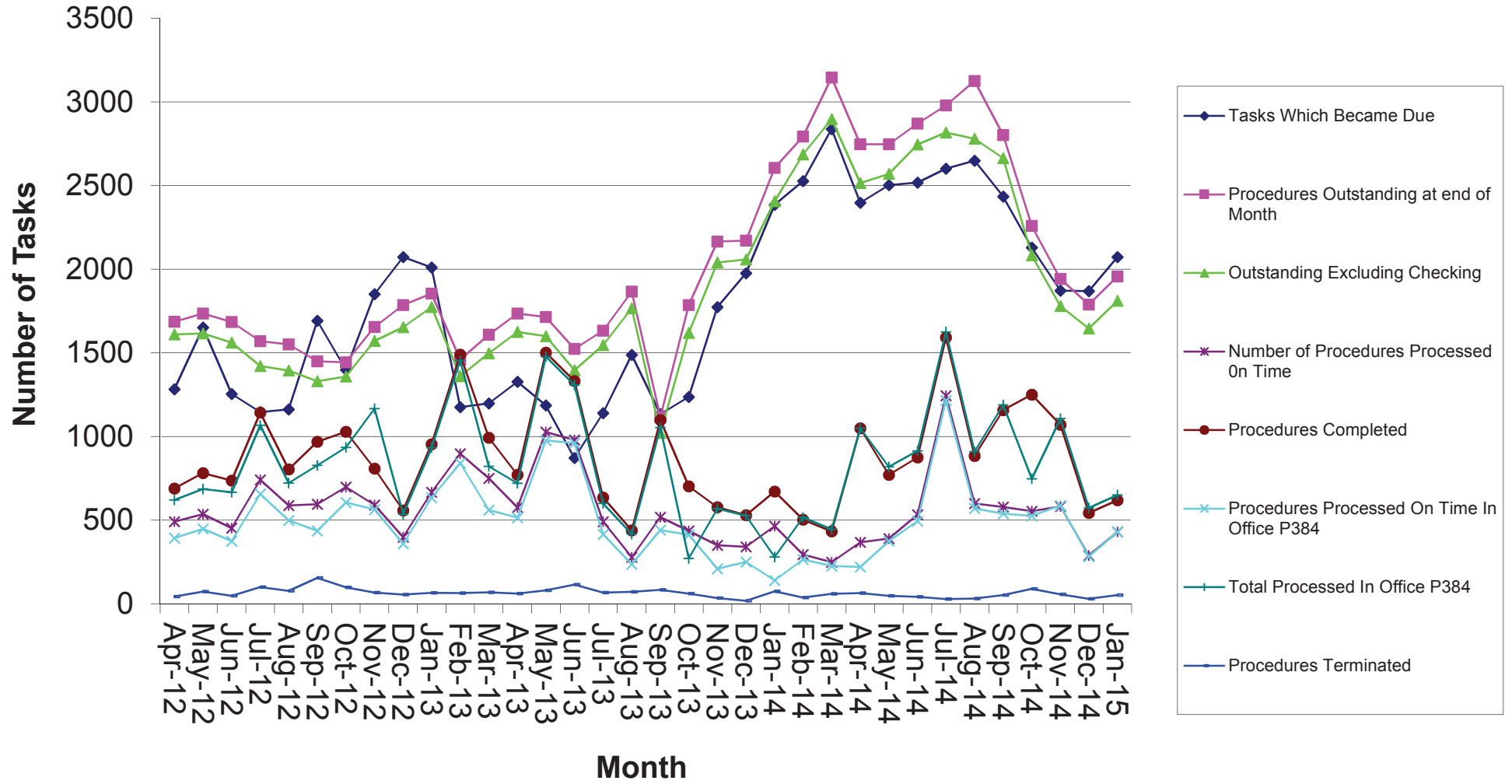
Appendix A – Performance Monitoring

Appendix B – Risk Log

Appendix C – CLG – LGPS Regulation Consultation response

Appendix D - Shadow Board Briefing

### Task Statistics



This page is intentionally left blank

## PESTLE DEFINITIONS

**P Political:**

- \* current and future taxation policies
- \* employment laws
- \* environmental regulations
- \* trade restrictions and reform
- \* current and future political support/ stability
- \* grants, funding and initiatives
- \* meeting local administrations manifestos/ commitments
- \* effect of wars or worsening relations with particular countries

**E Economic:**

- \* overall economic situation (growth/ decline)
- \* availability/adequacy of Council funds
- \* current and future levels of government spending
- \* current and future level of interest rates
- \* inflation and unemployment (local and national)
- \* specific taxation policies and trends
- \* exchange rates
- \* wage rates, minimum wage, working hours
- \* investment/ credit availability
- \* cost of living

**S Sociological:**

- \* cultural norms and expectations
- \* health consciousness
- \* population growth rate
- \* age distribution
- \* career attitudes
- \* demographics
- \* lifestyle patterns and changes
- \* attitudes towards issues such as education, corporate responsibility and media views and perceptions
- \* reputation

**T Technological:**

- \* relevant current and future technology innovations
- \* level of research funding
- \* ways in which consumers make purchases
- \* intellectual property rights and copyright infringements
- \* global communication technological advances
- \* internal technological failures
- \* loss of data

**L Legal:**

- \* legislation in areas such as employment competition and health & safety
- \* future legislation changes
- \* changes in European law
- \* trading policies
- \* breaches in law
- \* regulatory bodies
- \* failure of contracts/ partnership arrangements
- \* probity

**E Environmental:**

- \* ecological and environmental issues
- \* level of pollution created by the product or service
- \* waste management
- \* attitudes to the environment from the government, media and consumers
- \* current and future environmental legislative changes
- \* energy efficiencies

**Risk Scoring Definitions**

IMPACT	5	H	H	H	H	H
	4	L	L	M	M	H
	3	VL	L	L	M	M
	2	VL	VL	L	L	M
	1	VL	VL	VL	L	L
		1	2	3	4	5
		LIKELIHOOD				

Likelihood	Score	Risk Likelihood Definition
Rare	1	Risk may occur in exceptional circumstances.
Possible	2	Risk may occur within the next three financial years.
Likely	3	Risk is likely to occur within this
Almost Certain	4	Indication of imminent occurrence.
Certain	5	Risk has occurred and will continue to do so without immediate action being taken.

Impact	Score	Risk Impact Definition
Negligible	1	<ul style="list-style-type: none"> <li>~ Negligible loss, delay or interruption to services.</li> <li>~ Can be easily and quickly remedied.</li> <li>~ No financial loss.</li> </ul>
Minor	2	<ul style="list-style-type: none"> <li>~ Minor loss, delay or interruption to services.</li> <li>~ Short term impact on operational efficiency and performance.</li> <li>~ Financial loss which, in accordance with the Council's Financial Rules, could be managed at officer level (i.e. below key decision limit for Cabinet decision). Currently this would mean a loss of between £0 and £0.5m.</li> <li>~ Failure to meet internal standards.</li> <li>~ Affects only one group of stakeholders.</li> <li>~ No external interest.</li> <li>~ Isolated complaints.</li> </ul>
Significant	3	<ul style="list-style-type: none"> <li>~ Significant loss, delay or interruption to services.</li> <li>~ Medium term impact on operational efficiency and performance.</li> <li>~ Financial loss which, in accordance with the Council's Financial Rules, would need Member decision, but falls below the External Audit definition of materiality (i.e. 1% of Gross Revenue Budget). Currently this would mean a loss of between £0.5m and £6.6m. This would have to be reported to Cabinet (and above £1m to Council) for Member decision.</li> <li>~ Failure to meet recommended best practice.</li> <li>~ Affects more than one group of stakeholders.</li> <li>~ May attract short-term attention of legislative or regulatory bodies.</li> <li>~ Significant complaints</li> </ul>
Major	4	<ul style="list-style-type: none"> <li>~ Major loss, delay or interruption to services.</li> <li>~ One off events which could de-stabilise the Council.</li> <li>~ Widespread medium to long term impact on operational efficiency, performance and reputation.</li> <li>~ Financial loss which, in accordance with the Council's Financial Rules, would need member decision, falls above the External Audit definition of materiality (i.e. 1% of Gross Revenue Budget), but can be managed with control retained by the Council. Currently this would mean a loss in excess of £6.6m. This would have to be reported to Council for Member decision.</li> <li>~ Breach of legal or contractual obligation.</li> <li>~ Affects more than one group of stakeholders.</li> <li>~ Will attract medium-term attention of legislative or regulatory bodies.</li> <li>~ Significant adverse media interest.</li> </ul>
Critical	5	<ul style="list-style-type: none"> <li>~ Total sustained loss or disruption to critical services.</li> <li>~ Long term impact on operational efficiency, performance and reputation.</li> <li>~ Financial loss which, in accordance with the Council's Financial Rules, would need Member decision, falls above the External Audit definition of materiality (i.e. 1% of Gross Revenue Budget), and would fall beyond the Council's ability to manage. Currently this would mean a loss in excess of £6.6m. This would be reported to Council, but would have to be reported to the Government or other agencies for decision.</li> <li>~ Serious breach of legal or contractual obligation.</li> <li>~ Affects all groups of stakeholders</li> <li>~ National impact with rapid intervention of legislative or regulatory bodies.</li> <li>~ Extensive adverse media interest.</li> <li>~ Loss of credibility</li> </ul>

RISK REGISTER		Finance, Governance & Assurance - Pensions					Jan-15		Debbie Sharp							
A Risk No.	B Description of Risk	C Officer responsible	D Current Controls In Place	E F G Residual Risk Rating (with current controls in place)			H Risk Exposure  High Medium Low Very Low	I Risk Category PESTLE Those which apply marked 'Y'						J Additional Controls / Actions Required	K Timescale for implementation of additional controls/actions required	
				Likelihood	Impact	Risk Rating (E X F)		Political	Economic	Sociological	Technological	Legal	Environmental			
1	Incorrect information / benefits - provided to members of the scheme (including SC Redundancy Payments)	Debbie Sharp	Benefits calculations are checked. All supporting calculations are provided to the member. Team Training.	3	3	9	Low					Y	Y		Annual Review of Letters / statements	31/03/16
2	The insolvency of an employer places additional liabilities on the Fund and ultimately the remaining employers. Orphan liabilities.	Debbie Sharp	Admission agreements, bonds in some cases. Shorter deficit recovery periods. FSS. Annual Employer covenant check .	1	3	3	V Low	y	y				y		Electronic control of membership numbers.	31/03/16
3	Vulnerable to loss of or over-reliance of key staff due to long term sickness or staff turnover.	Debbie Sharp	Procedures notes updated. Team restuctured in 2014 to allow for succession planning.	3	3	9	Low						y		Skills analysis to be undertaken.	31/03/16
4	Failure of ITC, hardware supported by SC, impacting adversely ability to run Altair pension administration system.	Debbie Sharp	DR in place. Tested annually. Reliance on SC inhouse IT department	3	3	9	Low	y	y			y	y		DR 2014 highlighted back up Server issues and external hosting being explored.	31/03/16
5	Failure of support systems: Resource Link, SAMIS, CIVICA Icon cheque processing, COGNOS which will result in incorrect data collection, payment of benefits and incorrect accounting.	Debbie Sharp	Reliance on SC IT	3	3	9	Low	Y	Y			Y	Y			
6	Failure of telephony systems: BT Connect and Lync phones resulting in no communication with customers	Debbie Sharp	Reliance on SC IT	4	3	12	Med	Y	Y			Y	Y			
7	Failure of Administration Team to perform their tasks, specifically leading to incorrect; data, triennial Fund valuations or failure to provide accurate and timely advice to employers.	Debbie Sharp	Annual Audits, internal & external. Internal procedures and checks. National Fraud initiative for pensioner data. Membership reconciliations, Performance against Administration Strategy. Close working relationships with employers. Assurance from Actuary on data quality for Valuation.	3	3	9	Low	Y					Y		Employer satisfaction questionnaire to determine satisfaction with and level of service provided.	31/03/16
8	Failure of Employers to provide accurate data leading to incorrect benefit statement / payments or Fund valuations.	Debbie Sharp	Employer training. Communication. Administration Strategy Statement. Team training. Internal controls including contribution collection audits and positive action by Pension Team.	4	4	16	Med								Iconnect being implemented, monthly returns for some employers. TPR code coming into place in April 2015.	31/03/16

Page 119

A	B	C	D	E	F	G	H	I						J	K
Risk No.	Description of Risk	Officer responsible	Current Controls In Place	Residual Risk Rating (with current controls in place)			Risk Exposure  High Medium Low Very Low	Risk Category PESTLE Those which apply marked 'Y'						Additional Controls / Actions Required	Timescale for implementation of additional controls/actions required
				Likelihood	Impact	Risk Rating (E X F)		Political	Economic	Sociological	Technological	Legal	Environmental		
9	Loss of data leading to fines and reputational loss	Debbie Sharp	ICT security used such as data encryption, secure email and document management software with strict security profiles. Secure working environments. Information protection L1 training undertaken by all staff annually and Level 2 by 2 members of staff. Secure working environment in place.	2	4	8	Low	Y	Y		Y	Y			
10	Late payment of contributions leading to Pension Fund reporting to TPR	Debbie Sharp	Employer training / guidance on website. Employer newsletter. Contributions check & balance. Adhere to internal governance compliance statement.	4	3	12	Med	Y	Y			Y		From 1 April 2015 adhere TPR code of practice.	01/04/15
11	Policies or strategies of the Administering Authority adversely impacting on the work of the Pensions Team for the Shropshire County Pension Fund	Debbie Sharp	Segregation of duties, delegated decision making to Pensions Committee and Scheme Administration (Section 151 officer). Quarterly report to Pensions Committee on Administration.	3	4	12	Med	Y	Y		Y	Y		New Pensions Board and Pensions Regulator Code and Scheme Advisory Board	01/04/15
12	Not undertaking work to reconcile GMP data in line with ending of contracting out legislation resulting in possible overpayments.	Debbie Sharp	GMP's have historically been processed when received and leavers notified to HMRC. Any missing ones for pensioners requested.	4	4	16	Med	Y			Y	Y		Decisions will be needed as to how the work will be undertaken during 2016/17	





Robert Ellis  
Department for Communities and Local Government  
Workforce Pay & Pensions  
2<sup>nd</sup> Floor, Fry Building  
2 Marsham Street,  
London. SW1P 4DF

Date: 30 January 2015

email: [debbie.sharp@shropshire.gov.uk](mailto:debbie.sharp@shropshire.gov.uk)

My ref  
PEN/DS

Your ref

Tel (01743)  
252192

Please ask for  
Mrs D Sharp  
Pensions Services

Dear Robert,

### **The Local Government Pension Scheme (Amendment) Regulations 2015**

This letter sets out a response from Shropshire Council acting as administering authority for the Shropshire County Pension Fund, to the above consultation issued in December 2014. This response is submitted on behalf of the Shropshire County Pension Fund Pension Committee. Agreement has not been able to be obtained, which would be usual, as time and the Christmas shutdown has not allowed. Regulations not commented on are agreed.

#### **Active Membership**

Draft regulation 3; *clarifies that a person applying to be a scheme member joins the scheme on the first day of the payment period following the application to join.*

We are happy with this change so long as it is not retrospective.

#### **Temporary Reduction in Contributions**

Draft regulation 5 *clarifies that a member's election to pay reduced contributions is cancelled if they receive no pay when on child related leave, as well as the result of sickness or injury.*

Due to the introduction of shared parental leave the revision to regulation 10(5)(b) should be amended to read:

In regulation 10(5) (temporary reduction in contributions) for "sickness or injury" substitute "sickness, injury, ordinary maternity, paternity or adoption leave or shared parental leave during what would have been the ordinary maternity, paternity or adoption leave period."

### **Disallowing Automatic Aggregation for Members Who Have Opted Out**

Draft regulation 11; *makes it clear that when a member who has opted out of the scheme re-joins the scheme, then their periods of membership are not aggregated.*

Whilst we agree in principle with the amendment to regulation 22(8) we do agree with the correction in wording proposed by the LGA.

### **Changes of administering authority**

Draft regulation 24; *completes the list of categories of members for whom a change in administering authority triggers a transfer value payment.*

Agreed (unless the regulations are amended to move to a position of no automatic aggregation of a deferred benefit- see comments below) in which case the amendment will no longer be required.

### **Schedules 2 and 3**

***Administering and local authorities are asked to confirm that references appear on the schedules in the legally correct form or provide the correct reference if they are not.***

We agree the references are in the correct form.

### **Employer contributions and no active contributing members (Draft Regulation 32)**

*It is vital that employers who leave the Scheme do not exit leaving unmet pension liabilities. This is why revised regulations require exit payments from all Scheme employers but allow some flexibility to anticipate an exit, so that liabilities can be managed down to the point of departure.*

Draft Regulation 32; *allows an administering authority to call for unmet liabilities from a participating, or former participating, employer who has no active contributing members in a Fund. The employer had to have participated in the Scheme before 1 April 2014 when the 2014 scheme came into force. Contributions can be called for until all liabilities in the Fund are met.*

We agree that the greater flexibility outlined in paragraph 22 of the consultation document should be provided to administering authorities thereby giving us the ability to determine the method and timing of recovery of unmet pension liabilities. However, it is not clear why new regulation 25A(1)(b) limits this flexibility to only cover employers who were not admission bodies, flexibility should be extended to cover admission bodies too.

*Comments are invited on whether greater flexibility should be introduced around exit payments that may be liable when an employer leaves the scheme. If so, what should this period be? Are there any other issues where the regulations could be improved where there are no active contributing members?*

We are of the view that flexibility around exit payments should be permitted where in say the case when an exiting employer is likely to have active members within a relatively short period of time. A realistic period may be seen to be 6 months. But individual discretion could be awarded to extend this if circumstances warrant it.

*To better manage the instances when exit payments might be called for, views are sought on whether companies that are wholly owned by employers that are listed in Part 1 of Schedule 2 employer, should also be listed in Part 1 of Schedule 2, and therefore lose the ability to designate which employees have access to the scheme.*

We agree that to better manage the instances when exit payments might be called for, and to protect transferred staff, and ensure the LGPS retains a viable active membership base those bodies covered by paragraphs 5 and 6 of Part 2 of Schedule 2 to the LGPS Regulations 2013 should be moved to Part 1 of Schedule 2 to the LGPS Regulations 2013. However, we know that Part 1 Employers may not be of the same opinion.

**Transfer of rights accrued in Additional Voluntary Contribution (AVC) arrangements.** *Respondents are asked to comment on the merits of making an amendment that requires an administering authority to facilitate the unbroken continuation of a transferring member's Additional Voluntary Contribution contract, by entering into arrangements with the member's original Additional Voluntary Contribution provider when the member moves employment voluntarily or compulsorily, or whether the proposed regulatory change in paragraph 24 should be adopted.*

As covered by the LGA Regulation 17(10) of the LGPS Regulations 2013 makes it clear that if the member transfers out their main scheme benefits to another scheme (other than the LGPS in England and Wales), the AVCs must be transferred too. It does not make it clear that the AVCs cannot be transferred out if the main scheme benefits are not transferred out (which regulation 26 of the LGPS (Administration) Regulations 2008 did make clear).

Given that the current AVC provisions are part of the LGPS the above would, in effect, deliver the requirements set out in section 96 of the Pension Schemes Act 1993.

If one of the outcomes from Freedom and Choice is that post 31<sup>st</sup> March 2014 AVC arrangements become separate from the main scheme, then the proposal set out above would only apply to pre 1<sup>st</sup> April 2014 AVC arrangements.

With regard to staff who voluntarily or compulsorily move to another LGPS Fund they currently have the right not to transfer their accrued AVC pot to the new Fund's AVC provider. However, if their AVC arrangement is a pre 1<sup>st</sup> April 2014 arrangement the AVC arrangement with the new Fund will be a post 31<sup>st</sup> March 2014 arrangement which will mean the member can contribute up to 100% of pensionable pay to the new AVC arrangement but would be limited to a maximum of 25% of the AVC pot as a tax free lump

sum. If the member retains their accrued AVC pot with the former Fund they will retain a 100% tax free lump sum provision in relation to the retained AVC pot, but if they transfer it to the AVC provider of the new Fund the tax free lump sum limit will reduce to 25% of the AVC pot. We would wish to see regulations 15(4) and (5) of the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 amended to provide that where a member is TUPE transferred to another Fund or compulsorily moved to another Fund by reason of an Act or SI or by reason of a Direction given by the Secretary of State under paragraph 3 of Part 2 of Schedule 3 to the LGPS Regulations 2013 then, if the member was, at the point of transfer, paying into an existing AVC arrangement that was entered into prior to 1<sup>st</sup> April 2014 and continues paying AVCs immediately following the transfer, the AVC arrangement with the new Fund is treated as if it had been entered into prior to 1<sup>st</sup> April 2014.

We would also like to support the amendment suggested by the LGA to regulation 22(8) to move away from a position of automatic aggregation with the right to elect within 12 months of re-joining the scheme (or such longer period as the Scheme employer allows) to retain separate deferred benefits to a position where the deferred benefits are not automatically aggregated but the member can elect to aggregate by making an election within 12 months of re-joining the scheme (or such longer period as the Scheme employer allows). That would mirror the position under the 2008 Scheme. Administratively it is clear that the regulations as drafted are overly cumbersome and is causing problems with the assessment of the pension input amount in a pension input period for annual allowance purposes.

I hope you find this response useful.

Yours sincerely



Mrs Debbie Sharp  
Pensions Administration Manager

# Shadow Advisory Board

## **Cost control in the LGPS - A briefing note for administering authorities**

### **1. Introduction**

This briefing note has been prepared by the Shadow Scheme Advisory Board (SSAB) for Local Government Pension Scheme (LGPS) administering authorities in England & Wales in order to outline the role of pension funds in the LGPS cost control process.

In the LGPS in England & Wales, there will be two mechanisms used to assess the costs of the reformed scheme:

- a) the employer cost cap (ECC) process as operated by HM Treasury, and
- b) the future service cost (FSC) process as operated by the LGPS Scheme Advisory Board.

The Scheme will be assessed every three years against the cost control mechanisms using the data provided to individual actuaries for funding valuations. Importantly, both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved sufficiently from the target.

Part 2 of this paper outlines those aspects of the cost control processes which will require the assistance of LGPS administering authorities in ensuring that GAD have the information they need to be able to calculate the cost control figures within the required timescales.

In addition to this note, a briefing note for LGPS members and employers has also been published and is available [here](#). This has been prepared in order to:

- give a broad overview of the background to the cost control processes,
- outline the differences between the cost control processes and local funding valuations, and
- detail the possible impacts on the benefits structure and/ or employee contribution rates which could arise from the results of the cost control processes.

We ask that administering authorities make the briefing note accessible to fund employers and members so that they can familiarise themselves with the processes and the possible impacts that the cost control mechanisms could have on the Scheme benefits structure and/ or employee contribution rates.

Shadow Advisory Board Secretariat

Local Government House, Smith Square, London SW1P 3HZ T 020 7187 7344 E [Elaine.english@local.gov.uk](mailto:Elaine.english@local.gov.uk) [www.local.gov.uk](http://www.local.gov.uk)

# Shadow Advisory Board

## **2. The role of administering authorities in the cost control process**

Under the new public service pension scheme framework implemented by the Public Service Pensions Act 2013, the costs of the reformed pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable.

There are two mechanisms in the LGPS in England & Wales because the ECC process has been partly established in order to demonstrate consistency between the public service pension schemes. Because of this, the LGPS Scheme Advisory Board FSC process has been set up to reflect the specifics of the LGPS experience in assessing the costs of the pension scheme reforms.

Both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved sufficiently from the individual targets.

The cost control processes will be subject to tight timescales and GAD will require the submission of accurate and consistently reported information in order to calculate figures that best reflect the experience of the Scheme.

A process map and timetable outlining the plans for the processes have been published and are available [here](#) and [here](#) respectively. The full GAD data requirements for the cost control processes will be published upon their finalisation.

### **Process**

The cost control process will be undertaken in tandem with the local triennial valuations and will first be effective - in the sense that changes to the Scheme may be required if the cost of the Scheme has moved sufficiently from the targets - at the 2016 valuations. This means that the first ECC and FSC figures will be based on the same data produced and submitted to your fund actuary as at 31<sup>st</sup> March 2016 for your local funding valuation.

### **Timescales**

By October 2016 (and for future cost control processes, the October of each valuation year), each fund's actuary will be required to submit to GAD valuation data which has been cleaned and which has undergone reasonableness checks. Your fund actuary will account for the time they need to prepare and submit this data in your valuation timetable, and you will need to ensure you are able to meet your actuary's timescales in, a) submitting your fund's data and b) answering any data queries that may arise.

# Shadow Advisory Board

Any changes to the Scheme benefits structure or to employee contribution rates made via either of the cost control processes will first be effective in the year commencing 1<sup>st</sup> April 2019.

## Data required

The shift to a career average scheme will require that certain additional information is held and extractable in order for GAD's actuarial calculations to be undertaken. For the cost control processes, GAD require the below information to be provided by each administering authority:

- **Pre- and post- 14 data** - For actives, deferred and pensioner members, pension amounts split between:
  - amounts relating to pre-2014 accrual, and
  - amounts relating to post-2014 accrual.
- **50/50 section and full section data** - For actives, deferred and pensioner members, post-2014 pension amounts split between:
  - those relating to 50/50 section membership, and
  - those relating to full section membership.
- **Cashflows** - For benefits paid and transfers paid, split between:
  - pre-2014 membership,
  - post-2014 50/50 section membership, and
  - post-2014 full section membership.
- **Contributions** - For employee contributions, split between:
  - contributions paid whilst in 50/50 section, and
  - contributions paid whilst in full section.
- **Membership movements** - For those leaving and joining the pension fund:
  - 'Benefits at date of exit' for those members leaving or retiring from active service after April 2014, and
  - 'Benefits at date of re-joining' for those members aggregating pre-2014 benefits.
- **Commutation** - For those who have commuted any of their pension to lump sum since April 2008:
  - How much in annual pension they commuted to lump sum, and
  - The maximum amount they could have commuted to lump sum.

The full GAD data requirements will be made available upon their finalisation.

In addition, the basic stock data for all members with a pension liability as at the valuation date - and as already required by fund actuaries in undertaking fund valuations - will be required.

# Shadow Advisory Board

**Please note** - If you do not believe that you will currently be able to provide this information as split in the above fashion, please liaise with your pensions software provider to establish if a future release is anticipated that will allow for this information to be provided within the required timescales.

We understand that certain requirements, such as commutation data for those retiring since April 2008, may not retrospectively be obtainable. Our understanding is that GAD are looking to obtain as complete a data set as is reasonably practical and the priority will be to ensure that current and future data can be provided in accordance with the requirements, rather than requiring funds to undertake backward reworking. However, it is important to stress that more complete data sets will be of substantial assistance and will contribute to more accurate results, more timely completion of the required calculations, and fewer data queries arising.



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank